

A wide-angle photograph of a vast, calm sea under a hazy, light blue sky. In the middle distance, a small, dark figure is visible in a single-person kayak or canoe, paddling towards the horizon. The water is a deep teal color with gentle ripples.

# BRAABANK

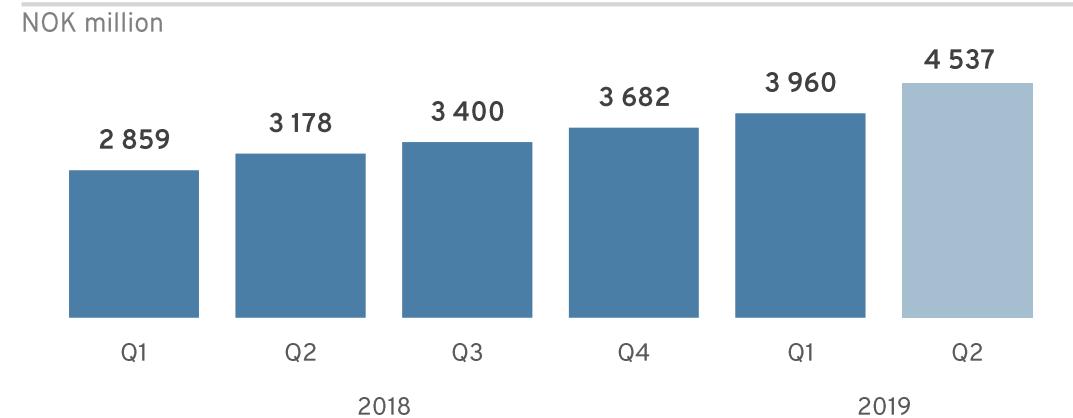
Second quarter results 2019

21 AUGUST 2019

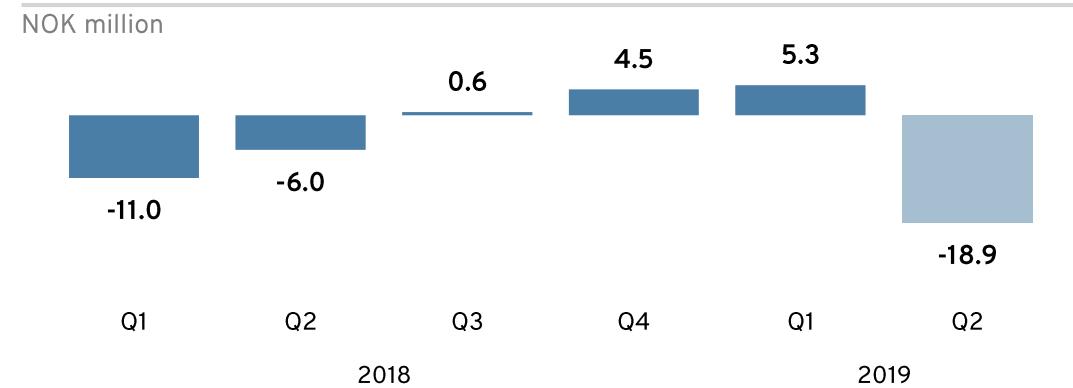
# Highlights

- Significant milestones reached during H1 2019
  - Merger completed
  - Rebranding to BRAbank and IT integration on track
  - Successful launch of consumer finance offerings in Sweden
  - Equity injection of NOK 37 million completed in July
- Financial results affected by significant one-offs
  - Write-downs NOK 30 million
  - Merger costs NOK 9 million
- Operations
  - Norway: Being compliant top priority
  - Finland: Solid market and improved risk selection
  - Sweden: Positive start up and well received in the market
  - Credit card: Successful market campaign
  - Strengthened focus on operational performance
- Growth opportunity restrained by capital situation

