

# MONOBANK

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## Interim report 1st quarter 2019



## Monobank - A well-positioned and highly capitalised consumer bank

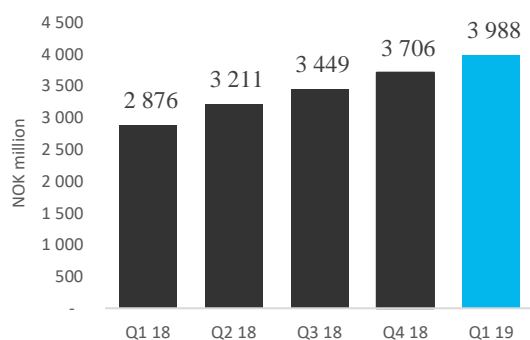
- **Profitable growth restored in Q1'19**
  - Net loan balance increased 7.6 per cent vs Q4'18
  - Net interest income of NOK 100.2 million, up 5.4 per cent vs Q4'18
  - Net profit after tax of NOK 16.1 million vs a deficit of NOK 8.8 million in Q4'18
- **The proposed merger with BRABank approved by AGM**
  - Transaction expected to be completed in Q2'19
- **Successful launch of digital consumer finance in Sweden**
- **New credit policies introduced in Finland to improve profitability**
- **Fully funded to reach critical mass**
  - Private placement of NOK 58 million successfully completed

### CEO comment

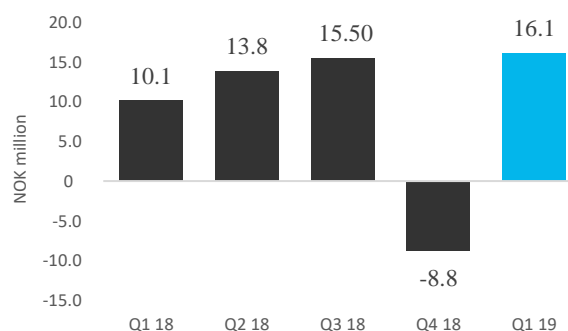
“It has been a very exiting quarter for Monobank and a strong foundation has been laid for a positive development going forward. The proposed merger with BRABank will solve our need for additional equity capital and we are now fully financed to reach our ambitious financial targets. We continue to deliver on our growth strategy and our entrance into Sweden has been successful”, says Bent Gjendem, CEO of Monobank ASA

### Financial development

*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. The Bank is cloud based with strong focus on customer experience and fintech solutions.

Headquarters is based in Bergen, Norway and the bank started operation in November 2015. Monobank has experienced strong growth and went profitable after only three quarters. The main products are deposits, unsecured lending to qualified private individuals in Norway and Finland and credit cards in Norway. In Q1 2019 Monobank launched its digital consumer finance offering in Sweden.

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.

## Strategy

Monobank is on a mission to redefine retail banking with a sharp focus on customer experience.

Monobank is a digital consumer bank with its home market being Norway covering people's need for liquidity. Monobank shall differentiate on availability and dominate on customer experience in its market segment. With 24/7 availability, fast loan processes combined with simple and easy to use products Monobank has grown to take a clear number three position among niche consumer banks in Norway. Monobank's Nordic footprint grew by entering Finland in 2017 and Sweden in the first quarter 2019.

Monobank will seek continued loan growth through geographical expansion credit card growth fuelled by innovative solutions and strategic partnerships and by developing Monobank's financing business together with commercial partners.

Furthermore, Monobank aims to be a market leading fintech developer with a goal to commercialize its technological capabilities together with existing and new partners to create new revenue streams.

## Operational and Financial review

The first quarter of the year was strategically important and eventful for Monobank. The merger with BRABank and equity raise will solve the need for additional equity capital.

Furthermore, Monobank had a positive operational and financial quarter with continued growth in net loans and interest income.

The multi country platform that was connected to the deposit provider Raisin in the first quarter 2018 was expanded to Sweden this quarter as Monobank launched its consumer lending activities in the Country.

In Finland scorecard based on internal data is being developed with planned implementation Q2 2019. Cost of customer acquisition in Finland is favourable compared to the Norwegian market and the set up with Raisin provide low funding costs for Euro denominated consumer loans.

The credit quality has developed in line with expectations. A growing data base allows for further fine-tuning of the credit model which measures return on equity on individual loans. This enables Monobank to optimize credit quality overall and to practice selective pricing

among different customer groups to maintain favourable net interest margins in a highly competitive environment.

