Kredinor

Kredinor Finans

Quarterly Report 2023

Kredinor.no

Q4

About Kredinor Finans

01

Report of 4th quarter 2023

Kredinor Finans AS is a subsidiary of Kredinor AS. The company's activities include portfolio purchases and portfolio management. The company buys debt collection services in Norway, from the debt collection and parent company Kredinor AS.

Development in results and position

For Kredinor Finans AS, the revenues were NOK 164 million in the 4th quarter and NOK 301 million year to date. Profit before tax in the 4th quarter amounts to NOK 78.9 million and year to date NOK -48.2 million. 2023 is characterized by a write-down of the portfolio values by NOK 239,5 million due to a lower-than-expected collection performance and change in ERC curve. Collection performance in Q4 2023 was better than forecasted. The overperformance is mainly driven by the portfolios revalued in Q3 2023.

In the 4th quarter, the company has purchased portfolios of a total of NOK 149,6 million. Year to date, portfolio investments total NOK 764 million.

The balance in Kredinor Finans AS at the end of the 4th quarter was NOK 4,192 million, of which the total portfolio value amounts to NOK 4,065.

Capital adequacy

At the end of the 4th quarter, the group's own funds were NOK 2,034 million. As of 31st of December 2023, total capital coverage was 42.1%, with 38.3% core capital and 3.8% additional capital. At the end of the quarter, there is an excess of NOK 1,188 million in relation to the regulatory capital requirement including the capital buffer requirement, and in relation to the core capital coverage there is an excess of NOK 1,101 million.

Future prospects

Kredinor Finans is financed by parent company Kredinor AS. In Q3 2023 Kredinor AS was very close to come in breach with Total LTV covenant and Collection Performance covenant for RCF (Revolving Credit Facility) provided by banks syndicate. Consequently, it was decided to not invest in new portfolios outside existing forward flow commitments in Q4 2023 and Q1 2024. In Q4 2023 Kredinor AS got a subordinated loan from owner SpareBank 1 Gruppen, and extended the RCF by one year until November 2025. In Q4 Kredinor AS has also negotiated conditions on some covenants with RCF syndicate banks. However, as part of financial risk management, Kredinor has decided to take steps to improve solidity and will continue to not buy portfolios outside existing committments in Q1 2024, as well as to have limited investments during 2024.

*The financial statement has not been audited.

Financial Statements

02

Consolidated income statement

	This period		Year to date	
NOK thousand	**Q4 2023**	**Q4 2022**	**31.12.2023**	**31.12.2022**
Interest revenue from purchased loan portfolios	130 221	56 346	535 262	230 933
Net gain/(loss) from purchased loan portfolios	31 546	-8 162	-239 455	-28 190
Other interest income	679	-4 203	2 169	-
Other income	1 247	-	3 152	-
Total interest income and other income	**163 694**	**43 981**	**301 128**	**202 742**
Interest expenses to related parties	3 332	-	12 496	-
Interest expenses to group companies	33 948	4 452	144 792	14 494
Other financial expenses	-	298	-	298
Fees to court and bailiffs	30 656	6 960	60 863	23 524
Total interest expenses and other expenses	**67 936**	**11 709**	**218 152**	**38 316**
Net interest income	**95 758**	**32 271**	**82 976**	**164 427**
Net change in value and gain/loss on currency and financial derivatives	1	-2 464	-875	4 346
Net change in value and gain/loss	**1**	**-2 464**	**-875**	**4 346**
Net interest and other income	**95 759**	**29 807**	**82 101**	**168 773**
Personnel expenses	4 656	30 959	30 548	82 092
Depreciation and amortisation	2 664	3 293	10 824	12 342
Other operating expenses	9 548	22 489	88 931	91 509
Total operating expenses	**16 869**	**56 741**	**130 303**	**185 943**
Profit/(loss) before tax	**78 890**	**-26 934**	**-48 201**	**-17 169**
Income tax expense	23 782	-6 965	23 782	-4 497
Profit/(loss) after tax	**55 108**	**-19 968**	**-71 983**	**-12 673**

