



FINANCIALS | BANK NORWEGIAN | 4Q 2016 REVIEW

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Private placement driven by high growth and high requirement – we hike EPS 7.5% in 17e-18e

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We hike EPS on NII – TP up NOK 5 to NOK 130

Strong NII in 4Q and EPS hiked 7.5%

500 NOKm private placement to strengthen capital position and support continued loan growth

Loans grew by 15.8% in the quarter which was higher than we expected at ~10% and due to the high growth and likely high CET1 requirement Bank Norwegian contemplates a 500 NOKm private placement. We find the proforma CET1 ratio to rise 238bp and we are now at 16.1% in 17e. We hike 17e-18e EPS avg. 7.5% and our TP is up NOK 5 to NOK130. Buy reiterated.

- **4Q net profit in-line with expectations – operations in Denmark and Finland reached profitability**

NII came in at healthy 768.4 NOKm which was 2.5% above our 749.5 estimate. The strong NII was driven by higher-than-expected lending growth (+15.8% QoQ) and we hike our margin and volume growth assumptions ahead prominently. Net fee and commission income was lower than expected driven by the interchange cap at 22 NOKm. Costs and loan losses were in line but we hike our loan loss assumptions ahead markedly driven by the high growth and debt levels (18e hiked from 210bp to 250bp). Net profit came in as expected and quarterly ROE was 40.7%. The new equity will lower ROE ahead but only marginally (17e down 36bp from 38.1% to 37.8%).

- **Peers report increased margin in 4Q – few signs of increased competition**

BN bank announced in 4Q that they will increase the focus on the consumer finance segment and targets 500 NOKm in 2017 (equals ~0.5% market share). Our increased-competition-ahead assumption is upheld after 4Q but we now assume a less steep decline in NII margin as we see few signs the increased competition in the 4Q figures. Our base case is still one year more with high growth and margin for the consumer finance banks and then a gradual decline.

- **High growth and EPS hiked 7.5% post 4Q – TP up NOK 5 to NOK 130 – strong 16.1 CET1 in 17e**

Bank Norwegian is currently trading at 2.8x 16e P/B and 9.2x 17e earnings and we find the bank priced at a discount vs. Swedish peers. Furthermore, our theoretical models also indicate a significant potential. We hike our TP NOK 5 to NOK 130 post 4Q on better-than-expected NII and BUY recommendation reiterated.

**Quarterly review and
operational development**

Valuation

All main lines as expected but strong NII in 4Q

Bank Norwegian – Quarterly deviation table

Bank Norwegian NOKm	Estimates		Estimates		
	Actual	SB1M	Dev. %	Cons.	Dev. %
Net interest income	768.4	749.5	2.5 %	741.0	3.7 %
Net fee and commission income	22.0	41.0	-46.3 %	36.0	-38.9 %
Net financial income	-4.6	2.3	-304.4 %	3.0	-253.3 %
Net other income	0.0	1.5	-100.0 %	0.0	na
Total operating income	785.8	794.2	-1.1 %	780.0	0.7 %
Total operating expenses	276.1	267.8	3.1 %	266.0	3.8 %
Profit before credit losses	509.7	526.5	-3.2 %	514.0	-0.8 %
Loan losses	144.7	145.1	-0.3 %	144.0	0.5 %
Gains/loss financial assets	0.0	0.0	na	0.0	na
Operating profit	365.0	381.4	-4.3 %	370.0	-1.4 %
Discontinued operations	0.0	0.0	na	0.0	na
Tax	78.2	91.5	-14.6 %	89.0	-12.1 %
<i>Minorities</i>	0.0	0.0	na	0.0	na
Net profit	289.8	289.8	0.0 %	281.0	2.1 %

0.5 NOKbn in new equity to raise CET1 ~238bp

Private placement rationale: (i) strengthen capital position (ii) support loan growth

