TRANSCRIPT NORDAX CONFERENCE CALL YEAR-END REPORT 2015
February 10, 2016, 9.00am CET

INTRODUCER: Welcome to the Nordax interim report, January through December 2015. I'm pleased to present our speakers CEO Morten Falch, and CFO Camilla Wirth. For the first half of this call all the participants will be in listen only mode, and after there will be a question and answer session. Speakers, please begin.

MORTEN: Thank you, and good morning everyone. I wish you all a warm welcome to our fourth quarter report, which also concludes 2015. We have had a strong quarter and a strong year. I am Morten Falch, CEO of Nordax, and I also have Nordax's CFO Camilla Wirth with me here. When you look on the quarter we had great lending momentum, and we are pleased with the financial developments as well, and Camilla will share details with you later in this presentation. We'll start with the highlights. So if you turn to the next page you can see that we have had our best quarter ever. It is a record quarter. Our new lending landed on almost 1.2 billion, and new lending was great in all markets. The Swedish market stood out most, with new lending growth of 40%. New lending increased from 305 million to 430 million, from Q3 to Q4. Looking at the other markets they were also very good. Norway had new lending of 462 million, Finland landed on 188 million and Germany on 113 million. So, a great momentum and a great quarter. The important thing with growth is of course the quality of the growth, and I'm pleased to say that the credit quality was there. You can see that our net interest margin was very strong as well. And also that most of the new loans were sourced through proprietary marketing channels such as direct mail, affinities, unaddressed direct mail, and CRM. And as many of you know, we are very selective in the broker and web channels since these channels have inheritably a little bit higher credit risk, and the approval rates are thus much lower in those. Talking about credit quality, credit losses landed on 1.3% for the quarter, which we are happy about. The net credit loss rate for the full year landed on 1.5%. We are also happy about financial performance this quarter, because it was the most profitable quarter we have ever had. Adjusted operating profit landed on 109 million in the quarter.

So if you turn to the next page you see the headline "strong growth in all markets". That's certainly true. Measured in local currencies, the lending portfolio growth was 4%, which gives an annual growth rate of 16%. When you look at the total growth rate for 2015 we landed on 12.7% in constant currencies, and that equates to 1.276 billion. It's important to notice that two thirds of the growth was generated in the second half of 2015. And that says something about the momentum we had in the second half of the year.

If you turn the page again, you can see how the loan portfolio growth drives the effective use and strong return on our equity. The adjusted return on tangible equity was 23% in the quarter. And as I mentioned, adjusted operating profit landed on 109 million in the quarter. So if you look at the full year, we landed on 392 million in operating profit, and that compares to 358 million the previousyear, which is an increase by 9.5%. We had a strong operating profitability, and also a strong capital position, with a total capital ratio of 14.6% after we have deducted the proposed dividend. I'm very pleased to announce that we will propose to the AGM a dividend of half a krona per share. This corresponds to a dividend ratio of 44% of the net profit for the second half of the year. Camilla will of course dive deeper into these numbers in a few minutes. Before that, I would like you to turn to the next page so we can just recap our business model and what makes us different from some of the others.

Firstly, our business is about providing large consumer loans and deposits to the public. It's important to us that our lending is responsible. We focus on financial stable customers, which you can see from our credit loss levels. You can also conclude that from our customer demographics that I will share with you in a few slides from here.

Secondly, about how we operate. Our vision is to become a leading niche consumer credit bank in northern Europe, and we operate from a central platform, and that makes us a little bit unique. We serve all five markets from the office in Stockholm. That provides economies of scale, but also advantages with regards to how we manage business governance and our regulatory environment. It also create advantages to how we allocate resources between markets, and the different strategic initiatives we take. We also have a data driven approach on what we do, and the core thing of what we do in underwriting and marketing. By using a data driven approach we facilitate low credit losses, and it also facilitates great lending volumes at low marketing costs. We offer our loan in four markets. We have more than 20 lending channels. And the most important lending channels, which constitute some 75-85% depending on the market, are direct mail and unaddressed direct mail and CRM. Through these channels we find the customer, and we wake up their dormant needs and actually trigger the demand. That's a very different proposition from when the customer is looking for you, which of course affects credit losses. We're also different in terms of how we fund the business. Beside the use of equity, we fund our lending and balance sheet by bank warehouse lines. We have asset-backed-securities, we have senior unsecured bonds, and we also have saving products in Sweden, Norway and Finland. And they are of course on the deposit guarantee scheme. When you look at Q4 we launched a new

ABS denominated in Swedish krona of 1.8 billion, which was rated by Fitch and DBRS. A stable funding platform is an important part of our business model.