Consolidated statement of financial position

	Year to date	
NOK thousand	**31.12.2023**	**31.12.2022**
Cash and cash equivalents	60 227	71 528
Loans to and receivables from customers		
Loans to customers	4 064 858	1 283 467
Totalt loans to and receivables from customers	**4 064 858**	**1 283 467**
Financial derivatives	-	-
Ownership interest in group companies	-	-
Intangible assets		
Other intangible assets	18 226	27 235
Totalt intangible assets	**18 226**	**27 235**
Tangible assets		
Property, plant and equipment	1 337	2 326
Right-of-use assets	-	9 224
Total tangible assets	**1 337**	**11 549**
Financial assets		
Loans to group companies	-	489 044
Total financial assets	**-**	**489 044**
Other assets		
Deferred tax assets	-	4 645
Other current assets	46 949	67 796
Deposit pension funds	-	19
Prepayments	481	1 214
Total other assets	**47 430**	**73 674**
Total assets	**4 192 078**	**1 956 498**
Borrowings from credit institutions and financing companies		
Interest-bearing loans and borrowings	-	-
Interest-bearing loans and borrowings group companies	1 741 000	636 000
Current borrowings group companies	203 260	22 018
Total borrowings from credit institutions and financing companies	**1 944 260**	**658 018**

Consolidated statement of financial position

	Year to date	
NOK thousand	**31.12.2023**	**31.12.2022**
Other debt		
Public taxes	1 195	7 018
Accounts payables and other current liabilities	83 337	1 678
Current lease liabilities	-	2 499
Non-current lease liabilities	-	6 885
Allocated group contribution	-	-
Other current debt	130 072	67 759
Totalt other debt	**214 605**	**85 839**
Provisions		
Tax payable	-	-
Total provisions	**-**	**-**
Subordinated loan capital		
Subordinated loan capital	100 000	100 000
Total subordinated loan capital	**100 000**	**100 000**
Total liabilities	**2 258 865**	**843 857**
Paid in capital		
Issued capital	325 000	325 000
Share premium	639 392	639 392
Total paid in capital	**964 392**	**964 392**
Other equity		
Other equity	1 040 805	160 922
Result year to date	-71 983	-12 673
Total other equity	**968 821**	**148 250**
Total equity	**1 933 213**	**1 112 642**
Total equity and liabilities	**4 192 078**	**1 956 498**

Consolidated statement of changes in equity

NOK thousand	Share capital	Share premium	Retained earnings	Total equity
Balances at 1 January 2023	**325 000**	**639 392**	**148 250**	**1 112 642**
Profit/loss for the period	-	-	-71 983	-71 983
Other comprehensive income/loss	-	-	-	-
Total comprehensive income/loss	**-**	**-**	**-71 983**	**-71 983**
Merger	-	-	892 555	892 555
Other changes booked to equity	-	-	-	-
Balances at 31 December 2023	**325 000**	**639 392**	**968 821**	**1 933 213**

NOK thousand	Share capital	Share premium	Retained earnings	Total equity
Balances at 1 January 2022	**299 000**	**565 392**	**372 912**	**1 237 304**
Profit/loss for the period	-	-	-12 673	-12 673
Other comprehensive income/loss	-	-	-	-
Total comprehensive income/loss	**-**	**-**	**-12 673**	**-12 673**
Issue of share capital	26 000	74 000	-	100 000
Dividend	-	-	-211 990	-211 990
Other changes booked to equity	-	-	-	-
Balances at 31 December 2022	**325 000**	**639 392**	**148 250**	**1 112 642**

Consolidated statement of cash flows

	This period		Year to date	
NOK thousand	**Q4 2023**	**Q4 2022**	**31.12.2023**	**31.12.2022**
Cash flow from operating activities				
Profit or loss before tax	78 890	-26 934	-48 201	-17 169
Tax paid	-	-19 624	-	-19 624
Depreciation and amortisation	2 664	3 293	10 824	12 342
Net interest from portfolio	-95 758	-55 795	-82 976	-187 950
Paid interest	-67 937	44 615	-218 152	-14 494
Received interest	163 694	11 478	301 128	202 742
Changes in debt portfolios	-8 188	-113 985	58 846	-46 410
Changes in intercompany receivables/payables	639 611	6 162	-38 542	-54 254
Payments for principal for the lease liability	6 885	-673	-2 499	-2 729
Changes in other items	-197 815	64 863	-21 342	97 246
Net cash flows from operating activities	**522 046**	**-86 599**	**-40 915**	**-30 300**
Cash flows from investing activities				
Purchase of property, plant and equipment	-107	-157	-107	-1 172
Purchase of shares in subsidiaries, net of cash acquired	-	23 498	29 721	-
Development expenditures	-	-2 612	-	-13 003
Net cash flows from investing activities	**-107**	**20 730**	**29 614**	**-14 174**
Cash flow from financing activities				
Repayments of long term borrowings	-	-1 045 060	-	-1 045 060
Repayments of short term borrowings	-	988 758	-	988 758
Borrowings to subsidiaries	-489 044	108 437	-	-
Proceeds from issuance of equity	-	74 000	-	100 000
Payment of dividend	-	-102 584	-	-28 584
Net cash flows from financing activities	**-489 044**	**23 551**	**-**	**15 114**
Net increase/(decrease) in cash and cash equivalents	**32 895**	**-42 319**	**-11 301**	**-29 361**
Cash and cash equivalents at the beginning of the period	**27 332**	**113 847**	**71 528**	**100 889**
Cash and cash equivalents at the end of the period	**60 227**	**71 528**	**60 227**	**71 528**

