

# **MONOBANK**

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**Interim report  
2nd quarter 2017**

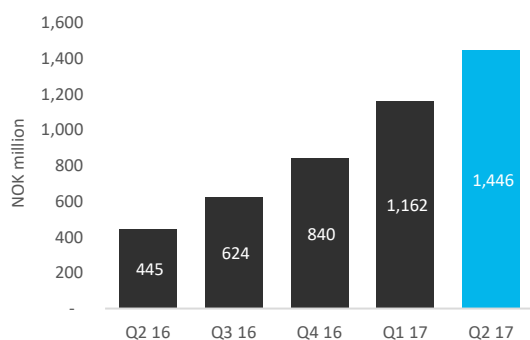




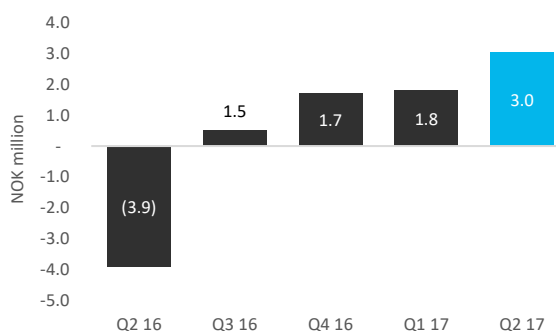
## Successful launch in Finland and increased 2017 target

- Successful launch of consumer loan business in Finland on 29<sup>th</sup> May
- Continued solid growth in net loans of 284 million for the quarter, net loan balance of NOK 1 446 million
- Net interest income of NOK 37.1 million, up from NOK 29.9 million in Q1
- Operating expenses in line with expectations
- Net profit after tax reached NOK 3.0 million
- Continued improved credit quality in line with projections after introducing internally developed score card
- Aggregate loans outstanding raised to around NOK 2.3 billion by year end

Net loans and advances to customers



Net profit after tax



## About Monobank ASA

Monobank ASA received its banking licence from the Financial Supervisory Authority of Norway in November 2015, and commenced regular banking operations the same month.

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 in sizes from NOK 10 000 to NOK 500 000 on flexible terms adapted to the applicants needs as well as their financial ability to service the loan. In exceptional circumstances loans up to NOK 700 000 may be granted.

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's largest owner is Prioritet Group AB of Gothenburg with a 11.95 % ownership. The bank has approximately 970 shareholders. Monobank was listed on the Oslo Stock Exchange's Merkur Market on 16th February under the ticker symbol MONO-ME.



## Second quarter 2017 developments

Monobank has successfully completed the development of a multi country platform to facilitate efficient and expedient geographical expansion of its core business. Accordingly, the bank launched loan operations in Finland on 29<sup>th</sup> May.

Second quarter loans and advances to customers increased by NOK 292 million to NOK 1 473 million excluding provision for loan losses and prepaid agency commissions.

The credit quality has further improved in line with expectations. With a rapidly growing data base, the tuning of the internally developed credit model continues. An integrated pricing model is now being gradually implemented. The aim is to further optimize credit quality

## Financial figures

Total assets amounted to approximately NOK 1 915 million as of 30<sup>th</sup> June 2017, up from NOK 1 492 million at the end of the first quarter. The bank's net loan balance was NOK 1 446 million (NOK 1 162 million) including unspecified loss provisions, but excluding prepaid agency commissions. Of net loans outstanding at 30<sup>th</sup> June, 37.8 million was extended to Finnish customers.

Deposits from customers were NOK 1 556 million (NOK 1 138 million). Monobank's bank deposits and liquid securities amounted to NOK 377 million. Within policy guidelines, the bank seeks to optimize interest income through diversified placement of liquidity within eligible investment instruments. Total equity was NOK 338 million. For information about regulatory capital ratios, see note 3.

Interest income for the second quarter was NOK 43.2 million compared to NOK 34.2 million in

overall and selective pricing among different customer groups. The bank is starting to see the effects of this work.

The Board decided on 25<sup>th</sup> April that Monobank fully satisfies the definition for mass market engagements/commitments as outlined in the Capital Adequacy Regulation § 5 – 8 and accordingly assigned a 75% risk weight when calculating the bank's capital ratio.