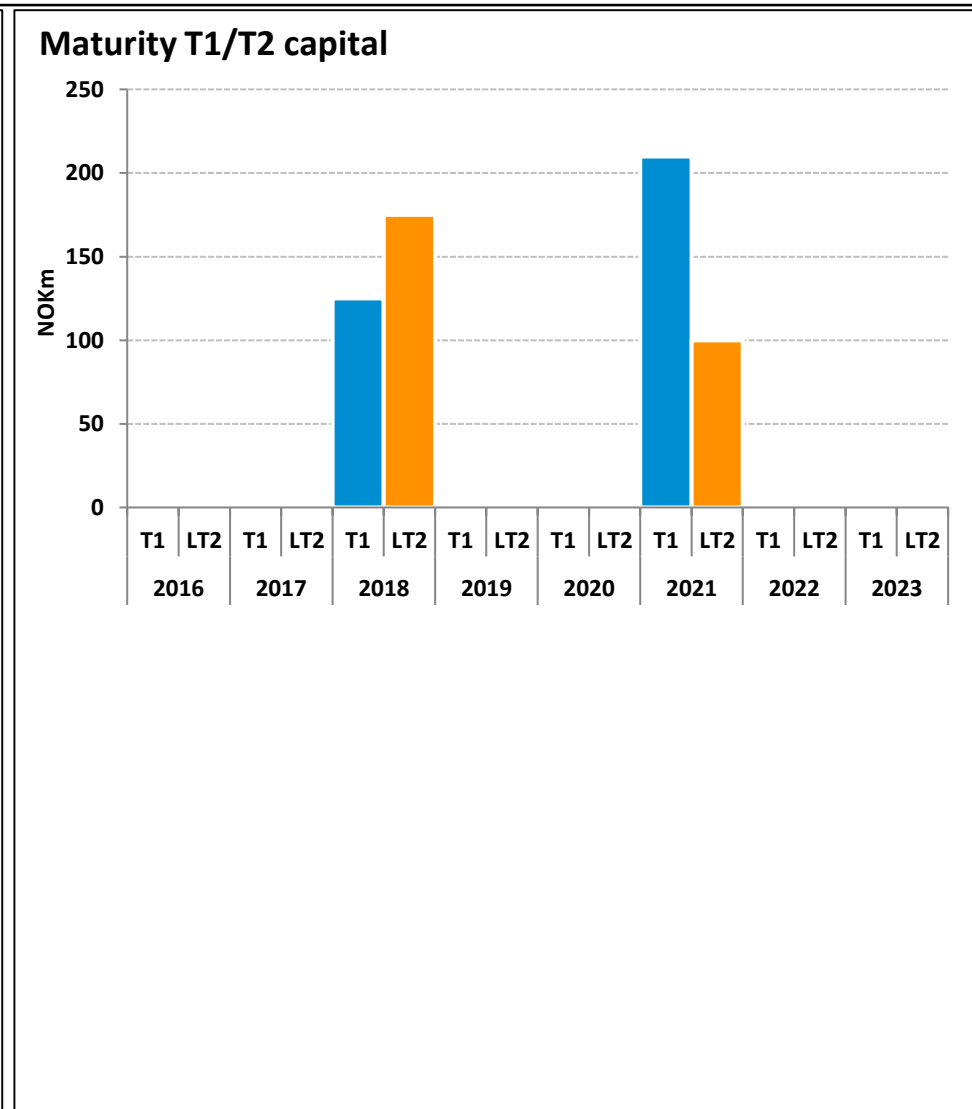
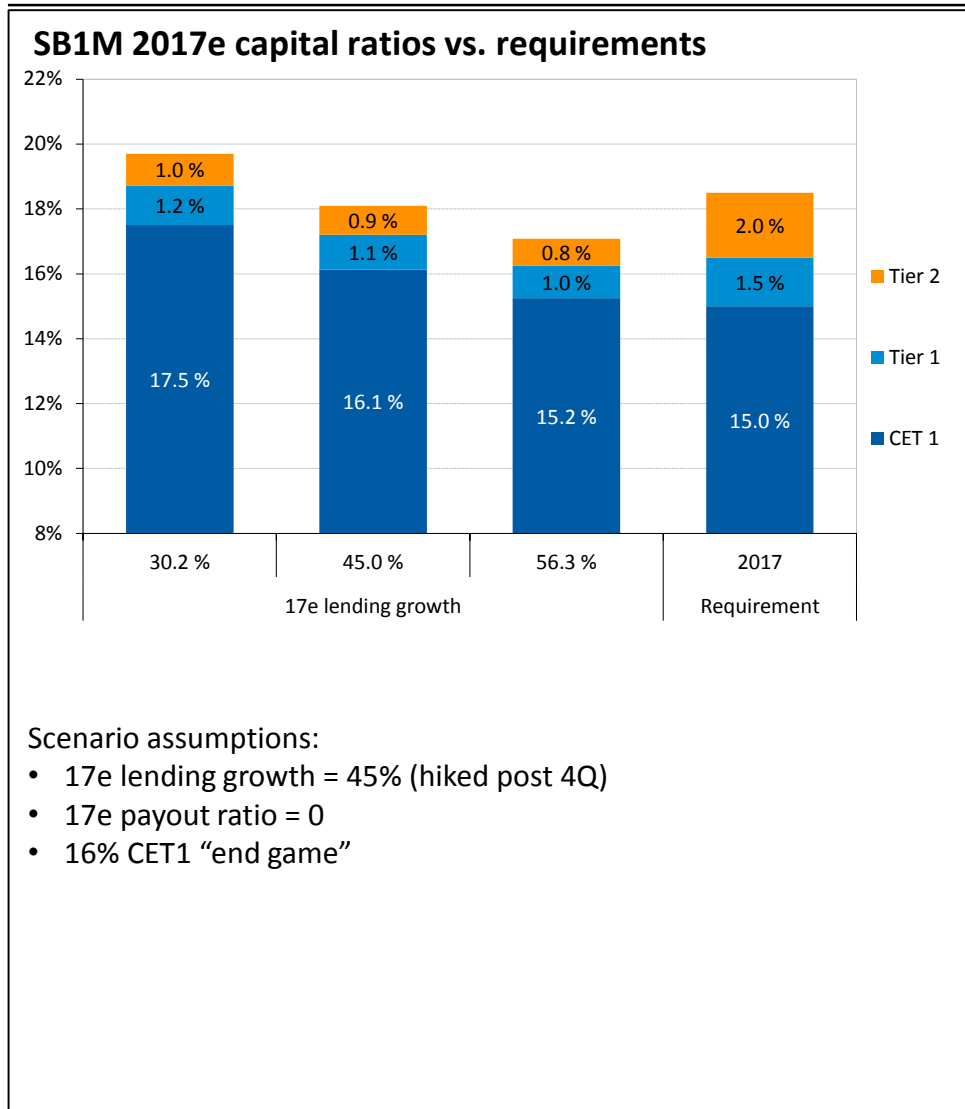
500 NOKm private placement in Bank Norwegian

Pre-issue share price	76.75	NOK
Private placement	500.00	NOKm
Repair offering	0.00	NOKm
Price	76.75	NOK
Nr. of new shares	6.51	m
Current nr. of shares	179.97	m
Total nr. of shares	186.49	m
M cap	14 313.06	NOKm
Current equity	3 000.00	NOKm
New equity	500.00	NOKm
Total equity	3 500.00	

