

# **MONOBANK**

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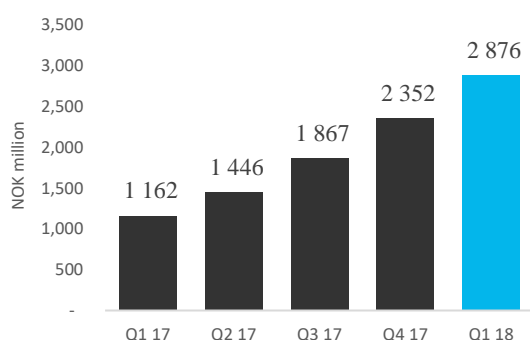
## **Interim report 1st quarter 2018**



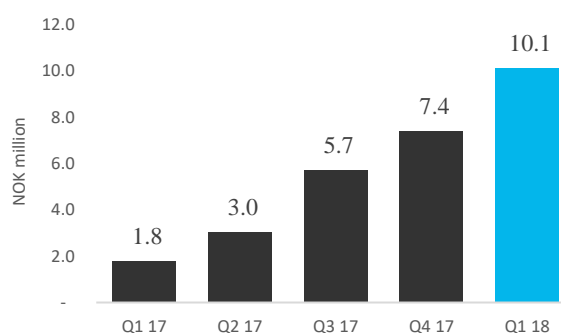
## Strong loan growth – set for product expansion

- Continued solid loan growth of NOK 523 million for the quarter, net loan balance of NOK 2 876 million
- Net interest income of NOK 68.8 million, up from NOK 55.9 million in Q4 2017
- Net profit after tax reached NOK 10.1 million, up from NOK 7.4 million in Q4 2017
- Euro denominated deposits from European customers commenced being accepted in mid-February through Raisin, a German fintech company
- A favourable Forward Flow agreement with Axactor was entered into on February 14<sup>th</sup> whereby loans past due 90 days or more are irrevocably sold
- Successful testing of Monobank's credit card has been completed with launch targeted for May

*Net loans and advances to customers*



*Net profit after tax*



## About Monobank ASA

Monobank ASA is a digital bank focused on consumer finance in the Nordics. Monobank is a cloud based bank with strong focus on customer experience and fintech solutions.

Monobank is based in Bergen, Norway and started operation in November 2015. The bank has experienced strong growth and went profitable after only three quarters. The bank offers unsecured lending to qualified private individuals in Norway and Finland. The screening process is based on an automated evaluation system. Loans are granted up to NOK 500 000. The bank also offers attractive

deposit rates on its savings accounts. Deposits up to NOK 2 million are guaranteed by the Norwegian Banks' Guarantee fund, of which Monobank is a member.

Monobank is an independent bank with approximately 1 000 shareholders and was listed on the Oslo Stock Exchange's Merkur Market on 16th February 2017 under the ticker symbol MONO-ME. Monobank has been awarded with "Great Place to Work" twice since the start.

## First quarter 2018 developments

Monobank had a solid quarter with positive operational development and solid progress on strategic initiatives. Growth in net loans continues at a high pace. In parallel, Monobank is expecting to see positive results from the upcoming broadening of its product portfolio. The development of a credit platform have already attracted significant interest from a wide range of stakeholders. In total, Monobank has added considerably to its strength during the first quarter of 2018.

Monobank's operations and marketing activities continue to perform well and according to plan. The bank has successfully completed the development of a multi country platform to facilitate efficient and expedient geographical expansion of its core business.

First quarter loans and advances to customers increased by NOK 542 million to NOK 2 945 million excluding provision for loan losses and prepaid agency commissions.

The credit quality has further developed in line with expectations. With a rapidly growing data base, fine-tuning of the internally developed credit model continues. An integrated pricing

model has been gradually implemented. The aim has been to further optimize credit quality overall and selective pricing among different customer groups. The bank is now seeing positive effects of this work.