In the quarter, Monobank has introduced a set of new credit policies for lending in the Finnish market aiming to reduce the risk of loan losses.

Monobank continues to improve its credit card platform. In addition to the Widerøe branded credit card, the platform is now linked to Google Pay, Apple Pay and it is also possible to use Monobank's credit card through Fitbit and Garmin sports watches.

A competent, motivated and stable workforce is key for the bank to reach its long-term financial targets. Monobank has been awarded with the "Great Place to Work" title the last three consecutive years and will continue to focus on building the organisation.

Going forward, Monobank will strive to grow through geographic expansion, expanding its credit card portfolio through innovative solutions and strategic partnership agreements, and by developing Monobank's financing activities with commercial partners.

## Profit and loss

Net interest income for the first three months of 2019 was NOK 100.2 million, an increase of 45.7 percent compared to the first three months of last year (NOK 68.8 million). The growth was driven by increased lending volume, while interest margins were slightly down both in Norway and Finland.

Total income was NOK 87.6 million. Operating costs amounted to NOK 34.9 million. Cost/income ratio was down 13 percentage points compared to the same period last year mainly driven by lower level of marketing spending. Due to regulatory uncertainty in Norway, Monobank decided to induce a more

conservative approach in the quarter pending clarity.

Operating profit before impairment provisions was NOK 49.7 million compared to a profit of NOK 32.2 million for the first quarter of 2018. Operating profit was negatively affected by a loss on currency and trading activities of NOK 3.1 million compared to a gain of NOK 2.1 million in the comparable quarter last year.

Write-down on loans were NOK 29.1 million in the quarter compared to NOK 19.1 million in the first quarter 2018. The loan loss ratio<sup>1</sup> was

<sup>1</sup> Loan loss ratio: Last twelve months impairment losses/average net loans to customer LTM. The

methodology used in determining loss provision have been constant since inception.

4.0 percent in the quarter compared to 2.9 percent in the same quarter last year.

The increased provisions are mainly a result of increased portfolio insight. Going forward losses on loans in the Norwegian portfolio will be moderated by the forward flow agreement

that was put into effect in the second quarter last year.

The result was a profit of NOK 20.6 million before taxes in the period, while the after-tax profit ended at NOK 16.1 million.

## Balance sheet

Total assets amounted to NOK 5 241 million as of 31 March 2019 up from NOK 4 876 million at the end of the fourth quarter 2018. The bank's net loan balance was NOK 3 988 million (NOK 3 706 million) including unspecified loss provisions and excluding prepaid agency commissions. Of loans outstanding at 31 March, NOK 1 510 million was extended to Finnish customers representing 37 percent of total net loans.

Deposits from customers were NOK 4 414 million (NOK 4 125 million). Monobank's bank deposits and liquid securities amounted to NOK 1 021 million. Within policy guidelines, the bank seeks to optimize interest income through diversified placement of liquidity within eligible investment instruments.

Total equity was NOK 681 million and CET1 was 16.3 percent. Assuming debt securities

were placed entirely in zero weighted instruments the CET1 would be 16.5%. Minimum weighted CET1 is 13.3 per cent.

In the quarter, Monobank successfully completed a private placement amounting to NOK 57.8 million in connection with the merger agreement between Monobank and BRABank.

Based on The Financial Supervisory Authority of Norway's (FSA) preliminary review Monobank has been advised that the bank shall maintain a capital of 6.3 per cent above the minimum requirement of risk weighted assets (Pillar II). Monobank does not agree with all of the Financial Supervisory Authority's assessments and has appealed the decision.

For further information about regulatory capital ratios, see note 3.

## Events after the balance date

There is no significant event to report.

## Other information

Monobank has received objections to its registration and use of trademarks in certain EU countries from the French company Monabanq SA. Monobank does not agree with these

objections. Nevertheless, assuming approval of the merger with BRABank, the combined bank will take the name BRABank.

## 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 2018 gives a fair description of principal risks and uncertainties that may affect Monobank in the second quarter 2019. The bank is not aware of any significant

new risks or uncertainties or significant changes to those risks or uncertainties.

## Outlook

Important milestones were reached during the first quarter to secure the long-term profitable growth for Monobank.

The proposed merger with BRABank was approved by the AGM on 20 March and is expected to be completed during the second quarter of 2019.

The transaction will create a well-capitalized and well-positioned bank with significant growth ambitions in the Nordic consumer finance market. Net outstanding loans is expected to reach NOK five billion at year-end 2019 and NOK 10 billion in five years.

