Q2 2019 Presentation
Avida Holding AB

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Second quarter highlights

Avida Group

- Avida had continued strong growth in both Consumer and Business Finance in Q1 with a volume growth of SEK 955m (15% QoQ). In particular Business Finance saw a very high growth of SEK579m (37% QoQ)
- Q2 reported profit before tax of SEK26m which was an improvement by SEK8m QoQ. The industry is ripe for consolidation and Avida booked SEK8m in one-off costs related to strategic evaluations
- During the past year, Avida has focused its growth on low risk customers in both Consumer and Business Finance. Consequently, volume growth has been higher than revenue growth. This transition phase was fully completed in the first half of the year and Avida now expects APRs to stabilize at current levels. We should see full leverage of volume growth in the second half of the year
- In Norway, the regulations for consumer lending was further tightened at the beginning of the year, which resulted in sharply lower volume growth in the entire Norwegian market. In addition to the tightened regulation the Norwegian niche banks are facing significantly higher capital requirements which will strengthen Avida's position in the Norwegian market
- Net interest income increased 15% QoQ, despite higher funding costs in the quarter. This is however expected to improve in 2H as Avida introduced Euro term deposits in Q2
- The cost control has been strong in the quarter and excluding non-recurring costs operational costs have decreased QoQ
- Credit losses including IFRS effects increased slightly on the quarter from SEK37.0m in Q1 to SEK43.7m in Q2. The growth is mainly driven by consumer finance volume growth. Credit loss ratio remains stable
- Avida issued a SEK200m AT1 bond in the quarter further improving its capitalization

Consumer Finance

- Avida's strong growth continues with YoY growth of 71% and total loans of SEK5,154m
- The tightened regulations in Norway led to limited new growth in the quarter. Avida is fully compliant with current regulations and expect to see a ramp up of credit origination in the second half of the year
- On the back of improved margins and volume growth, net interest income increased by SEK 12 m in the quarter. Avida's back book margin increased QoQ, which is the first time in the past five quarters it occurs. After a longer period of de-risking the portfolio the erosion of margins have come to an end. This is particularly supported by higher margins on new volumes in Sweden
- Avida introduced a new scorecard in Sweden during Q4 which have initially enabled us to maintain higher margins at appropriate risk levels. New scorecards will be applied in the other markets during the second part of the year
- Funding costs have increased during the quarter following increased interbank rates, higher deposit volumes and full financial effect of the Tier 2 bond issued in Q4 2018
- The credit quality remains stable and credit losses increased in the quarter in line with the volume growth in Sweden and Finland
- We stopped our forward flow debt sale in Norway in June and as a consequence stage 3 balances and provision increased in the quarter. Total credit losses will not be impacted

Business Finance

- Avida recorded its best quarter in Business Finance with a significant SEK579m volume growth QoQ leaving a total Business Finance book of SEK2,160m
- The shift from high risk segment volumes to lower risk and more scalable volumes continues, reducing credit losses and net interest margin. The last legacy B2C clients were phased out during the quarter and margins and credit losses should stabilize at current level in H2
- Volumes in the quarter increased due to strong growth in new customers and positive seasonal effects, factoring volumes was the main driver of the growth
- Net interest income was SEK35m in Q1 a QoQ growth of SEK5.4m. This is mainly driven by the significant volume growth in the factoring portfolio at expected margins
- Credit losses remained flat in the quarter at very low levels
- Avida has continued to build a solid and diversified loan portfolio during the quarter. The organization is scaled to handle larger volumes at the current cost base
- Despite margin compression the profitability has improved during the quarter as we have been able to optimize risk exposure, risk weights and pricing to maximize profitability
- Business Finance remains a strategic focus area going forward as there is clearly a large market potential with significant entry barriers for competitors

