# Q3 2018 Presentation
# Avida Holding AB

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# Third quarter highlights

## Avida Group

- The strong volume growth continues with an increase YoY by 96% in net loans to SEK4,682m (2,288). Increase QoQ by SEK714m (18%).
- Gross revenues YTD total SEK394m, representing an increase by SEK123m (45%) compared to the same period 2017. QoQ increase by SEK10m to SEK143m.
- The CET1 ratio is 16.5% at the end of third quarter 2018, well above Avida's target of 200bps above regulatory floor.
- A CET1 capital injection of SEK160m was completed during the quarter.

## Consumer Finance

- Net loans total SEK3,407m, representing an increase by SEK1,352m (66%) compared to the same period 2017. Increase QoQ by SEK396m (13%).
- Net interest margin recorded at 10.6% (10.9% in Q2) driven by stronger growth in lower risk and higher ticket segments.
- Loan loss ratio (rolling 4 quarters) stable at 2.0% (2.0% in Q2).

## Business Finance

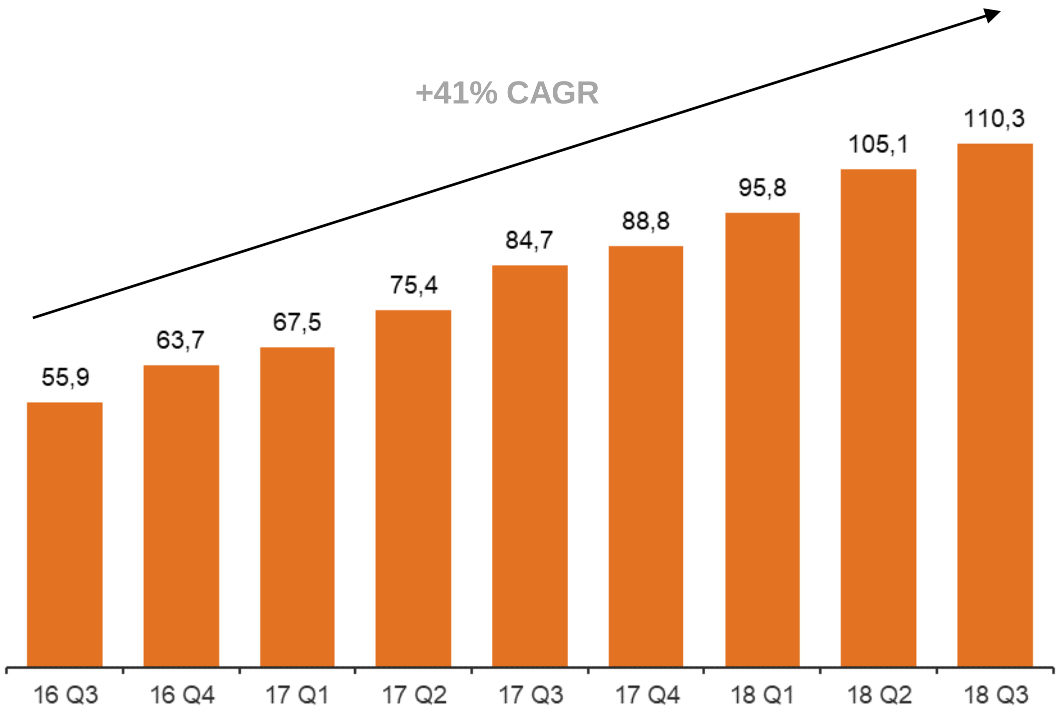
- Net lending total SEK1,275m, representing an increase by SEK936m (277%) compared to the same period 2017. Increase QoQ by SEK318m (33%).
- Net interest margin of 15.9% (20.8% in Q2). The decrease in net interest margin is in line with expectations due to a shift in strategy towards more credit worthy clients who should enable fast and stable volume growth.
- Loan loss ratio (rolling 4 quarters) of 1.4% (2.1% in Q2). The loan loss ratio in the Business Finance segment is expected to continue to decrease as the B2C share of the portfolio keep getting less significant. In B2B, where the growth is occurring, credit losses are close to zero.