That was a little bit about how we operate. When you look at the next page you will see how this approach creates a very solid customer portfolio. On the first slide you can see that very few of our customers are below 30 years of age. The majority of our customers is actually north of 35 years, and south of 60 years. Hence we are serving people that are later in the credit life cycle, basically. And typically when they have started leading more stable and predictable lives, which makes up for a solid customer base.

Turning to the next page, you can see that our customers have a strong average income. In Sweden the annual average income is 37 000 euro. versus an average national income of 33 000. In Norway it’s around 50 000. In Finland it is 43 000, and in Germany it is a little bit lower, around 30 000 euros. What you should also notice on this graph is that when we have two applicants on a loan, the income is much higher. In Sweden its 60 000. In Norway it’s almost 80 000, and so forth. And about 25-30% of our loans are supported by two applicants. That says something about the income range and the prime customer base that we serve. This is also confirmed on the next slide, when we look at home owners. Typically, like in Sweden, it’s similar to the population, about 60% have their own properties. In Norway it’s a little bit north of 80%. In Finland it is as high as 90%, and in Germany it’s 47%. And having a property is a strong stability factor for any person, That is what we saw in the 90’s and also in 2008, 2009. It is a really strong indicator of the quality of the portfolio. A great customer base, that is a great starting point for great performance.

Now Camilla will share with you more details on the numbers. So if you turn the page, then I will hand over to Camilla to dwell a little bit more on the numbers. Camilla.

CAMILLA: Thank you Morten. So we are on page nine. And we're starting on the top of the P&L. Nordax continues to deliver very strong top line growth. Total operating income grew by 17% during 2015. Drivers for the top line performance are the growing portfolio in combination with the increasing net interest margin. Total net interest margin grew 40 basis points smoothly over the year. You see the curve going up nicely. This growth is achieved as Nordax is able to sell new lending at higher APR, than the lending that we already have on book. The growth in the net margin is dependent on what APR our customers accept, of course. And they need to take this into consideration when they think about the total utility that they get from the loan. We have of course a tradeoff between the net interest margin and the lending volume, and it's vital for the model. And we are not seeking high net interest margin, we are very happy with the current level that we have on approximately 9%.

So let's go to the core of the business on the next page, page ten. Morten has touched upon the development of the portfolio earlier in the presentation, but it's worth mentioning again. We delivered really outstanding numbers for the new lending growth, and this growth is of course what actually drives our profitability. New lending was at the highest level ever, close to 1.4 billion in Q4. And this translates into a 16% annualized growth rate for the lending portfolio. And as you can see in the graph to the left, our lending portfolio has grown steadily from 2012 to 2015. And the move from 7.5 billion to 10.8 billion gives a growth of 69%, which is pretty amazing we think.

Moving on to page eleven, operating profit. You see that the adjusted operating profit has increased from 358 million Swedish crowns, to 392 million Swedish crowns in 2015. This equals to a growth of 9.5%. The quarterly profit grew 36% if you compare Q1 to Q4. The deliverance is achieved by the strong top line of course, and balanced operational costs and controlled cost of risk. I will show you this in detail in the pages to come.

Moving on to page twelve we start with operating costs. As you might have noticed, we have added resources in absolute terms to accommodate our growing business and to invest in business development and the infrastructure. The centralized platform we have in Stockholm continues to deliver efficiency gains, as we see in the cost of income ratio. The adjusted cost to income ratio, which excludes marketing cost improved by 90 basis points, from 29.4%, down to 28.5% for the full year. And we expect the cost to income ratio to continue to fall as we increase our efficiency as the organization continues to focus and optimize processes. That’s our constant focus.