## Net Loans\*



## Profit after tax

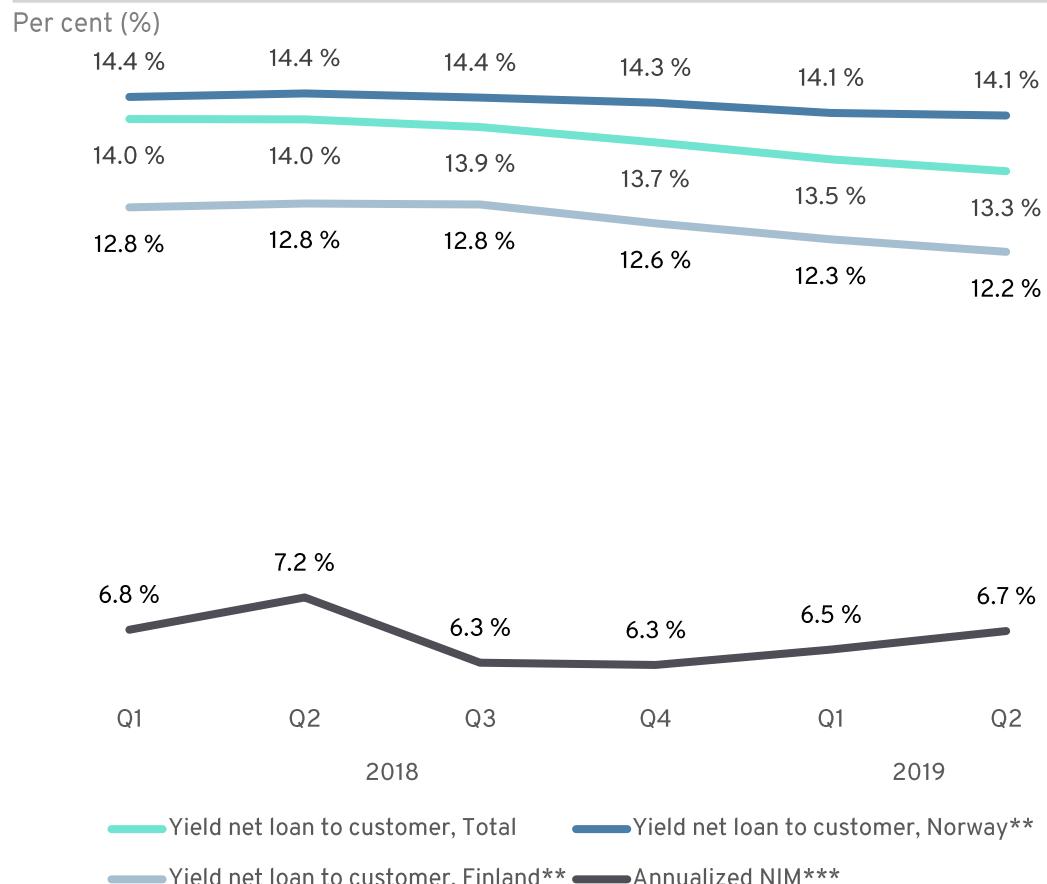


# Financial performance

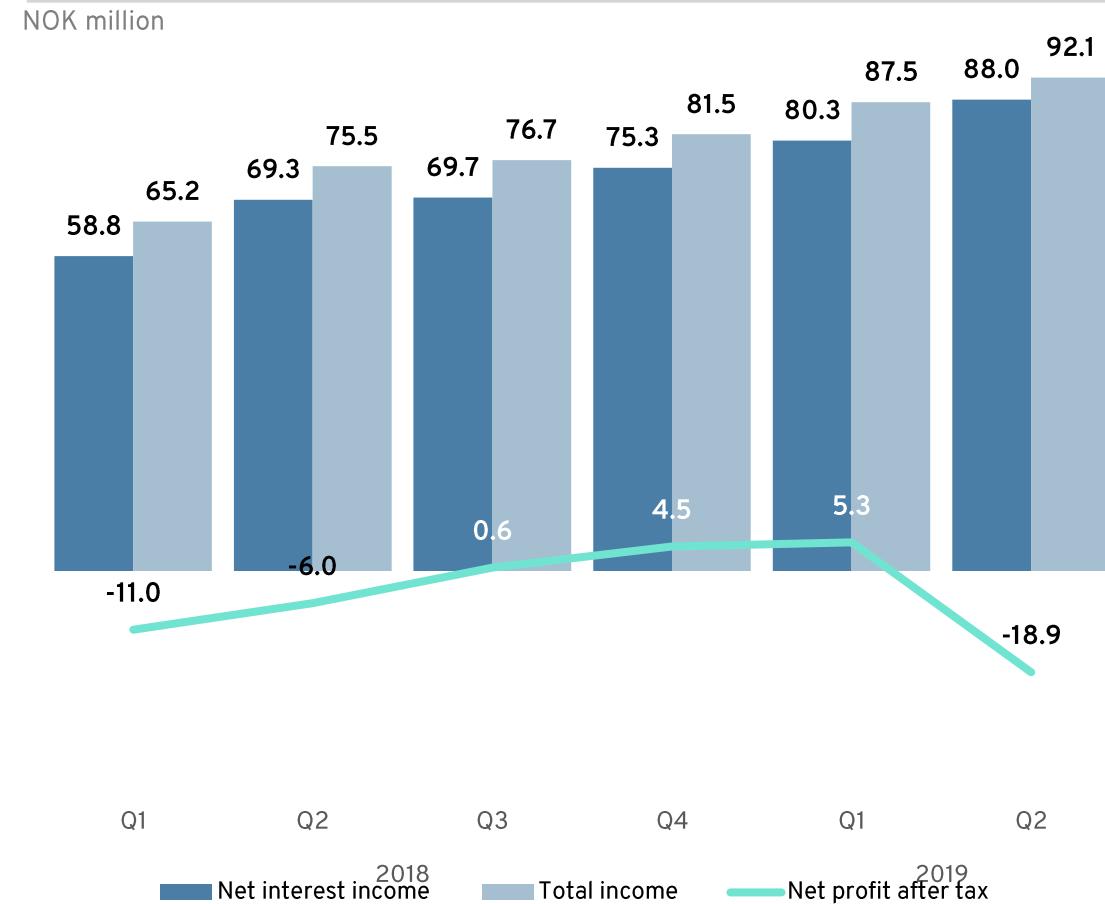
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# Stable net interest margins

## Key yield & margins\*



## Income & profit after tax

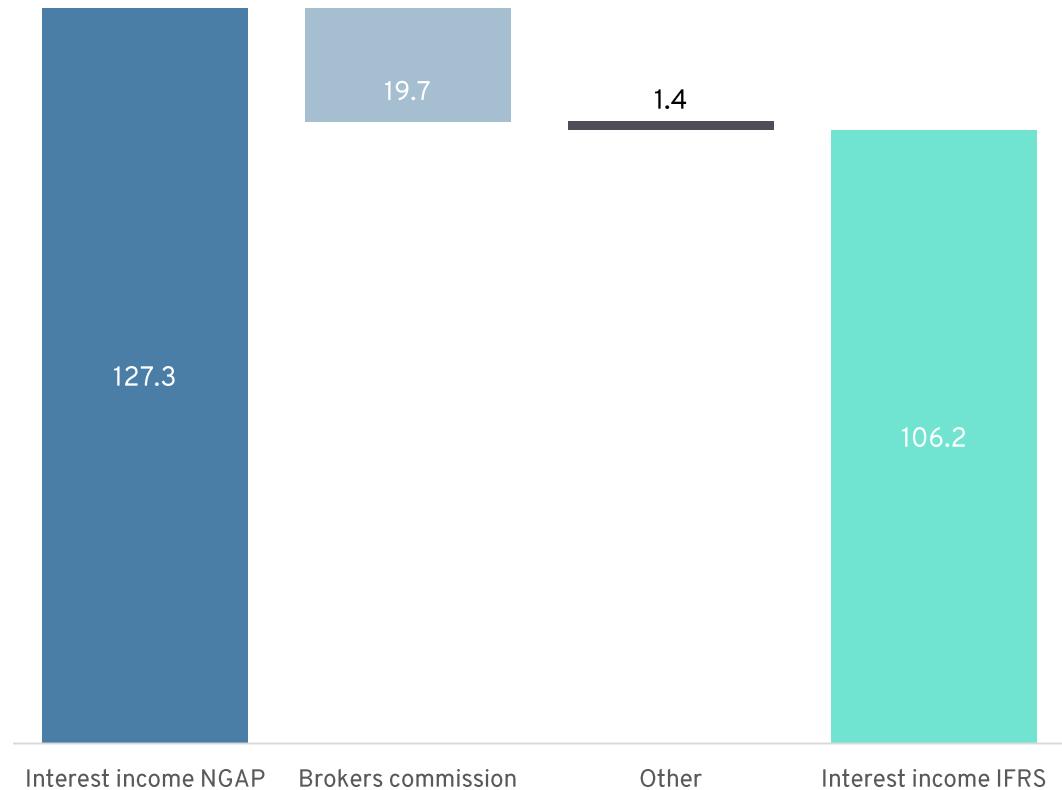


# IFRS implementation affects interest margin

- Commissions to loan brokers/agents
  - Deducted from interest income
  - Significantly affects the net interest margin.
  - Under NGAAP this cost is classified as expense commission.
  - No P&L effect.

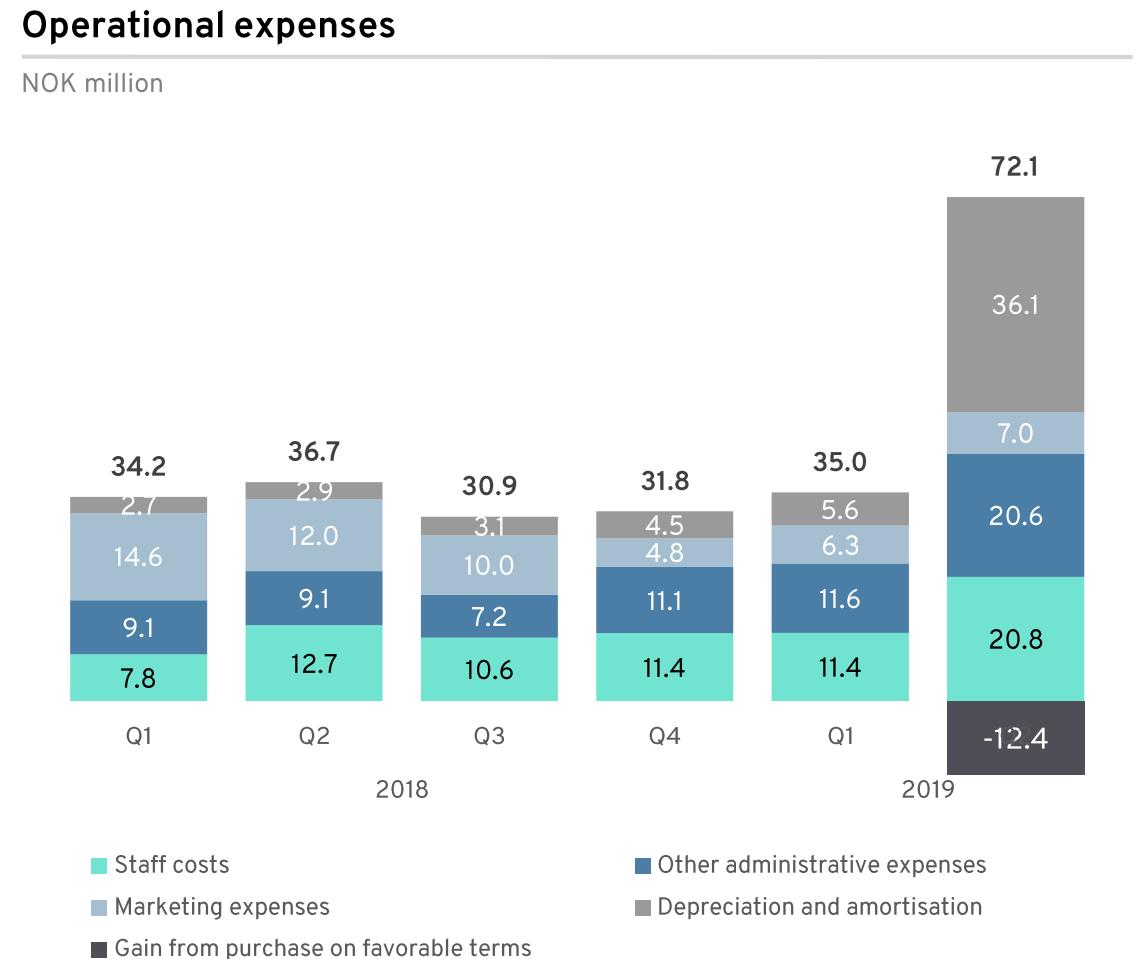
**Split interest income and commission to loan broker NGAAP vs IFRS**