To facilitate Monobank's continued robust growth, an extraordinary shareholders' meeting on 13<sup>th</sup> June authorized the board to raise up NOK 50 million in Hybrid Tier 1 capital and up to NOK 75 million in subordinated Tier 2 capital.

the first quarter. Average loan size is stable around NOK 220 000.

Net interest income was NOK 37.1 million. Operating costs was in line with expectations. Operating profit before impairment provisions was NOK 12.3 million compared to a profit of NOK 7.4 million in the previous quarter. The bank has decided to make NOK 8.3 million in provisions for loan losses for the quarter, up from NOK 4.9 million in the previous quarter. The provision equals 2.5 % annualized of average gross loans outstanding for the quarter, compared to 2.0 % in the previous quarter. The quarterly provision applies the same methodology developed during 2016 and is consistent with the model used to determine the loss provision at year end.

This resulted in a second quarter profit of NOK 4.0 million before taxes. The after-tax profit of NOK 3.0 million has been added to other equity.



## Market developments and outlook

Recent changes in regulatory guidelines for consumer banks will take effect in the fourth quarter. Monobank is in the process of adapting to these guidelines where necessary. Albeit some moderate product modifications may be required, the Norwegian loan portfolio is expected to continue to grow at a solid pace. Margins are expected to continue to be under some competitive pressure. This is being mitigated by further fine tuning of the bank's internally developed pricing model.. Loan losses continue to develop in line with expectations. Direct marketing efforts will be increased to further build the Monobank brand. The bank is also expanding its domestic distribution channels through additional agency agreements.

The entry into Finland has been a success so far. Applications are coming in at a solid pace. In this early phase, Monobank's focus will be on credit quality. While the bank will continue to take a prudent approach to this new market, we expect loan growth in Finland to accelerate.

Overall, Monobank is raising its 2017 guidance on aggregate net loans outstanding to NOK 2.3 billion at the end of 2017.

Resources continue to be committed to the joint credit card project with Widerøe. This business was planned for launch around year end 2017. However, in cooperation with Widerøe, the bank wishes to develop additional features that will be launched simultaneously. Accordingly, the credit card launch is expected to be delayed by approximately one quarter.

Continued loan growth should lead to a considerable improvement in financial results in the second half of 2017. However, the bank is currently in a rapid development phase. Non-recurring costs connected to the development of the loan business in Finland and credit card business in Norway will have an impact.

While Monobank will continue to focus on unsecured consumer financing in Norway and Finland, the bank is committed to develop its core business into other geographical areas as

previously communicated. With the successful launch of lending operations in Finland, further geographical expansion is now being evaluated. Cross border launches are expected to achieve considerable operational synergies and further strengthen the bank's growth platform. It will also contribute to diversify the business model and regulatory risk exposure. Consistent with the bank's growth strategy, the capital structure and capital adequacy will be monitored to ensure that liquidity and capital position are maintained at satisfactory levels.

## Events after the balance date

There are no events to report

## Other information

This interim report has not been audited by external auditors.



## Risk, uncertainties and additional factors impacting Monobank

Monobank is subject to a range of risks and uncertainties which may affect its business operations, financial condition and results of operations. The description of principal risks and uncertainties in the Financial statements and Board of Directors' Report 2016 gives a

fair description of principal risks and uncertainties that may affect Monobank in the second half of 2017. The company is not aware of any significant new risks or uncertainties or significant changes to those risks or uncertainties.