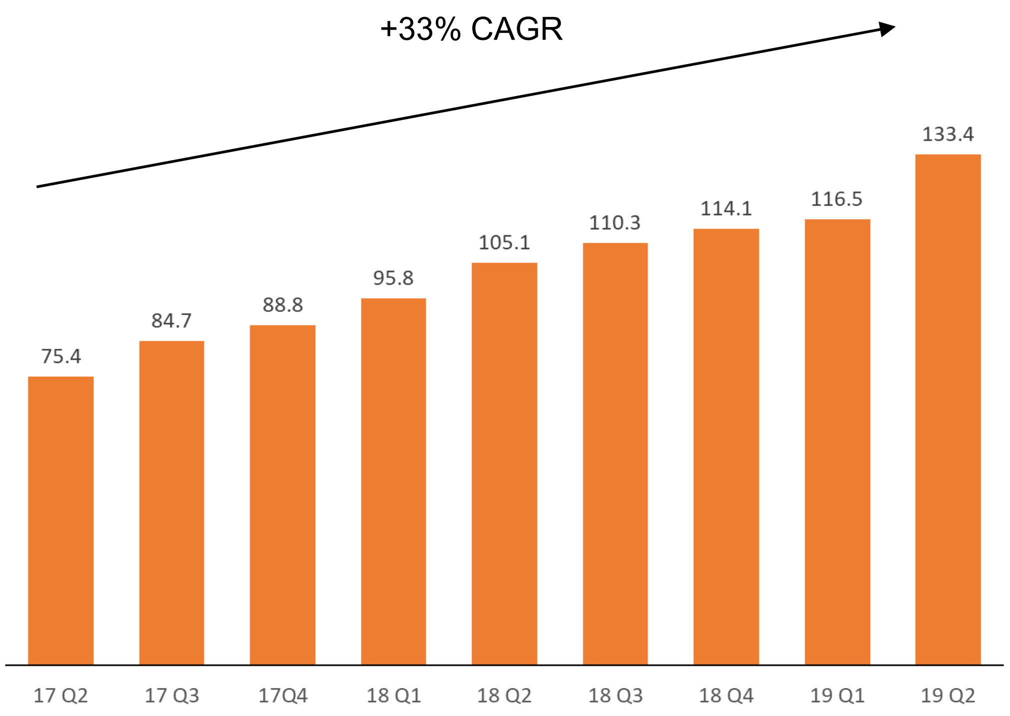
Q2 Financial Highlights

		Q2 2019	Q1 2019
I	Portfolio growth	QoQ growth in net loans of 15% - Total outstanding loans of SEK7,314m	QoQ growth in net loans of 17% - Total outstanding loans of SEK6,359m
II	Net interest margin*	Net interest margin of 9.3%	Net interest margin of 9.5%
III	Cost / Income ratio	Cost / Income ratio of 49.2%	Cost / Income ratio of 54.1%
IV	Loan losses	Loan losses of 2.6% & 1.5% excl IFRS9	Loan losses of 2.5% & 1.2% excl IFRS9
V	Profits before tax	Pre-tax profits of SEK26.0m Profit before IFRS 9 provisions: SEK 44.0m	Pre-tax profits of SEK18.4m Profit before IFRS 9 provisions: SEK 37.8m
VI	Return on equity	ROE of 11%	ROE of 7%
VII	Capital Ratio	Total Capital Ratio of 18.8% & CET1 of 12.1% - Total Capital Requirements: 13.1% - CET1 Requirements: 9.3%	Total Capital Ratio of 17.2% & CET1 of 12.9% - Total Capital Requirements: 12.9% - CET1 Requirements: 9.1%

* Net interest margin is excluding sales provisions

Continued strong growth

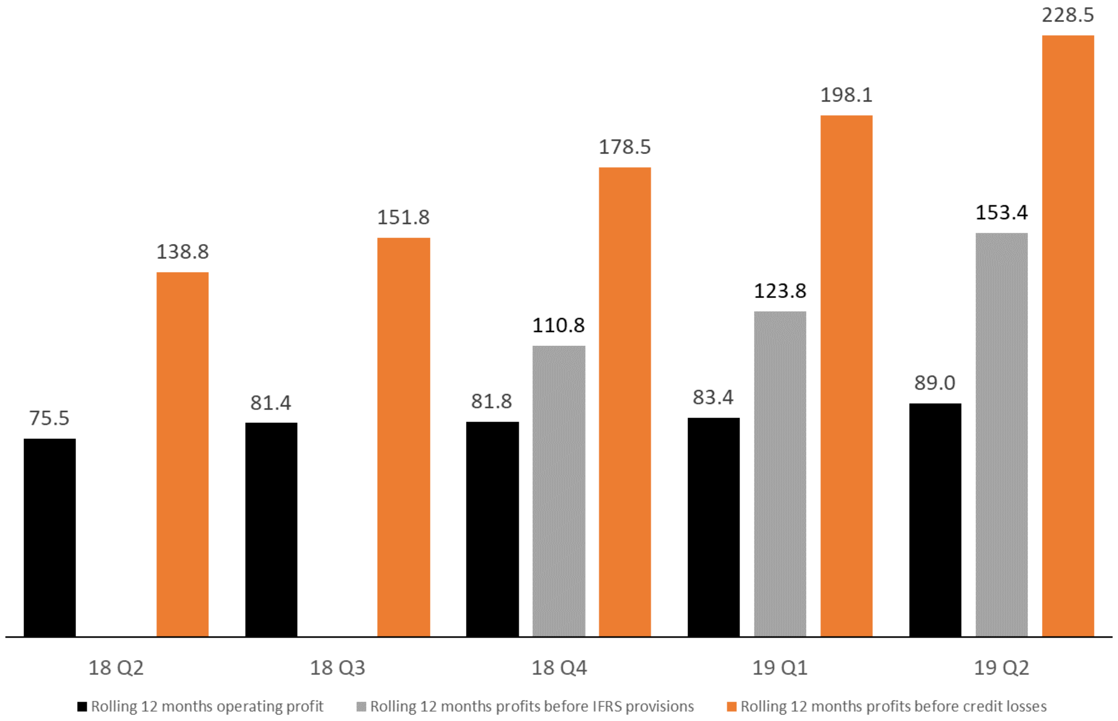
Net interest income* (SEKm)



