

Fourth quarter 2019 results presentation

Q4

Norwegian Finans Holding Group
February 20, 2020

Agenda

Performance and events

Country overview and performance

Fourth quarter 2019 results

Outlook

Fourth quarter 2019 highlights

Strong profitability

- Earnings MNOK 504 and MNOK 1 981 full year 2019
- Stable margins and cost efficiency
- Stable credit quality

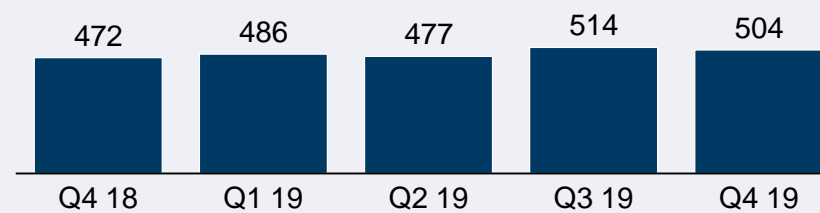
Resilient balance sheet

- Loan growth MNOK 973 million and BNOK 4.4 full year
- Issuance of MREL-qualifying bonds in Q4
- Strong CET 1 19.7% consolidated
- Change in accounting for loans in debt collection and amendment to IAS 12 – income taxes

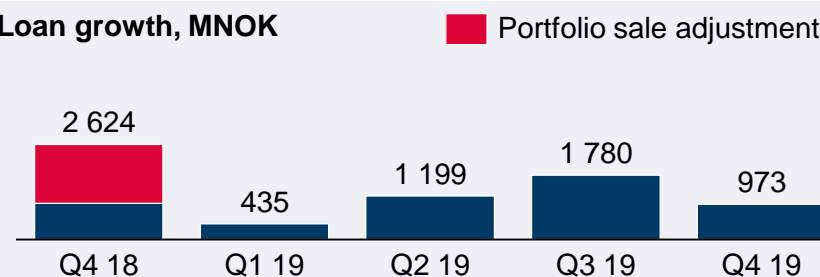
Events

- Proposed cash dividend of NOK 3.18 per share and share buyback of MNOK 150
- Revised SREP capital requirement 18.5%
- Work on EU banking license and expansion plan progressing

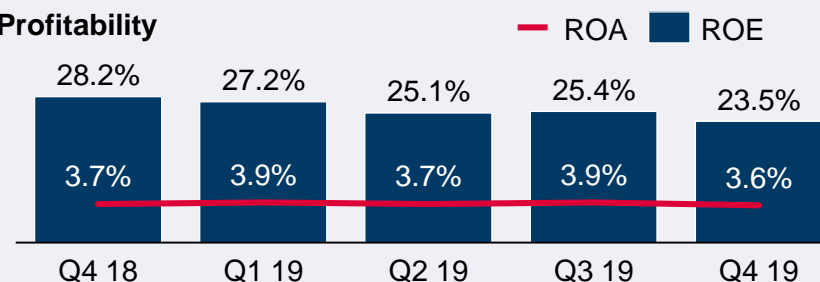
Earnings, MNOK



Loan growth, MNOK



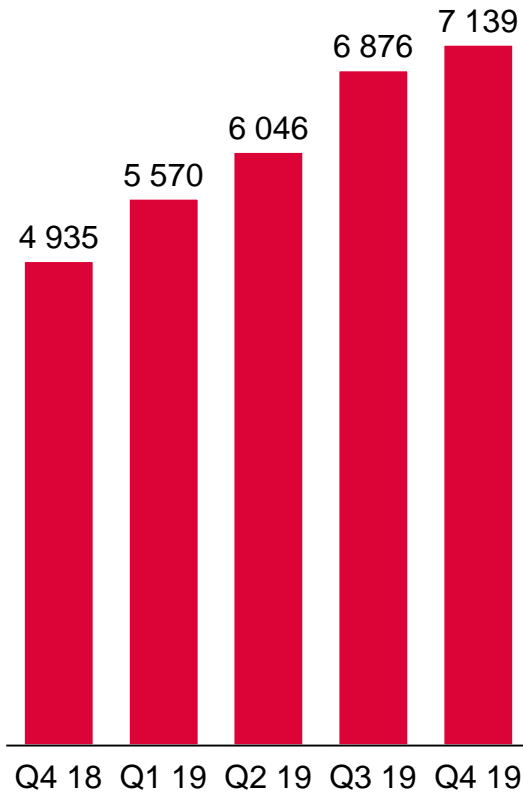
Profitability



Change in accounting of loans in debt collection and amendment to IAS 12 – income taxes. Described in note 15 in the fourth quarter report. Comparable figures have been restated.

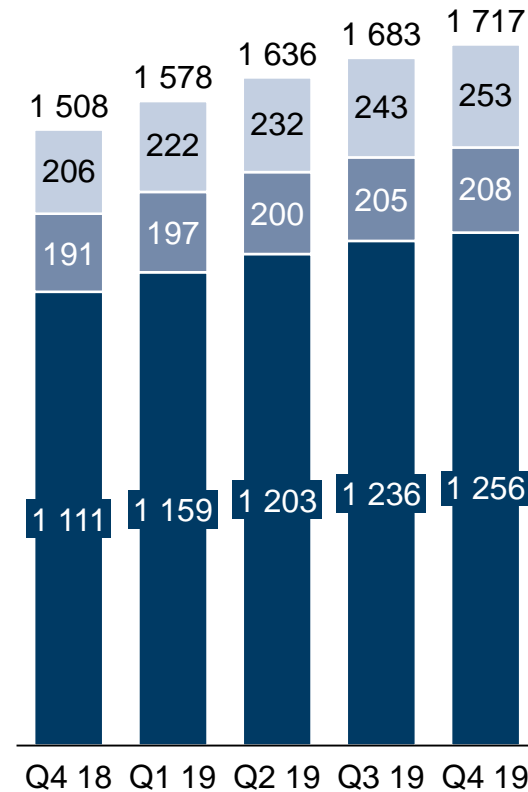
33 400 new customers in the fourth quarter