BVPS	18.77	NOK
P/B	4.09	
TERP	76.75	NOK
Real discount	0.0%	

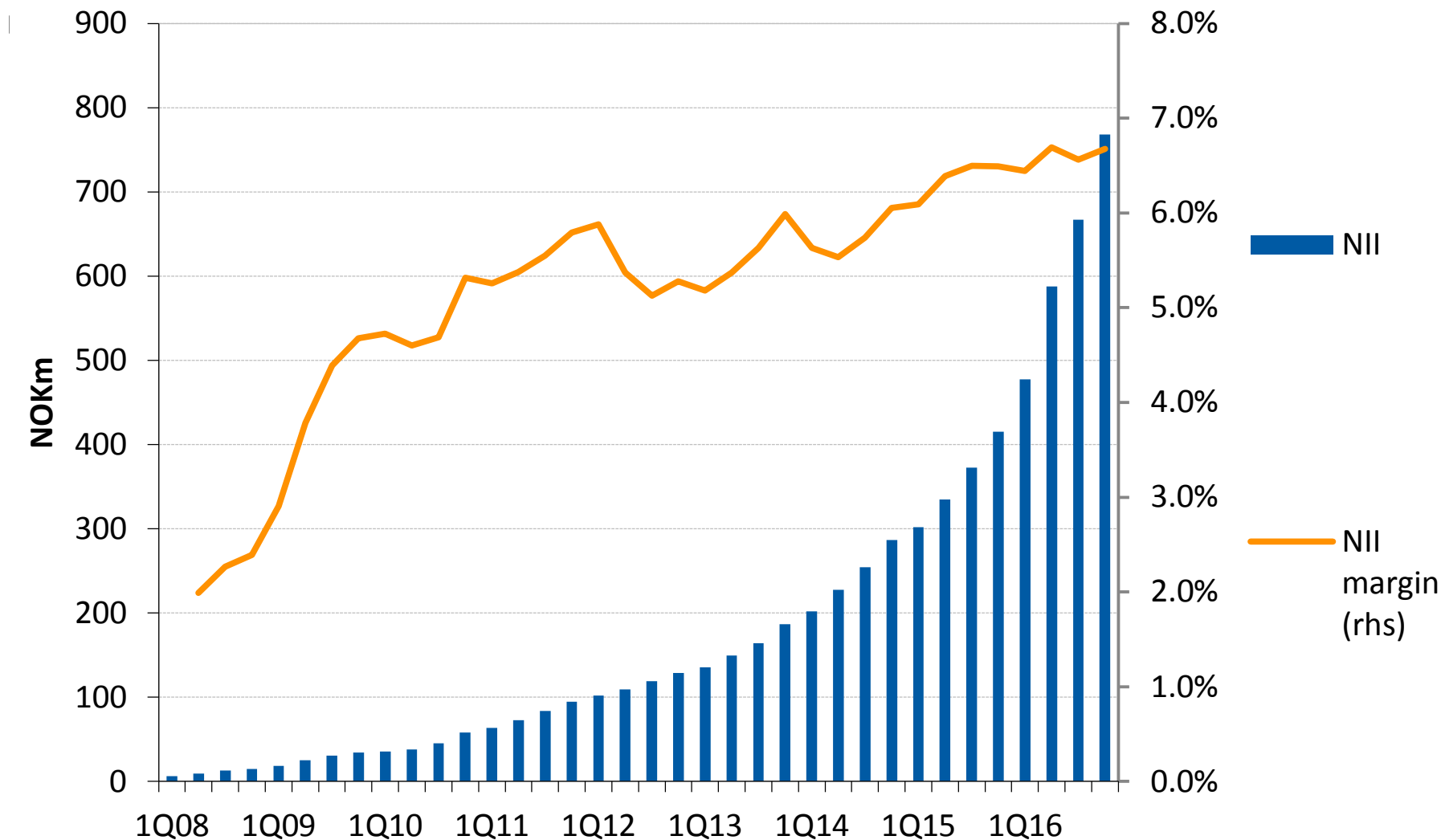
16,1% CET1 in 17e vs. 16.0% requirement

... but growth rates higher than expected and our 17e base case = 45% growth



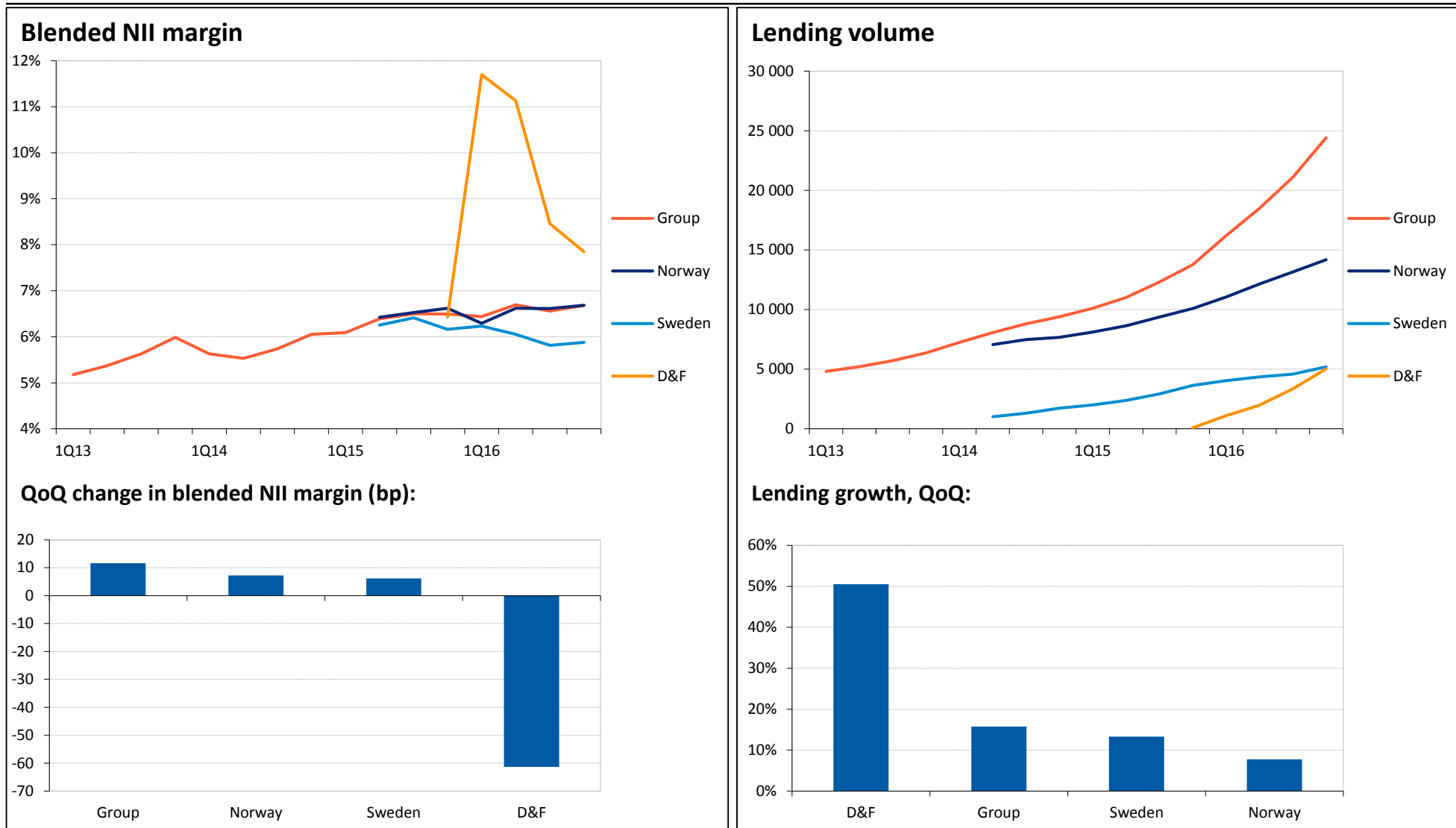
Norwegian: NII margin up 12bp QoQ

4Q NII came in at 768.4 NOKm (vs. us as 749.5 NOKm)



