Marginalen Bank

UNAUDITED FINANCIAL REPORT

Q3 2014

November 18th, 2014

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CEO Statement

Dear customers and investors,

The first nine months of 2014 have been very exciting and interesting for us at Marginalen Bank. To say the least, the Banking industry is really going through significant changes which impose daily challenges for us. However, times of changes also lead to interesting opportunities. We are continuing to establish Marginalen Bank as an attractive alternative to customers in the Swedish banking market by providing simple, transparent and high quality financial products and services. Each day, our more than 300 dedicated employees are serving our existing customers as well as welcoming new customers to our bank.

During the third quarter, my management team and myself spent time on raising capital base instruments in the Nordic and European bond markets for the purpose of strengthening the capital base in the bank. We are very happy with the outcome of the bond issues as we raised SEK 500 million of capital instruments and we are very well positioned for further growth. As the closing of the bond issues took place after the end of the third quarter, we are providing specific information later in this report.

The financial results are developing positively for Marginalen Bank. The net profit in Q3 2014 amounted to SEK 25,5 million and on a rolling 12 month basis, the net profit has increased to SEK 72,5 million, which represents an annualized return on equity of 10,0% in Q3 and 7,9% on a rolling 12 month basis.

Regardless of whether you are a customer of Marginalen Bank today, a potential customer or a bond investor, I hope you enjoy reading this report.

Stockholm, November 2014

Sincerely yours

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Fernando Miranda
CEO Marginalen Bank

Q3 Financial highlights

- Q3 2014 total operating income amounted to SEK 176,2 million (Q3 2013 138,3)
  - Operating profit amounted to SEK 32,7 million (31,6)
  - Credit losses amounted to SEK 40,3 million (18,0)
  - Net profit amounted to SEK 25,5 million (21,5)
- Total available liquidity amounted to SEK 4 547,3 million at the end of Q3 2014 (4 729,1)
- Lending to the public amounted to SEK 11 769,8 million at the end Q3 2014 (10 044,4)
- Total capital ratio amounted to 10,1% at the end of Q3 2014. In the first days of October 2014, Marginalen Bank completed a bond issue of SEK 300 million subordinated fixed rate resettable Tier 2 bonds and SEK 200 million of Perpetual non-cumulative resettable additional Tier 1 capital bonds. Marginalen Bank also received SEK 65 million of unconditional shareholders contribution in November 2014. Including these bond issues and the unconditional shareholders' contribution, the total capital ratio exceeded 15% based on September balances
  - Please see capital adequacy section further details

- Financial calendar: February 27th 2015, 2014 annual results publication
May 21st 2015, Q1 2015 results publication

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Q3 Financial results

- Q3 2014 net interest income increased by 35% compared to Q3 2013
  - Continued decrease of interest expenses combined with continued lending growth
- C/I ratio improved to 59% in the third quarter compared to 64% same quarter previous year
- Net credit losses increased in Q3 2014 driven by a one-time effect in August. This was driven by further development of credit provisioning models in the consumer finance business
- Net profit margin of 14% in third quarter
  - On a rolling 12 months basis, net profit margin has increased to 11% compared to 6% for the full year 2013
- Continued strengthening of Return on Equity

	3 months		12 months	
Profit and loss account[1]	**2014**	**2013**	**Rolling**	**Full year**
SEK million	**Jul-Sep**	**Jul-Sep**	**Oct-Sep**	**2013**
Interest income	204,6	188,2	807,1	740,6
Leasing income	20,0	13,2	63,2	48,2
Interest expense	(79,5)	(93,9)	(351,8)	(380,8)
Net interest income	**145,0**	**107,4**	**518,5**	**408,0**
Other income	31,2	30,9	131,5	148,1
Total operating income	**176,2**	**138,3**	**650,0**	**556,1**
Total operating expenses	(103,2)	(88,7)	(438,9)	(428,4)
Profit before credit losses	**73,0**	**49,6**	**211,1**	**127,7**
Net credit losses	(40,3)	(18,0)	(119,0)	(86,2)
Operating profit	**32,7**	**31,6**	**92,1**	**41,5**
Net profit	**25,5**	**21,5**	**72,3**	**30,7**
Other comprehensive income[2]	1,1	(1,6)	11,8	(4,2)
Total comprehensive income	**26,5**	**19,9**	**84,1**	**26,5**
Key drivers/statistics				
C/I-ratio	59%	64%	68%	77%
Operating margin	19%	23%	14%	7%
Net profit margin	14%	16%	11%	6%
Return on equity[3]	10,0%	10,8%	7,9%	3,8%
Interest coverage ratio[4]	1,4	1,3	1,3	1,1