CAGR +30%

*Net of sales provisions and interest costs

Rolling 12 months profit* (SEKm)

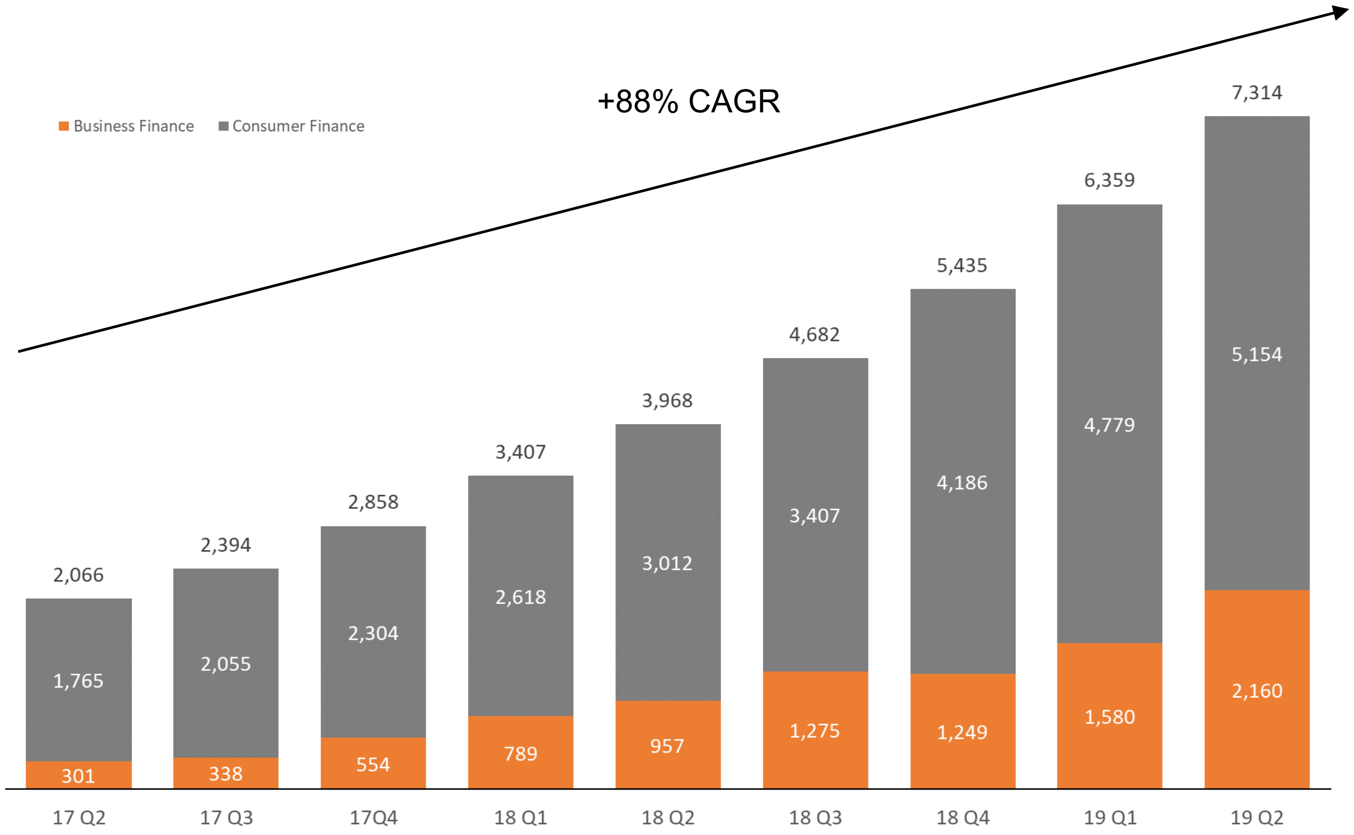


Continued growth in rolling EBT

* Adjusted EBT in 2017 Q4 for non-recurring items totalling SEK 12 m

Continued positive development in net loans