# Q3 2018 Financial Highlights

| | | |
|---|---|---|
| I | Portfolio growth | **YoY growth in net loans of 96%**<br>- Total outstanding loans of SEK4,682m |
| II | Net interest margin | **Net interest margin of 11.0%** |
| III | Cost / net interest income ratio | **Cost / Income ratio of 56.1%** |
| IV | Loan losses | **Annualized loan losses of 1.9%** |
| V | Profits Q3 | **Pre-tax profits of SEK25.9m** |
| VI | Return on equity | **ROE of 16.0%** |
| VII | CET1 ratio | **CET1 ratio of 16.5%**<br>- Well above regulatory minimum requirements of 9.6% |

# Continued strong growth

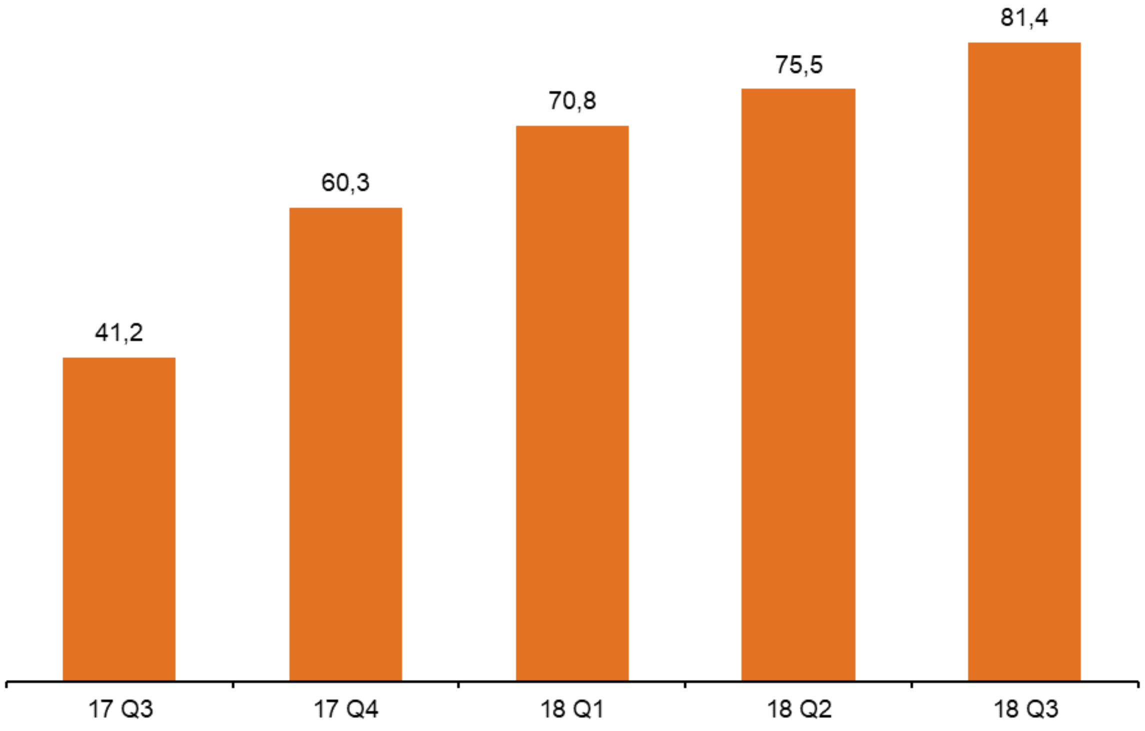
## Net interest income* (SEKm)




**Continued steady growth in Net interest income in Q3 2018**

*Net of sales provisions and interest costs

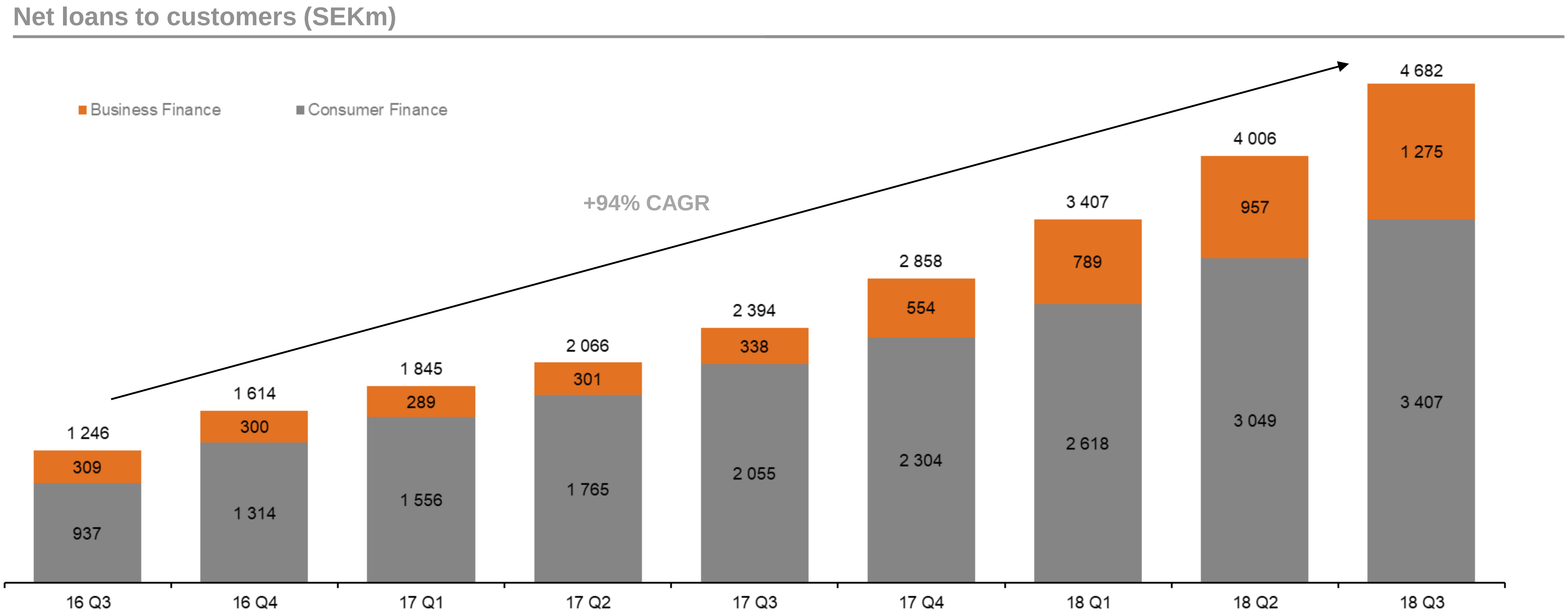
## Rolling 12 month Operating profit / EBT* (SEKm)