NOK million



# Costs significantly affected by one-offs

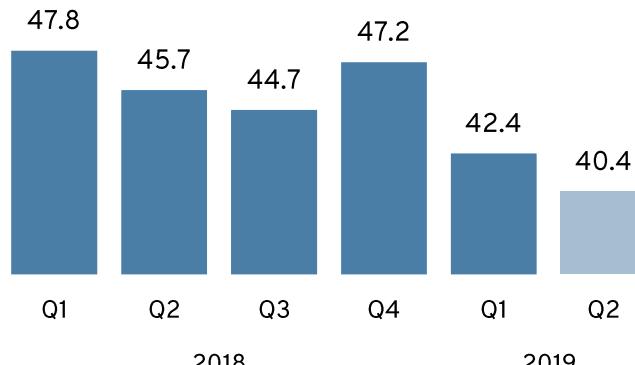
- Net one-off costs NOK 26.6 million in Q2 2019
  - NOK 30 million in extraordinary write down
  - NOK 4.2 million restructuring costs staff
  - NOK 4.8 million other restructuring costs
  - NOK 12.4 million in gain from purchase on favourable terms
- Costs related to Sweden launch, license fee BRAflyg and Credit card campaign NOK 5.0 million in Q2 2019
- Additional cost increase of NOK 5.6 million
  - Reduced transfer to intangible assets
  - Wages and FTE
  - Volume related IT cost



# Non-performing loans according to expectations

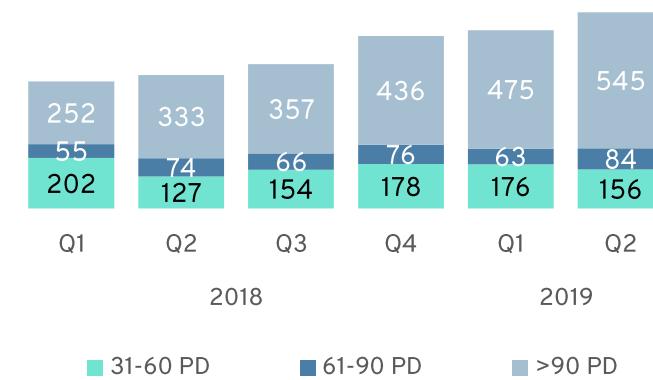
## Loan losses

NOK million



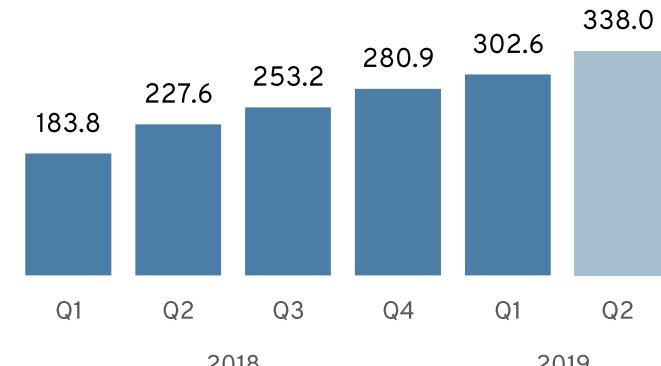
## Gross loans past due (# of days)

NOK million



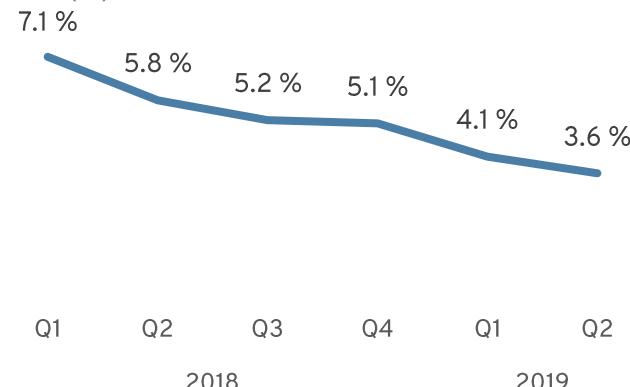
## Provisions

NOK million



## Loan loss ratio\*

Per cent (%)



## Non-performing loan ratio\*\*

Per cent (%)



## Total provision ratio\*\*\*

Per cent (%)

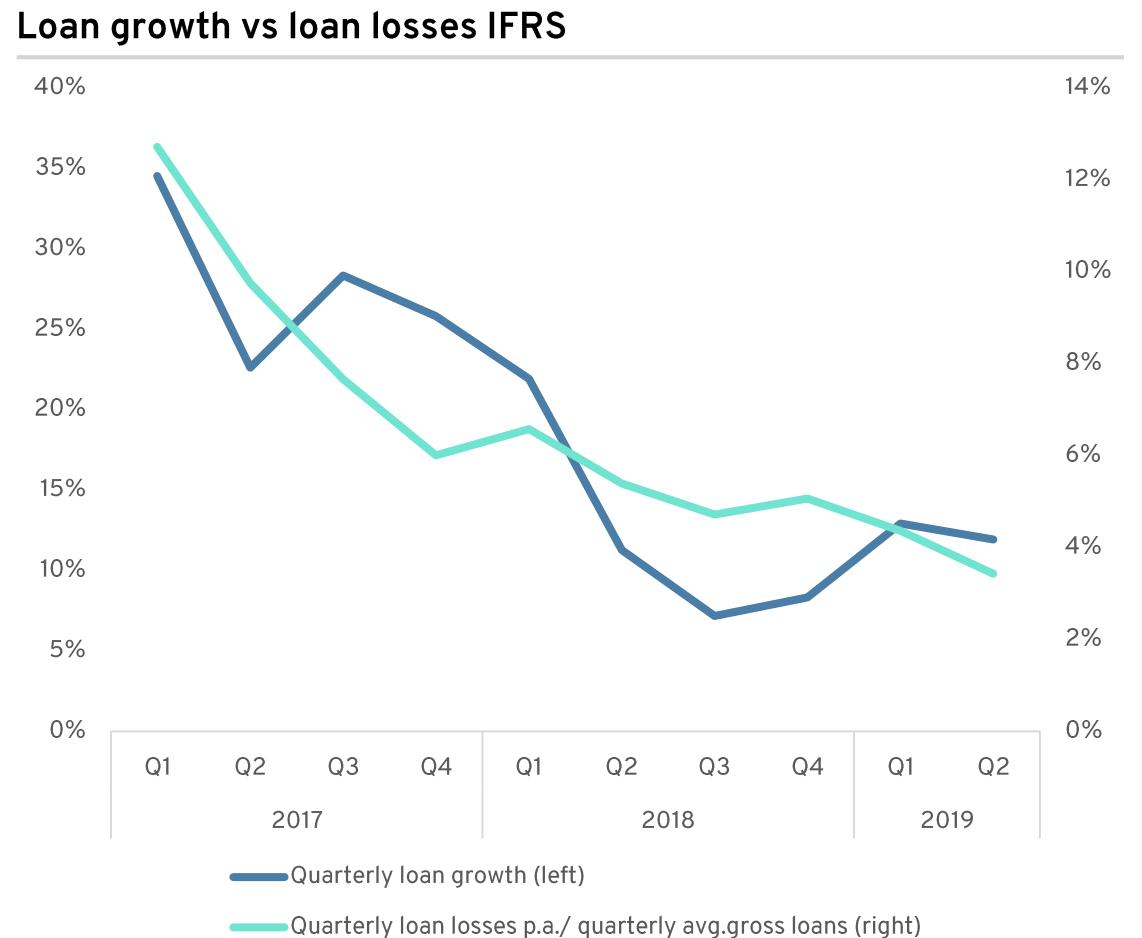


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Note(\*): loan loss ratio = (Quarterly loan loss \* 4)/quarterly gross loans || Note(\*\*): non-performing loan ratio = >PD90 / gross loans || Note(\*\*\*): provision ratio = total provisions / >PD90