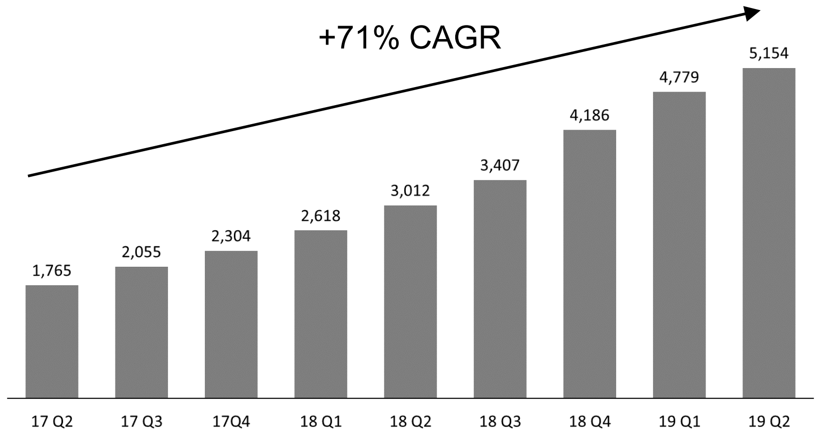
Net loans to customers (SEKm)



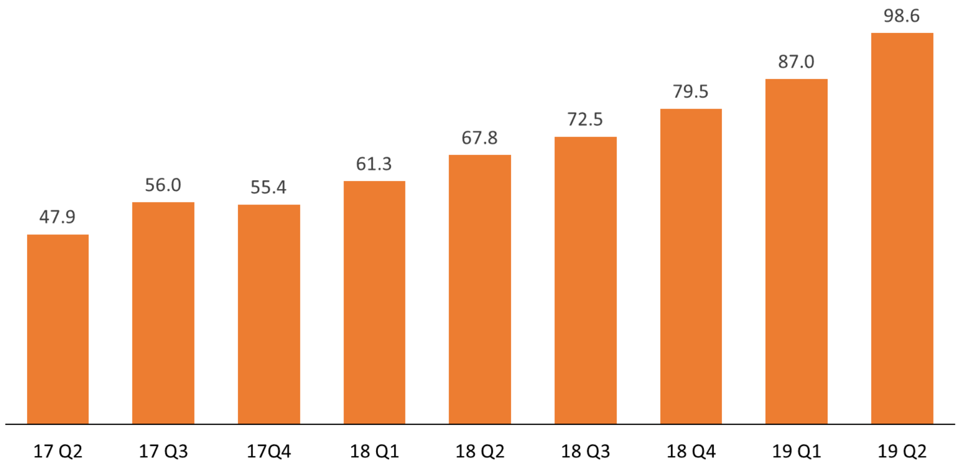
Significant volume growth continues during Q2 2019

Consumer Finance – Stable revenue growth

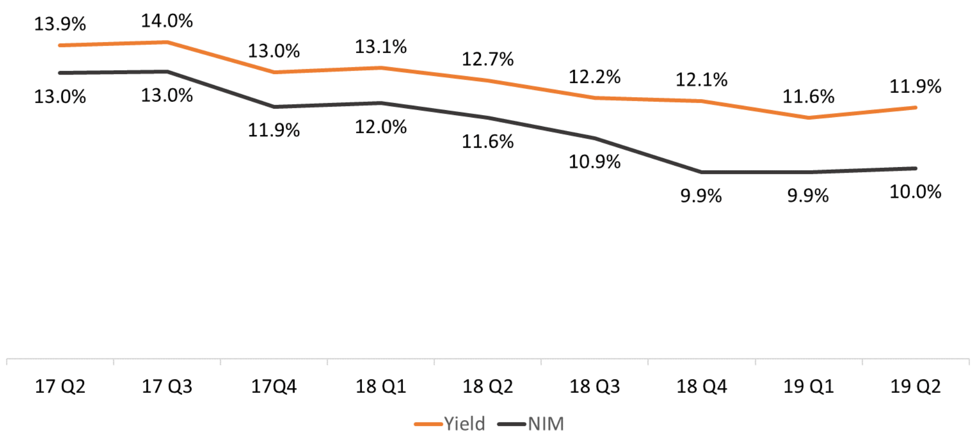
Net loans (SEKm)*



Net interest income (SEKm)

