

Report for the second quarter 2014

Norwegian Finans Holding ASA

Norwegian Finans Holding ASA

Report for the second quarter 2014

Norwegian Finans Holding ASA (NFH) owns 100 % of the shares in Bank Norwegian AS. The company does not engage in any other operations. The ownership of NFH is divided between institutional and private investors in Norway and abroad, of which Norwegian Air Shuttle ASA is the largest owner with a stake of 20 %. Norwegian Finans Holding ASA is registered on the NOTC-list with the ticker code BANK.

Bank Norwegian started its operations in November 2007 and offers high-interest no-fee deposit accounts, and consumer loans, which are distributed through the Internet. The bank also offers "Norwegian Reward", a combined Visa credit card and reward card for the airline Norwegian. The bank started operations in Sweden in May 2013 and offers "Norwegian Reward" credit card, consumer loans and deposit accounts.

The strategy is based on leading e-commerce solutions, synergies with the airline Norwegian, attractive terms for our customers, cost-effective operations and effective risk selection.

The bank has at the end of the second quarter 2014 a customer base of 390,400 customers, which can be broken down into 48,100 loan customers, 69,200 deposit customers and 273,100 "Norwegian Reward" credit card customers.

Profit and loss as of June 30, 2014

The NFH Group's profit after tax amounted to MNOK 147.3 as of June 30, 2014. Net interest income totalled MNOK 429.3, net other operating income amounted to MNOK 36.8 while total operating expenses were MNOK 200.5. Provisions for loan losses were MNOK 63.9.

Profit and loss for the second quarter of 2014

The NFH Group's profit after tax amounted to MNOK 82.1, compared with MNOK 65.2 in the first quarter 2014. Annual return on equity in the second quarter was 36.6 %.

Net interest income amounted to MNOK 227.3, an increase of MNOK 25.4 from the first quarter. The net interest margin decreased from 8.7 % in the first quarter to 8.3 %.

Net other operating income amounted to MNOK 17.3 compared with MNOK 19.5 in the first quarter. Net commission income decreased MNOK 1.9 to MNOK 16.3 due to one-offs in the first quarter. Net realized gain on value of securities and currency amounted to MNOK 1.0.

Total operating expenses amounted to MNOK 98.6 compared with MNOK 101.9 in the first quarter. Personnel expenses decreased MNOK 5.0 due to accrual effects. Administrative expenses increased MNOK 3.0, mainly due to increased marketing and IT spending. Depreciation increased MNOK 0.1, while other operating expenses decreased MNOK 1.3.

The bank's provisions for loan losses amounted to MNOK 33.6, an increase of MNOK 3.4 from the first quarter. Provisions equaled 1.7 % of average gross

loans, which were stable compared with the first quarter.

Delinquent loans accounted for 6.0 % of gross loans, compared with 6.1 % at the end of the previous quarter. Non-performing loans accounted for 4.5 % of gross loans, unchanged from the end of the first quarter.

Balance sheet as of June 30, 2014

Total assets increased MNOK 1,203 in the quarter and amounted to MNOK 11,667 as of June 30, 2014. Net loans to customers amounted to MNOK 8,080, an increase of MNOK 826 in the quarter. Consumer loans amounted to MNOK 6,024 and credit card loans amounted to MNOK 2,215.

Customer deposits increased MNOK 544 in the second quarter and amounted to MNOK 9,040 at the end of the quarter.

The bank issued MNOK 544 in senior debt securities in the second quarter and debt securities issued amounted to MNOK 1,100 as of June 30, 2014.

Liquid assets increased MNOK 362 and amounted to MNOK 3,415, equivalent to 29 % of total assets at the end of the second quarter.

Total equity amounted to MNOK 943, compared with MNOK 856 as of March 31, 2014. The total capital ratio was 15.4 %, the core capital ratio was 13.2 % and the common equity tier 1 ratio was 11.6 % per June 30, 2014.