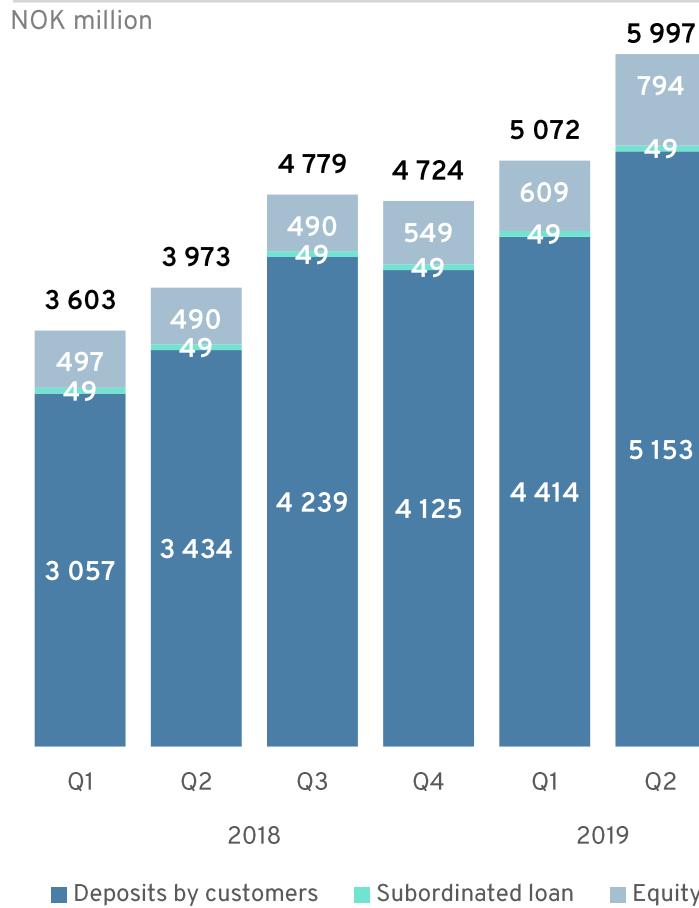
# Correlation between loan growth and loan losses in IFRS accounting

- Loan losses:
  - NGAAP is an incurred loss model
  - IFRS 9 is based on expected credit loss.
  - Substantial P&L effect since loan losses are recorded at an earlier stage.

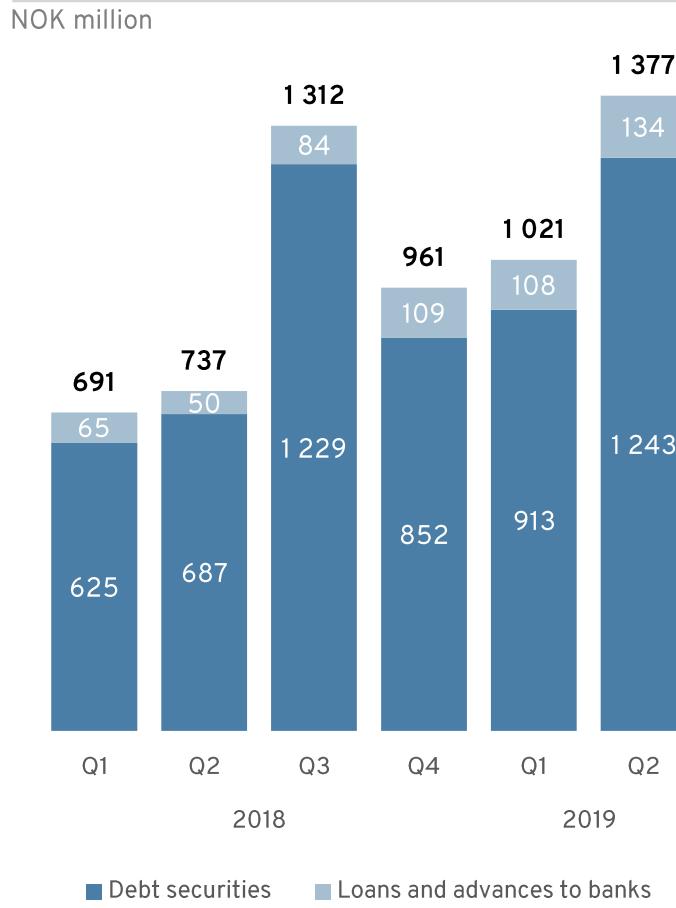


# Easy access to low cost funding

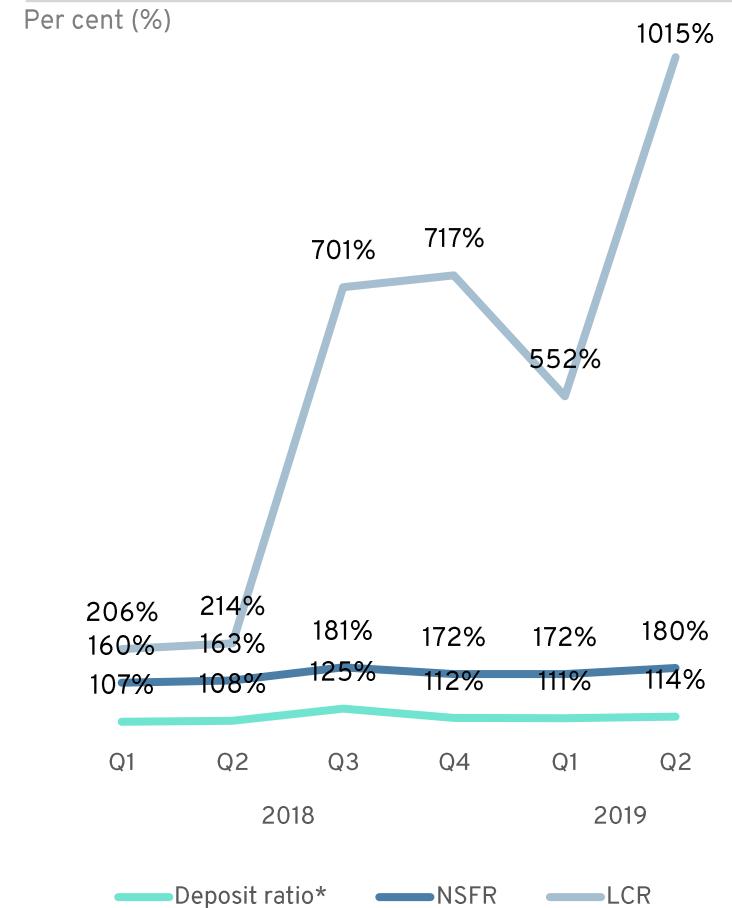
## Funding



## Liquidity



## Key ratios



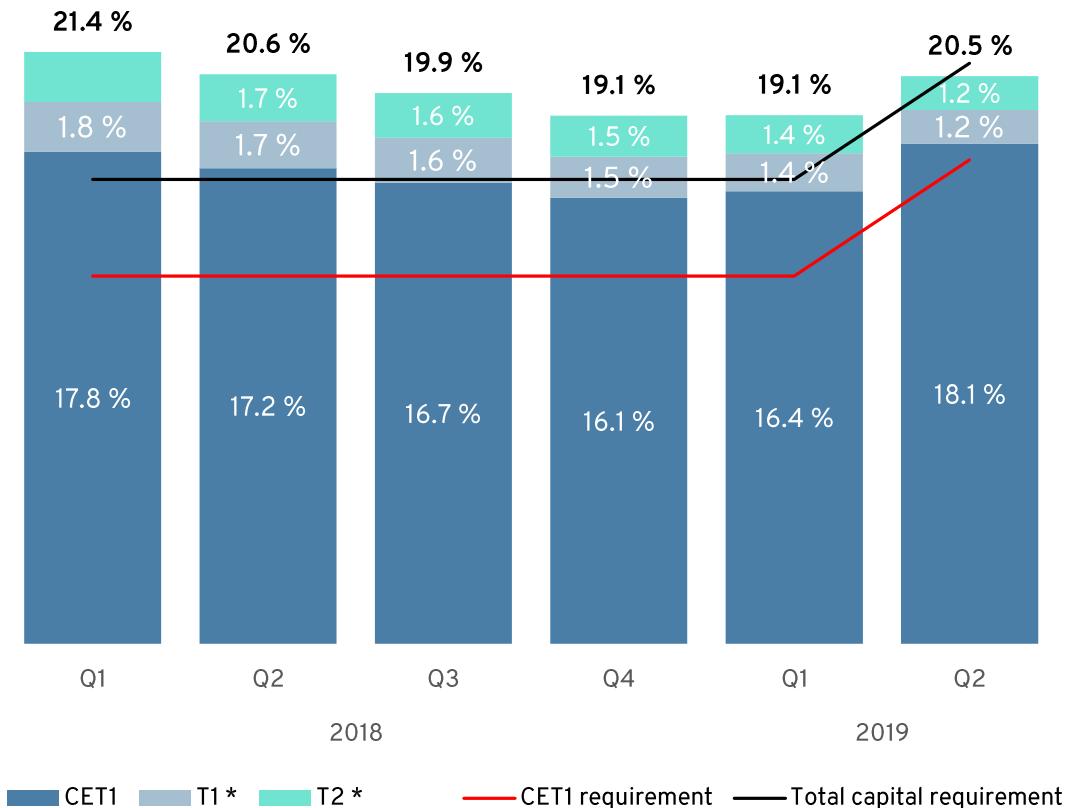
Note(\*): deposit ratio = deposits / net loans