**Continued significant growth in rolling EBT**

* Adjusted EBT in 2017 Q4 for non-recurring items totalling SEK12m

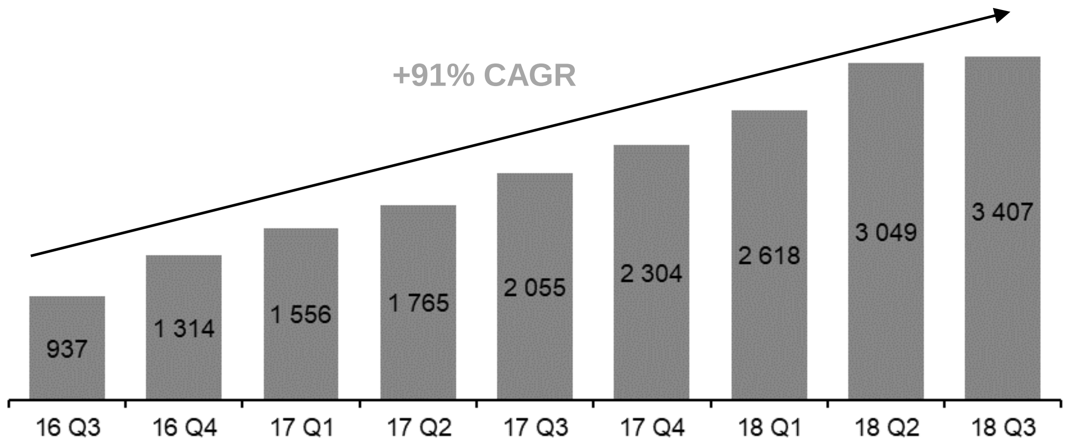
# Continued positive development in net loans