Moving on to page 13 and cost of risk. Cost of risk, as you see, has developed within the expected range for the full year, and we landed on 1.5% for 2015. The quarterly performance really shows that the development in credit risk tend to vary as it is driven by human behavior. We have moved between, as you see in Q1, 1.8% and 1.3% for Q2 and Q4 during this year. And important to remember is that we have a stable customer base, and the stable portfolio that Morten talked about. But if we see changing economic circumstances, we will also be affected, but we are less volatile than many intuitively think, which is due to the fact that we have customers that are in the middle of their life, they have a good salary and own their houses, as Morten dwelled upon previously.

Moving on to page 14. Let's have a look at our different segments. If we start with new lending, you see that we did have record high new lending for the second quarter in the row. And Sweden is the clearest shining star. We saw a turnaround in Q3 and the momentum continued in Q4. In terms of portfolio development, the German portfolio is the most impressive. It almost doubled during 2015. Net margin is developing well in all segments. Norway and Finland deliver the highest net interest margin, and the German business has actually proven itself in terms of net margin, and is now on a level close to Sweden, which we are very happy to see. Cost of risk, Norway is slightly higher in the quarter, but balanced year-to-date. We monitor the macro environment in Norway very closely, and we benefit of course also here from a strong customer base. The German cost of risk is still conservatively provisioned, with a general evaluation of low performing loans of around 10%. Until we have further data on recoveries to defend a higher evaluation we will stick to our conservative view.

So moving on to page 15 we will wrap up the final section with the development on capital. And Nordax capital ratio has strengthened with 70 basis points during the year while also supporting growth and dividend, as Morten said. You can see that usage of Tier 2 has increased, as we are allowed to use more of the financing as our balance sheet is growing. The contra cyclical amounts to 0.72% for Nordax as we have different buffer requirements in the different segments. And all of this of course gives us the capital structure that we think is appropriate for our business. Back to Morten and the final remark.

MORTEN: Thank you Camilla. Well, we are not all finished with the financial numbers, because on the next page you can see the highlight of the financial developments which I like to draw your attention to. It really sums up the Nordax story very powerfully, and we have on this slide now also full 2015, and not just the quarters. If you look at the first graph starting from the left, we have a great momentum, and we grew our lending portfolio by 8% or in constant currencies by 12.5%. We grew net interest margin as well. And the current average, as we enter 2016, is as high as 9.4%, and that is something we bring into the new year. On the second graph, which sums up the stable credit losses over time, I agree with Camilla that this will vary between quarters and years and by regions. But in general it is stable, and it is supported by the prime customer base. In the third graph you can see the evidence of economies of scale and how cost improves. And the further process of digitalization will drive this lower over time. The final graph, of course, that is how these four elements help generating strong operating profit, and you can see we have moved from 183 million in 2012, up to 392 million. That is a growth of more than 100%, and with a lending portfolio that grew by almost 50%. So that says something about the historical development of Nordax.

If you turn to the next page you see the focus areas going forward. We have a great momentum as we leave 2015 and enter 2016. So I'm very positive about the start of this year. What are we going to do in 2016? A less exiting answer, but still a very, strong one, is "more of the same". That is the same answer I gave you before. It's more of the same. So we will continue our lending and growth strategy. We will continue to provide customers with high utility loans which satisfy their requirements, and the move towards 40 000 euro in Finland and Germany, and also now 500 000 in Norway and Sweden. That is an example on how we evolve the loan product to create more utility for our customers. We will of course continue to develop our marketing channels. Direct mail, unaddressed direct mail, affinity, CRM, broker and web channel. They are all there for us, and we have a lot to do in all these channels. And of course we will strive to make life easier for our customers to interact with us, and that will also help us on the cost base. Most key, of course, is our focus on responsible lending. We are only approving customers we judge as very stable and very likely and willing to pay back the loan. I think that these are the parts which really makes us stand out. Finally we will retain our diversified funding. We have a funding platform that can support a much larger company than we are today. It is a diversified funding platform and we talked about it earlier and we just successfully launched an ABS. So Nordax is a stable consumer niche bank. That is what creates value to investors over time. That is also how we create great customer utility over time, and that's also how we create value to the society over time. So that is something that we are going to continue doing. And that concludes our presentation for today, and we can open up for questions.