Board of Directors
Oslo, 14 February 2024

Rolf Eek-Johansen
Chairman of the Board

Bjørn Ove Ottosen
Board member

Kristina Jacobsen
Board member

Stefan Langva
Board member

Anmol Juneja
CEO

Notes to the financial statements

03

Note 1 Corporate information

Kredinor Finans AS (the "Company") is a privately held company, 100% owned by Kredinor AS, and incorporated in Norway. The Company's registered office is at Sjølyst plass 3, 0278 OSLO, Norway.

The Company has during the reporting period changed name from Modhi Finance AS to Kredinor Finans AS. This is due to a completed merger between Kredinor Finans AS (org. nr. 984 467 990) and Modhi Finance AS, with Modhi Finance AS as acquiring entity, where the merged company changed name to Kredinor Finans AS.

The financial statement has not been revised.

Note 2 Accounting policies

The quarterly financial statements for Kredinor Finans AS have been prepared in accordance with the regulation relating to simplified application of international accounting standards (IFRS) and interpretations from the IFRS Interpretation Committee (IFRIC) approved by the EU, as well as the Regulation relating to annual accounts for banks, finance companies, etc.

Functional and presentation currency
Receivables and payables denominated in foreign currency are assessed at the exchange rate at the end of the quarter. Transactions in foreign currencies are translated at the exchange rate at the time of the transaction. The company's functional currency is Norwegian kroner (NOK).

Purchased debt portfolios
Purchased loan portfolios consist of portfolios of non-performing loans and debt, purchased at prices significantly below nominal value. They are recognised at amortised cost using the effective interest rate method in accordance with the rules for loans and receivables pursuant to IFRS 9. All portfolios are classified as fixed assets on the balance sheet.

The effective interest rate method is a method for calculating the amortized cost of a financial asset and for allocating interest income to the income statement over the period in question. The effective interest rate is the interest rate which accurately discounts estimated future cash flows over the expected useful life of the financial instrument or, where relevant, a shorter period, to the carrying value of the financial asset.

When purchasing loan portfolios, the effective interest rate is provisionally calculated based on acquisition costs, including all transaction costs, and estimated future cash flows that include the nominal value of the receivable, late fees, accrued debt collection fees and late payment interest which, based on a probability assessment, is expected to be received from debtors.

Each portfolio is recognised on the balance sheet at cost, including all transaction costs, at the time of initial recognition. Interest income on purchased loan portfolios is accrued monthly in the income statement based on each portfolio's effective interest rate.

Portfolios are defined as the lowest reliable level of aggregation of claims of a similar type or debt class. Each portfolio consists of a series of individual requirements. The portfolio is recognised as a unit for recognition of income, principal payments and adjustments resulting from re-estimated future cash flows.

The company also acquires portfolios under forward-flow agreements. Forward Flow deals are included as derivatives. In a forward-flow agreement, a contract is established for the purchase of debt at an agreed price as a percentage of nominal receivables, but where the amounts of debt are not fully known at the time of the agreement. Receivables under the forward-flow agreements are procured (delivered) monthly or quarterly.

Revenue recognition

Purchased debt portfolios:

The company income primarily derives from purchased portfolios recognised as income under IFRS9 Financial Instruments.

Factoring:

Kredinor Finans purchases not overdue impositions. The income consists of late payment interest. Late payment interest is recognised as income when they accrue. Income from factoring is recognised in accordance with IFRS 15.

Impairment financial instruments

Purchased debt portfolios:

The Company substantially purchases value-degraded loan portfolios at a significantly discounted rate, and impairments for credit losses are already included in the purchase. The expected credit loss for the purchased loan portfolios is therefore not explicitly recognised as a loss provision, as these financial assets are by definition credit impaired and the expected credit loss is part of the portfolio's amortised cost. The Company's exposure to credit risk from purchased loan portfolios relates to variances between actually recovered funds and recovery estimates, and from changes in estimates of future cash flows. Management regularly reviews the debt collection estimates for the individual portfolios and adjusts the estimates if the future expected amount differs from the current estimate over time. Revised collection estimates are discounted at the same internal rate of return as that calculated when the portfolio was acquired. Changes from the current estimate are adjusted against the book value of the portfolio and the adjustment is entered in the income statement under the accounting line "Net gain/(loss) from purchased loan portfolios". All portfolios are evaluated quarterly. Underperformance and portfolio write-downs reduce revenue. Overperformance and portfolio write-ups increase revenue.