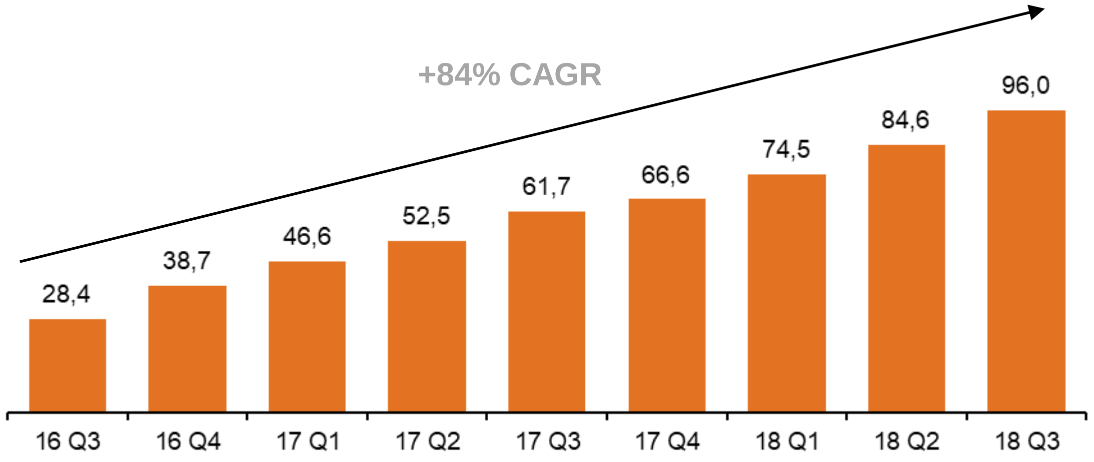

**Significant volume growth continues during Q3 2018**

# Consumer Finance – Stable loss ratios and rapid growth

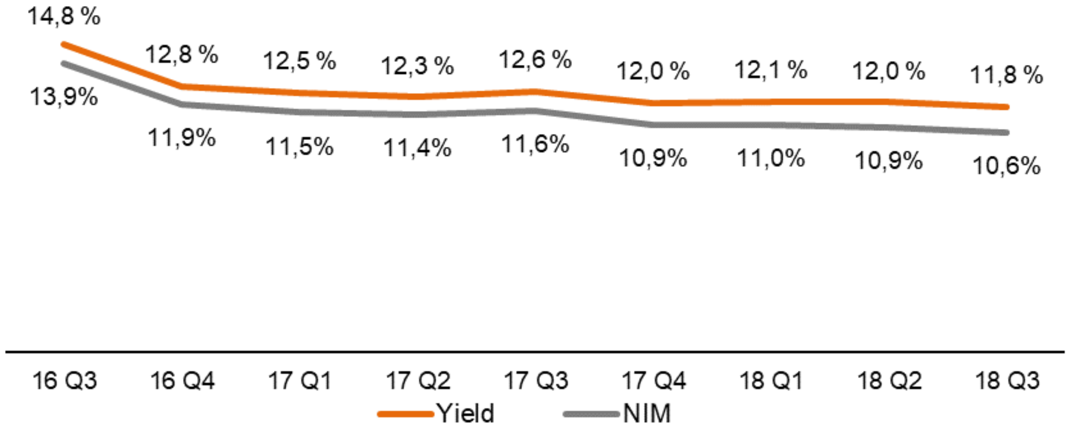
## Net loans (SEKm)*



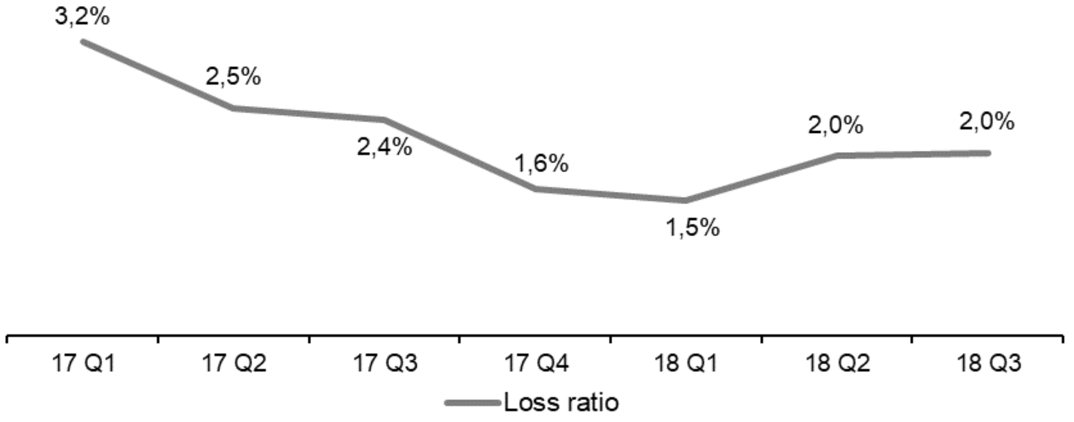

## Income (SEKm)*




## Yield (%) and NIM (%)*




## Loss