1. Since January 2014, loan brokerage costs are accounted for against interest revenues and capitalised in the balances within lending to the public. In 2013 and in prior years, the costs were accounted for as commission costs and the balances were accounted for as prepaid costs and accrued expenses. For the purpose of achieving comparability between the years, 2013 has been restated in order to reflect the 2014 methodology
2. Net of taxes
3. Net profit in the period divided by average equity in the period
4. Operating profit and interest expenses divided by interest expenses

Balance sheet

- Total assets grew by 9% since Q3 2013
  - Loans to the public has grown by 17% since Q3 2013. Growth is primarily driven by continued growth of the unsecured consumer lending portfolio and the leasing portfolio
- Total available liquidity is still at a sizeable level of SEK 4 547,3 million compared to SEK 4 729,1 million at the end Q3 2013
- Public deposits have grown by 10% since Q3 2013. Continued diversification in deposit base with growth in salary accounts and fixed interest rate deposit products
  - During the year, we have launched a 7-year fixed interest rate deposit product

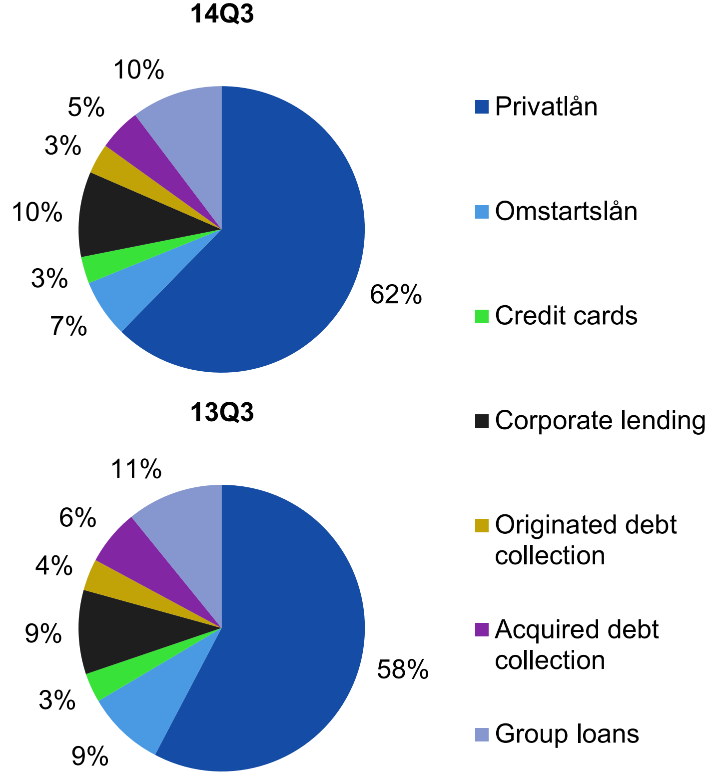
Balance sheet[1] **SEK million**	**Sep-14**	**Sep-13**	**Dec-13**
Loans to credit institutions	769,6	535,7	575,7
Loans to the public	11 769,8	10 044,4	10 446,0
Interest bearing securities	3 777,7	4 193,4	4 010,0
Other assets	88,2	233,1	230,8
Prepaid expenses and a/e[2]	95,3	113,1	107,0
Total assets	**16 500,6**	**15 119,7**	**15 369,5**
Public deposits	14 993,5	13 628,0	14 015,3
Other liabilities	81,8	135,7	200,5
Accrued expenses and p/i[3]	311,6	316,9	94,5
Provisions	30,5	39,6	39,1
Subordinated liabilities	50,0	191,0	191,0
Total liabilities	**15 467,5**	**14 311,2**	**14 540,4**
Total equity	**1 033,2**	**808,5**	**829,1**
Total liabilities and equity	**16 500,6**	**15 119,7**	**15 369,5**
Key ratios			
Return on assets, %[4]	0,63%	0,58%	0,22%
Equity ratio, %	6,26%	5,35%	6,64%