# Regulatory capital structure

- Private placement of approximately NOK 37 million completed in early July
  - Capital ratio of 21.4 per cent after placement
  - Regulatory capital requirement 21.0 per cent
- Growth opportunity restrained by capital situation
- Potential measures under consideration
  - Balance sheet adjustments
  - Capitalisation
  - Cost structure

Reported capital adequacy\*

Per cent (%)





# Strategy and operations

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# Growth opportunity restrained by capital situation

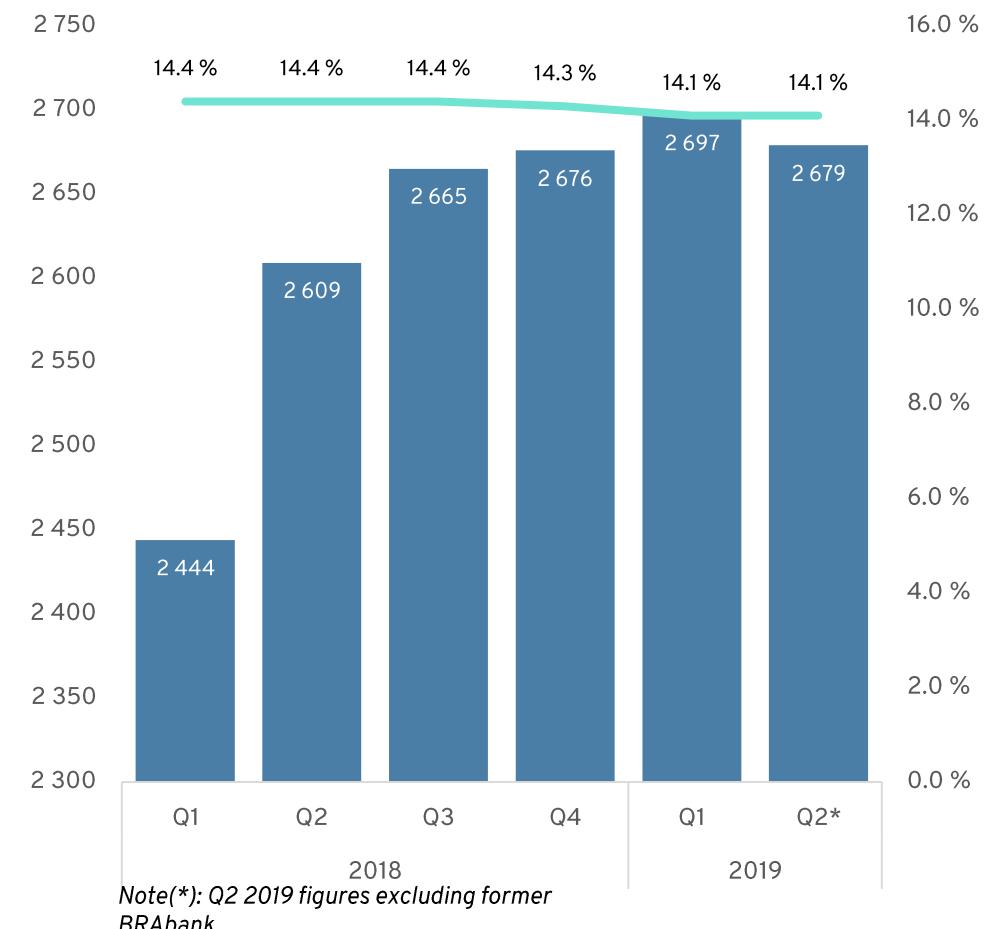
- Timing and level of growth will depend on balance sheet development and market conditions
  - The previous target of NOK 5bn in 2019 is therefore removed
- Focus on improving operations and efficiency
  - Securing successful integration process
  - Further improving credit models
- Compliant with regulations
  - Top priority for management



# Norway: Focus on compliance and regulations

- Reduced growth due to:
  - Stricter regulations than anticipated
    - Focus on being compliant
    - Fewer applicants qualify for a loan
  - Some agents still not compliant with new regulations
    - Applications are rejected
  - Introduction of debt register
    - Fewer applicants qualify for a loan
    - Reduced loan losses long term
- Further development of efficient credit routines in accordance with regulations

Norway: Gross loans and annualized loan yield



# Debt register in Norway launched in Q2 19

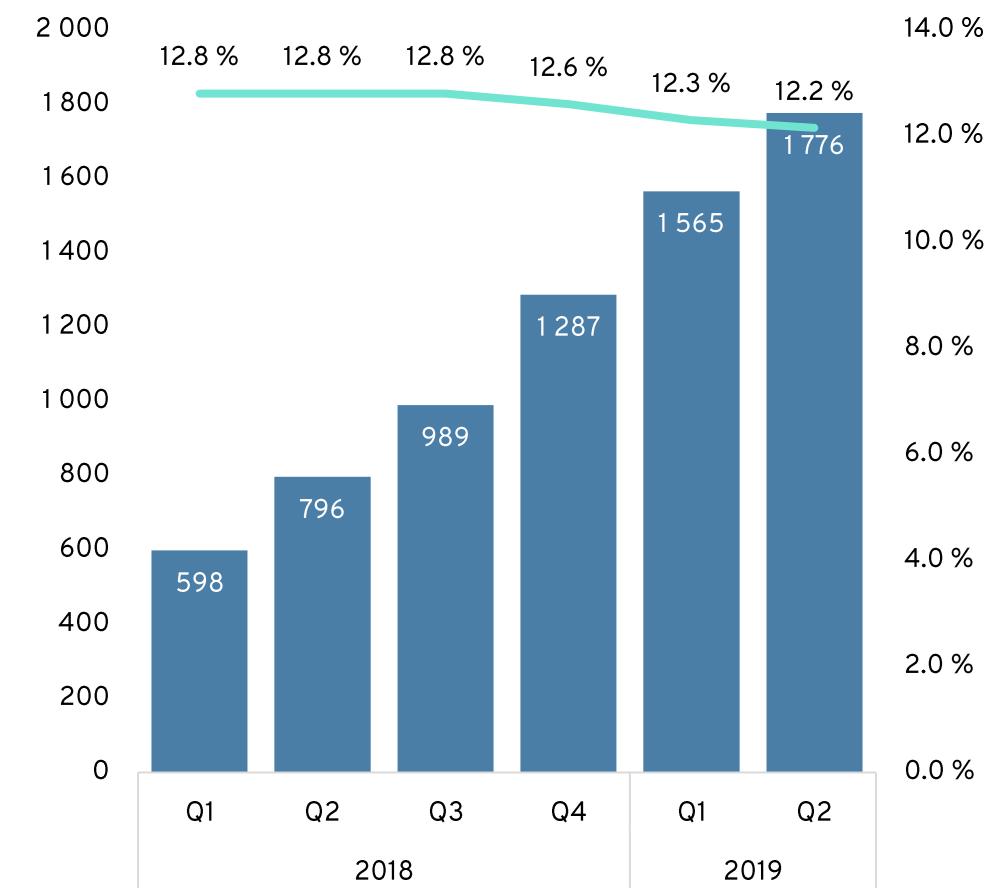


- Debt register data are typically strong predictors of credit risk
- BRAbank with solid experience using debt register data in Finland
- Expect long term positive effects on profitability
  - Improved risk selection for new underwritings
- Somewhat reduced approval rates as high risk customers are rejected
- Uncertain short term effect - depends on many factors
- Default rates may temporarily increase as high risk borrowers will find it increasingly difficult to refinance
- Otherwise limited effects on the existing loan book
- Can collect data on existing customer for scorecard development, however only a snapshot of current debt (as opposed to historical records) will be available