App usage, thousand



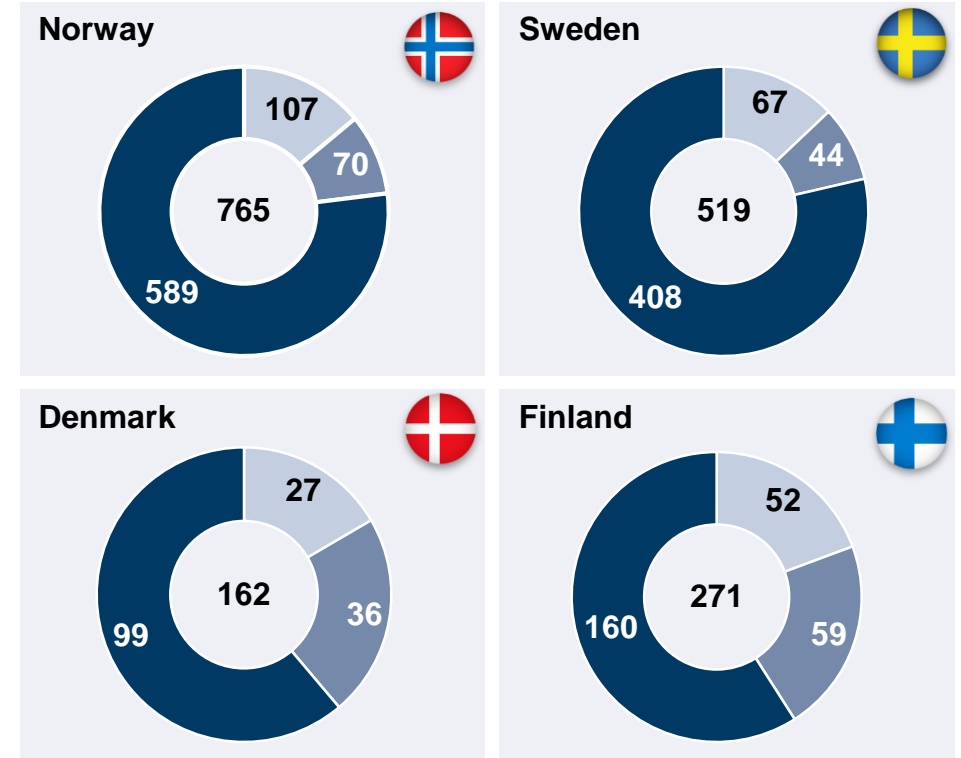
■ App logins

Customers, thousand



■ Credit card ■ Instalment loan ■ Deposit

Customers, thousand



Accounting changes in Q4 2019

Change of method of accounting for loans in debt collection

- Change in calculation of interest income on loans transferred to debt collection
 - Previous method based on received interest payments
 - New method based on calculated interest according to IFRS 9
- Adjusted provisioning to reflect change in methodology
 - Alignment of ECL model in combination with charge-off effects
- Comparable figures have been restated



Insignificant impact on earnings and capital ratios

- Pre-tax income effect of MNOK 23.2 booked in Q4 2019
- Gross measures impacted
- Increased loan yields, net interest margin, loan loss provisions, NPL's to loans and loan loss allowance to loans
- Decreased cost/income ratio
- No change in asset quality

Amendment to IAS 12 – Income taxes

- Income tax on dividends to be recognized in profit or loss and not directly in equity
- Interest on tier 1 capital is tax deductible, and the tax relief is recognized in the income statement when the interest is paid
- Implementation as of January 1, 2019
- Comparable figures have been restated



Decreased stated tax expense

- Amendment has decreased stated tax expense in the income statement by NOK 11.4 million for 2019 and NOK 10.4 million for 2018
- Impacts non-consolidated tax expense and country-level earnings
- No net effect on equity

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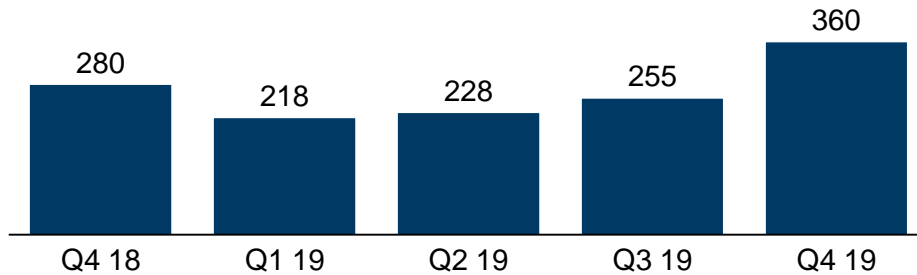
Fourth quarter 2019 results

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Highlights - Norway

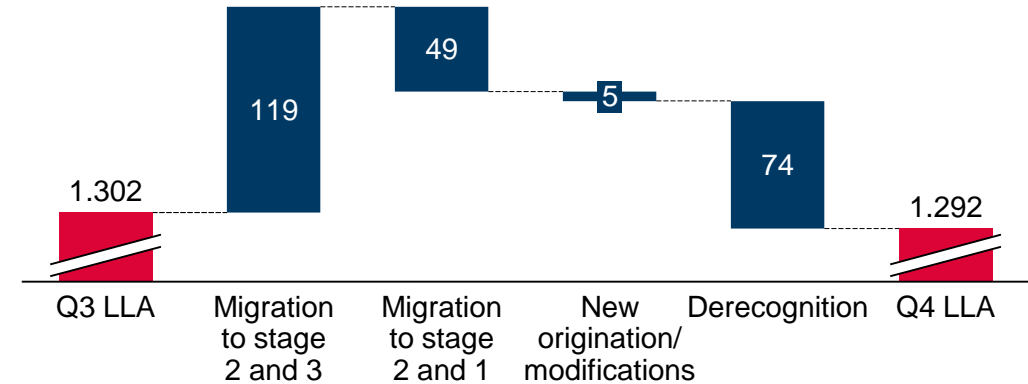
Earnings after tax

MNOK



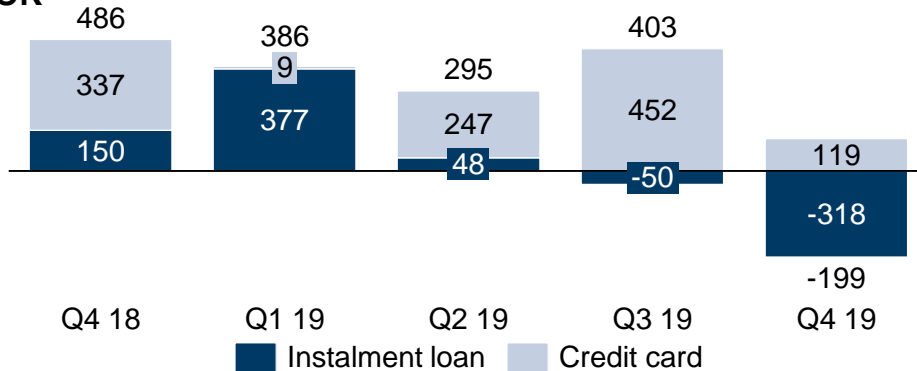
Loan loss allowance (LLA)

MNOK



Loan growth

MNOK



Market dynamics

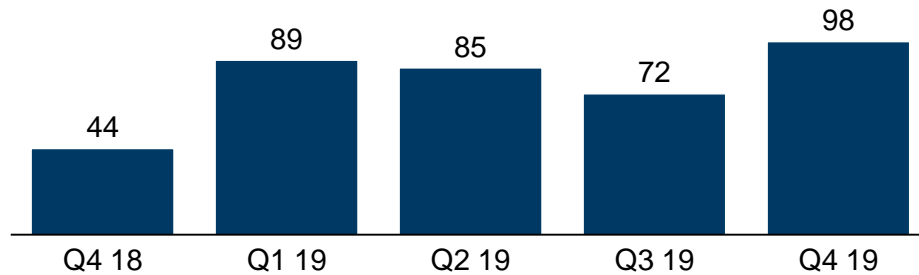
- Earnings positively impacted by accounting and tax changes
- Stable loan application level
- Instalment loan growth impacted by charge-offs and lower sales
- Stronger competition from established banks

Change in accounting of loans in debt collection and amendment to IAS 12 – income taxes. Described in note 15 in the fourth quarter report. Comparable figures have been restated.