ratio (%)**

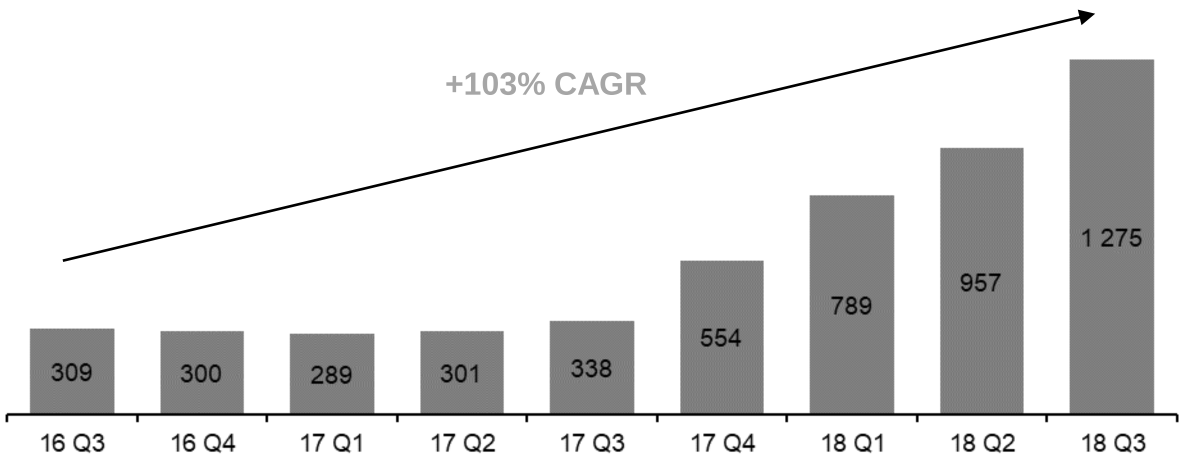



* Net loans, Income, Yield and NIM are excluding sales provisions

** Loss ratio is calculated as rolling 4 quarter credit losses divided by average rolling 4 quarter net loans

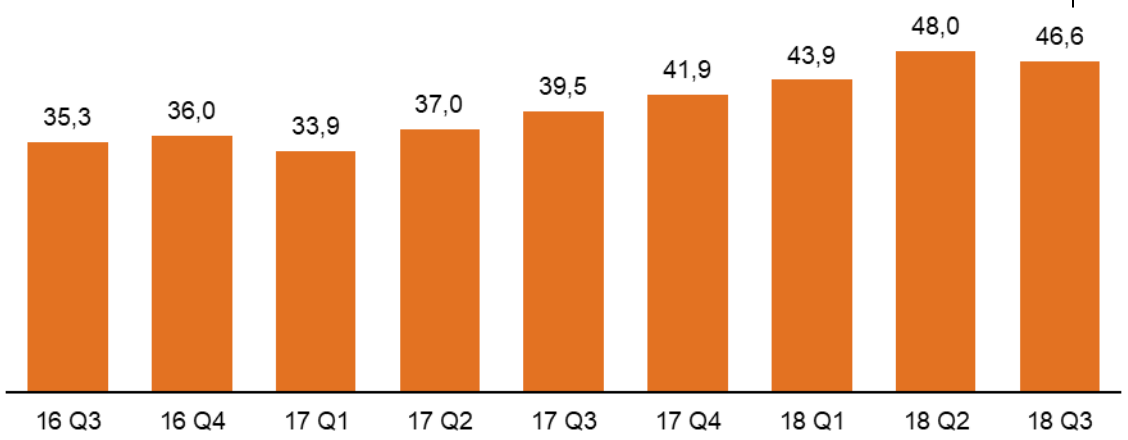
# Business Finance – Exceptional volume growth