There has been a limited review of the accounts per June 30, 2014, and the full result is added to retained earnings.

Outlook for the remaining of the year

The Norwegian and Swedish economies appear robust. Going forward, steady employment and interest rate levels are expected in Norway and Sweden.

The growth in earnings is expected to continue, based on strong loan growth, stable margins, cost control and good credit quality. The Swedish operations are expected to turn profitable during the fourth quarter.

A high level of deposits to loans and good access to securities funding are expected to maintain the bank's strong liquidity position.

The investment portfolio has yielded a satisfactory value-adjusted return in the quarter. The return is expected to remain stable. The portfolio's low risk profile remains unchanged.

The credit quality of the loan portfolio shows a stable development and the level of write-downs are expected to remain stable going forward. The credit quality of the Swedish loan portfolio is developing as expected.

The bank has a sound capital situation. The current capital base and internal generation of capital are considered sufficient to ensure the bank's growth ambitions.

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Profit and loss account

Norwegian Finans Holding ASA

Norwegian Finans Holding Group

2013	YTD 2013	YTD 2014	Q2 2013	Q2 2014	Amounts in NOK 1000	Note	Q2 2014	Q2 2013	YTD 2014	YTD 2013	2013
102	34	62	34	27	Interest income		304,738	206,620	575,315	396,235	864,320
-	-	-	-	-	Interest expenses		77,425	57,182	146,044	111,047	228,248
102	34	62	34	27	Net interest income		227,313	149,438	429,270	285,188	636,073
-	-	-	-	-	Commission and bank services income		30,272	20,426	59,517	41,440	88,408
62	40	231	28	217	Commission and bank services expenses		13,935	8,840	24,958	16,413	35,990
-	-	-	-	-	Net change in value on securities and currency		985	2,610	2,275	2,924	10,111
-	-	-	-	-	Other income		-	181	-	181	181
-62	-40	-231	-28	-217	Net other operating income		17,323	14,377	36,834	28,131	62,710
40	-6	-169	6	-191	Total income		244,636	163,815	466,104	313,319	698,782
1,311	648	634	317	308	Personnel expenses		9,447	8,939	23,863	20,520	46,282
20	20	56	20	19	General administrative expenses		83,078	50,658	163,198	93,221	216,763
-	-	-	-	-	Ordinary depreciation		2,567	2,502	5,045	4,824	9,682
94	69	20	31	20	Other operating expenses		3,510	2,580	8,355	4,869	12,296
1,424	737	710	368	346	Total operating expenses		98,602	64,679	200,461	123,435	285,022
-	-	-	-	-	Provision for loan losses	2	33,636	18,125	63,871	34,527	82,760
-1,385	-743	-879	-362	-537	Profit on ordinary activities before tax		112,398	81,011	201,773	155,357	331,000
-360	-208	-237	-101	-145	Tax charge		30,347	23,014	54,479	43,831	93,099
-1,025	-535	-642	-261	-392	Profit on ordinary activities after tax		82,050	57,997	147,294	111,526	237,901