1. Since January 2014, loan brokerage costs are accounted for against interest revenues and capitalised in the balances within lending to the public. In 2013 and in prior years, the costs were accounted for as commission costs and the balances were accounted for as prepaid costs and accrued expenses. For the purpose of achieving comparability between the years, 2013 has been restated in order to reflect the 2014 methodology
2. Prepaid expenses and accrued expenses
3. Accrued expenses and prepaid income
4. Net profit in the period divided by average total assets in the period

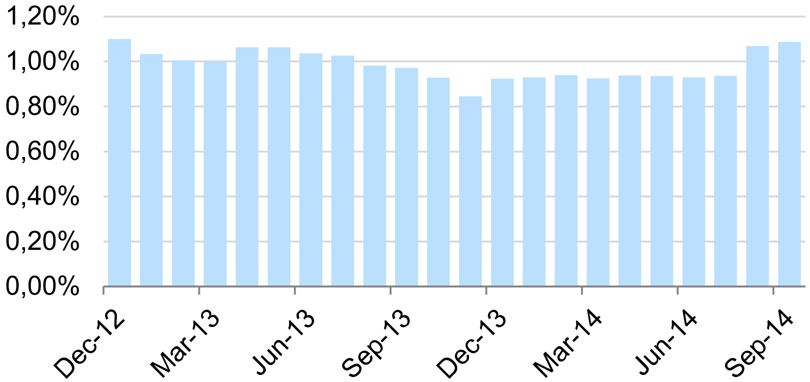
Asset quality

- The unsecured consumer lending portfolio has grown by 28% since Q3 2013, accounting for 62% of total lending portfolio as of Q3 2014
- Corporate lending continued to grow, primarily driven by growth of the leasing portfolio, constituting the majority of the corporate lending
- Acquired NPL portfolios managed within Marginalen Core decreased by 10% since Q3 2013 on the back of lower acquisition activity

Lending portfolio – product break-down



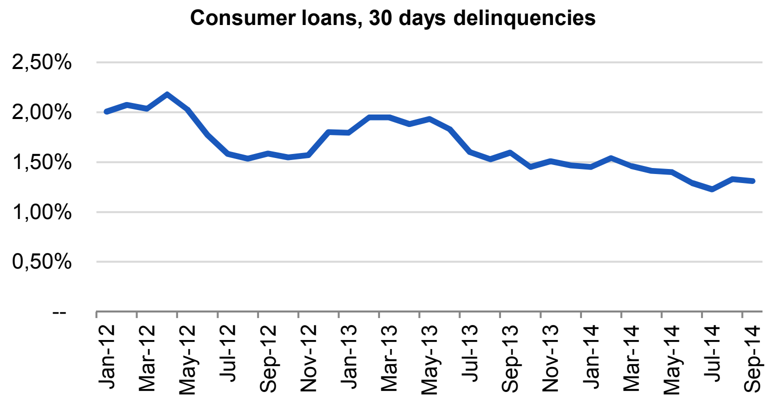
Development of credit risk reserves[1]