## Net loans (SEKm)*

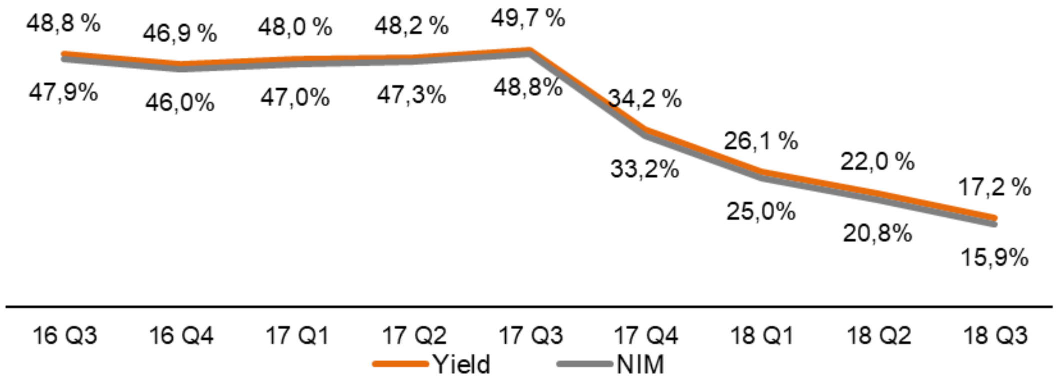



Exiting of high yield B2C customer – according to plan

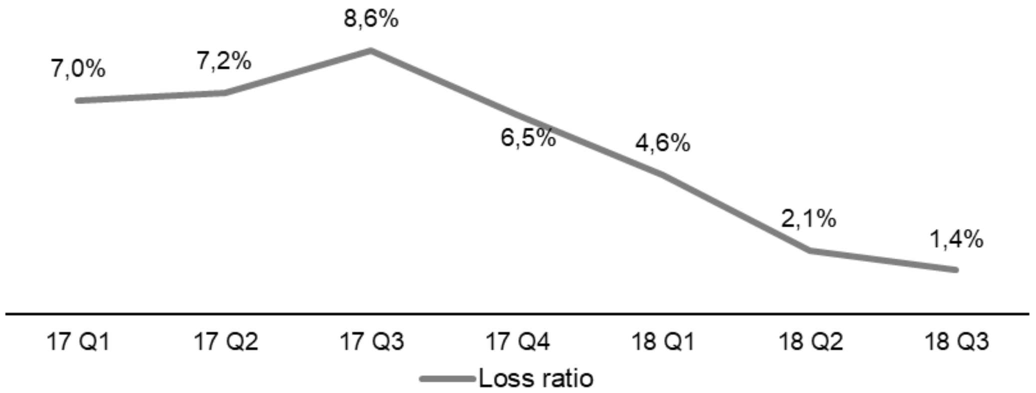
## Income (SEKm)*




## Yield (%) and NIM (%)*




## Loss ratio (%)**




* Net loans, Income, Yield and NIM are excluding sales provisions

** 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 Q3 2018

## Profit & loss

| SEKm | Q3 2018 | Q2 2018 | YTD 2018 | YTD 2017 | FY2017 |
|---|---|---|---|---|---|
| Gross revenue | 142.6 | 132.5 | 393.6 | 271.1 | 379.6 |
| Sales provisions | -18.7 | -16.6 | -49.3 | -29.6 | -42.0 |
| Interest income | 123.9 | 116.0 | 344.3 | 241.5 | 337.6 |
| Interest cost | -13.6 | -10.9 | -33.1 | -13.8 | -21.0 |
| **Net interest income** | **110.3** | **105.1** | **311.3** | **227.7** | **316.5** |
| Net result from financial transactions | -0.7 | 0.7 | -2.1 | -8.5 | -9.5 |
| Other income | 0.3 | 0.6 | 1.8 | 4.3 | 6.6 |
| **Total income** | **109.9** | **106.5** | **310.9** | **223.5** | **313.6** |
| Administrative cost | -59.2 | -64.7 | -180.3 | -130.8 | -195.2 |
| Depreciation and amortization | -2.5 | -2.5 | -7.3 | -5.7 | -14.6 |
| **Sum operational cost** | **-61.7** | **-67.2** | **-187.7** | **-136.5** | **-209.8** |
| **Result before credit loss** | **48.2** | **39.3** | **123.3** | **87.0** | **103.8** |
| Net credit loss | -22.3 | -18.8 | -60.1 | -45.0 | -55.4 |
| **Operating profit / EBT** | **25.9** | **20.5** | **63.1** | **42.0** | **48.3** |
| Tax | -2.9 | -4.7 | -11.3 | -8.5 | -12.1 |
| **Profit after tax** | **23.0** | **15.8** | **51.8** | **33.5** | **36.2** |

## Comments

**Key development in Consumer Finance operations**

- Consumer Finance segment continues to show growth during the quarter with a year on year growth by SEK 1,352m (+66%) and a quarter on quarter growth by SEK 395m (+13%) to SEK 3,407m. The growth in the quarter was mainly driven by growth in Sweden (+278m) and Finland (+123m). Norway balances remained flat during the quarter. A new price matrix was implemented in Norway at the end of, showing some early positive signs
- Non-performing loans were sold on a monthly basis during the quarter and decreased in relation to total outstanding balances, indicating improved credit quality. As credit quality improved, interest rates to customers also went down slightly
- Consumer Finance is highly scalable and Avida has implemented several initiatives to improve cost efficiency and decrease operational risk. The change of the consumer ledger started during the summer and the first part of the launch will take place in the next quarter. The implementation of a new ledger will improve speed and flexibility when adding new products and new features to existing products

**Key development in Business Finance operations**

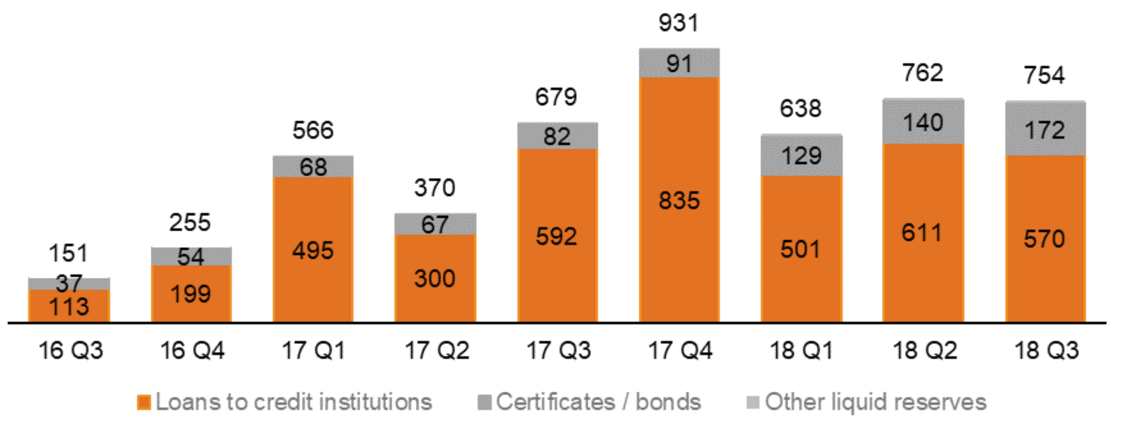
- Business Finance increased volumes by SEK 937m (+277%) year on year and 318m (+33%) on the quarter, ending at SEK 1,275m. A key driver for the growth is increased factoring volumes from Norsk Gjenvinning and Puumerkki. A new large deal with Antalis (400,000 invoices annually) was signed during the quarter and we will see first volumes come in during next quarter
- Revenues declining QoQ was in line with expectation as Avida is transitioning away from B2C financing. Volumes in less risky and larger B2B clients showed healthy growth.
- Underlying credit quality continued to improve during the quarter and loss ratio was recorded at 1.4%. The revenue yield decreased as the company moved towards larger and longer term contracts – also according to plan.
- The business finance platform is highly scalable and can handle millions of invoices and the marginal profit of new deals is expected to improve overall profitability for the segment