INTRODUCER: Thank you. Ladies and gentlemen, if you have a question for the speakers, please press 01 on your telephone keypad, and you'll enter a queue. After you're announced, please ask your question. Please hold until we have the first question. Okay, our first question comes from Magnus Andersson of ABG go ahead, your line is open.

MAGNUS: Good morning. Just starting off with Sweden, very obviously the new sales on new lending level in the quarter was very strong, up 41% quarter on quarter. Can you say anything about the sustainability of this level and what kind of momentum we should expect into 2016? And also on Sweden on the net interest margin of 8.5% you have in the quarter, should we expect some kind of adjustment because of funding cost etcetera going into 2016, the first quarter?

MORTEN: Hi Magnus. I can start with the lending volume and the momentum. I think we told you before that when we came back in August we had a further look at our marketing channels in Sweden, and we gained traction and you know Q3 was a strong quarter, and Q4 even stronger. What I can say about the future is really that we are very happy about the momentum we had, and in a subtle way I will say just that we continue to have that strong momentum now. I don't want to look further into 2016, because to us growth is only important if you can get the net margin that we need, and also the credit quality that we are looking for. So I think that is how far I want to look. But we have a great momentum as we enter 2016, I'm very happy about that. And I think Camilla maybe you want to answer the net interest margin question?

CAMILLA: Absolutely. As I said, and that goes for all our countries, we are very happy with the margins that we are getting now. But we still, we adjust the APR to our customer lending book, when we have a reduction of funding costs. And in Sweden we think that is in the cards for Q1, but usually we do that in the beginning of the period, and as you saw in Norway it did not give a great impact in the quarter in terms of net margin. And this is what we believe will be the case in Sweden too.

MAGNUS: Okay, thank you. And speaking about the quality. Ten basis points in the quarter is obviously very low, and if you can also, when we have that topic up, 2.3% in Norway, if there is any specific one off or what is driving that? So please comment on the extremely low level in Sweden and the higher level in Norway, thanks.

MORTEN: I can start and then Camilla can help me on the more technical stuff, but we are not going to go too deep into that. Sweden's underlying credit losses were a little bit higher than the accounting one, and that's just technical. The same goes for Norway actually. The 2.3% level is also exaggerated a little bit by a technical change. But Sweden is performing very well. Norway is also performing well, but there's always a dance around the normal level. What we've seen in Norway in November, December is that the provisioning has increased a little bit because of a little bit high delinquencies. And that is typically something that happens when you have a lot of media attention. That means that several of the people that should go to losses in a three to six months period comes earlier than they otherwise would have done. The media attention about everybody having a tough time gives them sort of an alibi or some kind of reason to throw in the towel a little bit faster than they otherwise would have done. If we look at the Norwegian customer basis it's really strong. I mean, we have high income customers. This is typically a very mature portfolio, or mature people, that don't really become unemployed. In any case they get underemployed. And when we look at the payment protection product that we have, the claims towards unemployment in Norway went actually down in Q4. We never had better recoveries from low performing loans than we had in Q4. So it is a mixed picture, and I think what you can expect going forward is that there will be some variation around the normal, and what we have promised you is that through the cycle there will be 2%, but you know during the year it lands around 1.5%. It's very hard to look into the future. Your guess is as good as mine. I think we have a very strong portfolio. And it's never as good as it looks, and it's never as bad as it looks. I think that is a good indication from our side.

CAMILLA: And can I just add in terms of the credit performance in Sweden and also in Finland. We fine tune our model for the future cash flow of low performing loans in the end of the year, and it gave us a profit of impact both in Finland and in Sweden.

MAGNUS: Okay. And then just on net interest margin. In Germany you're now, in this quarter, 70 basis points above the level in Sweden, and roughly 6 months ago you thought that Germany would never reach the level of Sweden. So what has changed? What is going better in Germany than you thought?