Highlights - Sweden

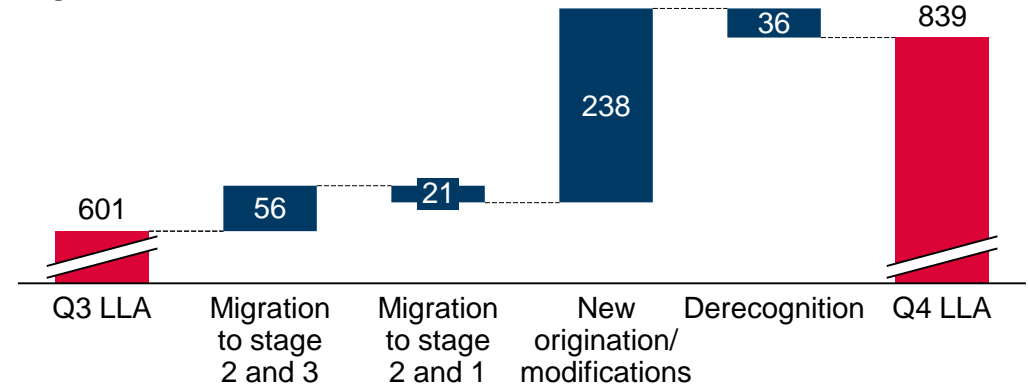
Earnings after tax

MNOK



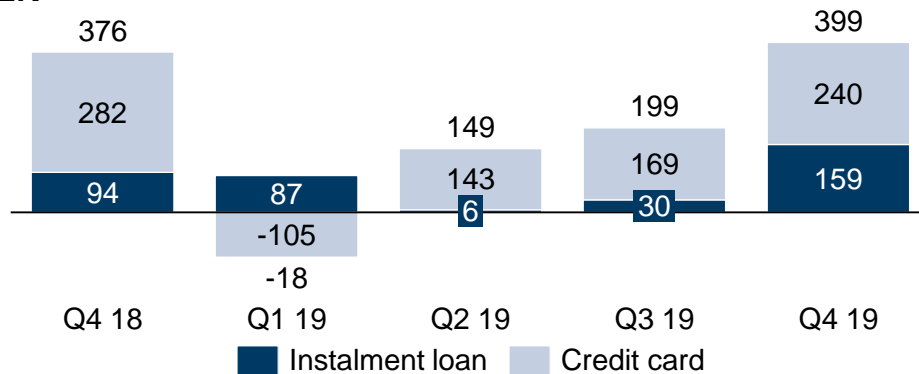
Loan loss allowance (LLA)

MNOK



Loan growth

MSEK



Market dynamics

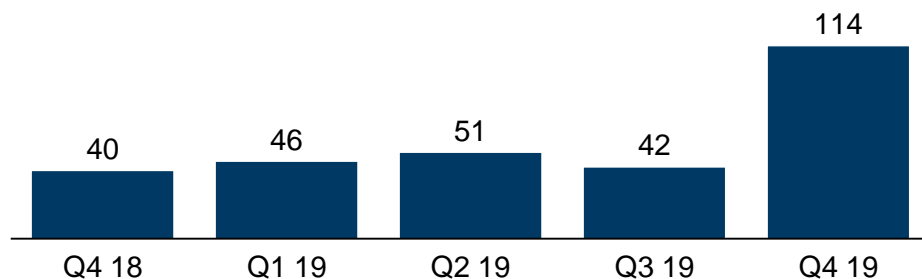
- Increased earnings due to positive tax effect
- Installment loan growth despite intensified competition from new entrants
- Strong credit card growth

Change in accounting of loans in debt collection and amendment to IAS 12 – income taxes. Described in note 15 in the fourth quarter report. Comparable figures have been restated.

Highlights - Denmark

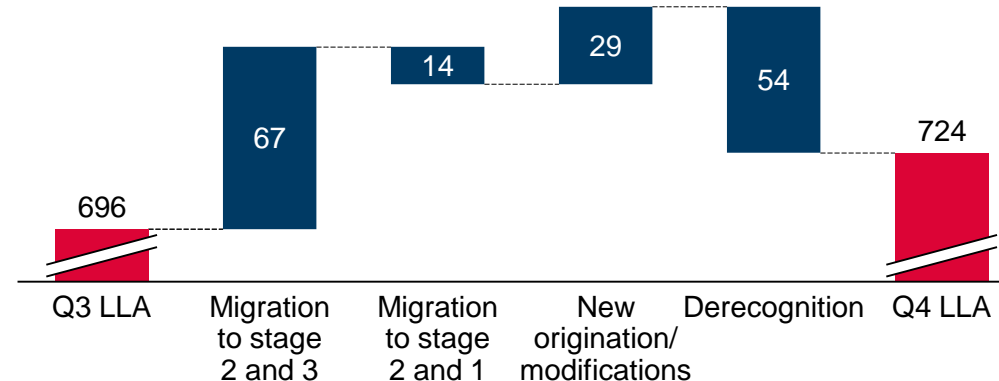
Earnings after tax

MNOK



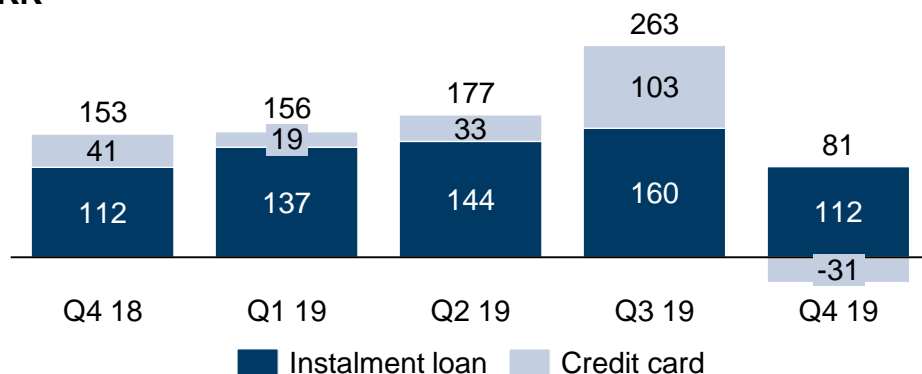
Loan loss allowance (LLA)

MNOK



Loan growth

MDKK



Market dynamics

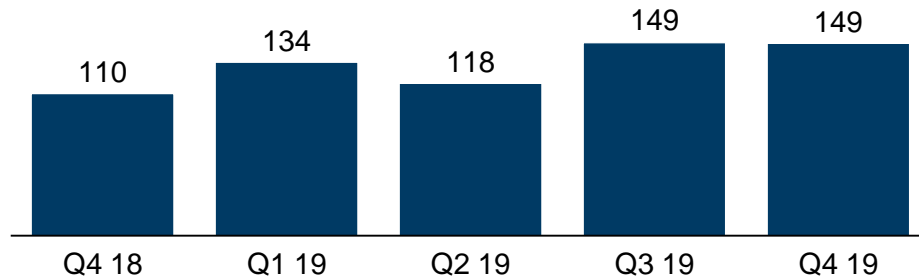
- Positive earnings effect from accounting and tax changes
- Steady installment loan growth
- Stable deposit level despite interest rate reduction in Q4

Change in accounting of loans in debt collection and amendment to IAS 12 – income taxes. Described in note 15 in the fourth quarter report. Comparable figures have been restated.