# Key balance sheet figures

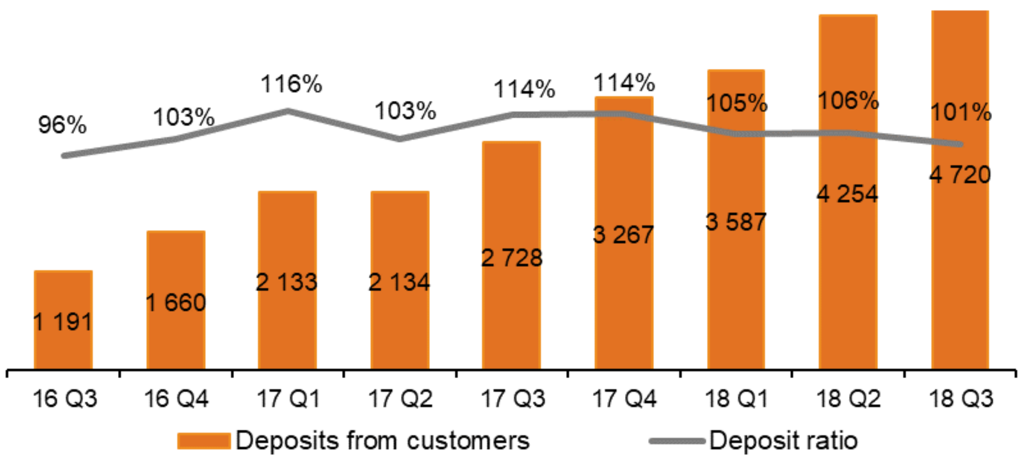
## Key ratios

| | |
|---|---|
| **Average outstanding loan size** | **~SEK 50,000** |
| **LCR** | **138%** |
| **Deposit ratio** | **101%** |

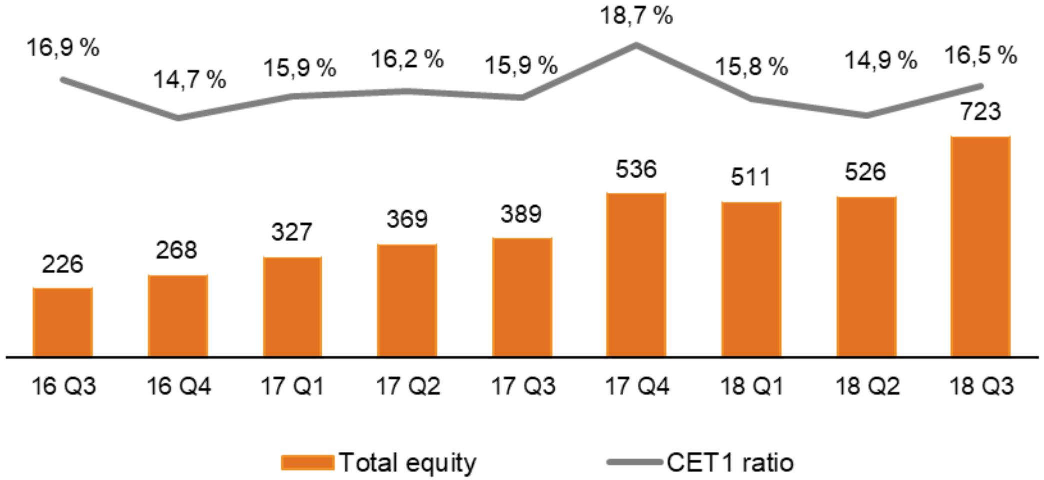
## Liquidity (SEKm)