# Finland: Improved risk selection and solid market outlook

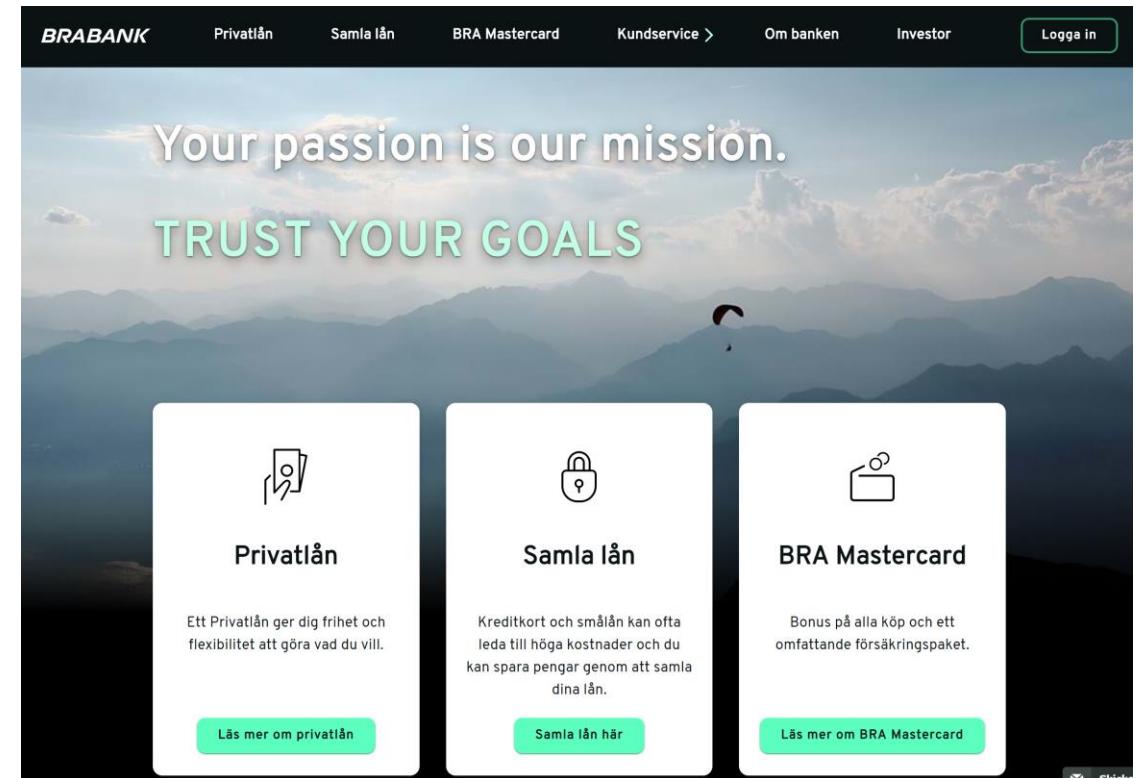
- BRAbank's own scorecard implemented
  - Risk reduction for new vintages expected
- Initial focus on developing own IT-systems pays off
- Focus on risk-adjusted margins
- Finland increasingly important going forward
- Interest cap 20 per cent in force from September 2019
  - No direct impact expected

Finland: Gross loans and annualized loan yield



# Sweden: Successful launch in exciting market

- BRAbank's consumer finance offering well received
  - Significant customer interest and inquiries
  - Competitive marked
  - Easy access to customer data and established debt register
- Same market approach as in Finland
  - Soft launch with few agents
  - Learning from customer data and adjust credit models accordingly
- Swedish market about twice the size of Finland and Norway



# Credit card expansion according to plan

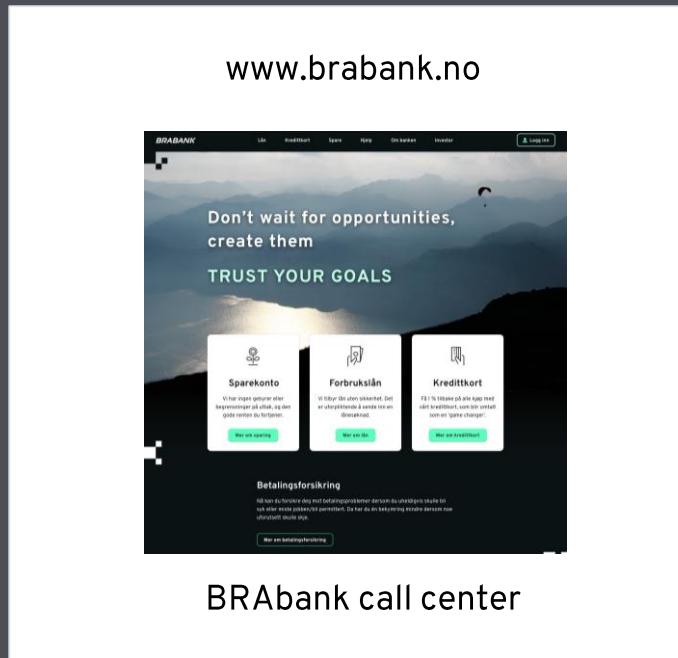
- Soon approaching 10 000 card issued
  - High customer satisfaction with average log-in to APP every 10 days
  - Positive response on Eurobonus-campaign
- Will continue to expand through
  - Innovative solutions
  - Strategic partnership agreements
  - Campaign testing



# Multichannel distribution

## - Ambition to increase own distribution

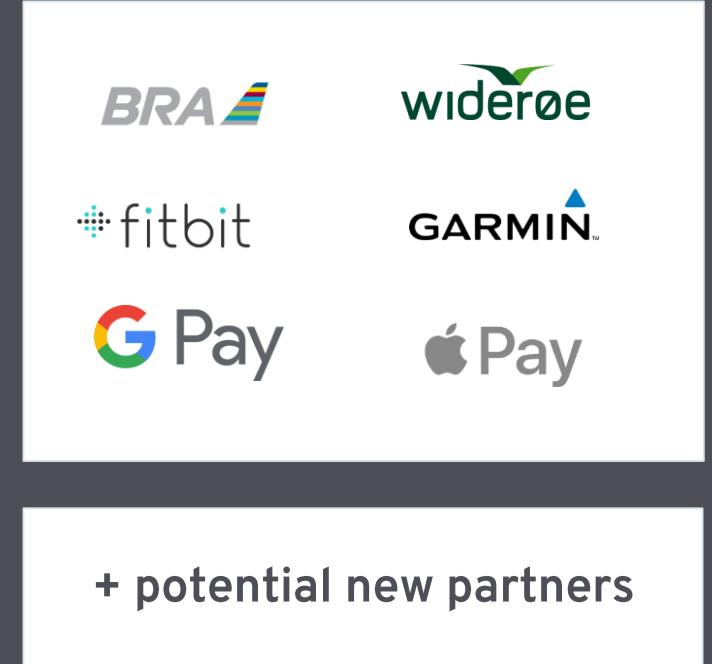
### BRAbank brand



### Third party agents



### Partners



# Integration process according to plan

- New BRAbank successfully launched
  - Branding
  - Distribution
  - IT-systems
- Strong efficient organisation established
  - Severance agreement signed with 8 employees
  - 3 employees resigned
  - 2 employees staying on
- Oslo office will be closed down in H2 19
- Total integration cost NOK 40-50 million
  - NOK 9 million booked in Q2 19
  - Rest will be booked in H2 19

## High level timeline of merger



# Our value proposition

- BRAbank aims to redefine bank services within consumer credit and saving for private individuals.

The bank shall differentiate on availability and dominate on customer experience in its market.