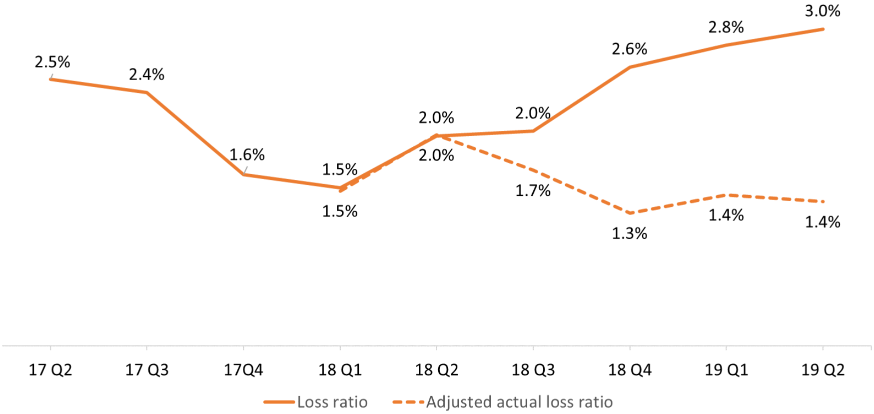


Yield (%) and NIM (%)*



* Net loans, Yield and NIM are excluding sales provisions

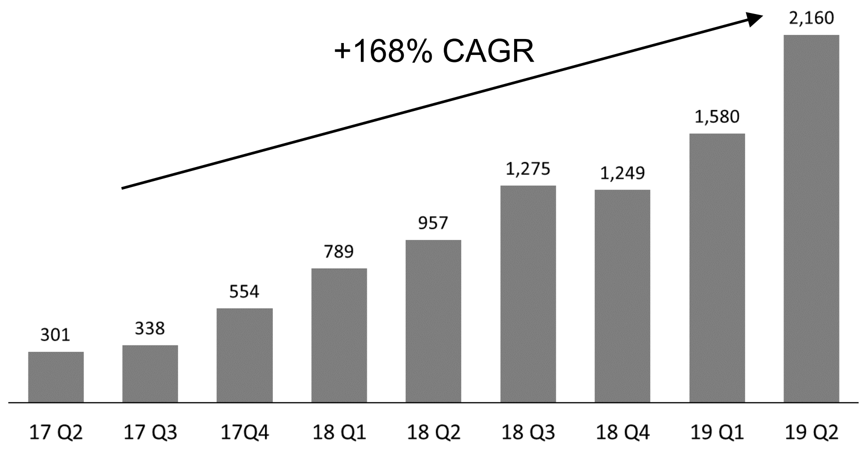
Loss ratio (%)**



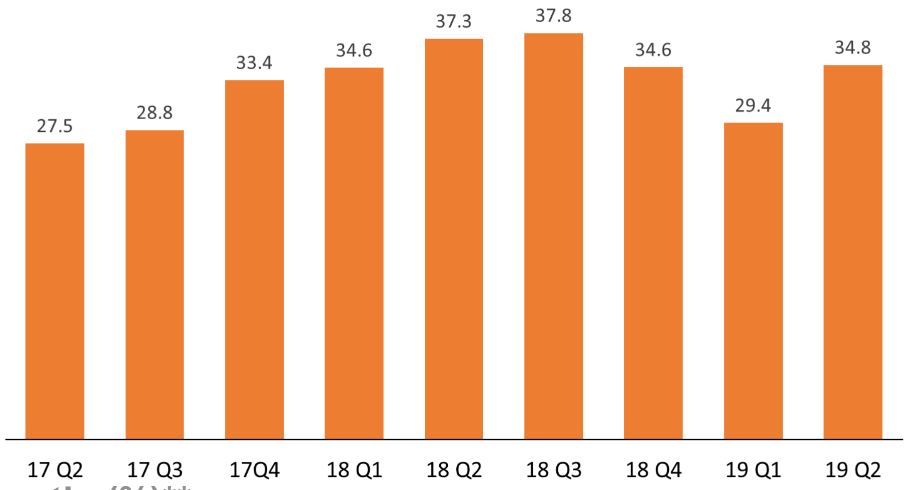
** Loss ratio is calculated as rolling 4 quarter credit losses divided by average rolling 4 quarter net loans
Actual losses refers to credit losses not incurred by IFRS9 provisions divided by average net loans per quarter and annualized
The actual loss ratio is adjusted for a non-recurring sale of NPL portfolios in Q2 2018