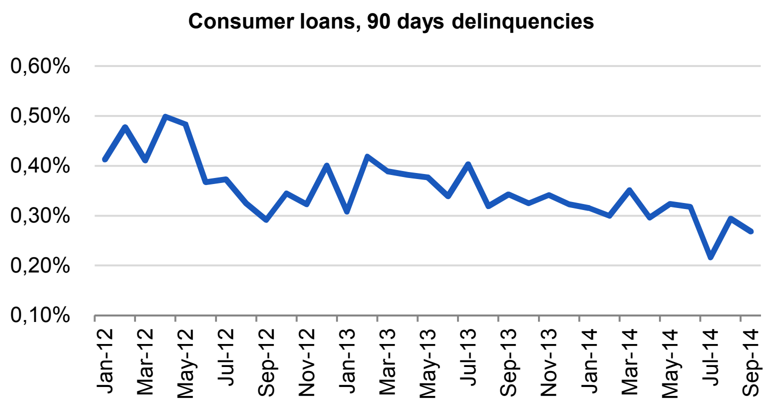


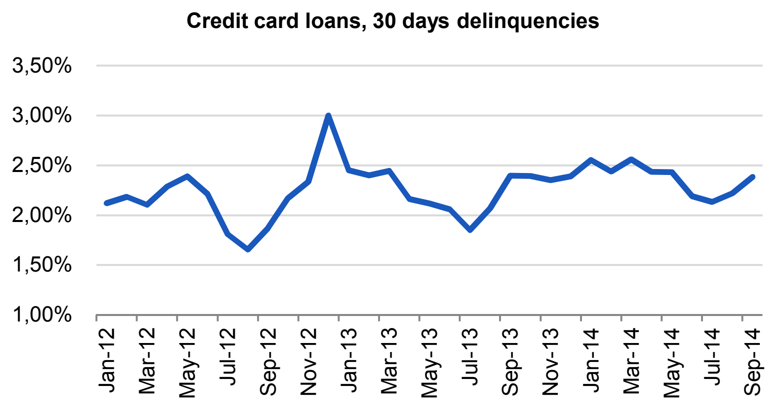
1. Credit risk reserves is defined as net credit losses divided by the average lending during a rolling twelve month period.

Consumer credit – Delinquency trends

- Portfolio quality is improving constantly as we are targeting profitable low risk segments
- As expected, Q3 shows improved numbers, partly explained by customers' tax refunds
- Consumer unsecured loans delinquencies have continuously improved over the last 20 months
- Stable delinquency levels for credit cards





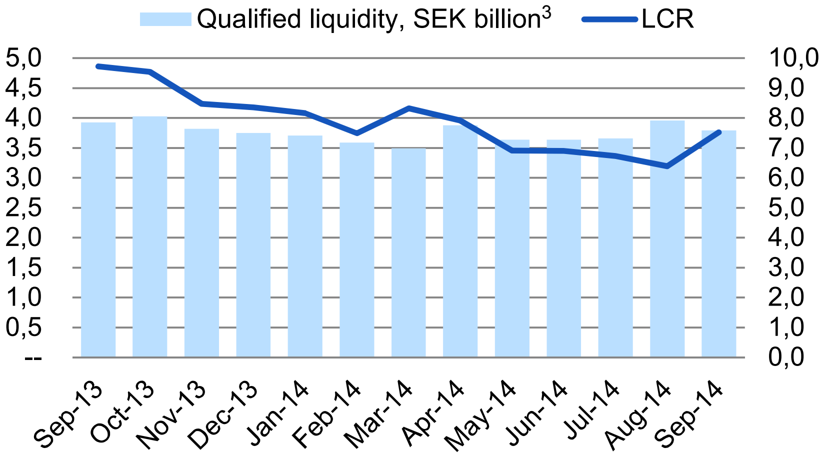


Note: 30 days delinquencies refer to 30 – 60 days delinquencies and 90 days delinquencies refer to 90 – 120 delinquencies