Lending up 15.8% QoQ in 4Q vs. us at 10.1%

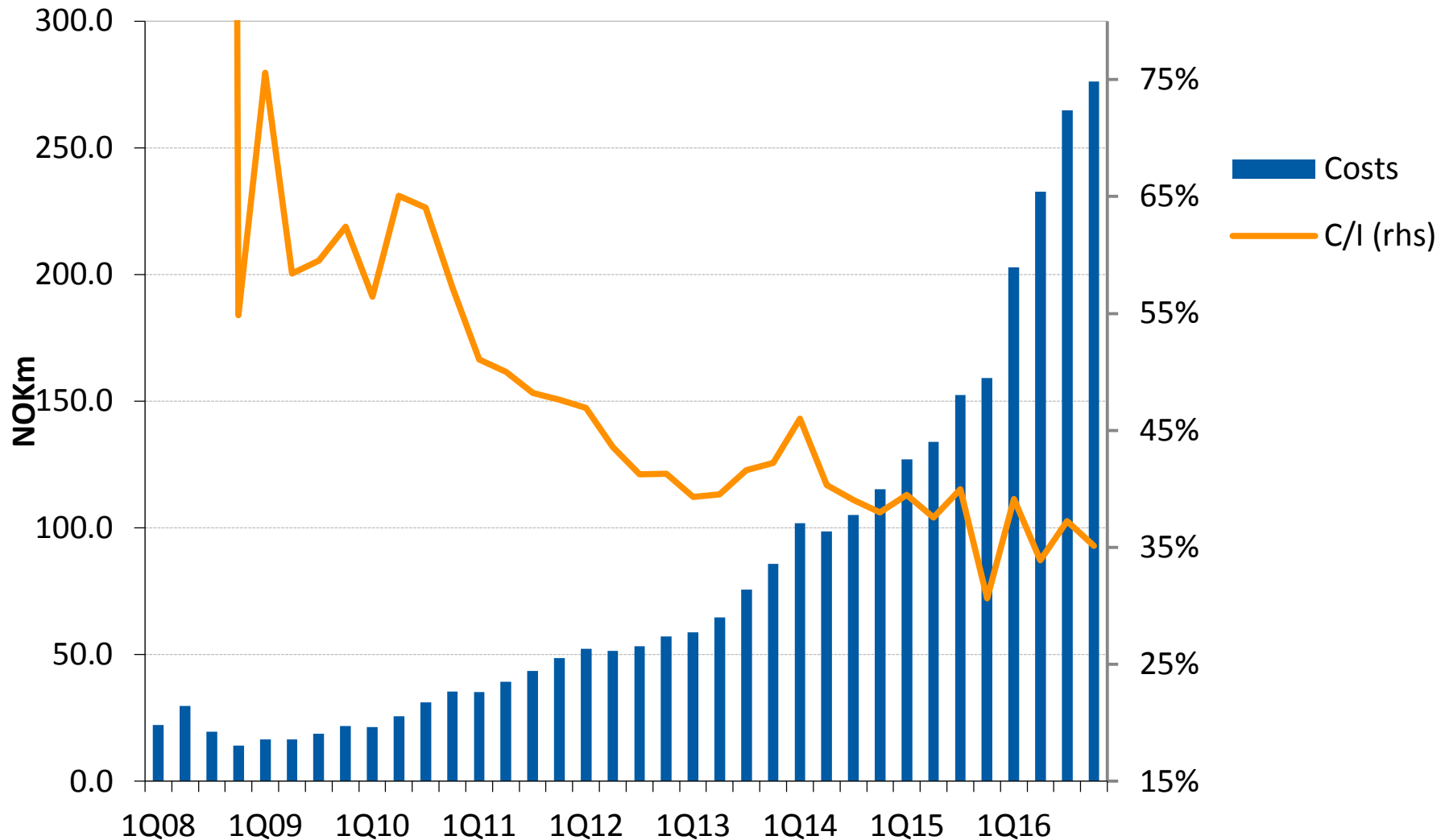
Net interest income development



Source: Company data, SB1 Markets

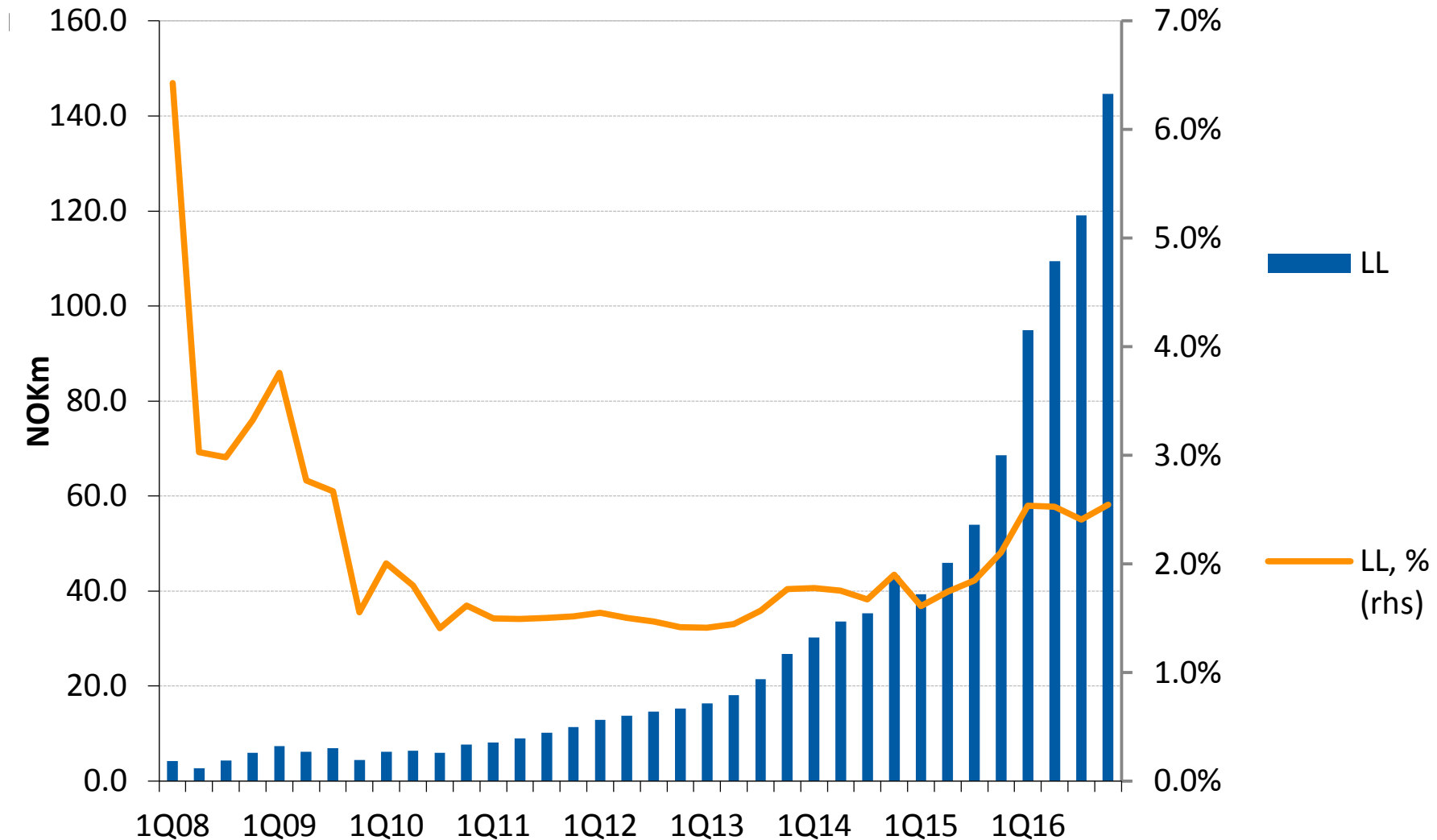