Bergen, 15 August 2017

Board of Directors, Monobank ASA



## Financial statement (unaudited)

### Statement of comprehensive income

| <i>In NOK thousands</i>                       | <b>Q2 2017</b> | <b>Q2 2016</b> | <b>YTD 2017</b> | <b>YTD 2016</b> | <b>2016</b>     |
|-----------------------------------------------|----------------|----------------|-----------------|-----------------|-----------------|
| Interest income                               | 43 218         | 13 875         | 77 392          | 19 050          | 63 544          |
| Interest expenses                             | 6 110          | 2 151          | 10 415          | 2 597           | 9 138           |
| <b>Net interest income</b>                    | <b>37 108</b>  | <b>11 723</b>  | <b>66 977</b>   | <b>16 453</b>   | <b>54 406</b>   |
|                                               |                |                |                 | -               |                 |
| Income commissions and fees                   | 2 931          | 1 124          | 5 572           | 2 260           | 5 586           |
| Expenses commissions and fees                 | 5 533          | 1 737          | 9 884           | 2 349           | 7 433           |
|                                               |                |                |                 | -               |                 |
| <b>Total income</b>                           | <b>34 505</b>  | <b>11 110</b>  | <b>62 665</b>   | <b>16 365</b>   | <b>52 559</b>   |
|                                               |                |                |                 | -               |                 |
| Income/loss from trading activities           | (246)          | (257)          | (718)           | (326)           | (259)           |
| Staff costs                                   | 6 162          | 3 581          | 11 676          | 7 041           | 15 735          |
| Other administrative expenses                 | 14 284         | 8 709          | 28 020          | 16 592          | 32 549          |
| - of which marketing expenses                 | 7 992          | 4 227          | 16 125          | 8 464           | 16 703          |
| Depreciation and amortisation                 | 1 500          | 630            | 2 579           | 1 250           | 2 131           |
| <b>Total operating costs</b>                  | <b>21 946</b>  | <b>12 920</b>  | <b>42 275</b>   | <b>24 883</b>   | <b>50 415</b>   |
|                                               |                |                |                 |                 |                 |
| <b>(Loss)/profit before impairment losses</b> | <b>12 313</b>  | <b>(2 067)</b> | <b>19 672</b>   | <b>(8 844)</b>  | <b>1 886</b>    |
|                                               |                |                |                 |                 |                 |
| Impairment releases/(losses)                  | (8 277)        | (3 100)        | (13 195)        | (5 000)         | (12 878)        |
| <b>Operating (loss)/profit before tax</b>     | <b>4 036</b>   | <b>(5 167)</b> | <b>6 476</b>    | <b>(13 844)</b> | <b>(10 993)</b> |
| Tax charge                                    | (1 009)        | 1 276          | (1 620)         | 3 442           | 2 787           |
| <b>Profit/Loss for the year</b>               | <b>3 027</b>   | <b>(3 891)</b> | <b>4 856</b>    | <b>(10 401)</b> | <b>(8 206)</b>  |



## Statement of financial position

| <i>NOK million</i>                             | 30.06.2017       | 30.06.2016     | 31.12.2016       |
|------------------------------------------------|------------------|----------------|------------------|
| <b>Assets</b>                                  |                  |                |                  |
| Loans and advances to banks                    | 52 081           | 49 293         | 51 219           |
| Loans and advances to customers                | 1 472 644        | 450 671        | 853 569          |
| Provision for impairment losses                | 26 340           | 5 700          | 13 531           |
| <b>Net loans and advances to customers</b>     | <b>1 446 304</b> | <b>444 971</b> | <b>840 038</b>   |
| Debt securities                                | 324 510          | 158 215        | 301 265          |
| Deferred tax asset                             | 10 760           | 11 161         | 12 380           |
| Other intangible assets                        | 27 042           | 7 635          | 12 898           |
| Property, plant and equipment                  | 1 513            | 260            | 346              |
| Prepayments, accrued income and other assets   | 52 525           | 18 960         | 31 296           |
| <i>- of which accrued commission to agents</i> | <i>49 677</i>    | <i>15 971</i>  | <i>29 815</i>    |
| <b>Total assets</b>                            | <b>1 914 735</b> | <b>690 494</b> | <b>1 249 441</b> |
| <b>Equity and liabilities</b>                  |                  |                |                  |
| <b>Liabilities</b>                             |                  |                |                  |
| Deposits by customers                          | 1 556 326        | 523 737        | 903 406          |
| Provisions, accruals and other liabilities     | 19 512           | 10 519         | 14 656           |
| <b>Total liabilities</b>                       | <b>1 575 838</b> | <b>534 257</b> | <b>918 062</b>   |
| <b>Equity</b>                                  |                  |                |                  |
| Share capital                                  | 200 746          | 155 000        | 199 461          |
| Surplus capital                                | 137 767          |                | 131 534          |
| Not registered capital                         |                  | 1 500          |                  |
| Other equity                                   |                  | (263)          |                  |
| Other paid in capital (options)                | 384              |                | 384              |
| <b>Total equity</b>                            | <b>338 897</b>   | <b>156 237</b> | <b>331 379</b>   |
| <b>Total equity and liabilities</b>            | <b>1 914 735</b> | <b>690 494</b> | <b>1 249 441</b> |



