

Marginalen Bank

UNAUDITED FINANCIAL REPORT

Q3 2015

October 22nd, 2015

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CEO Statement

Dear customers and investors,

My name is Sarah Bucknell and on October 8th 2015, I assumed the position as CEO of Marginalen Bank. I have a background in the financial industry, most recently from Swedish mortgage institute SBAB and prior to that, from the listed brokerage and asset management firm Nordnet Bank. I am intrigued by the opportunity to join Marginalen Bank and I look forward to sharing this journey with you, our customers and our investors. My first days have been spent meeting the employees of the bank. I am really glad to see the energy, the knowledge and the passion that the employees of this bank possess. Together, we will ensure further development in the coming years, always with a clear focus towards the customer and towards our financial stability.

In conjunction with my arrival at Marginalen Bank, Acting CEO Bertil Johanson reassumes his position as Chairman of the Board and Hans Lingqvist returns as member of the Board, leaving his position as Chairman of the Board, which he assumed during Q2 2015.

I will continue by commenting on certain events, dating back to 2011, which have been formally closed during the third quarter 2015. The Supreme Administrative Court decided, on September 30, 2015, not to grant Marginalen Bank leave to appeal with respect to the Administrative Court of Appeal's judgement of a SEK 20 million fine which followed the Swedish Financial Supervisory Authority's decision in November 2011. The decision of the Supreme Administrative Court results in an additional charge of SEK 20 million, accounted for as operational expenses, during Q3 2015. Simultaneously, the bank received a shareholders' contribution from the group parent company ESCO Marginalen AB, based on a commitment that was made in relation to the original decision from the Swedish Financial Supervisory Authority in 2011. Hence, the transactions above are equity neutral for the bank and have no net impact on the financial position. Further, the decision from the Supreme Administrative Court has no impact on our working routines as we already adjusted our routines in 2011 in order to comply with the decision from the Swedish Financial Supervisory Authority. By these events, this case is formally closed.

Analyzing the earnings for the quarter, adjusted for the extraordinary charge mentioned above, we improve our total comprehensive income by 72,3% to SEK 45,9 million. We consider the adjusted result of SEK 45,9 million to be very strong and we deliver on our focused strategy of improved profitability. It is satisfactory to see that expenses on an adjusted basis continue to decrease and our credit quality and financial position remains firm.

Stockholm, October 2015

Sarah Bucknell
CEO, Marginalen Bank

Financial highlights

- In Q3 2015, total comprehensive income amounted to SEK 25,9 million (26,7), representing a decrease by 2,8% or SEK 0,7 million compared to Q3 2014. Adjusted for extraordinary charge¹ of SEK 20,0 million in Q3 2015, total comprehensive income increased by 72,3% and amounted to SEK 45,9 million
 - Operating income amounted to SEK 214,7 million (168,7) and operating expenses amounted to SEK 118,0 million (103,1)
 - Adjusted for the extraordinary charge, operating expenses amounted to SEK 98,0 million (103,1), thereby decreasing by 4,9% or SEK 5,1 million
 - Net credit losses amounted to SEK 32,9 million (40,3)
- At the end of Q3 2015, total assets amounted to SEK 17 524,3 million compared to SEK 17 174,2 million as of Q4 2014, representing a growth of 2,0%
 - Lending to the public amounted to SEK 13 112,6 million compared to 11 922,0 as of Q4 2014
 - Total liquidity amounted to SEK 4 165,3 million compared to 5 058,5 as of Q4 2014
- Total equity amounted to SEK 1 197,9 million at the end of Q3 compared to SEK 1 109,5 million Q4 2014, representing a growth of 8% or SEK 88,5 million
- Total capital base amounted to SEK 1 753,4 million at the end of Q3 compared to SEK 1 551,4 million as of Q4 2014, representing a growth of 13,0% or SEK 201,9 million
 - Total capital ratio amounted to 16,0% at the end of Q3 2015 compared to 15,3% as of Q4 2014 and CET1 ratio amounted to 10,2% compared to 10,0% as of Q4 2014