Business Finance – Strong volume growth

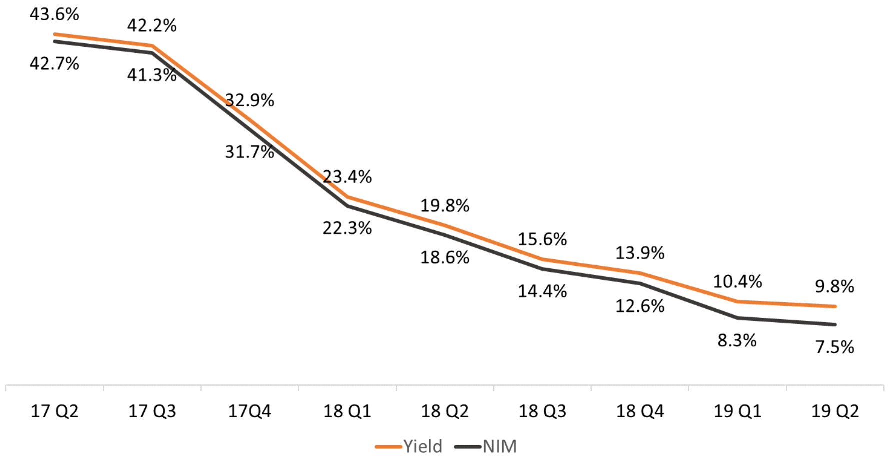
Net loans (SEKm)*



Net interest income (SEKm)

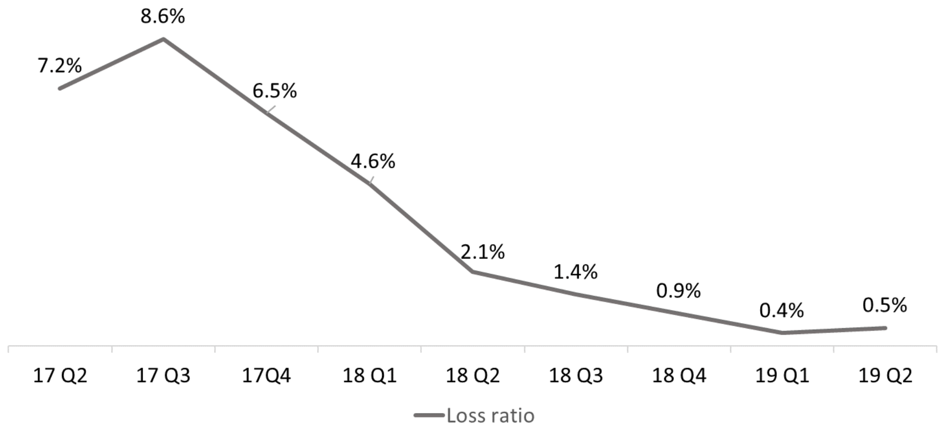


Yield (%) and NIM (%)*



* Net loans, Yield and NIM are excluding sales provisions

Loss ratio (%)**



** Loss ratio is calculated as rolling 4 quarter credit losses divided by average rolling 4 quarter net loans.
Note; Disregarding the B2C loans with an accounting policy that results in big fluctuations regarding credit losses in the P&L, the losses regarding Business Finance are close to zero.

Profit & loss Q2 2019

Profit & loss

SEKm	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	FY 2018	FY2017
Interest income	167.7	142.6	139.9	123.9	116.0	484.2	337.6
Interest cost	-34.2	-26.1	-25.8	-13.6	-10.9	-58.8	-21.0
Net interest income	**133.4**	**116.5**	**114.1**	**110.3**	**105.1**	**425.4**	**316.5**
Net result from financial transactions	3.4	3.2	-2.4	-0.7	0.7	-4.5	-9.5
Other income	0.3	0.7	0.9	0.3	0.6	2.7	7.0
Total income	**137.2**	**120.4**	**112.7**	**109.9**	**106.5**	**423.6**	**314.0**
Administrative cost	-65.1	-62.6	-55.0	-59.2	-64.7	-235.4	-195.3
Depreciation and amortization	-2.4	-2.5	-2.4	-2.5	-2.5	-9.8	-14.6
Sum operational cost	**-67.6**	**-65.1**	**-57.5**	**-61.7**	**-67.2**	**-245.1**	**-209.9**
Result before credit loss	**69.7**	**55.3**	**55.2**	**48.2**	**39.3**	**178.5**	**104.1**
Actual losses	-25.6	-17.5	-15.5	-16.4	-24.9	-67.7	
Result before IFRS 9 provisions	**44.0**	**37.8**	**39.7**	**31.8**	**14.4**	**110.8**	
IFRS - New	-12.7	-14.2	-23.7	-13.4	-11.2	-57.8	
IFRS - Back book	-5.4	-5.3	2.6	7.5	17.2	28.8	
Impairment of financial assets							-0.3
Operating profit / EBT	**26.0**	**18.4**	**18.7**	**25.9**	**20.5**	**81.8**	**48.4**
Tax	-3.6	-5.6	-5.6	-2.9	-4.7	-16.9	-12.1
Profit after tax	**22.5**	**12.8**	**13.1**	**23.0**	**15.8**	**64.9**	**36.2**