Factoring:

In line with IFRS 9, write-downs on trade receivables are measured using an expected lifetime credit loss model (ECL). Expected credit losses are divided into 3 stages. A share within Step 1 does not entail a significant increase in credit risk from the date of recognition of the asset. Step 2 involves a significant increase in credit risk over the next 12 months and Step 3 implies that the asset is credit degraded. There is no single customer who represents a large proportion of the receivables and therefore constitutes a significant credit risk.

Stage 1 loss provision shows expected credit losses for the next 12 months during the term of the commitment. Loss provision for Step 2 shows expected credit losses over the entire term of the engagement. The loss provision is calculated after losses given default. The calculation is based on monetary loss and probability of loss occurring.

Current assets and current liabilities

Current assets and current liabilities include items that become due for payment within one year of the acquisition date. Current assets are valued at the lower of the acquisition cost and fair value. Current liabilities are recognised on the balance sheet at the nominal amount at the time of recording.

Pension costs

The company has defined contribution plans for its employees. In the case of defined contribution plans, the company pays deposits to an insurance company. The Company has no further payment obligation after the deposits have been paid. The deposits are recognised as labour costs. Any prepaid deposits are recognised on the balance sheet as assets (pension funds) to the extent that the contribution can be refunded or reduce future payments.

Tax

The tax expense in the income statement includes both the tax payable for the period and the change in deferred tax. Deferred tax is calculated at the current tax rate on the basis of the temporary differences that exist between accounting and tax values, as well as any tax loss carried forward at the end of the financial year. Net deferred tax assets are recognised on the balance sheet to the extent there is a probability that this can be utilised.

Discretionary items and estimate uncertainty

The preparation of the financial statements requires management to prepare estimates and make assumptions about the future that could have a material effect on the accounts. Estimate uncertainty at the end of the period may entail a material risk of substantial adjustments in the carrying value of assets and liabilities in future periods. Important sources of uncertainty in estimates and assessments are evaluated on an ongoing basis and updated based on expectations of future events that are considered reasonable in current circumstances.

Note 3 Financial risk management

Credit risk
Kredinor Finans AS is exposed to risk related to expected earnings from underlying portfolios in the company, which will fall under the definition of credit risk. The Portfolio business area manages purchased portfolios of outstanding receivables (mainly acquired non-performing claims).

The ongoing valuation of the portfolios is based on expected future recovery of the non-performing receivables. The main part of the collection service is provided by the parent company Kredinor AS. The collection consists of establishing and maintaining disbursement collateral, payroll deductions and payment schemes. In this way, good follow-up of the company's receivables is ensured and the risk of loss associated with the business is reduced.

Market risk
Market risk is the risk that a financial instrument's fair value or future cash flows will fluctuate due to changes in market prices. Elements that influence market risk include fluctuations in exchange rates and interest rates.

Kredinor Finans primarily acquires portfolios consisting of overdue loans and credits aimed at the retail market in Norway financed through a combination of long-term and short-term loans in NOK. In this context, changes in market conditions, such as interest rates, could lead to higher market prices and reduced competitiveness for the Company, which could have an impact on both the company's results and its ability to grow.

Operational risk
Operational risk can be defined as the risk of loss as a result of inadequate or failing internal processes or systems, human error, or external events. The definition here also includes legal risk. Operational risk is currently documented in connection with work carried out in accordance with the Internal Control Regulations.

The company carries out processes to identify the main areas of operational risk before and after implemented measures. The work that is carried out is well suited to identifying areas in need for risk reducing measurements.

The methodology for quantifying the capital requirement for operational risk is based on the standard method in the Capital Adequacy Regulations.

Liquidity risk
Liquidity risk can be defined as the risk that the company will fail to meet its obligations and/or finance increases in its assets without incurring significant additional costs in the form of a fall in the price of assets that must be realised, or in the form of higher financing cost. Liquidity risk can be said to arise primarily as a result of unexpected declines in value or income fluctuations as a result of other types of risk or as a result of major external market disturbances. For Kredinor Finans AS, this liquidity risk is mainly linked to loans from the parent company.

Liquidity risk is on a par with board resolutions. The company's liquidity is satisfactory and any additional liquidity needs will be adressed by raising long-term loans from the parent company.