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1. Relates to the decision from the Supreme Administrative Court and the transaction has no net effect on equity in Marginalen Bank. The transaction is described in the CEO statement of this report

Financial results

- In Q3 2015, net interest income grew by 14% compared to Q3 2014
 - Interest expenses amounted to SEK 60,0 million (79,5)
- Underlying positive trend on C/I-ratio is confirmed in Q3 2015. We exited several positions in our liquidity portfolio during the quarter, realizing negative result against other comprehensive income and positive result against other income. In addition expenses are negatively impacted by extraordinary charges
 - Reported C/I-ratio amounts to 55,0%, representing a continuation of an improving trend
- Credit losses developed favorably and decreased to SEK 32,9 million (40,3) during Q3 2015
- Total comprehensive income decreased by 2,8% or SEK 0,7 million to SEK 25,9 million (26,7). Adjusted for SEK 20,0 million extraordinary charge, total comprehensive income amounted to SEK 45,9 million, representing an increase of 72,3%

Profit and loss account SEK million	3 months			12 months	
	2015	2015	2014	Okt 2014- Sep 2015	Okt 2013 - Sep 2014
	Jul-Sep	Apr-Jun	Jul-Sep		
Interest income	202,9	192,5	197,1	786,7	797,3
Leasing income	13,7	14,3	20,0	59,6	63,2
Interest expense	(60,0)	(66,2)	(79,5)	(285,1)	(351,8)
Net interest income	156,5	140,6	137,5	561,2	508,6
Other income	58,1	47,1	31,2	157,4	119,9
Total operating income	214,7	187,7	168,7	718,6	628,5
Total operating expenses	(118,0)	(115,6)	(103,1)	(467,6)	(438,9)
Profit before credit losses	96,7	72,1	65,6	251,1	189,6
Net credit losses	(32,9)	(19,7)	(40,3)	(107,8)	(119,0)
Operating profit	63,8	52,4	25,2	143,3	70,6
Net profit (net of tax)	45,3	40,8	19,6	107,0	55,5
Other comprehensive income ¹ (net of tax)	(19,4)	(10,3)	7,0	(27,2)	28,7
Total comprehensive income (net of tax)	25,9	30,4	26,7	79,8	84,1

Key drivers/statistics

C/I-ratio	55,0%	61,6%	61,1%	65,1%	69,8%
Operating margin	29,7%	27,9%	15,0%	19,9%	11,2%
Net profit margin	21,1%	21,7%	11,6%	14,9%	8,8%
Return on equity ²	15,4%	14,6%	8,3%	9,6%	6,0%
Interest coverage ratio ³	2,1	1,8	1,3	1,5	1,2

1. For the full year 2014, interest income from a limited number of bonds in the liquidity portfolio which were acquired at a premium have been subject to re-classification from other comprehensive income to interest income. The pre-tax re-classified amount amounts to approx. SEK 4 - 7 million by quarter 2014, or approx. 2% of interest income each quarter. The re-classification does not impact the total comprehensive income and has no impact on the equity. The full year 2014 figures reflects the full re-classification

2. Annualized net profit for the period, divided by average equity in the period

3. Operating profit and interest expenses divided by interest expenses

Balance sheet

- Total assets increased by 1,6% during the third quarter
 - Loans to the public grew by 1,6%
 - Interest bearing securities amounted to SEK 3 372,7 million compared to SEK 2 788,6 million at the end of Q2 and loans to credit institutions decreased to SEK 792,6 million compared to SEK 1 380,0 million at the end of Q2
 - Total liquidity amounted to SEK 4 165,3 million compared to SEK 4 168,6 million at the end of Q2 2015
- Public deposits increased by 0,2% compared to Q2
- Subordinated liabilities increased during 2015 driven by SEK 100 million tap-issue of AT1 bonds, executed during Q1 2015
- Marginalen Bank received SEK 20,0 million of shareholders contribution in Q3 2015, compensating for extraordinary charges⁴