The combined bank has an ambition to deliver a return on equity in the range of 10 to 15 percent in 2020-2021 and a long-term return on equity in excess of 20 percent. The combined unit's cost/income ratio is also expected to

improve significantly to below 35 percent within the next five years.

Expected transaction and restructuring costs are estimated to be approximately NOK 60 million and expected write down of intangibles of about NOK 38 million.

The gradual introduction of the Widerøe-branded digital credit card platform has been well received in the market and Monobank will now increase the marketing effort towards Widerøe 2.8 million passengers per year.

At the end of the first quarter Monobank launched its digital consumer finance offering in Sweden. The expansion fits well with BRABank's current presence in the Swedish consumer credits market and will increase the bank's growth opportunities and exploit the economies of scale in the business model.

## Financial statement (unaudited)

### Statement of comprehensive income

| <i>In NOK thousands</i>                | Q1 2019        | Q1 2018       | YTD<br>2019    | YTD<br>2018   | 2018           |
|--|----------------|---------------|----------------|---------------|----------------|
| Interest income                        | 118 714        | 84 702        | 118 714        | 84 702        | 403 642        |
| Interest expenses                      | 18 537         | 15 940        | 18 537         | 15 940        | 71 996         |
| <b>Net interest income</b>             | <b>100 176</b> | <b>68 761</b> | <b>100 176</b> | <b>68 761</b> | <b>331 646</b> |
| Income commissions and fees            | 7 676          | 6 485         | 7 676          | 6 485         | 25 970         |
| Expenses commissions and fees          | 20 217         | 10 988        | 20 217         | 10 988        | 60 456         |
| <b>Total income</b>                    | <b>87 635</b>  | <b>64 259</b> | <b>87 635</b>  | <b>64 259</b> | <b>297 161</b> |
| Income/loss from trading activities    | -3 103         | 2 136         | -3 103         | 2 136         | 4 136          |
| Staff costs                            | 11 413         | 7 793         | 11 413         | 7 793         | 42 423         |
| Other administrative expenses          | 18 847         | 24 234        | 18 847         | 24 234        | 80 361         |
| - of which marketing expenses          | 6 319          | 14 598        | 6 319          | 14 598        | 41 393         |
| Depreciation and amortisation          | 4 617          | 2 131         | 4 617          | 2 131         | 10 855         |
| <b>Total operating costs</b>           | <b>34 876</b>  | <b>34 158</b> | <b>34 876</b>  | <b>34 158</b> | <b>133 640</b> |
| <b>Profit before impairment losses</b> | <b>49 655</b>  | <b>32 237</b> | <b>49 655</b>  | <b>32 237</b> | <b>167 658</b> |
| Impairment losses                      | -29 088        | -19 057       | -29 088        | -19 057       | -128 435       |
| <b>Operating profit before tax</b>     | <b>20 567</b>  | <b>13 180</b> | <b>20 567</b>  | <b>13 180</b> | <b>39 223</b>  |
| Tax charge                             | -4 443         | -3 122        | -4 443         | -3 122        | -8 655         |
| <b>Profit for the year</b>             | <b>16 124</b>  | <b>10 058</b> | <b>16 124</b>  | <b>10 058</b> | <b>30 567</b>  |