Highlights - Finland

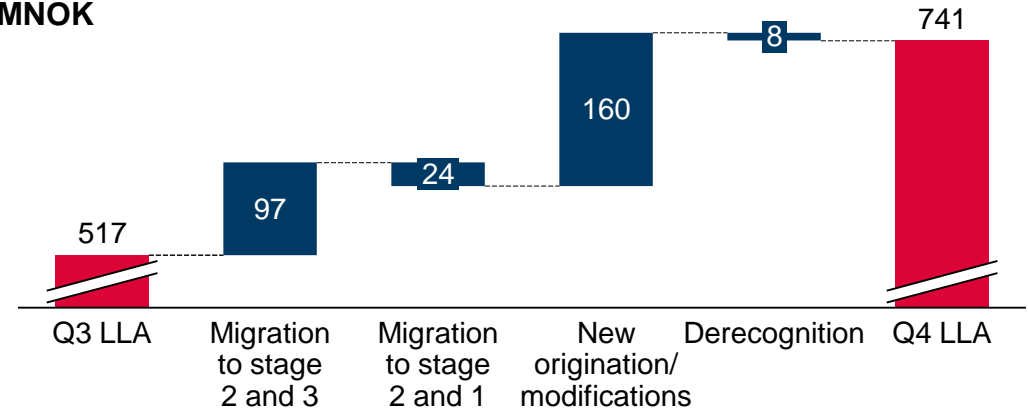
Earnings after tax

MNOK



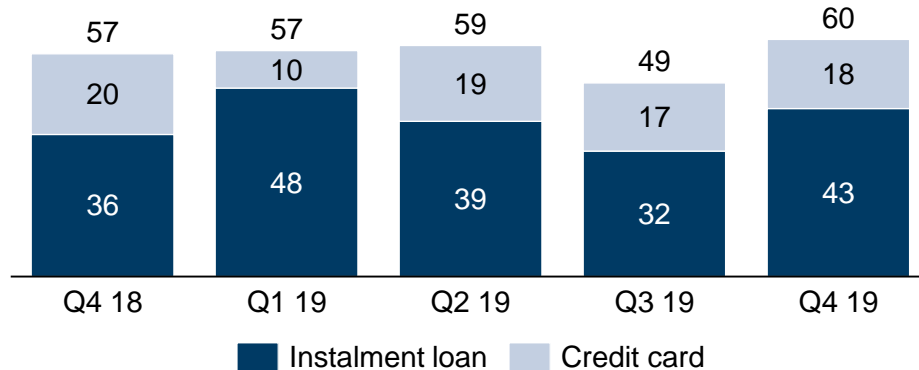
Loan loss allowance (LLA)

MNOK



Loan growth

MEUR



Market dynamics

- Increased provisions outweighed by positive tax effects from accounting changes
- Continued loan growth and good asset quality
- Stable deposits

Change in accounting of loans in debt collection and amendment to IAS 12 – income taxes. Described in note 15 in the fourth quarter report. Comparable figures have been restated.

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Fourth quarter 2019 earnings were MNOK 504, compared with MNOK 514 in the previous quarter

Norwegian Finans Holding Group

<i>MNOK</i>	Q4 2019	Q3 2019	Change	
Interest income	1 535.3	1 495.4	39.8	3 %
Interest expenses	173.6	165.2	8.4	5 %
Net interest income	1 361.7	1 330.3	31.4	2 %
Commission and bank services income	135.4	134.2	1.2	1 %
Commission and bank services expenses	57.9	70.0	-12.1	-17 %
Net change in value on securities and currency	9.5	25.2	-15.7	-62 %
Net other operating income	87.0	89.4	-2.4	-3 %
Total income	1 448.7	1 419.7	28.9	2 %
Personnel expenses	28.5	28.1	0.4	2 %
General administrative expenses	283.0	263.1	19.9	8 %
Ordinary depreciation	18.1	16.8	1.2	7 %
Other operating expenses	15.6	16.3	-0.7	-4 %
Total operating expenses	345.1	324.3	20.9	6 %
Provision for loan losses	432.8	413.5	19.3	5 %
Profit on ordinary activities before tax	670.7	682.0	-11.2	-2 %
Tax charge	166.9	168.0	-1.1	-1 %
Profit on ordinary activities after tax	503.9	513.9	-10.1	-2 %
Earnings per share (NOK)	2.70	2.75	-0.05	-2 %

- Rise in net interest income driven by loan growth
- Higher net fee income due to lower issuing services cost
- Currency gains outweighed negative valuation effects on securities
- Operating expenses up mainly due to higher digital marketing spending
- Stable provision level
- ROE was 23.5% and ROA was 3.6%

Change in accounting of loans in debt collection and amendment to IAS 12 – income taxes. Described in note 15 in the fourth quarter report. Comparable figures have been restated.

Earnings for the full year 2019 were MNOK 1 981, compared with MNOK 1 807 in 2018

Norwegian Finans Holding Group

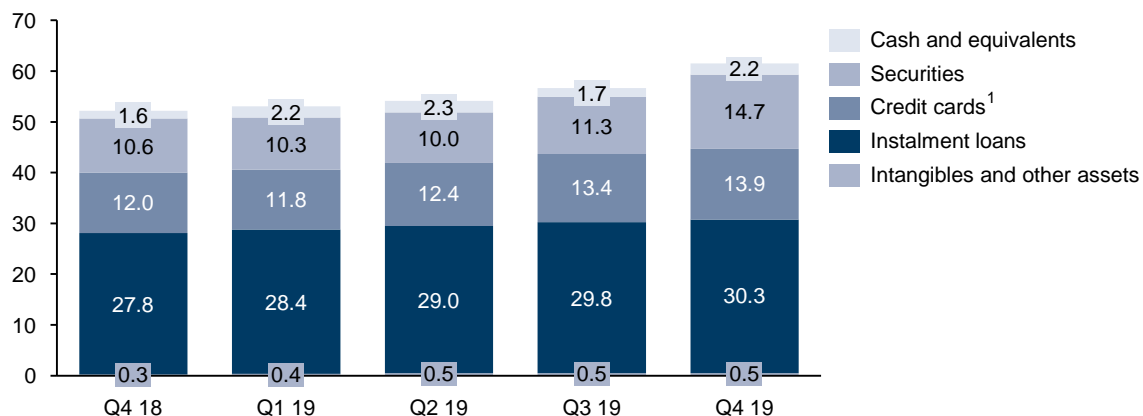
MNOK	2019	2018	Change	
Interest income	5 910.8	5 309.6	601.2	11 %
Interest expenses	650.1	606.7	43.4	7 %
Net interest income	5 260.7	4 702.9	557.8	12 %
Commission and bank services income	540.4	463.6	76.9	17 %
Commission and bank services expenses	250.7	230.5	20.2	9 %
Net change in value on securities and currency	32.1	12.8	19.2	150 %
Net other operating income	321.8	245.9	75.8	31 %
Total income	5 582.5	4 948.8	633.6	13 %
Personnel expenses	102.3	87.7	14.6	17 %
General administrative expenses	1 095.1	1 035.9	59.2	6 %
Ordinary depreciation	67.7	60.0	7.7	13 %
Other operating expenses	59.6	52.5	7.1	13 %
Total operating expenses before losses	1 324.7	1 236.2	88.5	7 %
Provision for loan losses	1 627.4	1 324.2	303.2	23 %
Profit before tax	2 630.5	2 388.5	242.0	10 %
Tax charge	649.4	581.4	68.0	12 %
Profit after tax	1 981.1	1 807.1	174.0	10 %
Earnings per share (NOK)	10.61	9.68	0.93	10 %