In February, Monobank entered into a two year Forward Flow agreement whereby loans past due 90 days or more are irrevocably transferred Axactor ASA. The agreement, which will be implemented effective end of the second quarter, has been made on favourable terms and will enhance the predictability of the Bank's future loan losses. It will also have a positive impact on capital adequacy ratios.

The launch of loan operations in Finland has been a success and continue to grow at a solid pace. Applications are coming in at levels similar to those registered in Norway. Cost of customer acquisition compares favourably to the Norwegian market. Through Monobank's arrangement with Raisin, the bank is now accepting Euro deposits directly from European customers on favourable terms. The set up will reduce overall funding cost. The Euro deposit base is growing rapidly.

## Financial figures

Total assets amounted to NOK 3 724 million as of 31st March 2018, up from NOK 3 301 million at the end of the fourth quarter 2017. The bank's net loan balance was NOK 2 876 million (NOK 2 352 million) including unspecified loss provisions but excluding prepaid agency commissions. Of net loans outstanding at 31st March NOK 582 million was extended to Finnish customers.

Deposits from customers were NOK 3 057 million (NOK 2 652 million). Monobank's bank deposits and liquid securities amounted to NOK 691 million. Within policy guidelines, the bank seeks to optimize interest income through diversified placement of liquidity within eligible investment instruments. Accordingly, a portion of the bank's liquidity is placed in approved higher weighted instruments. Total

equity was NOK 534 million and CET1 was 17.8 %. For further information about regulatory capital ratios, see note 3.

Interest income for the first quarter was NOK 84.7 million compared to NOK 70.3 million in the fourth quarter. Average loan size in Norway is stable around NOK 222 000, while the corresponding figure in Finland is NOK 145.000.

Total income was NOK 64.3 million. Operating costs amounted to NOK 34.2 million which are broadly in line with expectations. Operating profit before impairment provisions was NOK 32.2 million compared to a profit of NOK 23.5 million in the previous quarter. Provisions for loan losses for the quarter is NOK 19.1 million, up from NOK 13.8 million in the previous quarter. The provision equals 2.9 % annualized of average gross loans outstanding for the

quarter, compared to 2.6 % in the previous quarter. There is no change in methodology used in determining the loss provision.

This resulted in a first quarter profit of NOK 13.2 million before taxes. The after-tax profit of NOK 10.1 million has been added to other equity.

## Market developments and outlook

The Norwegian Economy is improving. Unemployment is falling, and early signs suggest the Norwegian housing market is turning around. Recent changes in regulatory guidelines for consumer banks took effect on 1<sup>st</sup> October 2017. All sector banks have subsequently been requested to report on compliance to these guidelines by early February 2018. Upon FSA's review of this feedback, regulatory measures may be forthcoming. It is not clear to what extent such measures will affect overall demand for consumer loans. However, based on current knowledge, Monobank expects its loan portfolio to continue to grow at a solid pace. Direct marketing efforts will gradually increase to further build the Monobank brand. Longer term, this should have a positive impact on the share of loans generated directly. However, the bank is also expanding its domestic distribution channels through additional agency agreements.

Based on enhanced volume and early default experience, credit and pricing policies are now in a phase of fine-tuning in Finland. Accordingly, loan growth is expected to accelerate during the remainder of the year. Additional marketing resources are being allocated to that end.

The development of Monobank's credit card platform is essentially complete and testing through actual usage continues. A mobile App connected to the card is a vital part of the platform. It contains user friendly features that materially differentiate the card from the competition. In preview presentations, potential users have reacted with great enthusiasm towards the App and its unique features. Monobank's credit card and App will be launched in May, and the bank will subsequently approach major potential distributors. Monobank will consider various additional avenues, domestic and abroad, to further leverage this fintech product. With

regard to Widerøe, the card with their logo will be launched in September. At launch, the card will be offered to all Widerøe's customers. Usage of the card will earn bonus points under Monobank's agreement with SAS EuroBonus.