## Statement of financial position

| <i>NOK million</i>                          | <b>31.03.2019</b> | <b>31.03.2018</b> | <b>31.12.2018</b> |
|---|-------------------|-------------------|-------------------|
| <b>Assets</b>                               |                   |                   |                   |
| Loans and advances to banks                 | 108 366           | 65 439            | 108 790           |
| Loans and advances to customers             | 4 134 826         | 2 945 025         | 3 844 229         |
| Provision for impairment losses             | 146 806           | 69 470            | 138 493           |
| <b>Net loans and advances to customers</b>  | <b>3 988 020</b>  | <b>2 875 555</b>  | <b>3 705 736</b>  |
| Debt securities                             | 912 844           | 625 089           | 851 879           |
| Deferred tax asset                          | 2 791             | 5 470             | 2 791             |
| Other intangible assets                     | 70 026            | 47 157            | 67 064            |
| Property, plant and equipment               | 2 902             | 2 094             | 2 681             |
| Financial derivatives                       | 1 832             | 0                 | 6 644             |
| Prepayments accrued income and other assets | 155 189           | 103 108           | 130 341           |
| - of which accrued commission to agents     | 130 791           | 97 586            | 121 249           |
| <b>Total assets</b>                         | <b>5 241 971</b>  | <b>3 723 911</b>  | <b>4 875 927</b>  |
| <b>Equity and liabilities</b>               |                   |                   |                   |
| <b>Liabilities</b>                          |                   |                   |                   |
| Deposits by customers                       | 4 413 713         | 3 057 120         | 4 125 245         |
| Provisions, accruals and other liabilities  | 42 092            | 30 014            | 40 668            |
| Subordinated loan                           | 98 823            | 98 483            | 98 739            |
| Financial derivatives                       | 0                 | 4 489             | 0                 |
| Tax payable                                 | 6 548             | 0                 | 2 105             |
| <b>Total liabilities</b>                    | <b>4 561 176</b>  | <b>3 190 106</b>  | <b>4 266 756</b>  |
| <b>Equity</b>                               |                   |                   |                   |
| Share capital                               | 304 467           | 249 196           | 274 023           |
| Surplus capital                             | 311 676           | 256 591           | 286 621           |
| Retained Earnings                           | 64 651            | 28 018            | 48 527            |
| Not registered capital                      | 0                 | 0                 | 0                 |
| Other paid in capital (options)             | 0                 | 0                 | 0                 |
| <b>Total equity</b>                         | <b>680 795</b>    | <b>533 805</b>    | <b>609 171</b>    |
| <b>Total equity and liabilities</b>         | <b>5 241 971</b>  | <b>3 723 911</b>  | <b>4 875 927</b>  |

Jan Greve-Isdahl  
Chairman of the Board

Tore Hopen

Mette Henriksen

Guro Røberg

Torhild Eide Torgersen

Tore Amundsen  
Employee representative

Bent Gjendem  
CEO



## 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 01.01.2019</b>       | 274 023              | 286 621                | 0                                      | 0                             | 48 527                   | 609 171      |
| Profit/(loss) for the period      | 0                    | 0                      | 0                                      | 0                             | 16 124                   | 16 124       |
| Option programme                  | 0                    | 0                      | 0                                      | 0                             | 0                        | 0            |
| Shares issued net of fees and tax | 30 444               | 25 055                 | 0                                      | 0                             | 0                        | 55 499       |
| <b>Equity at 31.03.2019</b>       | 304 467              | 311 676                |  |                               | 64 651                   | 680 795      |

**Statement of cash flows**

| <i>In NOK thousand</i>   | <b>31.03.2019</b> | <b>31.03.2018</b> | <b>31.12.2018</b> |
|--|-------------------|-------------------|-------------------|
| <i>Cash flows from operating activities</i>                              |                   |                   |                   |
| Operating profit/(loss) before tax                                       | 20 567            | 13 180            | 39 223            |
| Adjustment for change in provision for impairment losses                 | 8 313             | 18 789            | 87 812            |
| Adjustment for unrealised changes in fair value of financial instruments | (12 996)          | (10 040)          | 4 158             |
| Adjustment share option programme  | -                 | -                 | -                 |
| Depreciation and amortisation  | 4 701             | 2 215             | 10 855            |
| Changes in loans and advances to customers                               | (290 597)         | (542 156)         | (1 441 359)       |
| Changes in deposits by customers   | 288 469           | 405 259           | 1 473 384         |
| Changes in financial derivatives   | 4 812             | 5 863             | (5 270)           |
| Changes in debt securities   | (47 969)          | 141 488           | (99 913)          |
| Changes in other operating assets and liabilities                        | (23 424)          | (16 796)          | (33 375)          |
| <b>Net cash flows from operating activities</b>                          | <b>(48 125)</b>   | <b>17 802</b>     | <b>35 514</b>     |
| <i>Cash flows from investing activities</i>                              |                   |                   |                   |
| Purchase of property, plant and equipment                                | -636              | (572)             | (2 008)           |
| Investment in intangible assets  | (7 164)           | (9 706)           | (37 489)          |
| <b>Net cash flows from investing activities</b>                          | <b>7 799</b>      | <b>(10 278)</b>   | <b>(39 497)</b>   |
| <i>Cash flows from financing activities</i>                              |                   |                   |                   |
| Issue of ordinary shares   | 55 499            | 1 916             | 56 774            |
| Issued Tier 1 and Tier 2 capital   | -                 | -                 | -                 |
| <b>Net cash flows from financing activities</b>                          | <b>55 499</b>     | <b>1 916</b>      | <b>56 774</b>     |
| <b>Net increase/(decrease) in cash and cash equivalents</b>              | <b>(425)</b>      | <b>9 440</b>      | <b>52 791</b>     |
| Cash and cash equivalents at period start                                | 108 790           | 56 000            | 56 000            |
| <b>Cash and cash equivalents at period end</b>                           | <b>108 366</b>    | <b>65 440</b>     | <b>108 790</b>    |
| Cash and cash equivalents consist of:                                    |                   |                   |                   |
| Loans and advances from banks  | 108 366           | 65 439            | 108 790           |

## Notes to the financial statements

### Note 1 Accounting principles

Monobank Q1 2019 report is prepared in accordance with general accounting principles as described in the annual report for 2018. The report has not been audited.