Comments

Key developments in Consumer Finance

Consumer Finance delivered a stable quarterly growth of SEK 376m (+8%) and LTM growth of SEK 2,143m (+71%). During the quarter, the growth has slowed down slightly, mainly due to recently imposed new regulations in the Norwegian market. However, growth in Norway is expected to increase during the third quarter

The scorecard in Sweden has been successful during the first half of the year and contributed to improved margins at the desired risk level. New scorecards in Avida's other core markets will be introduced during the second half of the year and are expected to further improve yield

Margins have started to strengthen, mainly driven by Sweden. As previously commented, yields are expected to continue to increase throughout the second half of the year as Avida's new volume APRs continue to improve

Key developments in Business Finance

Business Finance grew at an increased rate during the quarter, and increased QoQ volume by SEK 579m (+37%) and LTM by SEK 1203m (+126%). The main driver of the growth is large and low risk clients in Avida's diversified factoring portfolio

Margins have declined in line with expectations following the aforementioned lower risk volumes

Credit losses are remaining at a very low level, and are mainly driven by B2C financing which represent a small share of total portfolio

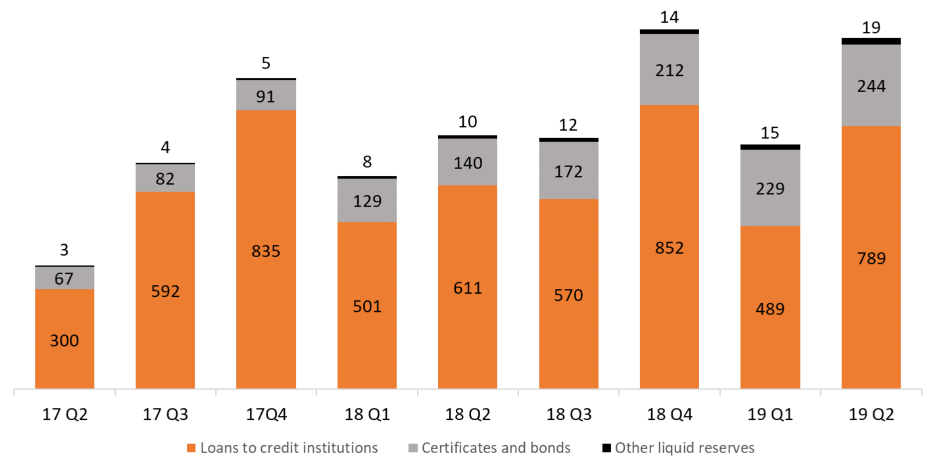
Focus on digital loans remains high, and several additions to the digital loan portfolio were succesfully made during the quarter. An increse in digital loans to SMEs is expected during the second half of the year