Upon completion and implementation of Monobank's credit card platform, internal resources will be released for expansion of consumer loan operations in a third country. The scalability of the Bank's IT platform offers considerable operational synergies and adds strength to the bank's growth platform. The expansion to a third country can be implemented within a relatively short period of time and will contribute to diversify the business model and regulatory risk exposure.

Based on the above, Monobank expects aggregate net loans outstanding to reach NOK 4.1 billion by year end 2018. The FSA could announce additional restrictive measures to further curtail growth in Norwegian consumer lending. Some caution should therefore be exercised in viewing this estimate. Expected volume growth should substantially improve Monobank's profitability. While domestic competition could exert some pressure on interest margins, this has so far been mitigated by continuous optimization of internally developed risk scoring and pricing models.

Monobank's core business is unsecured consumer lending. In addition to consumer loans and credit cards, the Bank is looking into other areas for business development, for instance purchase financing delivered on a digital platform.

Monobank has communicated an ambition to initiate a process to list its shares on the Oslo Stock Exchange during 2018. The positive operational development during the first quarter and the initial positive feedback related to new

product launches, strengthen the rationale for this strategic move.

In total, Monobank is well positioned to continue to progress within established business areas.

### Events after the balance date

There is no significant event to report

### Other information

This interim report has been reviewed in accordance with ISRE 2410 (International Standard on Review Engagement). The review report is enclosed to this report.

Bergen, 17 April 2018

Board of Directors, Monobank ASA



## Financial statement

### Statement of comprehensive income

<i>In NOK thousands</i>	<b>Q1 2018</b>	<b>Q1 2017</b>	<b>2017</b>
Interest income	84 702	34 174	201 202
Interest expenses	15 940	4 305	33 733
<b>Net interest income</b>	<b>68 761</b>	<b>29 869</b>	<b>167 469</b>
Income commissions and fees	6 485	2 641	14 857
Expenses commissions and fees	10 988	4 350	24 983
<b>Total income</b>	<b>64 259</b>	<b>28 160</b>	<b>157 342</b>
Income/(loss) from trading activities	2 136	(472)	(1 456)
Staff costs	7 793	5 514	26 503
Other administrative expenses	24 234	13 736	61 708
- of which marketing expenses	14 598	8 133	35 141
Depreciation and amortisation	2 131	1 079	5 957
<b>Total operating costs</b>	<b>34 158</b>	<b>20 329</b>	<b>94 168</b>
<b>Profit/(loss) before impairment losses</b>	<b>32 237</b>	<b>7 359</b>	<b>61 719</b>
Impairment releases/(losses)	(19 057)	(4 919)	(37 975)
<b>Operating profit/(loss) before tax</b>	<b>13 180</b>	<b>2 440</b>	<b>23 743</b>
Tax charge	(3 122)	(611)	(5 783)
<b>Profit/(Loss) for the year</b>	<b>10 058</b>	<b>1 829</b>	<b>17 960</b>

## Statement of financial position

<i>NOK million</i>	<b>31.03.2018</b>	<b>31.03.2017</b>	<b>31.12.2017</b>
<b>Assets</b>			
Loans and advances to banks	65 439	34 536	56 000
Loans and advances to customers	2 945 025	1 180 590	2 402 869
Provision for impairment losses	69 470	18 439	50 681
<b>Net loans and advances to customers</b>	<b>2 875 555</b>	<b>1 162 150</b>	<b>2 352 188</b>
Debt securities	625 089	220 474	756 536
Deferred tax asset	5 470	11 769	8 592
Other intangible assets	47 157	19 133	39 349
Property, plant and equipment	2 094	433	1 755
Financial derivatives			1 374
Prepayments, accrued income and other assets	103 108	43 360	85 095
- of which accrued commission to agents	97 586	40 504	80 817
<b>Total assets</b>	<b>3 723 911</b>	<b>1 491 856</b>	<b>3 300 888</b>
<b>Equity and liabilities</b>			
<b>Liabilities</b>			
Deposits by customers	3 057 120	1 137 690	2 651 861
Provisions, accruals and other liabilities	30 014	19 458	28 797
Financial derivatives	4 489		
Subordinated loan	98 483		98 399
<b>Total liabilities</b>	<b>3 190 106</b>	<b>1 157 148</b>	<b>2 779 057</b>
<b>Equity</b>			
Share capital	249 196	200 461	248 318
Surplus capital	274 551	133 862	273 129
Retained Earnings	10 058		
Not registered capital			
Other paid in capital (options)		384	384
<b>Total equity</b>	<b>533 805</b>	<b>334 708</b>	<b>521 832</b>
<b>Total equity and liabilities</b>	<b>3 723 911</b>	<b>1 491 856</b>	<b>3 300 888</b>