C/I-ratio in Norwegian down 209bp QoQ

4Q costs came in at 276.1 NOKm - up 11.3 NOKm QoQ



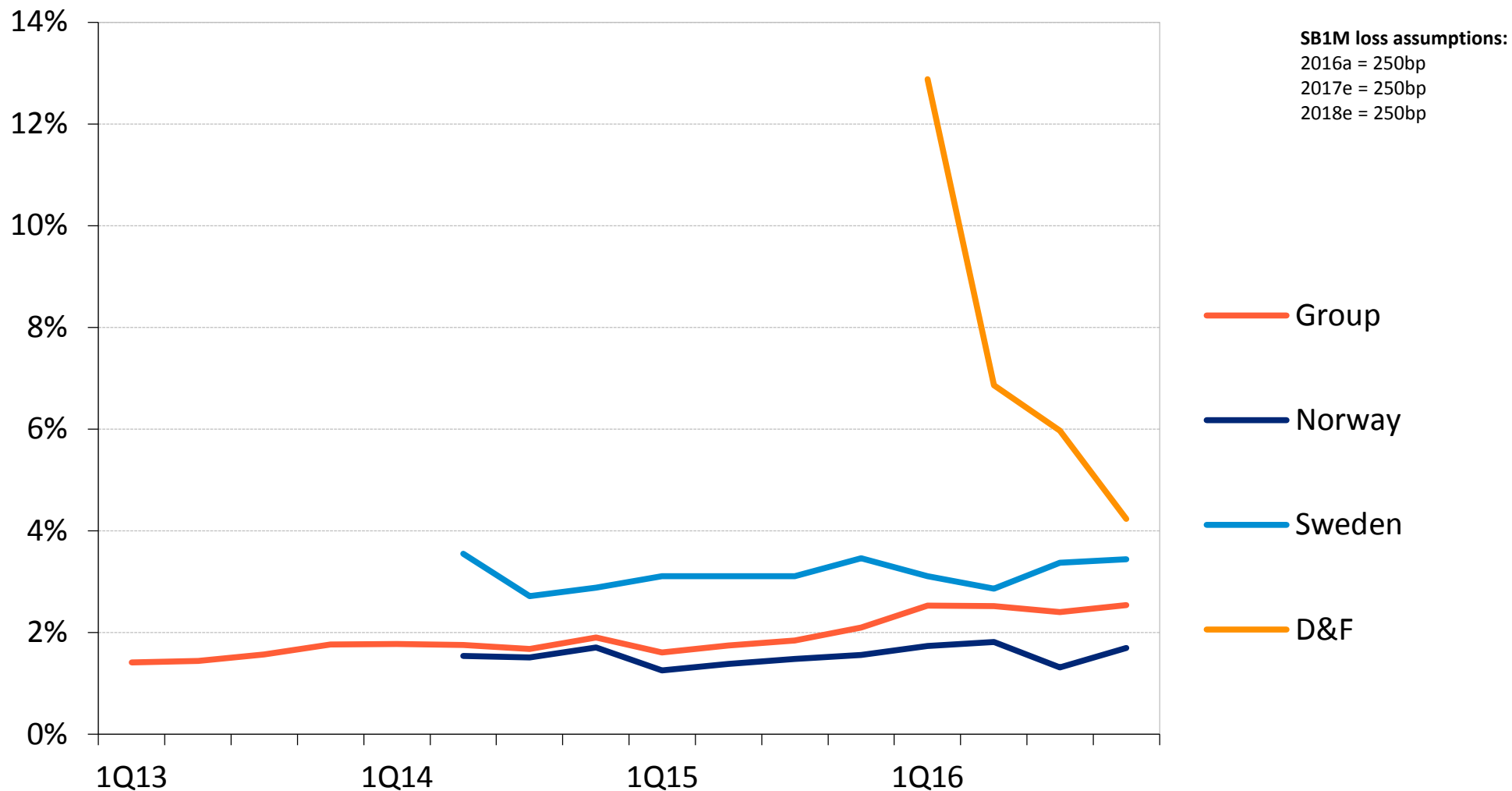
Loan losses was up 14bp QoQ – in line with forecast