- Earnings growth driven by customer and loan growth
- ROE was 25.2% and ROA was 3.8%

Change in accounting of loans in debt collection and amendment to IAS 12 – income taxes. Described in note 15 in the fourth quarter report. Comparable figures have been restated.

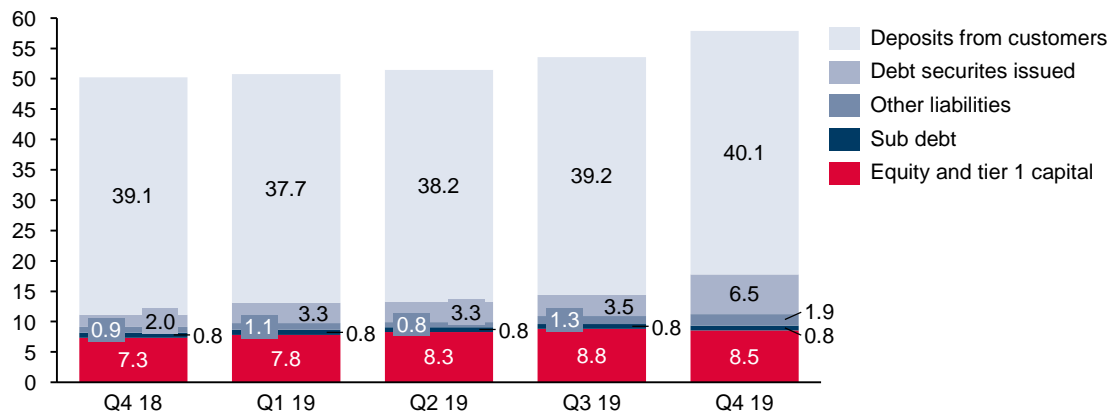
Resilient balance sheet

Assets, BNOK



- Total gross loans increased MNOK 973, compared with MNOK 1 780 in Q3
- Currency adjusted loan growth was MNOK 875 compared with MNOK 1 404 in Q3
- Instalment loans rose MNOK 401 and credit cards rose MNOK 474, currency adjusted
- Instalment loan sales were MNOK 2 188, compared with MNOK 2 236 in the previous quarter
- Instalment loan run-off was MNOK 2 014, compared with MNOK 1 835 in the previous quarter
- Liquid assets comprise 29% of total assets – significantly increased due to MREL related senior bond issues
- LCR 449% and NSFR 147%
- Deposits increased MNOK 933. Adjusted for currency effects deposits increased MNOK 866
- Deposits to loans ratio 91%

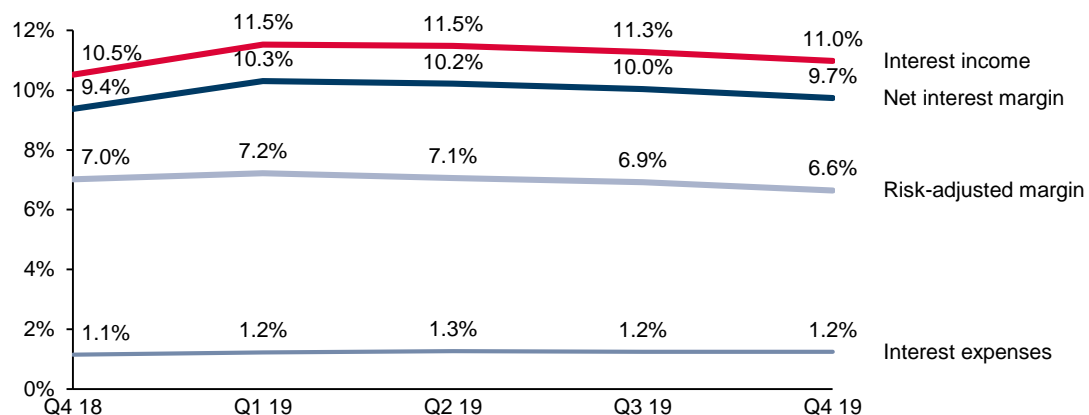
Liabilities and equity, BNOK



Change in accounting of loans in debt collection and amendment to IAS 12 – income taxes. Described in note 15 in the fourth quarter report. Comparable figures have been restated.

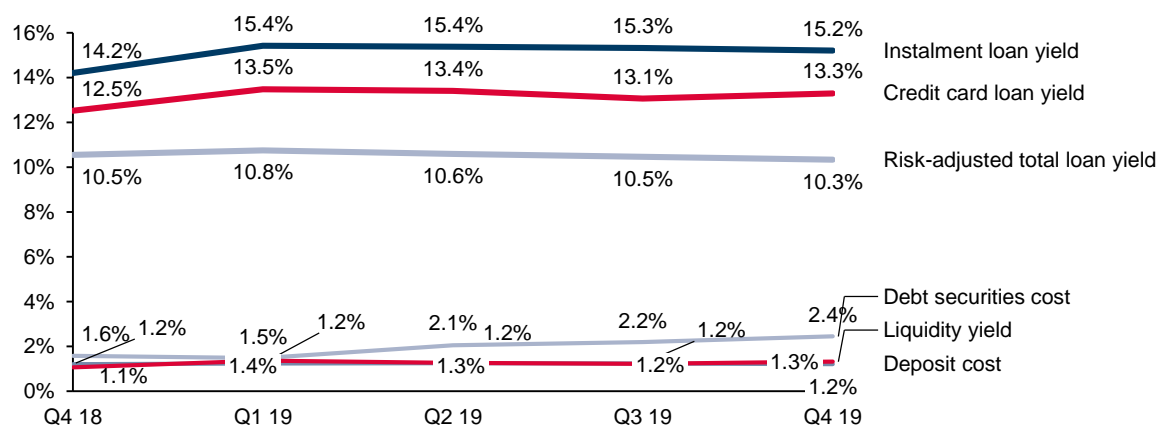
Stable yields and margins

Margins as a % of average assets



- Figures impacted by change in calculation of interest income on loans transferred to debt collection
- Margins impacted by lower asset utilization due to senior debt issuances related to MREL requirement and resulting increased liquid assets
- Increased cost on senior debt outweighed by favorable change in deposit mix
- Stable development in loan yields
- Increased gross loan yield levels
- Risk adjusted loan yield level unaffected