## Funding (SEKm) and deposit ratio (%)




## Total equity (SEKm) & CET1 ratio (%)



# Balance sheet Q3 2018

## Balance sheet

| SEKm | 2018-09-30 | 2018-06-30 | 2018-03-31 | 2017-12-31 | 2016-12-31 |
|---|---|---|---|---|---|
| Cash and balance to central bank | 12.1 | 10.5 | 8.5 | 5.5 | 1.8 |
| Certificates and bonds | 172.0 | 140.0 | 128.8 | 91.0 | 54.5 |
| Loans to credit institutions | 569.5 | 611.0 | 501.3 | 834.7 | 198.7 |
| Net loans to customers | 4 681.9 | 3 968.1 | 3 406.7 | 2 858.0 | 1 614.0 |
| Shares and shares in ass. Companies | 0.0 | 0.0 | 0.0 | 0.0 | 4.2 |
| Intangible assets | 20.8 | 22.6 | 22.1 | 19.9 | 15.3 |
| Machines and inventories | 4.4 | 4.9 | 5.1 | 5.3 | 5.4 |
| Other assets | 23.4 | 37.0 | 54.7 | 4.2 | 38.8 |
| Prepaid expenses and accrued income | 115.4 | 84.6 | 75.1 | 53.7 | 56.7 |
| **Total assets** | **5 599.4** | **4 878.7** | **4 202.3** | **3 872.2** | **1 989.4** |
| Deposits from customers | 4 724.6 | 4 260.4 | 3 608.1 | 3 271.6 | 1 663.3 |
| Other liabilities | 130.0 | 67.8 | 59.3 | 41.1 | 40.4 |
| Accrued expenses and prepaid income | 22.2 | 24.8 | 24.3 | 23.6 | 12.8 |
| Deferred tax liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 4.7 |
| **Total liabilities** | **4 876.9** | **4 352.9** | **3 691.7** | **3 336.2** | **1 721.3** |
| Share capital | 5.8 | 5.4 | 5.4 | 5.4 | 4.4 |
| Retained earnings | 664.9 | 491.5 | 492.1 | 494.5 | 250.9 |
| Earnings in year | 51.8 | 28.8 | 13.0 | 36.2 | 12.8 |
| **Total equity** | **722.5** | **525.8** | **510.6** | **536.0** | **268.2** |
| **Total equity and liabilities** | **5 599.4** | **4 878.7** | **4 202.3** | **3 872.2** | **1 989.4** |

## Comments

- Net loans increased by SEK 714m on the quarter resulting in total outstanding balances at SEK 4,682m.
- Funding is based on deposits in NOK and SEK. SEK is swapped to EUR to match the outstanding balances in Finland.
- Avida completed a capital injection during the quarter at SEK 160m. Capital ratio recorded at 16.5%.

# Financial targets

| | | |
|---|---|---|
| I | **Growth** | ▪ Significant growth opportunity; realistic target of SEK10Bn loan book by 2020 by pursuing opportunities in both the consumer and business segment<br>▪ 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<br>▪ 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 200bps above regulatory target floor<br>▪ Will leverage capital markets for both debt and additional equity to grow intelligently |
| IV | **Dividend policy** | ▪ Target dividend payout ratio of 35%<br>▪ No dividend payments in short / medium term due to growth focus |

# Outlook

- Avida expects continued strong growth in lending volumes going forward and maintains our expectation for growth in net loans to customers through 2018, ending at SEK5 bn seems to be within reach. We will continue our focus on improving the cost efficiency.
- Both Business Finance and Consumer Finance have grown according to plan in Q3 and we expect the growth to continue in Q4 and margins to improve as we gain economy of scale.
- Within Business Finance the operation continues to grow rapidly and winning significant clients in the Nordic and European market. We experience high demand in the segment and the pipeline is looking promising. We expect the pipeline to materialize during end of next quarter and beginning of next year.
- Consumer Finance had a good development in the quarter in Finland and Sweden. The development in Norway however is weaker than expected. The focus is on optimizing our score models and price matrix to better identify profitable segments to fuel our growth in Norway.
- The cost level during the quarter is within plan and lower than in the second quarter due to lower cost in IT operations. Actions have been implemented to control the cost development, and cost efficiency will improve as scale grows within each segment.
- Avida sees good growth prospects in all of the three geographic markets, and our strategy of focusing on both Consumer and Business Finance gives us ample room to allocate capital to the most profitable opportunities.

**STOCKHOLM**

*Visiting address:*
Södermalmsallén 36

*Postal address:*
Postbox 38101
100 64 Stockholm

*Contact information:*
Phone: +46 08-56420100
Email: info@avida.se

**HELSINKI**

*Visiting address:*
Säterinportti, Linnoitustie 6 B

*Postal address:*
Linnoitustie 6 B
02600 Espoo

*Contact information:*
Phone: +358 7575 50070
Email: luotto@avidafinans.fi

**OSLO**

*Visiting address:*
Fredrik Selmersvei 6

*Postal address:*
Postbox 6134 Etterstad
0602 Oslo

*Contact information:*
Phone: +47 23335000
Email: info@avida.no

AVIDA