4Q losses came in at 144.7 NOKm



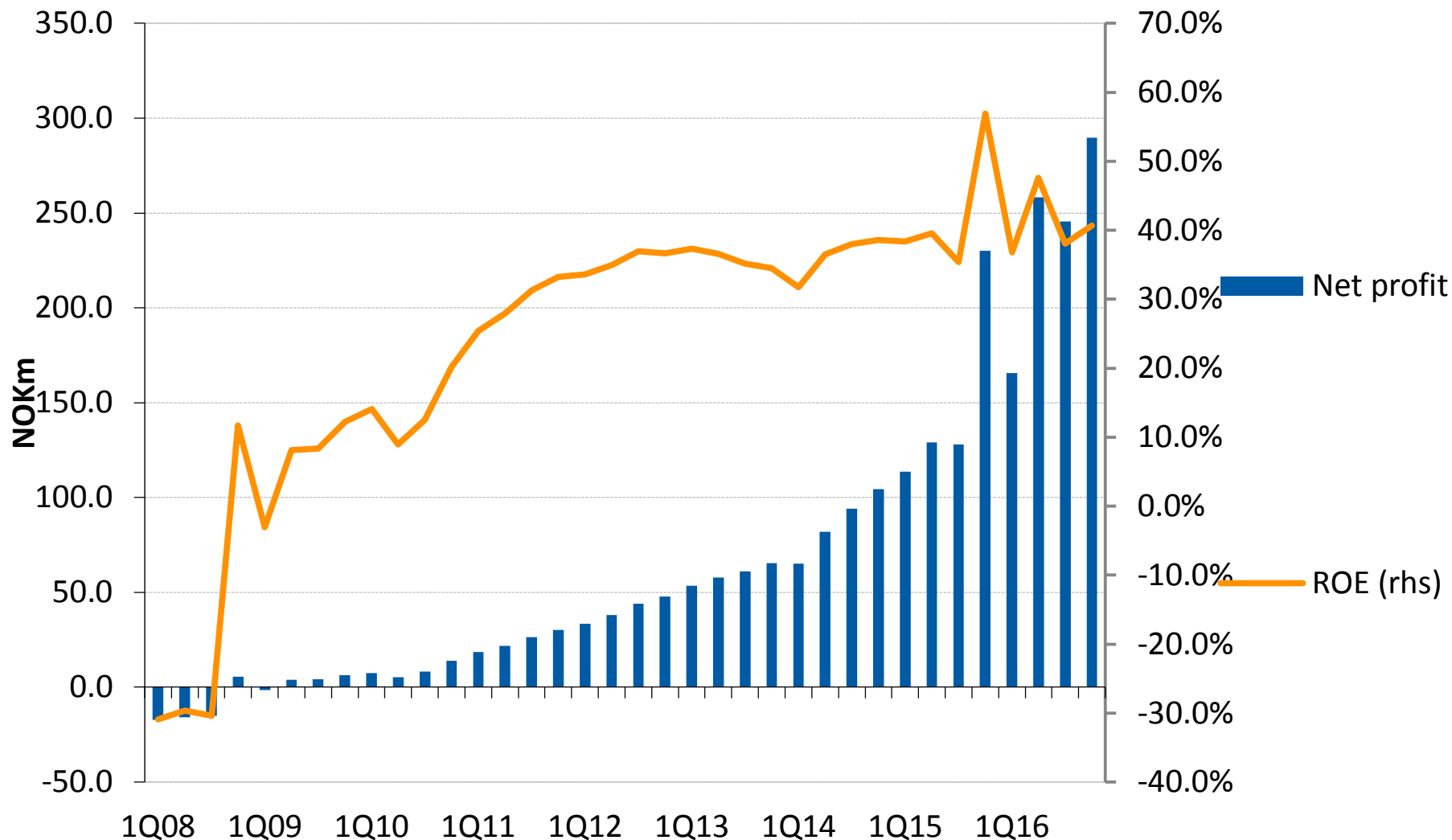
254bp in group loan losses in 4Q

Loan losses in % of avg. lending (annualized)



Net profit came in at 289.8 NOKm and ROE at 40.7%

Average ROE last 4 quarters = 40.8% - adjusted ROE in 2016 was 39%



Quarterly review and
operational development

Valuation

EPS up in 17e-18e avg. 7.5% on NII

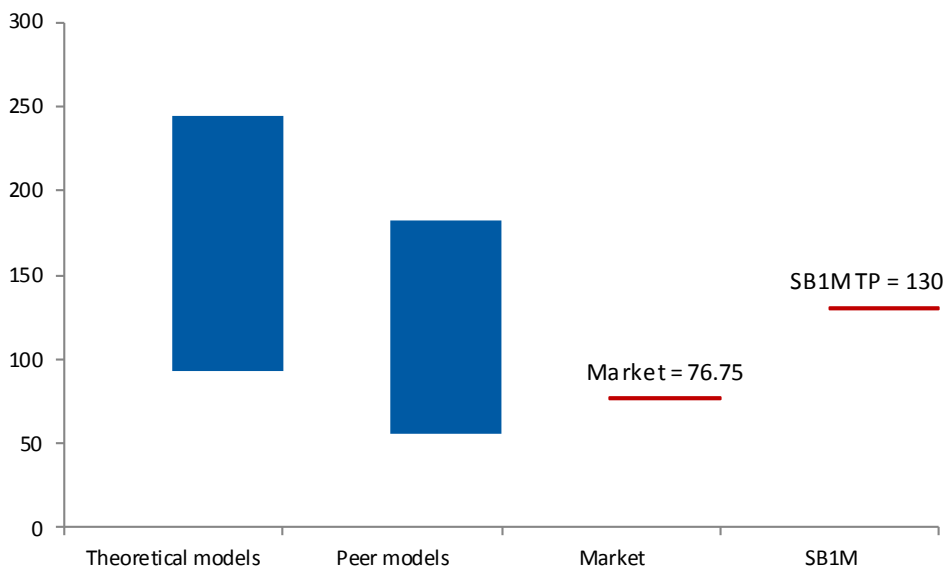
Bank Norwegian – estimate changes

Bank Norwegian NOKm	New estimates			Old estimates			Change		
	16a	17e	18e	16a	17e	18e	16a	17e	18e
Net interest income	2 501	3 846	5 021	2 482	3 541	4 271	19	306	750
Net commissions	127	133	176	146	220	265	-19	-87	-89
Financial instruments	74	9	9	81	9	9	-7	0	0
Other income	0	1	1	2	0	0	-2	0	0
Total operating income	2 702	3 990	5 207	2 710	3 770	4 546	-8	220	661
Total operating expenses	976	1 155	1 206	968	1 108	1 157	8	47	50
Profit before losses	1 726	2 834	4 001	1 742	2 662	3 389	-17	173	611
Loan losses	468	774	1 045	469	656	759	0	118	286
Gains/loss financial assets	0	0	0	0	0	0	0	0	0
Operating profit	1 257	2 061	2 956	1 274	2 006	2 630	-16	54	325
Discontinued operations	0	0	0	0	0	0	0	0	0
Tax	301	495	709	315	482	631	-13	13	78
Minorities	0	0	0	0	0	0	0	0	0
Net profit	956	1 566	2 246	959	1 525	1 999	-3	41	247
EPS	5.31	8.37	12.00	5.33	8.15	10.68	-0.3 %	2.7 %	12.4 %
ROE	40.5 %	38.8 %	37.8 %	40.7 %	41.0 %	38.1 %	-0.4 %	-5.3 %	-0.9 %
Interest margin	6.6 %	6.5 %	6.2 %	6.6 %	6.3 %	5.9 %	0.3 %	3.2 %	5.1 %
Loan losses	2.5 %	2.5 %	2.5 %	2.5 %	2.3 %	2.1 %	0.5 %	8.7 %	19.0 %
CET1	16.1 %	16.1 %	16.3 %	14.2 %	14.5 %	16.3 %	13.4 %	11.0 %	-0.3 %

NOFI (Buy tp NOK130) – 69% upside to NOK 130 TP

Proforma CET1 ratio post placement 16.1% - no pillar 2 disclosure in 4Q report

Valuation



Recommendation

The share is trading at 2.8x 17e P/B and 9.2x 17e earnings which is attractive given exceptionally high ROE.