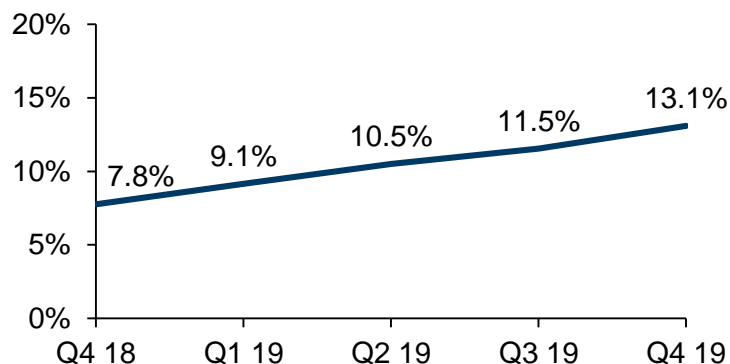
Asset yield and cost of funds



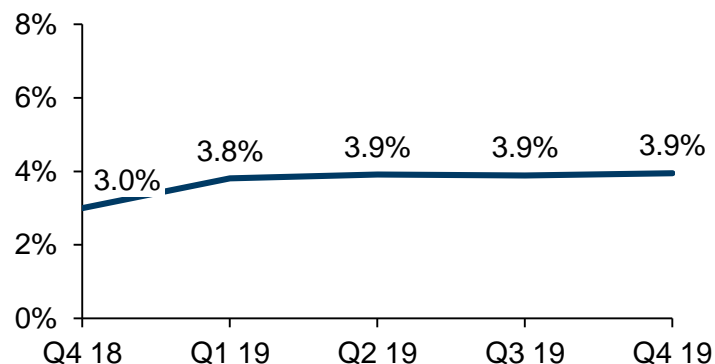
Change in accounting of loans in debt collection and amendment to IAS 12 – income taxes. Described in note 15 in the fourth quarter report. Comparable figures have been restated.

Strong credit metrics

Non-performing loans to loans ¹⁾

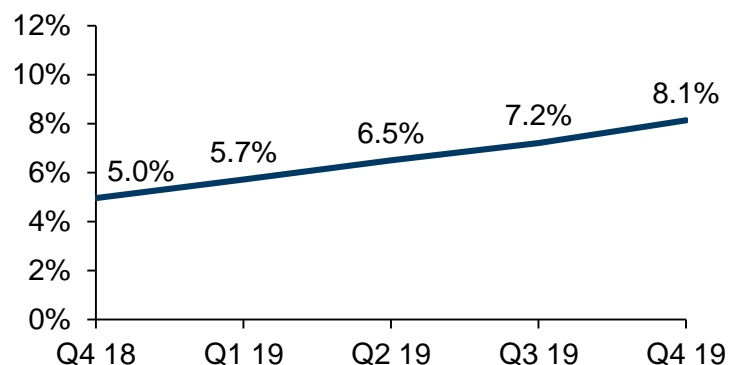


Loan loss provisions to average loans ²⁾

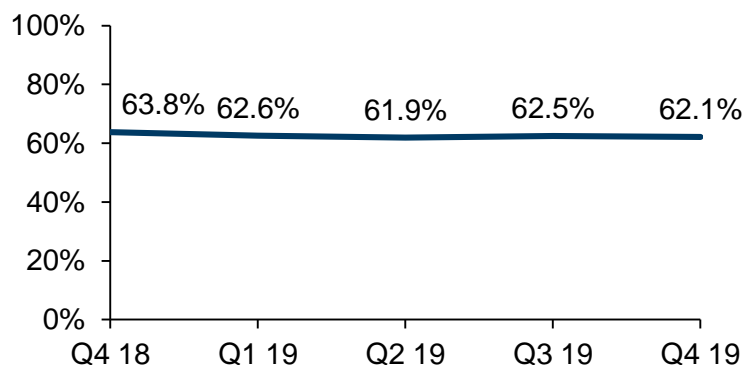


- Figures impacted by change in calculation of interest income on loans transferred to debt collection
- NPL and provision levels and trends impacted by restatement, no change in underlying development
- Increased allowance levels
- Continued lower risk taking

Loan loss allowance to loans ³⁾



Loan loss allowance to non-performing loans ⁴⁾



Change in accounting of loans in debt collection and amendment to IAS 12 – income taxes. Described in note 15 in the fourth quarter report. Comparable figures have been restated.

1) Gross loans Stage 3 (less performing loans) to gross loans

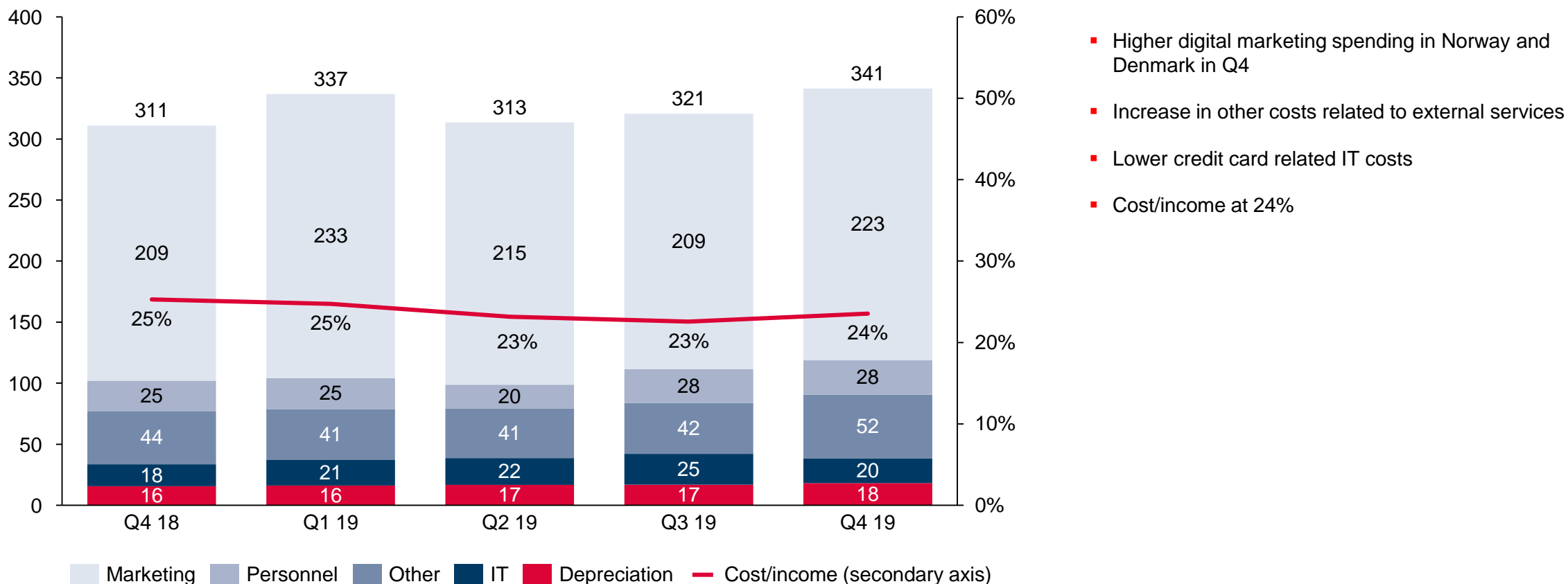
2) Change in ECL to average gross loans

3) ECL to gross loans

4) ECL to gross loans Stage 3 (less performing loans)