## Statement of changes in equity

<i>In NOK thousands</i>	<b>Share capital</b>	<b>Surplus capital</b>	<b>Other paid-in capital (options)</b>	<b>Not registered capital</b>	<b>Retained earnings</b>	<b>Total</b>
<b>Equity at 01.01.2018</b>	<b>248 318</b>	<b>273 129</b>	<b>384</b>			<b>521 830</b>
Profit/(loss) for the period					10 058	10 058
Option programme	778	1 400	(384)			1 794
Shares issued net of fees and tax	100	22				122
<b>Equity at 31.03.2018</b>	<b>249 196</b>	<b>274 551</b>	<b>0</b>	<b>0</b>	<b>10 058</b>	<b>533 804</b>



## Statement of cash flows

<i>In NOK thousands</i>	<b>Q1 2018</b>	<b>Q1 2017</b>	<b>2017</b>
<i>Cash flows from operating activities</i>			
Operating profit/(loss) before tax	13 180	2 440	23 743
Adjustment for change in provision for impairment losses	18 789	4 909	37 150
Adjustment for unrealised changes in fair value of financial instruments	(10 040)	(1 260)	7 311
Adjustment share option programme	0	0	0
Depreciation and amortisation	2 215	1 079	5 957
Changes in loans and advances to customers	(542 156)	(327 021)	(1 549 300)
Changes in deposits by customers	405 259	234 284	1 748 455
Changes in financial derivatives	5 863		(1 374)
Changes in debt securities	141 488	82 051	(462 582)
Changes in other operating assets and liabilities	(16 796)	(7 262)	(39 658)
<b>Net cash flows from operating activities</b>	<b>17 802</b>	<b>(10 781)</b>	<b>(230 298)</b>
<i>Cash flows from investing activities</i>			
Purchase of property, plant and equipment	(572)	(152)	(1 810)
Investment in intangible assets	(9 706)	(7 250)	(32 008)
<b>Net cash flows from investing activities</b>	<b>(10 278)</b>	<b>(7 402)</b>	<b>(33 818)</b>
<i>Cash flows from financing activities</i>			
Issue of ordinary shares	1 916	1 500	170 498
Issued Tier 1 and Tier 2 capital			98 399
<b>Net cash flows from financing activities</b>	<b>1 916</b>	<b>1 500</b>	<b>268 897</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>9 441</b>	<b>(16 682)</b>	<b>4 781</b>
Cash and cash equivalents at period start	56 000	51 219	51 219
<b>Cash and cash equivalents at period end</b>	<b>65 439</b>	<b>34 536</b>	<b>56 000</b>
Cash and cash equivalents consists of:			
Loans and advances from banks	65 439	34 536	56 000

## Notes to the financial statements

### Note 1 Accounting principles

Monobank Q1 2018 report is prepared in accordance with general accounting principles as described in the annual report for 2017. This interim report has been reviewed in accordance with ISRE 2410 (International Standard on Review Engagement). The review report is enclosed to this report.