## Statement of changes in equity

| <i>In NOK thousands</i>           | Share capital  | Surplus capital | Other paid-in capital (options) | Retained earnings | Total          |
|-----------------------------------|----------------|-----------------|---------------------------------|-------------------|----------------|
| <b>Equity at 01.01.2017</b>       | <b>199 461</b> | <b>131 534</b>  | <b>384</b>                      |                   | <b>331 379</b> |
| Profit/(loss) for the year        |                | 4 856           |                                 |                   | 4 856          |
| Option programme                  |                |                 |                                 |                   |                |
| Dividends                         |                |                 |                                 |                   |                |
| Shares issued net of fees and tax | 1 285          | 1 378           |                                 |                   | 2 663          |
| <b>Equity at 30.06.2017</b>       | <b>200 746</b> | <b>137 767</b>  | <b>384</b>                      |                   | <b>338 898</b> |





## Statement of cash flows

|                                                          | Q2 2017         | Q2 2016        | 2016             |
|----------------------------------------------------------|-----------------|----------------|------------------|
| <i>Cash flows from operating activities</i>              |                 |                |                  |
| Operating profit/(loss) before tax                       | 4 036           | (5 167)        | (10 993)         |
| Adjustment for change in provision for impairment losses | 7 900           | 3 100          | 12 831           |
| Adjustment share option programme                        | 0               | 0              | 384              |
| Depreciation and amortisation                            | 1 500           | 630            | 2 131            |
| Changes in loans and advances to customers               | (292 054)       | (189 389)      | (815 719)        |
| Changes in deposits by customers                         | 418 636         | 277 520        | 889 827          |
| Changes in debt securities                               | (104 036)       | (57 038)       | (186 681)        |
| Changes in other operating assets and liabilities        | (9 111)         | (8 490)        | (21 856)         |
| <b>Net cash flows from operating activities</b>          | <b>26 872</b>   | <b>21 165</b>  | <b>(130 076)</b> |
| <i>Cash flows from investing activities</i>              |                 |                |                  |
| Purchase of property, plant and equipment                | (1 149)         | (142)          | (373)            |
| Investment in intangible assets                          | (9 340)         | (861)          | (7 723)          |
| <b>Net cash flows from investing activities</b>          | <b>(10 489)</b> | <b>(1 003)</b> | <b>(8 096)</b>   |
| <i>Cash flows from financing activities</i>              |                 |                |                  |
| Issue of ordinary shares                                 | 1 163           | 1 500          | 172 187          |
| <b>Net cash flows from financing activities</b>          | <b>1 163</b>    | <b>1 500</b>   | <b>172 187</b>   |
| <b>Net decrease in cash and cash equivalents</b>         | <b>17 545</b>   | <b>21 662</b>  | <b>34 015</b>    |
| Cash and cash equivalents at 1st of January              | 34 536          | 27 631         | 17 204           |
| <b>Cash and cash equivalents at 30 June / (year end)</b> | <b>52 081</b>   | <b>49 293</b>  | <b>51 219</b>    |

Cash and cash equivalents consists of:

|                               |        |        |        |
|-------------------------------|--------|--------|--------|
| Loans and advances from banks | 52 081 | 49 293 | 51 219 |
|-------------------------------|--------|--------|--------|



## Notes to the financial statements

### Note 1 Accounting principles

Monobank Q2 2017 report is prepared in accordance with general accounting principles as described in the annual report for 2016. The report has not been audited.

### Note 2 Loans and advances to customers

| <i>In NOK thousands</i>                    | <b>30.06.2017</b> | <b>30.06.2016</b> | <b>31.12.2016</b> |
|--------------------------------------------|-------------------|-------------------|-------------------|
| Loans and advances to customers            | 1 472 644         | 450 671           | 853 569           |
| Provision for impairment losses            | 26 340            | 5 700             | 13 531            |
| <b>Net loans and advances to customers</b> | <b>1 446 304</b>  | <b>444 971</b>    | <b>840 038</b>    |

| <i>In NOK thousands</i>                                            | <b>30.06.2017</b> | <b>30.06.2016</b> | <b>31.12.2016</b> |
|--------------------------------------------------------------------|-------------------|-------------------|-------------------|
| Realized losses in the period                                      | 376               | 0                 | (48)              |
| The period's change on individual impairment of loans              | 7 917             | 0                 |                   |
| The period's change on impairment of loans - collectively assessed | (16)              | 3 100             | 12 926            |
| <b>Write downs on loans</b>                                        | <b>8 277</b>      | <b>3 100</b>      | <b>12 878</b>     |