- Continue to develop innovative solutions to have most satisfied customers in the segment
- Ensure cost efficient operations with automated processes and optimized risk evaluation based on internally developed scoring- and pricing models
- Risk mitigation through loan growth, product diversification and geographical expansion

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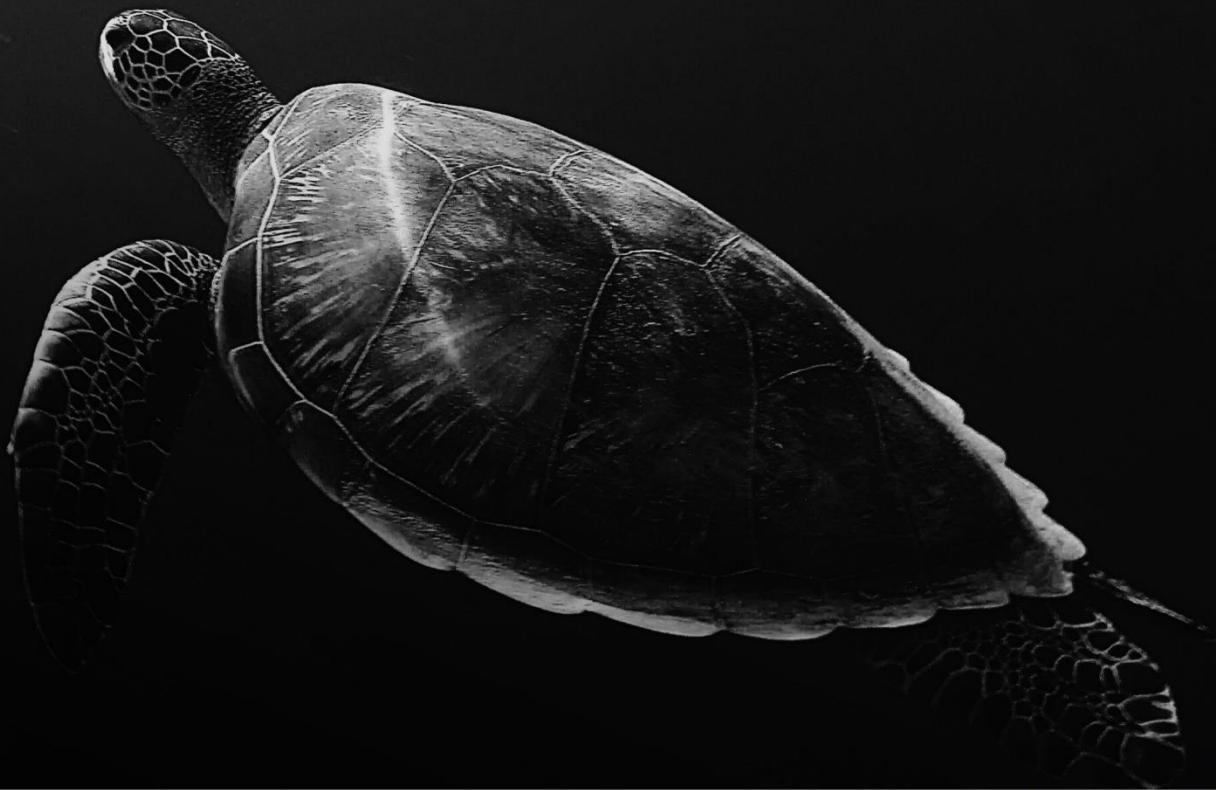
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# Appendix



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# Detailed financial figures

## Quarterly income figures and balance sheet\*

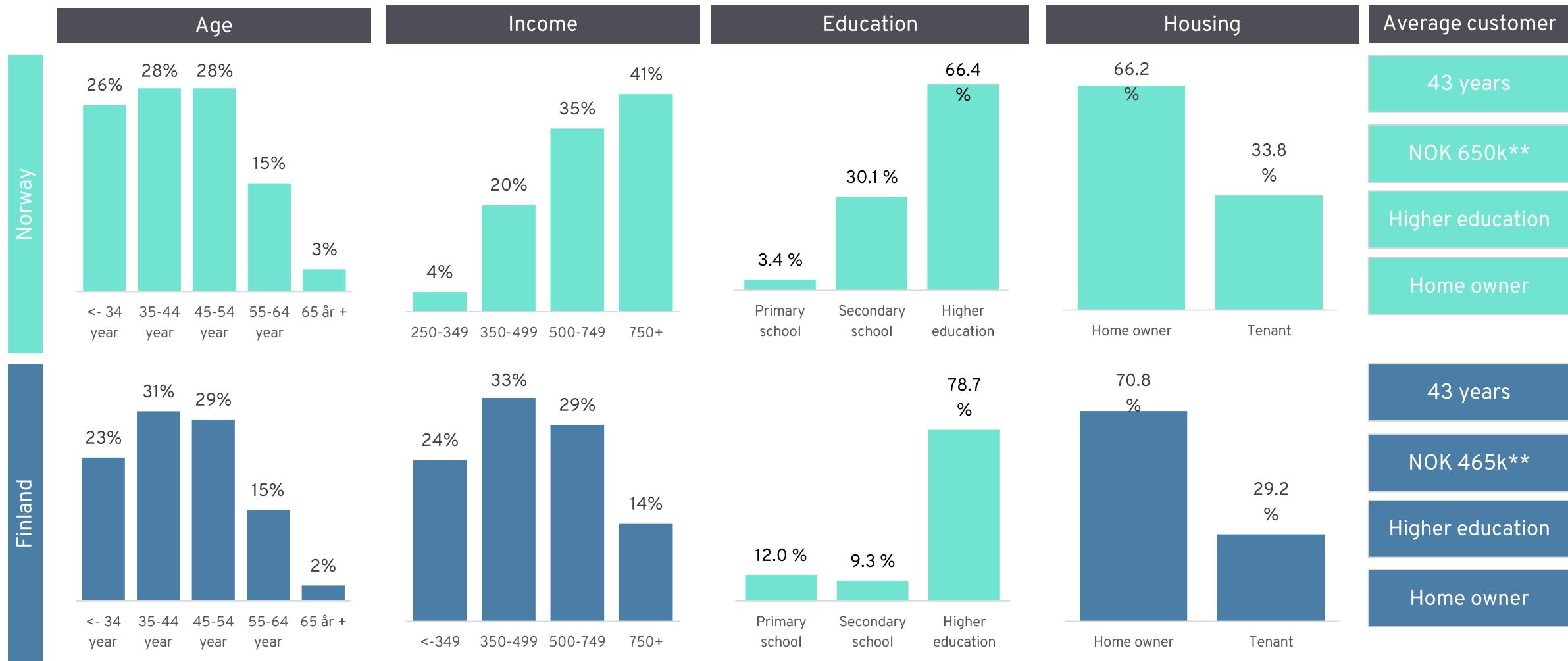
### Income statement

In NOK thousands	2019			2018	
	Q2	Q1	Q4	Q3	Q2
Interest income	106 199	97 852	94 385	88 265	84 647
Interest expenses	18 194	17 512	19 128	18 534	15 356
<b>Net interest income</b>	<b>88 005</b>	<b>80 340</b>	<b>75 257</b>	<b>69 730</b>	<b>69 291</b>
Income commissions and fees	7 172	7 676	6 255	6 975	6 255
Expenses commissions and fees	3 043	491	0	0	0
<b>Total income</b>	<b>92 134</b>	<b>87 526</b>	<b>81 512</b>	<b>76 705</b>	<b>75 546</b>
Income/(loss) from trading activities	-4 869	-3 103	3 530	-348	-1 182
Staff costs	20 820	11 413	11 354	10 602	12 675
Other administrative expenses	27 614	17 953	15 942	17 178	21 105
- <i>of which marketing expenses</i>	6 999	6 319	4 819	9 958	12 018
Depreciation and amortisation	36 078	5 593	4 519	3 122	2 931
Gain from purchase on favourable terms	12 414				
<b>Total operating costs</b>	<b>72 098</b>	<b>34 959</b>	<b>31 814</b>	<b>30 902</b>	<b>36 711</b>
<b>Profit/(loss) before impairment losses</b>	<b>15 167</b>	<b>49 463</b>	<b>53 228</b>	<b>45 455</b>	<b>37 653</b>
Impairment releases/(losses)	-40 374	-42 380	-47 176	-44 669	-45 705
<b>Operating profit/(loss) before tax</b>	<b>-25 207</b>	<b>7 083</b>	<b>6 052</b>	<b>786</b>	<b>-8 052</b>
Tax charge	6 302	-1 771	-1 513	-197	2 013
<b>Net profit</b>	<b>-18 905</b>	<b>5 312</b>	<b>4 539</b>	<b>590</b>	<b>-6 039</b>