High operating efficiency

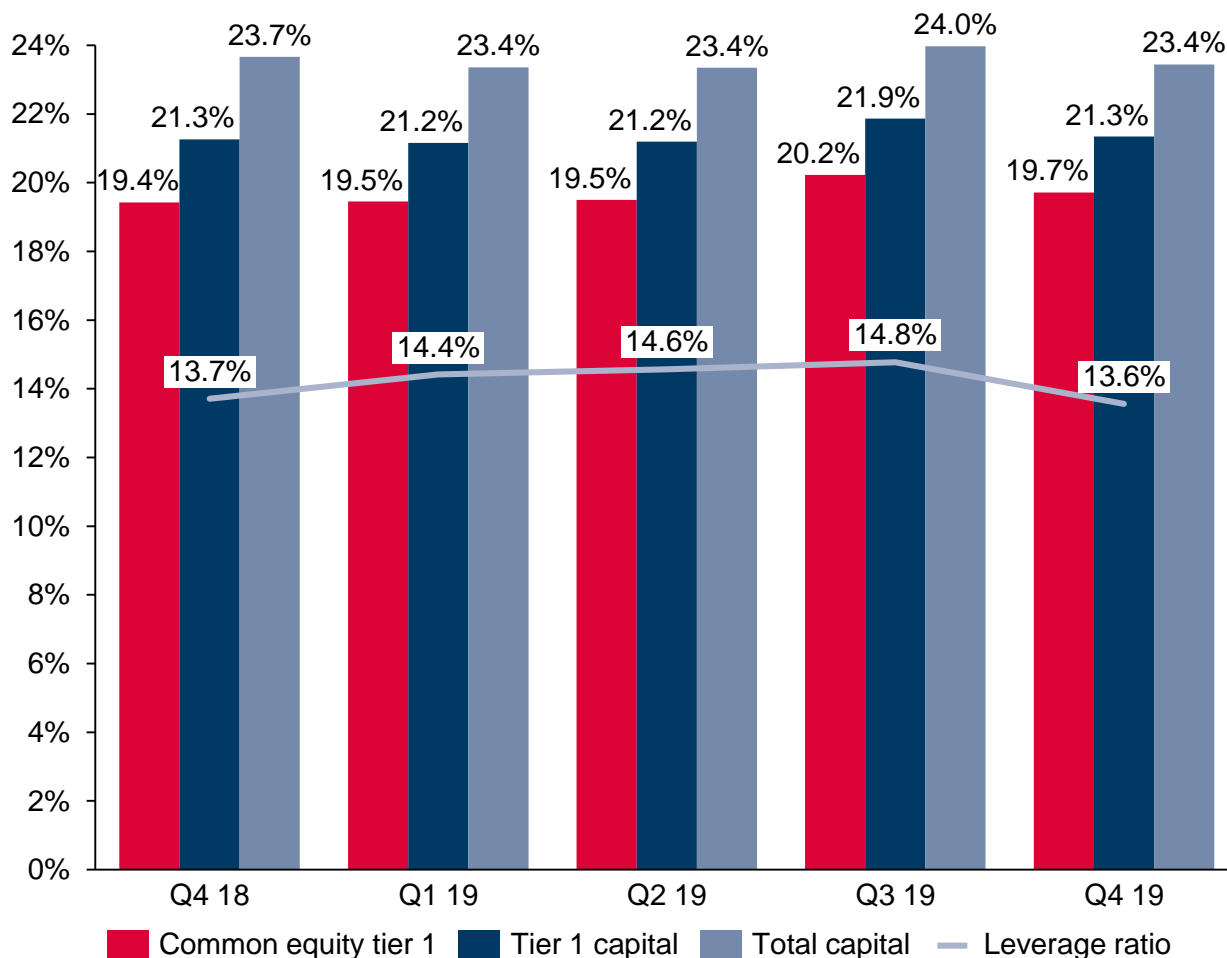
Quarterly operating expenses, MNOK



Change in accounting of loans in debt collection and amendment to IAS 12 – income taxes. Described in note 15 in the fourth quarter report. Comparable figures have been restated.

Strong capital position

Capital ratios



- 19.7% CET1 capital ratio on a consolidated basis after proposed dividend payment
- Revised SREP of 5.8% with management buffer of 1.0% implying a combined capital requirement of 18.5 % as of 31.03.2020.
- MREL requirement covered into the phase-in period
- Ample capacity for geographical expansion and dividends

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Regulatory trends for the financial sector

Consumer lending is in focus for authorities across Europe along with strong attention on “Know your customer” and Anti-money-laundering. Measures in the Nordic region are not outstanding in Europe, but follow European trends. We welcome a level playing field and transparent conditions.

Regulatory update Nordic



Debt register implementation	Register for unsecured debt launched 1.7.2019	Well established register will all debt	Voluntary register for unsecured	Voluntary register for unsecured. Mandatory register proposed
Debt ceiling	5 times income	None	None	Proposed ceiling of 4.5 times income
Interest rate ceiling	Being debated	Rate ceiling of 40% introduced in 2018. Restrictions for loans above 30%	Proposed ceiling of 35% and marketing restrictions for loans above 25%	From 1.9.2019 rate ceiling of 20% and fee ceiling of EUR 150
Other local regulations	15.5.19 regulation on lending practice	Proposal for new guidelines more application information	Credit card surcharging abolished	Proposals on credit granting, repayment rules and rates
Marketing	The consumer monitor closely but no new regulation since 2017	Responsible lending	Proposed restriction on marketing for high-interest (25%) credit	Consider measures to reduce marketing