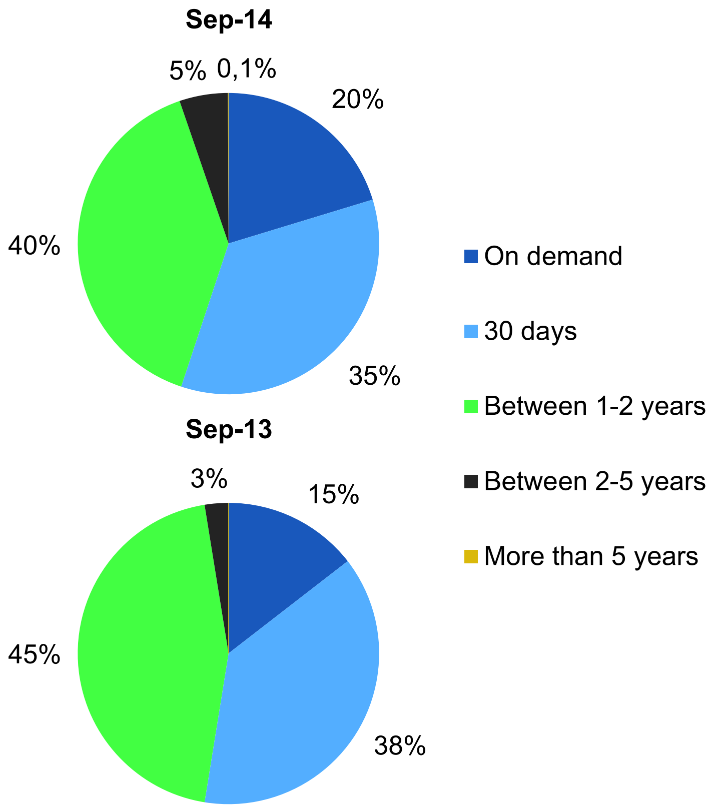
Treasury and funding

- Maintaining a sizeable liquidity portfolio with SEK 3,8 billion of qualified liquidity, resulting in an LCR ratio of 7,5 according to the Swedish FSA's reporting standard[1]
  - As of Sep 2014, the LCR was 1,75 according to the European Banking Authority's reporting standard COREP[2]
- Targeted growth of salary accounts have altered deposit composition slightly during the year. 45% placed in products with maturities exceeding 12 months and 35% on 1 month maturity

Qualified liquidity and LCR



Retail deposit portfolio – maturity break-down



1. Guiding limit of 1,0
2. Quantitative requirement of 0,6 as of October 2015
3. Qualified liquidity and LCR according to Swedish FSA's reporting statutes FFFS 2011:37

Capital adequacy

- By the end of Q3 2014, the capital base amounted to SEK 1 004,8 million
  - In October, Marginalen Bank closed two bond issues of SEK 200 million AT1 bonds and SEK 300 million T2 bonds. Further, in early November, Marginalen Bank received SEK 65 million of unconditional shareholders' contribution (see next slide for details)
- RWEA growth of 1% during the quarter and 16% since Q3 2013
- Total capital ratio of 10,1% at the end of Q3 2014. On a proforma basis including bond issues and unconditional shareholders' contribution executed during Q4 2014, the total capital ratios will exceed 15% based on Q3 2014 balances

Capital adequacy summary

SEK million	Sep-14	Sep-13	Dec-13
Equity	**1 033,2**	**808,5**	**829,1**
Adjustments	(78,4)	(66,7)	(62,9)
CET1	954,8	741,8	766,2
AT1	--	141,0	141,0
T2	50,0	50,0	50,0
Capital base	**1 004,8**	**932,8**	**957,2**
Total assets	16 500,6	15 119,2	15 368,4
RWEA	9 986,7	8 641,2	9 096,2
Credit risk	8 944,9	7 627,6	8 044,8
Market risk	34,3	--	43,9
Operational risk	1 007,5	1 013,6	1 007,5
Capital ratios			
CET1 ratio	9,6%	8,6%	8,4%
Tier 1 ratio	9,6%	10,2%	10,0%
Total capital ratio	10,1%	10,8%	10,5%

Capital adequacy (cont.)

- Post closing of Q3 2014, the capital base has been strengthened by the following items (all comparisons on a September proforma basis);
  - SEK 65 million of unconditional shareholders' contribution. Strengthening the CET1 ratio by 64 bps
  - SEK 200 million AT1 bond issue, strengthening the Tier 1 ratio by 188 bps
  - SEK 300 million T2 bond issue, strengthening the total capital ratio by 286 bps
- On a September proforma basis, the capital base amounts to SEK 1 570 million, resulting in a total capital ratio well above 15%

Strengthening of capital base – October/November 2014, SEK million