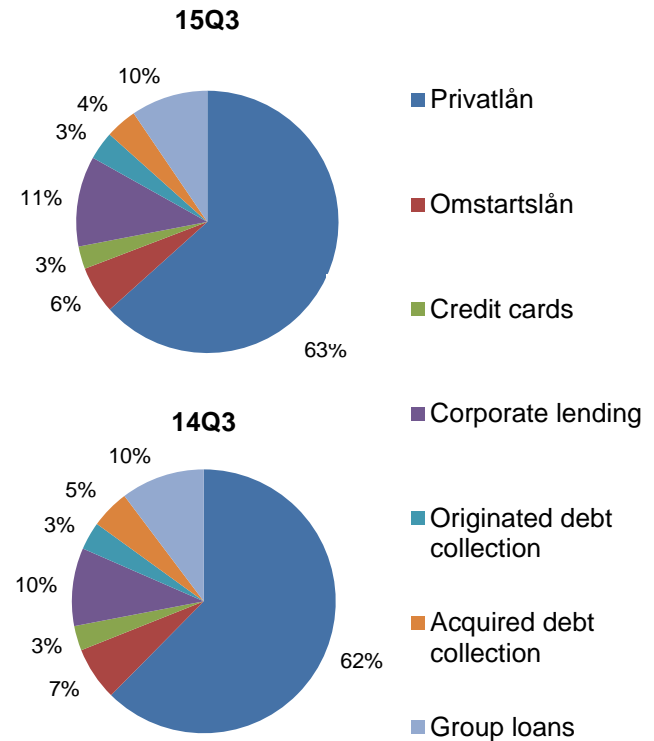
Balance sheet			
SEK million	Sep-15	Jun-15	Dec-14
Loans to credit institutions	792,6	1 380,0	950,3
Loans to the public	13 112,6	12 901,9	11 922,0
Interest bearing securities	3 372,7	2 788,6	4 108,2
Other assets	137,0	93,9	110,8
Prepaid expenses and a/i ¹	109,2	76,3	83,0
Total assets	17 524,3	17 240,6	17 174,2
Public deposits	15 160,7	15 134,5	15 206,3
Other liabilities	237,3	69,3	164,2
Accrued expenses and p/i ²	269,5	220,0	121,3
Provisions	21,4	28,1	34,9
Subordinated liabilities	637,4	636,7	538,0
Total liabilities	16 326,3	16 088,6	16 064,8
Total equity	1 197,9	1 152,0	1 109,5
Total liabilities & equity	17 524,3	17 240,6	17 174,2
Key ratios			
Return on assets, % ³	1,0%	0,9%	0,3%
Equity ratio, %	6,8%	6,7%	6,5%

1. Prepaid expenses and accrued income
2. Accrued expenses and prepaid income
3. Annualize net profit for the period, divided by average total assets in the period
4. As described in CEO statement in this report

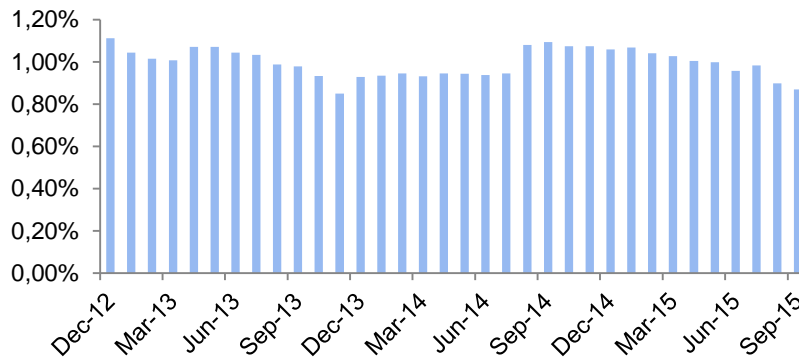
Asset quality

- Continued lending growth in Q3 2015 although at somewhat slower pace
 - Total lending portfolio growth of 1,6% during Q3 2015
 - The Privatlån portfolio has grown by 1,7% during Q3 2015
- No significant changes in asset composition during last twelve months
 - Acquired debt collection decreased to 4% (5%) of lending as acquisition activity of non-performing loan portfolios remains at low level
- Favorable development of credit risk reserves across all assets

