

# CEO comments

For Nordax, 2016 was a very successful year and we have established ourselves as a publicly traded bank with strong growth in new customers as well as in lending and earnings. Our business has developed positively in every market, with steady lending growth, stable margins and stable credit quality. Together with increased operational efficiency, this has led to improved earnings. For the global economy however 2016 was in many ways a year distinguished by geopolitical uncertainty, relatively low growth and low or negative interest rates.

Our customers come to us because we can meet their needs at a reasonable cost. We offer our customers large loans with variable interest rates and long repayment periods. For loan customers, the total monthly expense is the most important factor when choosing a lender. During the year we consolidated our market-leading position in large loans to financially stable borrowers. The average loan in our lending portfolio increased to 156,000 SEK (146,000), and in Finland we increased the maximum loan amount to EUR 50,000. Our processes for on-boarding new customers were improved and we have been able to shorten the time it takes to process loan applications. There is room here for further improvement, especially in the German market.

Nordax benefits from having all its employees in a single office. This facilitates day-to-day operations and controls and makes us agile. In 2016 we strengthened our organisation by hiring skilled managers in IT, customer operations and investor relations, among other areas. The country-based organisation we established during the year for our units that directly interface with customers has been an important step in improving customer service. Our employees have been quick to adapt, and the new organisation has been successful. One sign of this

is that our customers have become more and more satisfied with the service they receive from us, according to surveys that the research firm Bright regularly conducts. We have improved customer satisfaction and strengthened our relative position in the industry. Through improvements to digital solutions and more convenient processes, we have achieved this with higher efficiency. We have an ambitious development agenda ahead of us, with a focus on improving the customer experience through better digital solutions, increased self-service options and simplified administrative processes. This will over time further improve customer satisfaction, make our employees' work more stimulating and generate stable operating expenses.

In Nordax's business model, responsible lending and credit risk are always the focus. Our strong customer base ensures solid credit quality; our average customer today is around 50 years old and has an income in line with or above the national average for the country. We make sure to always do thorough credit assessments, and in the markets where it is needed we request additional data from customers to ensure that we base our credit decisions on correct information. During the year we joined the Finnish debt registry, and we have continued to lobby Norwegian authorities to introduce a similar registry. From our experience in Sweden and through numerous economic cycles, we know what a difference this can make in terms of accurate credit assessments and how it can reduce the risk of over-indebtedness in society. Our credit loss level was stable year-on-year at 1.4% (1.5%).

We have an effective marketing model where we target potential loan customers ourselves to a large extent. This makes a big difference in the quality of our customer group and remains a very cost effective way to market our products.

During the year we refined our direct marketing programme and established several new loan channels to reach our target group.

Demand for personal loans remains high in Northern Europe, and while growing even faster would be easy, we want to grow in the right way. We are protective of our credit quality and only lend to qualified customers. We received a record number of applications during the year and our new lending reached a new high at 4,636 MSEK, an increase of 14% compared to 2015.

Spreading risk is an important component of our business model and is why we use several different funding sources and have as our aim to match lending and funding in terms of currency and maturity. During the year we issued a senior unsecured bond, began offering retail savings products in Germany, and extended and renegotiated our funding agreements with international banks. Our diversified funding greatly reduces the risk of liquidity problems in the event of market turbulence, while adding flexibility and enabling us to continue to finance a growing lending business.

Nordax has strong core values that steer our day-to-day operations. We are a bank that is customer-focused, simple, sound and responsible. Being a responsible company is strategically important to us, as we are convinced that it benefits the business in the long term and is a competitive advantage. Our business model is designed to be sustainable through economic cycles and focuses on creating long-term value. During the year we formalised our sustainability efforts and joined the UN Global Compact. We have identified our most important sustainability issues in dialog with various stakeholder groups. Going forward we will focus on four main areas: responsible lending, employee-well-being, business ethics and efficient use of resources. *For more on our sustainability focus, see pages 20-27.*

#### COMMENT ON RESULTS

Our net profit increased to 446 MSEK (195) and the return on our growing equity was 23%. Adjusted operating profit rose by 30% in 2016 to 510 MSEK and our loan portfolio grew by a total of 18%. Our margins were stable during the year. All our lending is at variable rates, which means that we adjust loan rates when funding costs and market interest rates change, thereby generating stable margins. During the year we

were able to reduce lending rates for our existing customers in Sweden and Norway thanks to lower funding costs.

New lending continued to increase during 2016 and in our two largest markets, Norway and Sweden, the loan portfolios grew in local currency by 15% and 10%, respectively. The Finnish loan portfolio grew in 2016 by 10% in local currency, and Finland was the market with the highest margins and the lowest credit loss levels during the year.

Germany is our latest and so far smallest market, with great future potential. During the year the loan portfolio grew by just over 30% and margins trended higher. Our focus on the German market will increase in 2017 through additional resources and by broadening our marketing channels as a complement to direct advertising.

Our operating expenses were relatively stable during the year thanks to a scalable platform and focus on improving processes. The adjusted cost to income ratio decreased to 27.3% (28.5), and our goal is to be even more efficient.

Our capitalisation remains solid and improved during the year. Our profitability and strong cash flow enable us to fund both high-growth and a dividend to shareholders.

#### FUTURE OUTLOOK

Nordax's outlook and growth potential are good and our opportunities plentiful. I look forward, together with all our employees, to further developing the company. In 2017 we will focus on maintaining sound and sustainable growth, improving the customer experience and strengthening customer loyalty, increasing operational efficiency and solidifying our sustainability efforts. This will create increased value for our customers, employees, shareholders and society as a whole.

Our most important asset is our dedicated employees. I want to express my deepest gratitude for all the great efforts during the year.



Morten Falch  
CEO  
Stockholm 22 March 2017