MORTEN: We are attracting customers that focus more on their monthly payments than on interest rates. And they're happy to accept the rate that we offer. And it's a good deal for them, because typically we can offer much longer loans and also larger loans than many of the other players, to those that we decide to approve. I think the growth and the new lending in Germany during the year has been good, and that also means that you sort of develop from a low level of net interest margin pretty quickly. I think we've succeeded very well in Germany during the year. First of all getting the marketing cost down to an acceptable level, but also getting the net interest margin up. But this is also a factor of course of the funding cost as well. If you look at Sweden and Norway we pass on all wins on the funding side to the portfolio book. In Germany we need to adjust our interest rate just to Euribor movements, so when we have gains on the funding in Germany we don't give it back in the same way as we do in the other countries.

MAGNUS: Okay. And at the group level, you're now north of 9% and you've been for two quarters, and that's the highest level that you've had historically. It sounds like you expect to remain north of the 9% also going into -16 and -17. Is that correct?

MORTEN: We're on a happy level. What we will say now, Magnus, at least we're not looking for higher margin. But then again, it is a price elasticity test we always do with our customers. And the whole book is now on 9.4%. So we're very happy about that.

MAGNUS: Okay, thank you.

INTRODUCER: Thank you. Our next question comes from Peter Kessiakoff of Carnegie. Go ahead, your line is open.

PETER: Thank you. Peter from Carnegie. Just some follow up questions on Norway. What do you see in terms of growth there? As you mentioned then you see somewhat higher loan losses there, but you say that the part is just technicality. But related to growth potential there, the momentum that we've seen in Q4 and at the same time we see the weakening economy. If you just can comment a bit on that. That's my first question.

MORTEN: Yes. I'm very pleased about the Norwegian development. As you know, in Q4 the lending was great, it was more than 460 million. If we look at the total growth in the portfolio this year, before FX changes, it is actually almost 15%. So we're happy about Norway. When it comes to the macro situation now, we can actually see some increased demand to some extent as well, because people have a need or desire to consolidate smaller credits where they have even higher interest rate, and at least much quicker payback terms. So we are pretty positive about Norway, but we talked about this before, Peter, we will never compromise on credit losses and not on interest margin either. So as long as we can obtain good credit quality, which we aim for, and decent net interest margin, we are in a happy place and we will continue grow lending.

PETER: Okay, thank you. Then just relating to marketing efficiency, which continues to be very good. Do you think you will be able to reach this level of around 3.1-3.2% in 2016 as well?

MORTEN: It’s always hard to speculate on that, but it has been pretty constant the last two years, around 2.9% up to 3.3%, and it depends on which marketing channel we are in. But that’s the average. I think we’re doing well. If we have a small increase like two basis points it doesn’t really hit the P&L because we always measure marketing cost over a four to five year time. So the net interest margin for instance is much more important to us than the marketing cost itself. But I’m very happy about what I see. I’m especially thrilled about the direct mail program in Sweden which is our most effective program. And 75% of our lending comes from our proprietary marketing channels which are very cheap. Of course the broker channels are a little bit more expensive. The web channels are of course also a little bit more expensive. And that goes back to the approval rate, that they are a little bit lower. But what I’m happy to say about the marketing efficiency is that one of the biggest improvements this year has been Germany.

PETER: Okay. Then just one last question relating to new sales. It continues to improve partly, or significantly helped by the Swedish operations. And if you simply analyze then the new sales for the second half of 2015, the moment into -16 looks very strong. Do you think that that’s a level you’ll be able to maintain, and then given that we know that the Q1 is typically seasonally weaker, you don’t send mails during December, during Christmas times, what kind of declines should one expect in a normal scenario in Q1 relative Q4 on new sales?

MORTEN: I don’t want to speculate too much on that, and I certainly don’t want to share this with competitors. What I can say is that we had great momentum in Q4 that we bring into Q1. Every season is affected by one slower month of course. We talked about this before as well. In Q4 it’s the December month, and in Q1 it’s January. And then you have June, July in Q2 and Q3. But I would say that if you look at the growth rate and the new lending that we had in 2015, two thirds of the growth actually comes in the second half. And that is a strong momentum and that is something we carry with us into 2016.

PETER: Okay. Thank you.

MORTEN: Thank you.

INTRODUCER: Thank you. The next question comes from Giulia Miotto of Morgan Stanley. Go ahead, your line is open.