Buy recommendation:

- We find the bank attractively priced, with a massive upside potential to our NOK 130 target price with 'conservative' growth assumptions
- 17e ROE = 38.8%
- 17e dividend payout ratio = 0

Risk assessment

Upside risk:

- Partnership with NAS (20% owner) – international expansion and brand name support the bank
- High deposit/lending ratio in low interest regime
- High growth in Nordic consumer finance markets
- Nordic reach
- High ROE
- Diversified lending portfolio
 - Geographically
 - Nr. of customers

Downside risk:

- Increased competition
- Partnership with NAS – changed terms in royalty agreement could alter earnings outlook for the bank considerably
- Loan losses in adverse macro scenario
- Nordic expansion
 - Collection in Denmark more difficult vs. other Nordics
- Pillar 2 requirement uncertainty for consumer finance banks

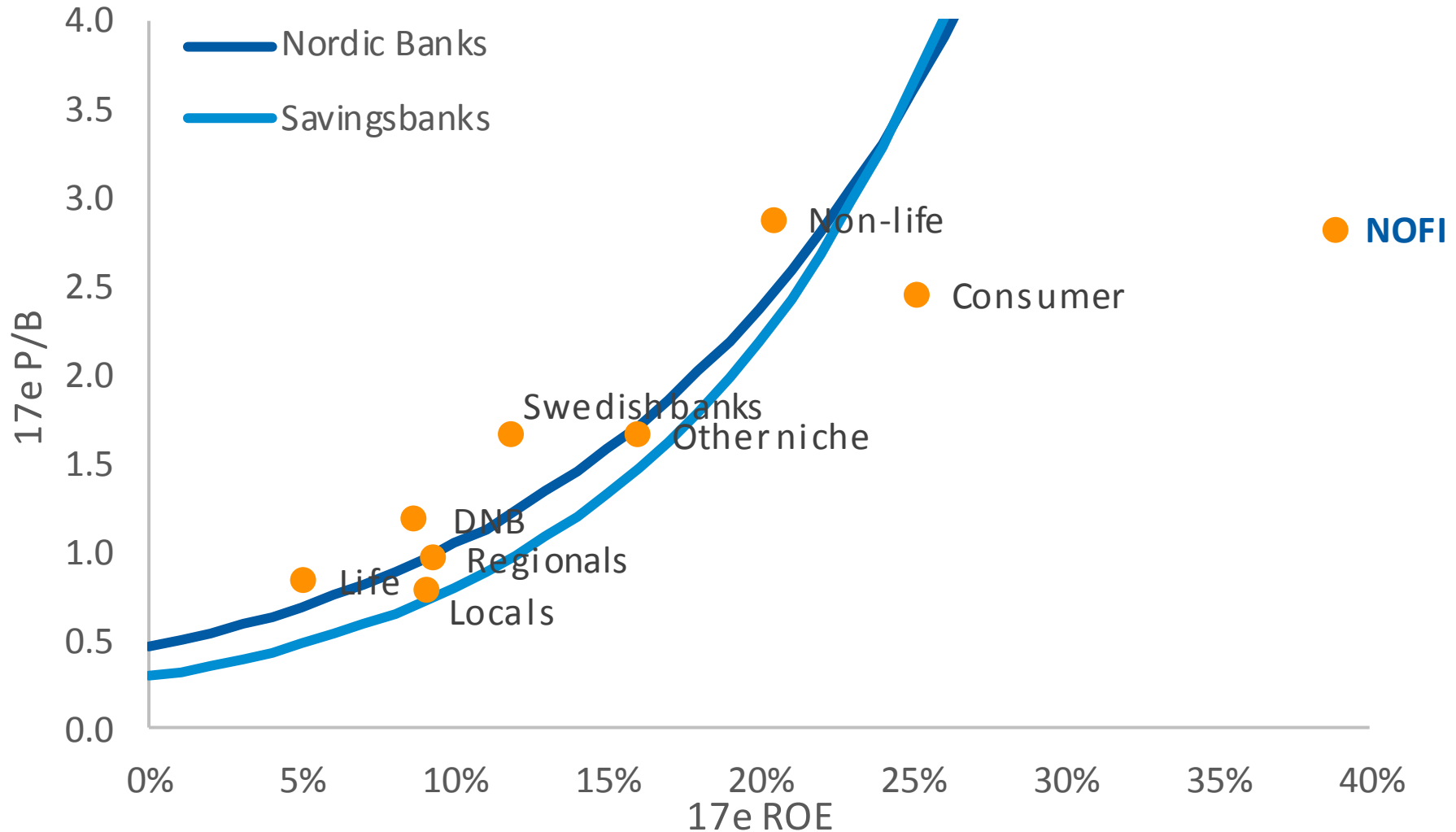
Base case: ROE = 38.8% in 17e

Estimates – Bank Norwegian

Bank Norwegian NOKm	2009	2010	2011	2012	2013	2014	2015	2016	2017e	2018e	2019e
Net interest income	109	177	315	459	636	970	1 424	2 501	3 846	5 021	6 059
Net fee and commission income	2	10	26	37	52	72	114	127	133	176	212
Net financial income	5	1	-1	2	10	-3	-19	74	9	9	10
Net other income	0	0	0	0	0	0	60	0	1	1	1
Total operating income	117	188	340	498	699	1 039	1 581	2 702	3 990	5 207	6 281
Total operating expenses	74	114	167	214	285	421	573	976	1 155	1 206	1 252
Profit before credit losses	43	74	173	283	414	618	1 008	1 726	2 834	4 001	5 029
Loan losses	25	26	39	57	83	143	208	468	774	1 045	1 187
Gains/loss financial assets	0	0	0	0	0	0	0	0	0	0	0
Operating profit	18	48	134	227	331	475	800	1 257	2 061	2 956	3 842
Discontinued operations	0	0	0	0	0	0	0	0	0	0	0
Tax	5	13	38	63	93	130	199	301	495	709	922
Minorities	0	0	0	0	0	0	0	0	0	0	0
Net profit	13	35	97	163	238	346	601	956	1 566	2 246	2 920
EPS	0.09	0.21	0.57	0.95	1.38	2.02	3.47	5.31	8.37	12.00	15.60
ROE	6.2 %	14.2 %	29.3 %	35.2 %	35.6 %	36.1 %	42.2 %	40.5 %	38.8 %	37.8 %	37.3 %
Interest margin	3.94%	4.83%	5.49%	5.41%	5.54%	5.74%	6.37%	6.59%	6.50%	6.20%	6.00%
Loan losses	2.69%	1.71%	1.50%	1.49%	1.55%	1.78%	1.83%	2.50%	2.50%	2.50%	2.30%
CET1	12.3 %	12.6 %	12.5 %	12.5 %	12.8 %	12.5 %	13.2 %	16.1 %	16.1 %	16.3 %	17.5 %
P/E	57.9	23.7	14.1	10.5	10.1	9.9	13.0	13.8	9.2	6.4	4.9
P/B	3.6	3.0	3.6	3.1	3.0	3.0	4.5	4.4	2.8	2.1	1.6
Equity	208	282	380	547	790	1 129	1 718	3 000	5 066	6 830	8 815
Lending	1 191	2 039	3 136	4 457	6 364	9 401	13 759	24 403	35 384	46 000	55 200