Balance sheet

Norwegian Finans Holding ASA

Norwegian Finans Holding Group

31.12.13	30.6.13	30.6.14	Amounts in NOK 1000	Note	30.6.14	30.6.13	31.12.13
-	-	-	Assets				
-	-	-	Deposits with Norges Bank		106,865	50,675	54,007
9,306	9,298	13,275	Loans and deposits with credit institutions		389,133	139,759	106,140
-	-	-	Loans to customers	2	8,080,097	5,217,823	6,363,708
-	-	-	Certificates and bonds		2,918,677	2,055,385	1,694,114
310,000	310,000	310,000	Ownership interests in group companies		-	-	-
-	-	-	Other intangible assets		30,590	28,550	30,616
758	602	996	Deferred tax asset		1,533	833	1,296
-	-	-	Fixed assets		1,379	1,613	1,539
-	-	62	Receivables and accrued income		138,736	75,848	97,124
320,064	319,900	324,332	Total assets		11,667,010	7,570,487	8,348,544
-	-	-	Liabilities and equity				
-	-	-	Deposits from customers		9,039,933	6,157,063	6,592,180
-	-	-	Debt securities issued	3	1,099,801	499,723	499,762
-	-	-	Tax payable		54,669	43,708	93,413
-	-	-	Other liabilities		30,588	42,559	29,836
1,329	663	654	Accrued expenses and unearned income received		199,894	133,307	44,133
-	-	-	Subordinated loan	4	298,756	30,000	298,729
1,329	663	654	Total liabilities		10,723,642	6,906,359	7,558,054
172,594	172,594	173,000	Share capital	4	173,000	172,594	172,594
139,945	139,957	145,123	Share premium reserve	4	145,123	139,957	139,945
6,196	6,686	5,554	Retained earnings and other reserves	4	625,245	351,576	477,951
318,735	319,237	323,678	Total equity		943,369	664,127	790,490
320,064	319,900	324,332	Total liabilities and equity		11,667,010	7,570,487	8,348,544

Norwegian Finans Holding ASA Report for the second quarter 2014

Changes in equity

Norwegian Finans Holding ASA

<i>Amounts in NOK 1000</i>	Share capital	Share premium	Other reserves	Total
Balance sheet as at 31.12.12	171,776	135,457	7,221	314,454
Capital increase *	818	4,488	-	5,306
Result for the period	-	-	-1,025	-1,025
Balance sheet as at 31.12.13	172,594	139,945	6,196	318,735
Capital increase *	406	5,178	-	5,584
Result for the period	-	-	-642	-642
Balance sheet as at 30.6.14	173,000	145,123	5,555	323,678

Norwegian Finans Holding Group

<i>Amounts in NOK 1000</i>	Share capital	Share premium	Other reserves	Total
Balance sheet as at 31.12.12	171,776	135,457	240,050	547,284
Capital increase *	818	4,488	-	5,306
Result for the period	-	-	237,901	237,901
Balance sheet as at 31.12.13	172,594	139,945	477,951	790,490
Capital increase *	406	5,178	-	5,584
Result for the period	-	-	147,294	147,294
Balance sheet as at 30.6.14	173,000	145,123	625,245	943,369

* Bonus to executives, paid in shares with a minimum holding period of three years.

Cash flow statement

Norwegian Finans Holding ASA

Norwegian Finans Holding Group

Q2 2013	Q2 2014	<i>Amounts in NOK 1000</i>	Q2 2014	Q2 2013
Cash flows from operating activities				
-743	-879	Profit / loss before tax	201,773	155,357
-	-	- Taxes paid	-93,459	-63,550
-	-	- Ordinary depreciations	5,045	4,824
-	-	- Change in loans	-1,716,390	-760,369
-	-	- Change in deposits from customers	2,447,753	530,136
-	-	- Change in securities	-1,224,563	-187,393
5,060	-	- Change in other receivables	-	-
-	-62	Change in other accruals	-41,613	-5,499
-644	-674	Change in short-term liabilities	156,513	122,816
3,674	-1,615	Net cash flow from operating activities	-264,941	-203,677
Cash flows from investment activities				
-	-	- Payment for acquisition of tangible fixed assets	-92	-949
-	-	- Payment for acquisition of intangible assets	-4,766	-9,721
-	-	Net cash flow from investment activities	-4,858	-10,670
Cash flow from financing activities				
-	-	- Debt securities issued	600,039	249,723
-	-	- Subordinated debt	26	5,318
5,318	5,584	Gross payments of subordinated debt	5,584	-
5,318	5,584	Net cash flow from financing activities	605,649	255,041
8,991	3,969	Net cash flow for the period	335,850	40,694
306	9,306	Cash and cash equivalents at the start of the period	160,147	149,740
9,298	13,275	Cash and cash equivalents at the end of the period	495,997	190,434

Norwegian Finans Holding ASA Report for the second quarter 2014

Note 1. General accounting principles

The interim report for the second quarter 2014 is set up according to the same accounting principles as the annual report 2013.