### Balance sheet

In NOK thousands	2019			2018	
	Q2	Q1	Q4	Q3	Q2
<b>ASSETS</b>					
Loans and advances to banks				134 450	108 366
Debt securities				1 242 618	912 844
Loans and advances to customers				4 874 920	4 262 306
Provision for impairment losses				338 017	302 551
<b>Net loans and advances to customers</b>	<b>4 536 903</b>	<b>3 959 755</b>	<b>3 682 356</b>	<b>3 400 288</b>	<b>3 177 811</b>
Deferred tax asset				64 558	38 071
Other intangible assets				73 868	70 026
Property, plant and equipment				14 858	15 278
Financial derivatives				0	1 832
Prepayments accrued income and other assets				16 532	24 398
<b>Total assets</b>	<b>6 083 786</b>	<b>5 130 570</b>	<b>4 781 347</b>	<b>4 832 700</b>	<b>4 025 708</b>
<b>LIABILITIES &amp; EQUITY</b>					
Deposits by customers				5 153 296	4 413 713
Provisions, accruals and other liabilities				82 867	54 550
Financial derivatives				6	0
Subordinated loan				49 370	49 370
Tax payable				3 892	3 892
<b>Total liabilities</b>	<b>5 289 431</b>	<b>4 521 525</b>	<b>4 232 385</b>	<b>4 342 408</b>	<b>3 535 287</b>
<b>Equity</b>					
Share capital				447 393	304 467
Surplus capital				304 034	247 508
Tier 1 capital				49 454	49 454
Retained Earnings				-6 525	7 616
<b>Total equity</b>	<b>794 355</b>	<b>609 045</b>	<b>548 962</b>	<b>490 293</b>	<b>490 420</b>
<b>Total equity and liabilities</b>	<b>6 083 787</b>	<b>5 130 570</b>	<b>4 781 347</b>	<b>4 832 701</b>	<b>4 025 707</b>

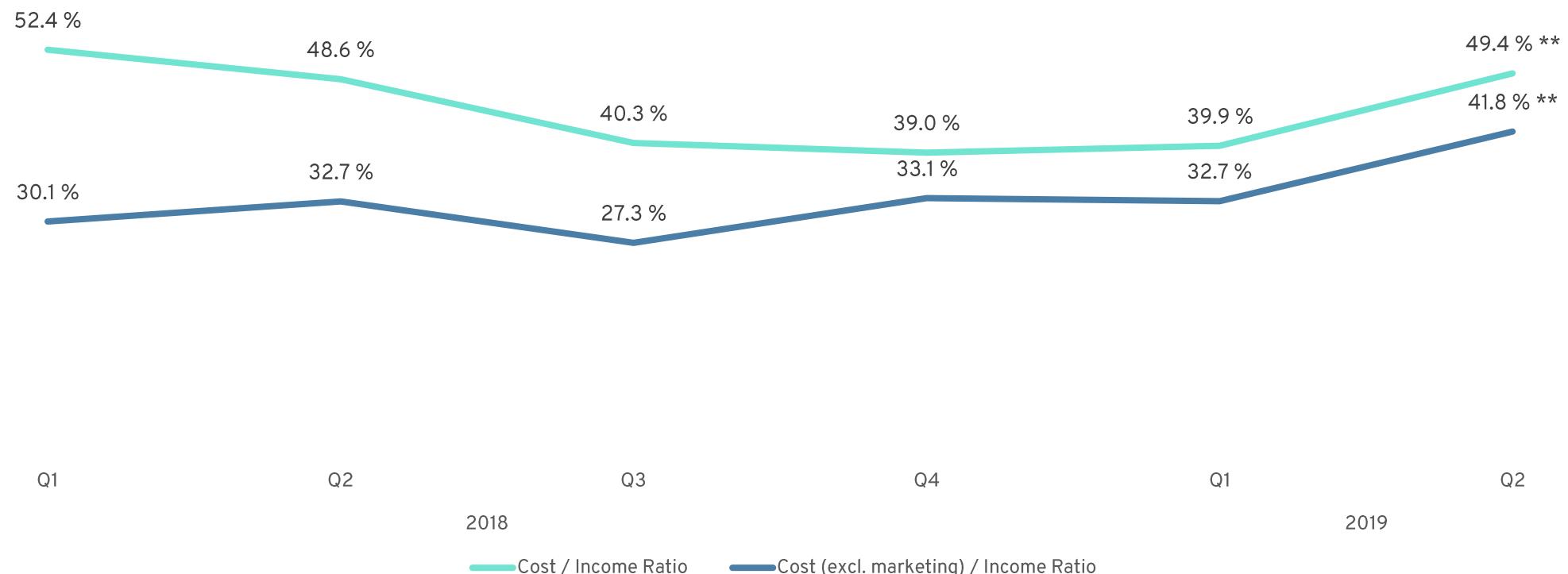
# Average customer well educated, mid-forties and high income\*



# Cost/income ratio\*

## Cost/income ratio\*

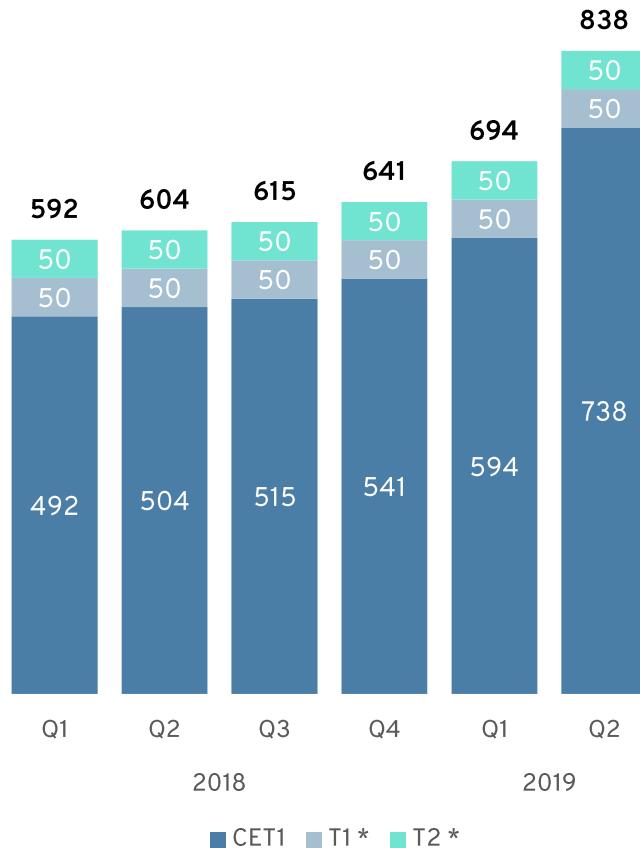
Per cent (%)



# Regulatory capital structure

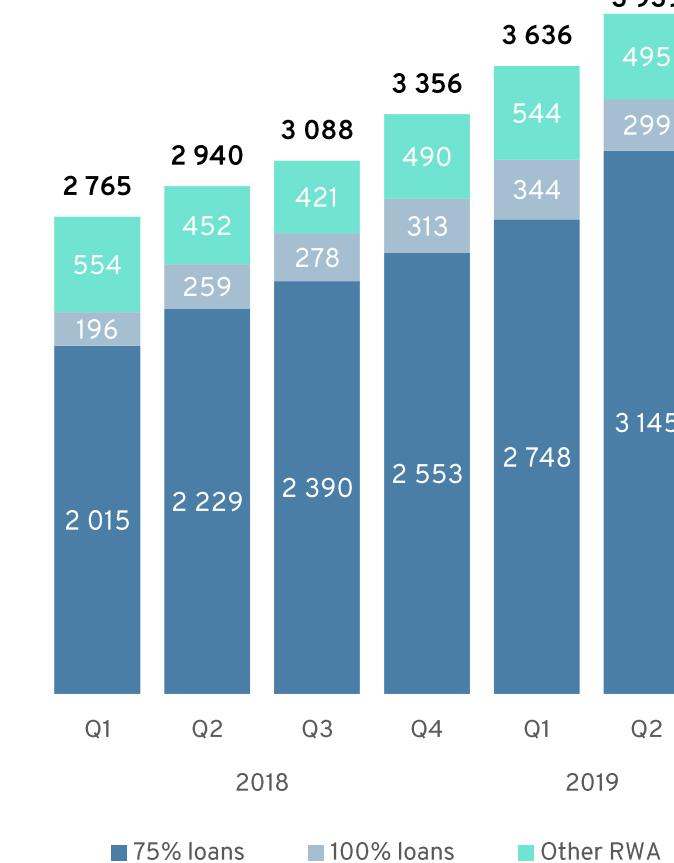
## Regulatory capital\*

NOK million



## Risk-weighted assets

NOK million



## Reported capital adequacy\*\*

Per cent (%)



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