### Note 2 Loans and advances to customers

<i>In NOK thousands</i>	<b>31.03.2018</b>	<b>31.03.2017</b>	<b>31.12.2017</b>
Loans and advances to customers	2 945 025	1 180 590	2 402 869
Provision for impairment losses	69 470	18 439	50 681
<b>Net loans and advances to customers</b>	<b>2 875 555</b>	<b>1 162 151</b>	<b>2 352 188</b>

<i>In NOK thousands</i>	<b>31.03.2018</b>	<b>31.03.2017</b>	<b>31.12.2017</b>
Realized losses in the period	268	10	431
The period's change on individual impairment of loans	13 792	12 907	11 748
The period's change on impairment of loans - collectively assessed	4 997	(7 998)	1 655
<b>Write downs on loans</b>	<b>19 057</b>	<b>4 919</b>	<b>13 834</b>

<b>Defaulted loans and losses</b>			
<i>In NOK thousands</i>	<b>31.03.2018</b>	<b>31.03.2017</b>	<b>31.12.2017</b>
Defaulted loans	251 745	58 706	189 053
Individual impairment of loans	55 384	12 907	41 592
<b>Net defaulted loans</b>	<b>196 361</b>	<b>45 790</b>	<b>147 462</b>

Impairment of loans - collectively assessed	14 086	5 533	9 089
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### Note 3 Capital adequacy

<i>In NOK thousands</i>	<b>31.03.2018</b>	<b>31.03.2017</b>	<b>31.12.2017</b>
Share capital	249 196	200 461	248 318
Surplus capital	274 551	132 034	273 129
Retained Earnings	10 058		
- Deduction of deferred tax assets, other intangible assets and additional valuation adjustments	(41 458)	(26 339)	(38 862)
<b>Common equity Tier 1 capital</b>	<b>492 347</b>	<b>306 156</b>	<b>482 585</b>
Additional Tier 1 capital instruments	50 000		50 000
<b>Tier 1 capital</b>	<b>542 347</b>	<b>306 156</b>	<b>532 585</b>
Subordinated loan capital	50 000		50 000
<b>Tier 2 capital</b>	<b>592 347</b>	<b>306 156</b>	<b>582 585</b>
<b>Capital requirements</b>			
Institutions	54 445	16 406	58 014
Loans to customers 75% as of 25.04.17	2 014 736	1 177 137	1 658 723
Defaulted loans 100%	196 361		147 462
Covered bonds	8 159	2 019	3 821
Other assets	105 202	43 793	86 850
Corporate	150 152	75 684	119 892
Regional governments or local authorities	39 135	9 054	63 380
<b>Market risk</b>			
<b>Operational risk</b>	196 783	98 548	196 783
<b>CVA risk</b>	235		414
<b>Total risk-weighted volume and capital requirements</b>	<b>2 765 207</b>	<b>1 422 641</b>	<b>2 335 339</b>
Common equity Tier 1 capital ratio	17.8 %	21.5 %	20.7 %
Tier 1 capital ratio	19.6 %	21.5 %	22.8 %
Capital ratio	21.4 %	21.5 %	25.0 %
Minimum CET 1 capital ratio requirement	13.6%	13.5%	13.7%

LCR (Liquidity Coverage Ratio) 206% and NSFR (Net stable funding ratio) 160% as of 31.03.2018

### Note 4 Events after the balance sheet date

No events have occurred after March 31, 2018 which may materially affect the assessment of the financial statements.



To the Board of Directors of Monobank ASA

## **Report on Review of interim balance sheet**

### *Introduction*

We have reviewed the accompanying interim balance sheet of Monobank ASA as of 31 March 2018, the income statement, the statement of changes in equity and the cash flow statement for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with the accounting policies described in note 1. Our responsibility is to express a conclusion on this interim financial information based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISAs), and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the entity as at 31 March 2018, and of its financial performance and its cash flows for the three-month period then ended in accordance with the accounting policies described in note 1.

Bergen, 17 April 2018

**PricewaterhouseCoopers AS**

Jon Haugervåg  
State Authorised Public Accountant

# MONOBANK

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