Note 2.A. Loans to and receivables from customers

Norwegian Finans Holding ASA				Norwegian Finans Holding Group		
31.12.13	30.6.13	30.6.14	Amounts in NOK 1000	30.6.14	30.6.13	31.12.13
-	-	-	Gross lending	8,390,941	5,416,818	6,610,966
-	-	-	- individual write-downs on loans	151,509	97,956	126,238
-	-	-	- write-downs on groups of loans	159,335	101,039	121,020
-	-	-	Net loans to and receivables from customers	8,080,097	5,217,823	6,363,708

Note 2.B. Default and loss on loans

Norwegian Finans Holding ASA				Norwegian Finans Holding Group		
31.12.13	30.6.13	30.6.14	Amounts in NOK 1000	30.6.14	30.6.13	31.12.13
Defaulted loans						
-	-	-	Gross defaulted loans	649,390	461,228	532,804
-	-	-	- Individual write-downs on loans	151,509	97,956	126,238
-	-	-	- Write-downs on groups of loans	159,335	101,039	121,020
-	-	-	Net defaulted loans	338,546	262,233	285,546

Net defaulted loans are presented after write-downs on groups of loans.

Defaulted loans which are performing	127,349	98,559	108,629
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Norwegian Finans Holding ASA				Norwegian Finans Holding Group		
2013	Q2 2013	Q2 2014	Amounts in NOK 1000	Q2 2014	Q2 2013	2013
Write-downs on loans for the period						
-	-	-	Change in group write-downs for the period	20,094	7,047	35,575
-	-	-	Write-offs for which provisions were made earlier	16,577	12,113	54,975
-	-	-	Write-offs for which provisions were not made earlier	-	-	-
-	-	-	Included in earlier write-offs	-3,035	-1,035	-7,789
-	-	-	Write-downs on loans for the period	33,636	18,125	82,760

Note 3. Debt securities issued

Norwegian Finans Holding ASA				Norwegian Finans Holding Group		
31.12.13	30.6.13	30.6.14	Amounts in NOK 1000	30.6.14	30.6.13	31.12.13
-	-	-	Floating rate note bonds 2011/2014	-	250,000	250,000
-	-	-	Floating rate note bonds 2013/2016	199,893	99,865	149,883
-	-	-	Floating rate note bonds 2013/2018	299,908	149,858	99,879
-	-	-	Floating rate note bonds 2014/2017	400,000	-	-
-	-	-	Floating rate note certificate 2014/2015	200,000	-	-
-	-	-	Total	1,099,801	499,723	499,762

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Note 4. Subordinated capital

Norwegian Finans Holding ASA				Norwegian Finans Holding Group		
31.12.13	30.6.13	30.6.14	Amounts in NOK 1000	30.6.14	30.6.13	31.12.13
Subordinated capital						
172,594	172,594	173,000	Share capital	173,000	172,594	172,594
139,945	139,957	145,123	+ Share premium reserve	145,123	139,957	139,945
6,196	6,686	5,554	+ Other reserves	625,245	351,576	477,951
758	602	996	- Deferred tax assets and intangible assets	32,123	29,383	31,912
317,977	318,635	322,682	Common equity tier 1	911,245	634,744	758,578
-	-	-	+ Hybrid capital	124,250	-	124,250
317,977	318,635	322,682	Core capital	1,035,495	634,744	882,828
-	-	-	+ Supplemental capital	174,506	30,000	174,479
317,977	318,635	322,682	Total capital	1,210,001	664,744	1,057,307
Calculation basis						
Credit risk						
1,861	1,860	2,655	From assets 20%	471,890	293,048	240,045
-	-	-	+ From assets 75%	5,919,683	3,790,161	4,653,300
310,000	310,000	310,062	+ From assets 100%	637,995	440,732	505,229
-	-	-	+ Other off-balance sheet items	3,452	3,549	3,515
-	-	-	- Provisions for losses that cannot be included	159,183	101,039	121,020
-	-	-	+ Operational risk	960,303	640,956	640,956
311,861	311,860	312,717	Total calculation basis	7,834,140	5,067,407	5,922,025
101.96 %	102.17 %	103.19 %	Common equity tier 1	11.63 %	12.53 %	12.81 %
101.96 %	102.17 %	103.19 %	Core capital	13.22 %	12.53 %	14.91 %
101.96 %	102.17 %	103.19 %	Total capital	15.45 %	13.12 %	17.85 %