Lending portfolio – product break-down



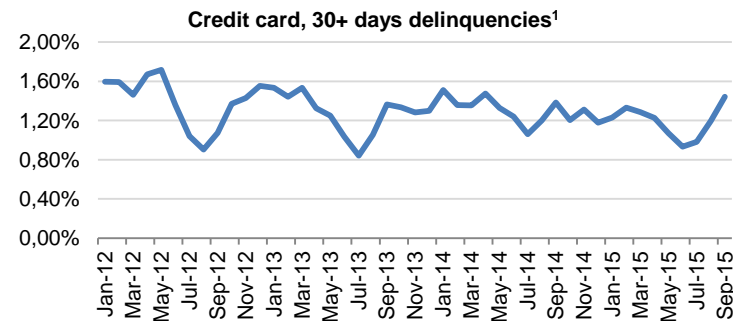
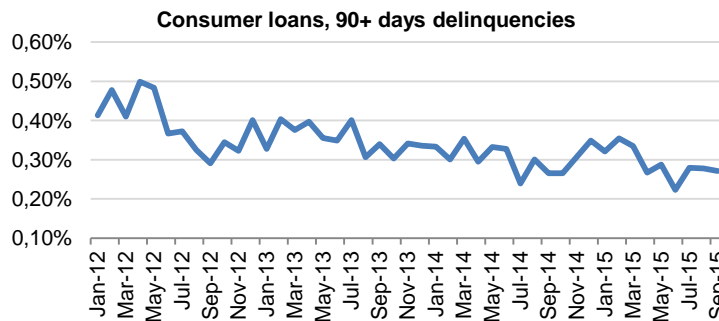
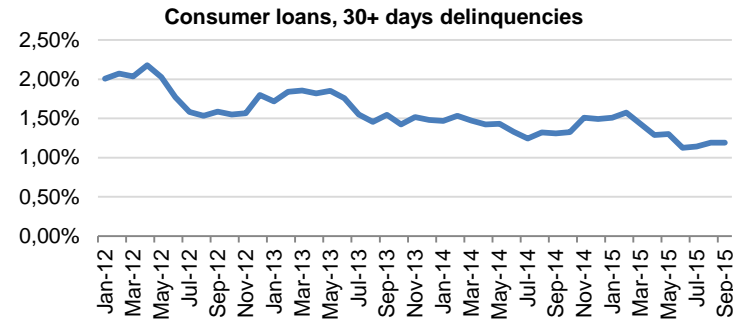
Development of credit risk reserves¹



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

Consumer credit – Delinquency trends

- Continued improvement in portfolio credit quality
- Slightly increasing delinquencies in the quarter as expected due to seasonality
 - Rolling averages are still decreasing as autumn-winter normally shows higher delinquencies
- Somewhat clearer trend on credit cards, the seasonal variance for cards is normally higher than for other consumer credits



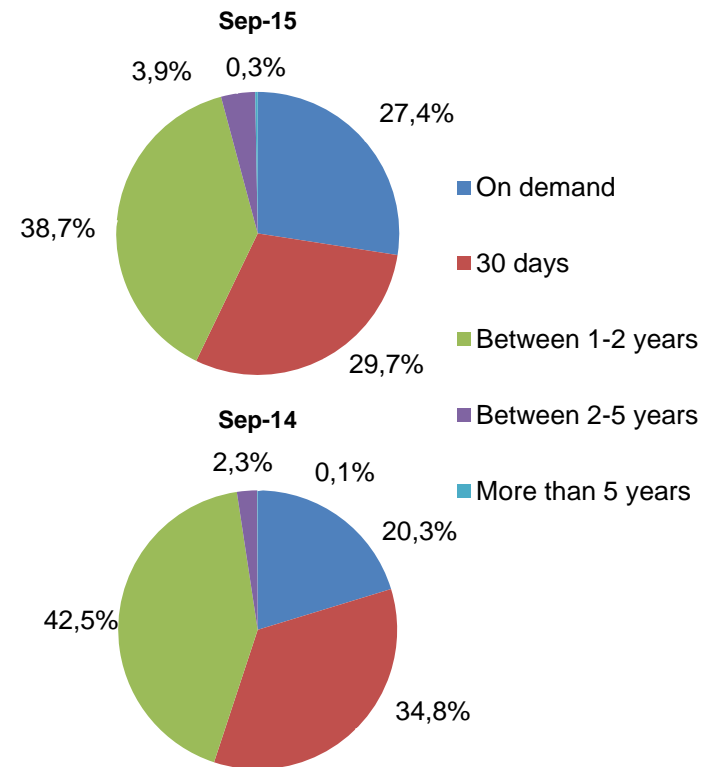
Note: 30 days delinquencies refer to 30 – 60 days delinquencies and 90 days delinquencies refer to 90 – 120 delinquencies