Currency risk
The currency risk is low as the company has resolved all the claims against the parent company in other currencies during first quarter in 2023. There is only one purchased debt portfolio in SEK at the end of the reporting period. All liabilities are in NOK.

Strategic and business risk
Strategic and business risk is the risk of loss as a result of changes in external conditions beyond the company's control, such as regulatory conditions, failure in earnings and access to capital due to declining trust and reputation in the market.

Note 4 Purchased debt portfolios

NOK thousand	31.12.2023	31.12.2022
Balance at the beginning of period	**1 283 467**	**1 329 877**
Acquisitions from merger	2 840 236	-
Acquisitions	763 951	186 479
Collection	-1 121 153	-435 725
Interest revenue from purchased loan portfolios	535 262	230 933
Net gains/loss from purchased loan portfolios	-239 455	-28 190
Derivatives	2 404	0
Currency differences	145	93
Balance at the end of period	**4 064 858**	**1 283 467**

Profit before other income and costs as a percentage of the assets under management amounts to 0.7%.

The company operates in acquisition and collection of money claims and activities related to this. The company uses amortized cost for its recognition of purchased debt portfolios in the accounts. Expected receivables profile at portfolio level forms the basis for write-offs. Normal depreciation period is 10 - 15 years.

All claims are linked to private individuals (salaried employees, etc.) and are independent of industry and geographical distribution. Most of the portfolios have been purchased by businesses in southern Norway, central Norway and eastern Norway.

Risk from purchased debt portfolios of outstanding receivables
The company's receivables related to purchased debt portfolios of outstanding receivables are mainly acquired defaulted claims. The ongoing valuation of the portfolios is based on expected future collection of the defaulted receivables and there is a risk associated with the debtors' ability to meet their obligations in relation to these expectations. The main part of the collection service is bought by Modhi Collect AS, which from 1 September 2022 was merged into Kredinor AS. The challenge consists in establishing and maintaining attachment deposits, salary deductions and payment arrangements. In this way, we ensure a good follow-up of the company's receivables and thereby reduce the risk of loss.

The company will not normally reflect a loss on loans/receivables as these are transferred receivables at a lower value than their face value. Net credit losses/gains are part of the ongoing assessment of amortized cost that is used as a basis for determining the portfolio's value.

Note 5 Capital adequacy

From 31 December 2023, the requirement for capital buffers in addition to the ordinary capital requirement has been increased from 8.0% to 9.5%.

This means that the core capital requirement including buffers is now 15.5% and that the total capital requirement now amounts to 17.5%.

The company determines the necessary capital requirement based on the standard method, in addition to regulatory capital.

Necessary financial capital for other risk areas constitutes provisional capital for operational risk and is calculated according to regulatory methods. The total required financial capital is calculated and reported to the board every quarter.

NOK thousand	31.12.2023	31.12.2022
Paid in share capital	325 000	325 000
Share premium	639 392	639 392
Other equity	968 821	148 250
Total equity	**1 933 213**	**1 112 642**
Paid group contribution	-	-
Goodwill and other intangible assets	-18 226	-28 253
Write-down of common equity (back stop)	-64 128	-858
Net common equity	**1 850 859**	**1 083 531**
Additional capital to common equity	183 000	100 000
Total additional capital	**183 000**	**100 000**
Own funds	**2 033 859**	**1 183 531**
Total capital requirement for credit risk	342 577	180 703
Total capital rerquirement for operational risk	44 196	37 045
Capital requirement	**386 773**	**217 748**
Total capital ratio	**42.1%**	**43.5%**
Tier 1 capital ratio	38.3%	39.8%
Additional capital ratio	3.8%	3.7%
Total risk exposure amount	4 834 662	2 721 850
Surplus/deficit of total capital	1 647 086	965 783
Buffer capital requirements	459 293	204 139
Surplus/deficit of total capital including buffer requirements	1 187 794	761 644

NOK thousand	31.12.2023	31.12.2022
Risk weight breakdown		
Total balance sheet exposure	4 192 078	1 956 498
Risk weight 20%	11 673	20 178
Risk weight 75%	2 448	-
Risk weight 100%	3 891 468	1 804 307
Risk weight 150%	283 361	76 953
Off balance sheet exposures	93 265	357 356
Risk weighted exposure	4 282 215	2 258 794
Total operational risk	552 447	463 061
Total risk weighted exposure	**4 834 662**	**2 721 855**

Note 6 Ownership

Owner	As of	No. of shares	Ownership
Kredinor AS	25.10.2022	130 000	100%

Nominal value of Nok 2,500 per share. All shares give equal voting rights.

Note 7 Subsequent events

There have been no significant events subsequent to the reporting date.