Key balance sheet figures

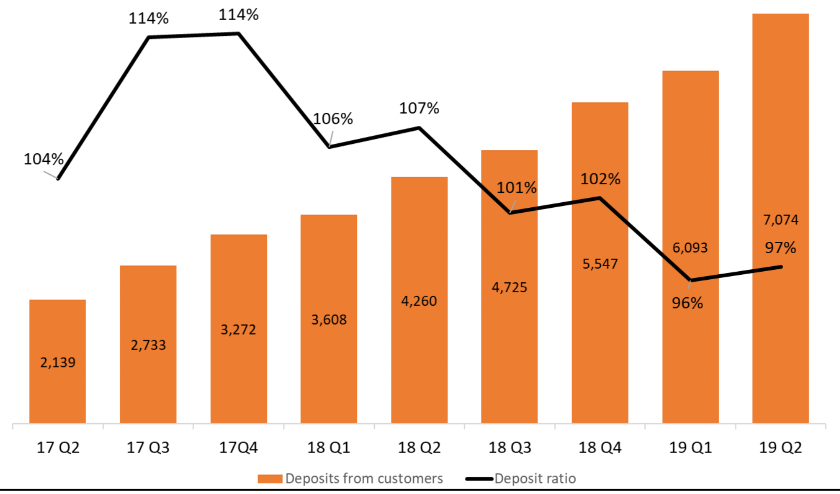
Key ratios

Average outstanding loan size	**~SEK 70,000**
LCR	**135%**
Deposit ratio	**97%**

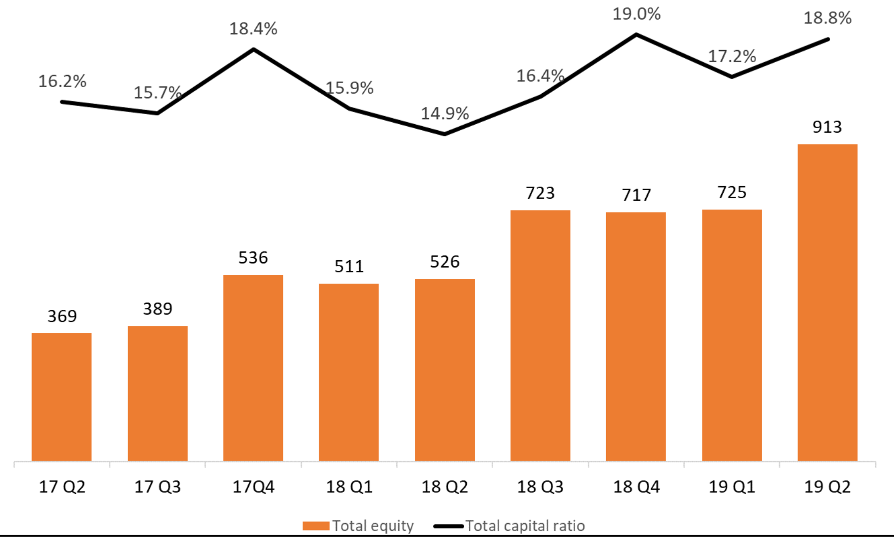
Liquidity (SEKm)



Funding (SEKm) and deposit ratio (%)



Total equity (SEKm) & Capital ratios (%)



Balance sheet Q2 2019

Balance sheet

SEKm	2019-06-30	2019-03-31	2018-12-31	2018-09-30	2018-06-30	2018-03-31	2017-12-31
Cash and balance to central bank	18.8	15.4	13.7	12.1	10.5	8.5	5.5
Certificates and bonds	243.8	228.6	212.1	172.0	140.0	128.8	91.0
Loans to credit institutions	788.6	488.5	851.9	569.5	611.0	501.3	834.7
Net loans to customers	7,314.0	6,358.9	5,435.4	4,681.9	3,968.1	3,406.7	2,858.0
Intangible assets	17.1	18.5	19.4	20.8	22.6	22.1	19.9
Machines and inventories	3.8	4.7	4.2	4.4	4.9	5.1	5.3
Leasing IFRS16	14.8	16.1	0.0	0.0	0.0	0.0	0.0
Other assets	20.8	9.4	33.7	23.4	37.0	54.7	4.2
Prepaid expenses and accrued income	71.3	72.0	47.6	115.4	84.6	75.1	53.7
Total assets	**8,493.1**	**7,212.3**	**6,617.9**	**5,599.4**	**4,878.7**	**4,202.3**	**3,872.2**
Deposits from customers	7,074.2	6,092.7	5,547.1	4,724.6	4,260.4	3,608.1	3,271.6
Other liabilities	167.4	98.5	80.9	130.0	67.8	59.3	41.1
Accrued expenses and prepaid income	45.6	42.8	21.0	22.2	24.8	24.3	23.6
Deferred tax liabilities	11.6	0.8	0.0	0.0	0.0	0.0	0.0
Subordinated debt	245.9	252.4	252.3	0.0	0.0	0.0	0.0
Total liabilities	**7,544.7**	**6,487.1**	**5,901.3**	**4,876.9**	**4,352.9**	**3,691.7**	**3,336.2**
Share capital	5.8	5.8	5.8	5.8	5.4	5.4	5.4
AT1 bond	200.0						
Retained earnings	707.3	706.5	645.9	664.9	491.5	492.1	494.5
Earnings in year	35.2	12.8	64.9	51.8	28.8	13.0	36.2
Total equity	**948.4**	**725.1**	**716.6**	**722.5**	**525.8**	**510.6**	**536.0**
Total equity and liabilities	**8,493.1**	**7,212.3**	**6,617.9**	**5,599.4**	**4,878.7**	**4,202.3**	**3,872.2**

Comments

Net loans increased with SEK 955m (+15%) QoQ and SEK 3,346m (84%) LTM, resulting in a total outstanding balance of net loans to customers of SEK 7,314m

SEK 200m AT1 bond has been successfully issued during the quarter, further strengthening the capital position of the company and enabling continued strong growth

Term deposits in EUR have been established during the quarter, effectively improving Avida's funding mix

Financial targets

I	Growth	▪ Significant growth opportunity; realistic target of SEK10 bn loan book by 2020 by pursuing opportunities in both the consumer and business segment ▪ Dynamic allocation of capital to products/segments with best risk/reward
II	Return on equity	▪ Target return on equity of more than 25% in line with industry average ▪ Lower ROE in the short term due to investment in organization and infrastructure, expected to increase in line with volume growth
III	Capital ratios	▪ Both CET1 ratio and current total capital ratio at least 100bps above regulatory target floor ▪ Will leverage capital markets for both debt and additional equity to grow intelligently
IV	Dividend policy	▪ Target dividend payout ratio of 35% ▪ No dividend payments in short / medium term due to growth focus

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