| <b>Defaulted loans and losses</b> | <b>30.06.2017</b> | <b>30.06.2016</b> | <b>31.12.2016</b> |
|-----------------------------------|-------------------|-------------------|-------------------|
| <i>In NOK thousands</i>           |                   |                   |                   |
| Defaulted loans                   | 94 653            | 6 771             | 40 708            |
| Individual impairment of loans    | 20 824            | 0                 |                   |
| <b>Net defaulted loans</b>        | <b>73 829</b>     | <b>6 771</b>      | <b>30 865</b>     |

|                                             |       |       |        |
|---------------------------------------------|-------|-------|--------|
| Impairment of loans - collectively assessed | 5 516 | 5 700 | 13 531 |
|---------------------------------------------|-------|-------|--------|



## Note 3 Capital adequacy

| <i>In NOK thousands</i>                                        | <b>30.06.2017</b> | <b>30.06.2016</b> | <b>31.12.2016</b> |
|----------------------------------------------------------------|-------------------|-------------------|-------------------|
| Share capital                                                  | 200 746           | 155 000           | 199 461           |
| Surplus capital                                                | 132 911           |                   | 131 534           |
| Not registered capital                                         | 0                 | 1 500             | 0                 |
| Other equity                                                   | 0                 | (263)             | 0                 |
| - Deduction of deferred tax assets and other intangible assets | (31 366)          | (16 163)          | (22 355)          |
| <b>Common equity Tier 1 capital</b>                            | <b>302 292</b>    | <b>140 074</b>    | <b>308 640</b>    |
| Additional Tier 1 capital instruments                          | 0                 | 0                 | 0                 |
| <b>Tier 1 capital</b>                                          | <b>302 292</b>    | <b>140 074</b>    | <b>308 640</b>    |
| Subordinated loan capital                                      | 0                 | 0                 | 0                 |
| <b>Tier 2 capital</b>                                          | <b>302 292</b>    | <b>140 074</b>    | <b>308 640</b>    |
| <b>Capital requirements</b>                                    |                   |                   |                   |
| Institutions                                                   | 33 371            | 15 716            | 15 703            |
| Loans to customers 75%                                         | 1 041 597         | 484 715           | 843 939           |
| Defaulted loans 100%                                           | 73 829            | 0                 | 0                 |
| Covered bonds                                                  | 2 616             | 2 007             | 2 612             |
| Other assets                                                   | 54 039            | 19 546            | 31 642            |
| Corporate                                                      | 74 579            | 51 791            | 98 814            |
| Regional governments or local authorities                      | 22 212            | 9 910             | 16 744            |
| <b>Operational risk</b>                                        | <b>98 548</b>     | <b>99 651</b>     | <b>97 561</b>     |
| <b>CVA risk</b>                                                | <b>9</b>          |                   |                   |
| <b>Total risk-weighted volume and capital requirements</b>     | <b>1 400 809</b>  | <b>683 337</b>    | <b>1 107 016</b>  |
| Common equity Tier 1 capital ratio                             | 21.6 %            | 20.5 %            | 27.9 %            |
| Tier 1 capital ratio                                           | 21.6 %            | 20.5 %            | 27.9 %            |
| Capital ratio                                                  | 21.6 %            | 20.5 %            | 27.9 %            |

## Note 4 Events after the balance sheet date

No events have occurred after June 30, 2017 which may materially affect the assessment of the financial statements.



## Declaration

Today, the Board and the CEO have considered and approved the half-yearly report and the consolidated half-yearly accounts for Monobank ASA for the period 1 January to 30 June 2017.

We confirm to the best of our knowledge that the condensed set of financial statements for the period 1 January to 30 June 2017 has been prepared in accordance with current accounting standards and gives a true and fair view of the company's assets, liabilities, financial position and result for the period viewed in their entirety. Furthermore, that the interim management report includes a fair review of any significant events that arose during the six-month period and their effect on the half-yearly financial report, a description of the principal risks and uncertainties for the business in the following accounting period and related parties' significant transactions.

Bergen, 15 August 2017

Board of Directors, Monobank ASA

# MONOBANK

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