Dividends and repurchase of shares

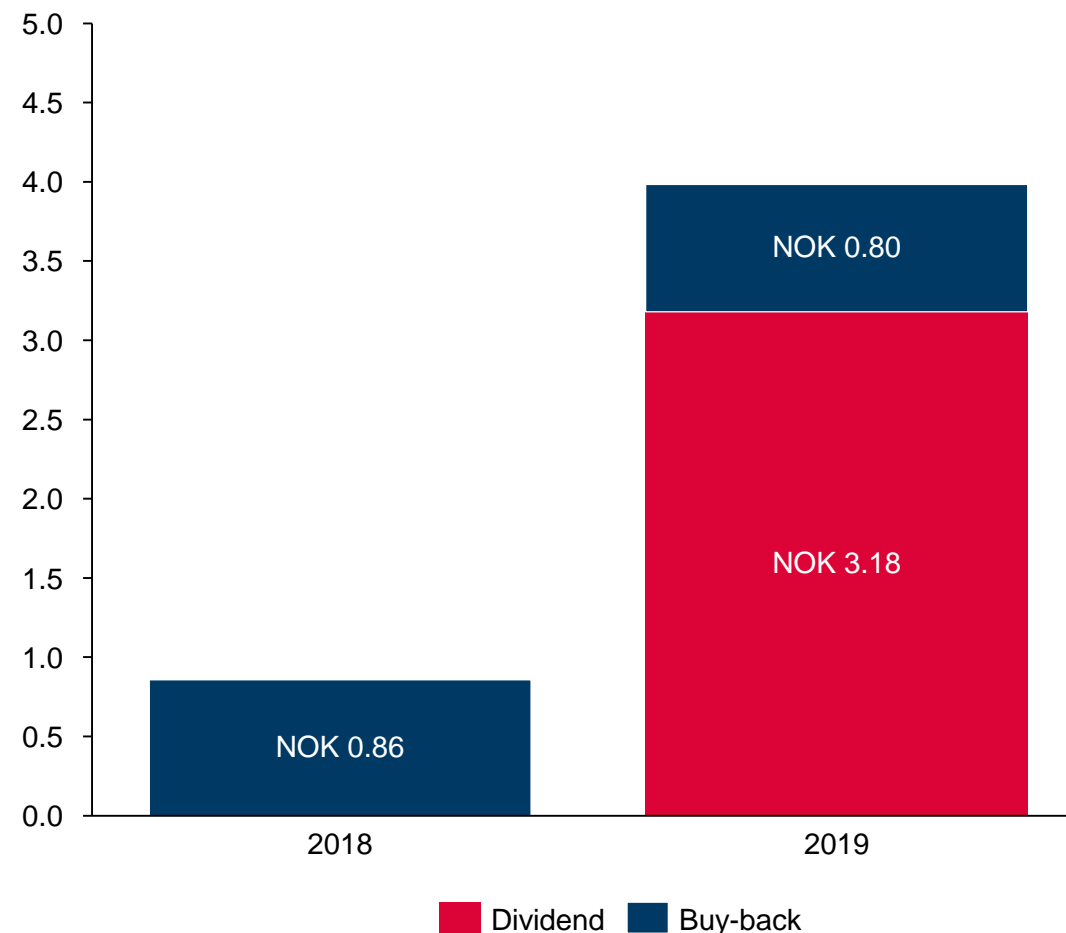
Commencement of cash dividends

- Proposed cash dividend of NOK 3.18 per share
- Proposed buyback of shares of up to MNOK 150 in 2020 – equal to NOK 0.80 per share

Updated dividend policy

- The NFH Group's dividend policy stipulates a payout ratio between 30% and 60% in cash dividends
- In addition, repurchases of own shares can be used to allocate capital

Dividend and buy-back* per share



* Buy-back per share calculated based on expected proposed amount divided by current number of shares outstanding

Positive and promising outlook

Bank Norwegian, a leading digital bank for personal loans, credit cards and savings

Nordic market

- Favorable market conditions support continued growth and profitability
- Strong distribution capability and customer know how
- Attractive and diversified customer base

European expansion plan

- Final stage of exploratory phase with Central Bank of Ireland (CBI)
- Preparations for expanding operating platform into new markets initiated

Industry landscape

- Profitability in the financial sector is still based on balance sheet and underwriting capabilities
- The honeymoon seems over for the tech highflyers
- PSD2 can give better access to new markets

banknorwegian 

Appendix

Quarterly balance sheet

Norwegian Finans Holding Group

<i>MNOK</i>	31.12.19		30.9.19		Change	
Assets						
Cash and deposits with the central bank	69	0 %	68	0 %	0	0 %
Loans and deposits with credit institutions	2 094	4 %	1 627	3 %	467	29 %
Loans to customers	40 561	70 %	40 068	75 %	493	1 %
Certificates and bonds	14 651	25 %	11 340	21 %	3 311	29 %
Financial derivatives	76	0 %	19	0 %	57	296 %
Shares and other securities	45	0 %	43	0 %	2	5 %
Intangible assets	511	1 %	509	1 %	2	0 %
Deferred tax asset	1	0 %	20	0 %	-19	-96 %
Fixed assets	1	0 %	1	0 %	-0	-14 %
Receivables	63	0 %	56	0 %	7	12 %
Total assets	58 071	100 %	53 750	100 %	4 321	8 %
Liabilities and equity						
Loans from credit institutions	53	0 %	-	0 %	53	n/m
Deposits from customers	40 118	69 %	39 185	73 %	933	2 %
Debt securities issued	6 538	11 %	3 473	6 %	3 065	88 %
Financial derivatives	30	0 %	38	0 %	-8	-21 %
Tax payable	623	1 %	618	1 %	5	1 %
Deferred tax liability	4	0 %	-	0 %	4	n/m
Other liabilities	226	0 %	400	1 %	-174	-44 %
Accrued expenses	183	0 %	240	0 %	-57	-24 %
Subordinated loans	823	1 %	812	2 %	10	1 %
Total liabilities	48 597	84 %	44 766	83 %	3 831	9 %
Share capital	187	0 %	187	0 %	-	0 %
Share premium	972	2 %	972	2 %	-	0 %
Tier 1 capital	635	1 %	635	1 %	-	0 %
Retained earnings and other reserves	7 680	13 %	7 189	13 %	490	7 %
Total equity	9 474	16 %	8 983	17 %	490	5 %
Total liabilities and equity	58 071	100 %	53 750	100 %	4 321	8 %

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Top 20 shareholders

SHAREHOLDER		# OF SHARES	
1 GOLDMAN SACHS INTERNATIONAL	NOMINEE	20 867 300	11.17 %
2 FOLKETRYGDFONDET		17 685 849	9.47 %
3 GOLDMAN SACHS & CO. LLC	NOMINEE	12 074 482	6.47 %
4 BNP PARIBAS SECURITIES SERVICES	NOMINEE	11 826 105	6.33 %
5 BANQUE DEGROOF PETERCAM LUX. SA	NOMINEE	5 085 999	2.72 %
6 BRUMM HOLDING AS		5 067 018	2.71 %
7 STENSHAGEN INVEST AS		4 551 416	2.44 %
8 STATE STREET BANK AND TRUST COMP	NOMINEE	4 104 359	2.20 %
9 GREEN 91 AS		3 964 900	2.12 %
10 THE NORTHERN TRUST COMPANY, LONDON	NOMINEE	3 312 292	1.77 %
11 NYE GKB INVEST AS		3 201 102	1.71 %
12 SNEISUNGEN AS		3 194 162	1.71 %
13 MP PENSJON PK		3 071 274	1.64 %
14 JPMORGAN CHASE BANK, N.A., LONDON	NOMINEE	2 621 641	1.40 %
15 NYE KM AVIATRIX INVEST AS		2 449 806	1.31 %
16 VERDIPAPIRFONDET PARETO INVESTMENT		2 250 000	1.20 %
17 TORSTEIN INGVALD TVENGE		2 000 000	1.07 %
18 BANQUE DEGROOF PETERCAM LUX. SA	NOMINEE	1 849 384	0.99 %
19 JPMORGAN CHASE BANK, N.A., LONDON	NOMINEE	1 847 822	0.99 %
20 KLP AKSJENORGE INDEKS		1 835 884	0.98 %
Top 20		112 860 795	60.43 %
Total		186 751 856	

- Management holds 1.4% of shares outstanding

As of February 18, 2020