1. In Q4 2014 the bank wrote-off a limited number of old claims in the credit card portfolio. The financial impact was not significant. Hence, the "Credit card loans, 30+ days delinquencies" graph has been re-stated in order to reflect the current portfolio

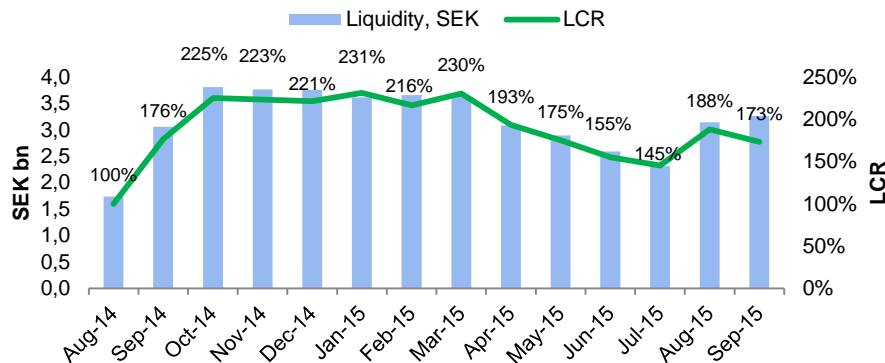
Treasury and funding

- As of September 2015, the LCR amounted to 173% according to the European Banking Authority's reporting standard COREP¹
- During August and September Marginalen re-allocated the liquidity portfolio by selling covered bonds, bonds issued by municipalities and reducing the holdings of cash in bank accounts and purchasing government bonds
- Government bonds and bonds issued by municipalities currently account for the majority of the liquidity portfolio

Retail deposit portfolio – maturity break-down²



Qualified liquidity and LCR



1. Quantitative requirement of 60% as of October 2015
 2. Refers to original specific terms for each product respectively (Sw: Räntebindingstid)

Capital adequacy

- By the end of Q3 2015, the capital base amounted to SEK 1 753,4 million, compared to SEK 1 670,5 million at the end of Q2 2015
- Total capital ratio amounted to 16,0% at the end of Q3 2015 compared to 15,2% by Q2 2015
 - CET1 ratio amounted to 10,2% (9,4%) and Tier 1 ratio amounted to 12,9% (12,1%)
- The equity base was strengthened by SEK 20,0 million shareholders contribution during Q3 in order to compensate for extraordinary charge²

Capital adequacy summary

SEK million	Sep-15	Jun-15	Dec-14
Equity¹	1 182,9	1 101,9	1 109,5
Adjustments	(66,9)	(68,1)	(96,1)
CET1	1 116,0	1 033,8	1 013,4
AT1	293,2	292,9	194,9
T2	344,2	343,8	343,1
Capital base	1 753,4	1 670,5	1 551,4
Total assets	17 524,3	17 240,6	17 174,1
REA	10 927,9	10 997,5	10 142,0
Credit risk	9 865,9	9 935,6	9 048,1
Market risk	--	--	32,1
Operational risk	1 061,9	1 061,9	1 061,9
CVA Risk	0,1	--	0,0
Capital ratios			
CET1 ratio	10,2%	9,4%	10,0%
Tier 1 ratio	12,9%	12,1%	11,9%
Total capital ratio	16,0%	15,2%	15,3%

1. Equity includes audited result up to and including August 2015. Unaudited profit during 2015 has been deducted from equity in the calculation of the capital base
 2. As described in CEO statement in this report