High ROE vs. peers - attractive pricing vs. benchmark

Nordic banks ROE-P/B vs. historical pricing European benchmark



NOFI - we see massive upside

Niche- and savings banks most attractive in our view

Coverage financials																			
Ticker	Price	TP	%	Rec.	P/E 17E	P/B 17E	RoE 17E	Yield 17E	CET1 17E	Ticker	Price	TP	%	Rec.	P/E 17E	P/B 17E	RoE 17E	Yield 17E	CET1 17E
Nordic banks										Regional savings banks									
SHB	131.3	145.0	10%	Buy	15.4	1.8	12.0 %	4.6 %	25.1 %	SRBANK	68.0	74.0	9%	Buy	11.0	0.9	8.6 %	2.5 %	15.0 %
NDA	108.5	115.0	6%	Neutral	13.2	1.4	10.8 %	5.3 %	18.8 %	MING	73.5	79.0	7%	Buy	10.6	1.0	9.1 %	4.2 %	15.2 %
SEB	104.2	96.0	-8%	Neutral	14.2	1.6	11.2 %	4.9 %	19.2 %	NONG	56.8	57.0	0%	Buy	10.3	1.1	10.7 %	5.3 %	15.7 %
SWED	228.3	215.0	-6%	Neutral	14.3	1.9	13.3 %	5.1 %	25.4 %	SVEG	56.8	52.0	-8%	Buy	11.4	1.1	9.9 %	6.2 %	15.4 %
DNB	142.6	138.0	-3%	Neutral	13.9	1.2	8.7 %	4.2 %	16.0 %	MORG	258.0	275.0	7%	Buy	10.1	0.9	9.2 %	5.0 %	15.1 %
Average			0%		14.2	1.57	11.2 %	4.8 %	20.9 %	Average			2%		10.8	1.0	9.3 %	4.6 %	15.3 %
Challenger banks										Local savings banks									
NOFI	76.8	130.0	69%	Buy	9.1	2.8	38.8 %	0.0 %	16.1 %	SPOG	55.0	55.0	0%	Neutral	12.4	1.0	7.6 %	5.6 %	17.0 %
NDX	52.5	52.0	-1%	Neutral	12.3	2.4	20.9 %	3.3 %	14.8 %	SADG	43.0	47.0	9%	Neutral	10.1	0.6	5.7 %	1.2 %	15.7 %
KOMP	15.0	25.0	67%	Buy	8.6	2.4	32.2 %	0.0 %	18.1 %	TOTG	102.0	110.0	8%	Buy	9.6	0.8	8.4 %	4.9 %	15.3 %
MONO	4.0	4.0	-1%	Neutral	27.3	2.2	8.4 %	0.0 %	19.8 %	HELG	85.0	97.0	14%	Buy	8.2	0.8	10.1 %	6.2 %	15.6 %
Average - cons. banks			34%		14.3	2.5	25.1 %	0.8 %	17.2 %	SBVG	28.9	34.0	18%	Buy	6.8	0.7	12.9 %	5.5 %	16.4 %
SKBN	74.0	68.0	-8%	Neutral	12.2	1.6	13.4 %	2.5 %	15.2 %	SOAG	180.0	193.0	7%	Buy	8.6	0.8	9.8 %	4.1 %	14.7 %
PARB	39.0	50.0	28%	Buy	8.1	1.1	14.6 %	3.7 %	18.1 %	RING	196.0	195.0	-1%	Buy	10.5	0.9	8.8 %	4.7 %	15.2 %
BATO	9.0	10.0	11%	Buy	12.3	2.3	19.9 %	4.1 %	18.0 %	Average			8%		9.5	0.8	9.1 %	4.6 %	15.7 %
Average - other niche			10%		10.8	1.67	16.0 %	3.4 %	17.1 %	Insurers									
Average - all			24%		12.8	2.1	21.2 %	1.9 %	17.2 %	GJF	136.0	168.0	24%	Buy	14.5	2.9	20.4 %	6.9 %	
										STB	55.1	40.0	-27%	Neutral	16.7	0.8	5.1 %	3%	
										Average			-2%		15.6	1.9	12.7 %	4.9 %	

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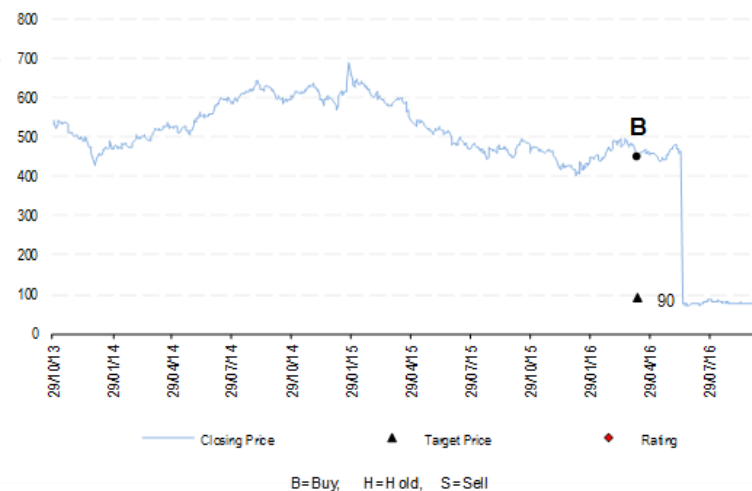
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3-Year Price, Target Price and Rating Change History Chart for NOFI NO

NOFI NO	Closing Price	Target	Rating
Date	Price	Price	Rating
07/04/2016	446.76	90	BUY



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Current recommendations of the Research Department

Recommendation	Percent
Buy	48.1%
Neutral	20.5%
Sell	31.4%

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