JULIA: Hi, good morning. A couple of questions from my side. First of all on the funding side, do you expect that raising more funding from the interbank channels are going to raise your funding cist and put any pressure on NIM, and if so, how much pressure do you expect?

MORTEN: Well, the thing is with our NIM is that we have a structural interest hedge. So that means that if our funding costs should go up we will pass that funding cost increase over to the customers. So that will not affect the NIM for 80% of our portfolio, which is Sweden and Norway. If there is a funding cost increase due to the change in reference rates in the Finnish and the German markets, it will be affected slightly, but then again we also have deposit funding there. But I think what we have seen in the last couple of years is that the legacy funding we have had in the ABS market and in the bank warehouse has actually improved. Does that answer your question?

JULIA: Yes, thank you. And another question on your customer profile. So you mentioned that in Norway you increase provisions for the online channel. What percentage of your loan book comes via that channel?

MORTEN: It’s quite small. I don’t have the exact number, but I guess it’s less than 10%.

JULIA: Okay. Thank you. And I think the stats on your customer base are very helpful. Just one more stat that I think would be useful is the percentage of people who are unemployed. Do you have that?

MORTEN: Well, you know the things like GDP or with unemployment, it’s not the absolute level that matters, it’s more the change in the level. So if you look at Sweden for instance, they have twice as high, and probably even a little bit more actually, higher unemployment than Norway. But they are moving in the right direction. That means that it’s being decreased. So that’s a good thing for Sweden. But they are on an absolute much higher level than Norway. Norway is coming from a very, very, very low level. So that’s what we see. But we don’t see that it’s the unemployment increase in Norway that is affecting our portfolio. It’s more that the people, listening to the media, feel that it’s okay to throw in the towel before they otherwise would have. But if you look at our lost level in Norway and in all our market, it is very low. You should look at the losses in comparison to the net interest margin and you will see that it is a great risk adjusted return on all portfolios and all segments.

JULIA: And you don’t have the percentage of currently unemployed customers in your log book?

MORTEN: No, no. We can’t track that. There is no way that we can track that. The only thing that we can see statistically is that the payment protection insurance that we offer, the claims against that has not gone up. On the contrary, it has actually gone down in Q4. And also when you look at the recovery rates on our legal collection customers and what we call low performing customers that have actually improved during Q4. So it is a mixed picture. So I wouldn’t put too much into the credit loss level in Norway for Q4. There will always be a dance around the normal. It is a little bit higher in Q4, and that's why we mentioned that there has been a slight increase in delinquency, but we don't put anything more in that. I think as I said to one of the earlier, I think it was Magnus or Peter, it's never as good as it looks, like Sweden, this quarter, and it's never as bad as it looks either. And I think that is the wisdom you can take with you when you try to project going forward. That's what we do.

JULIA: Got it. And the last question, if I can, on competition. So what I understand is that from the [inaudible 0:36:37] from other Nordic banks, that the current big banks are looking more into consumer finance, and will become more aggressive in this sector. Do you think this could be a threat for your new business origination, or do you feel that you are in a strong position?

MORTEN: We are in a strong position because we do business different from the big banks. First of all we are actually creating demand by our marketing program. We reach out to people and wake up dormant need. Many of our customers they are not really looking for a loan, but they realize that what we provide to them is a great utility because they can consolidate smaller loans with high APR and short pay back terms, which will give them more flexibility in the personal finances. When it comes to the big banks they have always been active in this market, but it's not the core part of the business. That's the salary account, that's the pension plans, that's the mortgage. But of course they may want to play more in this market as well. They already have more than 50% of it. I don't think it will change much for us.

JULIA: Okay, thank you very much.

INTRODUCER: Okay. As there are no further questions on the line I'll hand back to our speakers for the closing comments.

MORTEN: Well, thank you everyone for listening to us. I hope we answered the questions and that you got a little bit more color on the performance besides the report itself. And I hope that you will be there for us in three months as well when we have the Q1 report. Thank you very much.

CAMILLA: Thank you.

INTRODUCER: Thank you. This now concludes the conference. Thank you all very much for attending. You may now disconnect.