Norwegian Finans Holding ASA Report for the second quarter 2014

Quarterly figures

Profit and loss account

Norwegian Finans Holding Group

<i>Amounts in NOK 1000</i>	Note	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Interest income		304,738	270,576	246,245	221,840	206,620
Interest expenses		77,425	68,619	59,647	57,553	57,182
Net interest income		227,313	201,957	186,597	164,287	149,438
Commission and bank services income		30,272	29,245	23,358	23,610	20,426
Commission and bank services expenses		13,935	11,024	10,117	9,460	8,840
Net change in value on securities and currency		985	1,290	3,601	3,586	2,610
Other income		-	-	-	-	181
Net other operating income		17,323	19,511	16,842	17,736	14,377
Total income		244,636	221,468	203,440	182,023	163,815
Personnel expenses		9,447	14,416	13,018	12,744	8,939
General administrative expenses		83,078	80,120	66,790	56,752	50,658
Ordinary depreciation		2,567	2,478	2,494	2,363	2,502
Other operating expenses		3,510	4,845	3,540	3,887	2,580
Total operating expenses		98,602	101,859	85,840	75,746	64,679
Provision for loan losses	2	33,636	30,234	26,763	21,470	18,125
Profit on ordinary activities before tax		112,398	89,375	90,836	84,808	81,011
Tax charge		30,347	24,131	25,519	23,750	23,014
Profit on ordinary activities after tax		82,050	65,244	65,317	61,058	57,997

Balance sheet

Norwegian Finans Holding Group

<i>Amounts in NOK 1000</i>	Note	30.6.14	31.3.14	31.12.13	30.9.13	30.6.13
Assets						
Deposits with Norges Bank		106,865	56,610	54,007	50,851	50,675
Loans and deposits with credit institutions		389,133	249,476	106,140	136,073	139,759
Loans to customers	2	8,080,097	7,254,539	6,363,708	5,726,745	5,217,823
Certificates and bonds		2,918,677	2,746,773	1,694,114	1,770,696	2,055,385
Other intangible assets		30,590	30,511	30,616	28,264	28,550
Deferred tax asset		1,533	1,388	1,296	923	833
Fixed assets		1,379	1,506	1,539	1,503	1,613
Other assets		138,736	122,997	97,124	79,919	75,848
Total assets		11,667,010	10,463,800	8,348,544	7,794,975	7,570,487
Liabilities and equity						
Deposits from customers		9,039,933	8,496,086	6,592,180	6,243,425	6,157,063
Debt securities issued	3	1,099,801	555,782	499,762	499,743	499,723
Tax payable		54,669	85,850	93,413	67,544	43,708
Other liabilities		30,588	31,595	29,836	29,503	42,559
Accrued expenses and unearned income received		199,894	140,011	44,133	199,585	133,307
Subordinated loan	4	298,756	298,743	298,729	30,000	30,000
Total liabilities		10,723,642	9,608,066	7,558,054	7,069,799	6,906,359
Share capital	4	173,000	172,594	172,594	172,594	172,594
Share premium reserve	4	145,123	139,945	139,945	139,948	139,957
Retained earnings and other reserves	4	625,245	543,195	477,951	412,634	351,576
Total equity		943,369	855,734	790,490	725,176	664,127
Total liabilities and equity		11,667,010	10,463,800	8,348,544	7,794,975	7,570,487