### Note 2 Loans and advances to customers

| <i>In NOK thousands</i>                                 | <b>31.03.2019</b> | <b>31.03.2018</b> | <b>31.12.2018</b> |
|---|-------------------|-------------------|-------------------|
| Loans and advances to customers                         | 4 025 563         | 2 879 931         | 3 738 112         |
| Receivables   | 109 263           | 65 094            | 106 118           |
| Provision for impairment losses – collectively assessed | (16 079)          | (14 086)          | (15 514)          |
| Provision for impairment losses – individual assessment | (130 727)         | (55 384)          | (122 979)         |
| <b>Net loans and advances to customers</b>              | <b>3 988 020</b>  | <b>2 875 555</b>  | <b>3 705 736</b>  |

| <b>Provision for impairment losses – collectively assessed</b>                        | <b>31.03.2019</b> | <b>31.03.2018</b> | <b>31.12.2018</b> |
|---|-------------------|-------------------|-------------------|
| Provision for impairment losses collectively assessed at the start of the period      | 15 514            | 9 089             | 9 089             |
| Losses/(releases) to income statement   | 565               | 4 997             | 6 425             |
| <b>Provision for impairment losses collectively assessed at the end of the period</b> | <b>16 079</b>     | <b>14 086</b>     | <b>15 514</b>     |

| <b>Provision for impairment losses – individual assessment</b>                        | <b>31.03.2019</b> | <b>31.03.2018</b> | <b>31.12.2018</b> |
|---|-------------------|-------------------|-------------------|
| Provision for impairment losses individual assessment at the start of the period      | 122 979           | 41 592            | 41 592            |
| Losses/(releases) to income statement   | 7 747             | 13 792            | 81 388            |
| <b>Provision for impairment losses individual assessment at the end of the period</b> | <b>130 727</b>    | <b>55 384</b>     | <b>122 979</b>    |

| <b>Realised losses</b>    |                   |                   |                   |
|---------------------------|-------------------|-------------------|-------------------|
| <i>In NOK thousands</i>   | <b>31.03.2019</b> | <b>31.03.2018</b> | <b>31.12.2018</b> |
| Change in realised losses | 20 775            | 268               | 40 623            |

Net loans and advances to customers for Norway reflects MNOK 89 of sold loans through forward flow agreement within 1st quarter of 2019.

**Loan to customers by geography**

| <i>In NOK thousands</i>  | <b>31.03.2019</b> | <b>31.03.2018</b> | <b>31.12.2018</b> |
|--|-------------------|-------------------|-------------------|
| <b>Norway</b>  |                   |                   |                   |
| Gross loans and receivables including invoiced interests and instalments | 2 624 334         | 2 363 311         | 2 588 493         |
| Provisions for impairment losses   | 106 952           | 62 655            | 108 671           |
| Net loans and receivables to customers                                   | 2 517 382         | 2 300 656         | 2 479 822         |

| <i>In NOK thousands</i>  | <b>31.03.2019</b> | <b>31.03.2018</b> | <b>31.12.2018</b> |
|--|-------------------|-------------------|-------------------|
| <b>Finland</b>   |                   |                   |                   |
| Gross loans and receivables including invoiced interests and instalments | 1 510 492         | 581 714           | 1 255 737         |
| Provisions for impairment losses   | 39 854            | 6 815             | 29 822            |
| Net loans and receivables to customers                                   | 1 470 638         | 574 899           | 1 225 914         |

|   |                  |                  |                  |
|---|------------------|------------------|------------------|
| <b>Total net loans and receivables to customers</b> | <b>3 988 020</b> | <b>2 875 555</b> | <b>3 705 736</b> |
|---|------------------|------------------|------------------|

**Defaulted loans and losses**

| <i>In NOK thousands</i>        | <b>31.03.2019</b> | <b>31.03.2018</b> | <b>31.12.2018</b> |
|--------------------------------|-------------------|-------------------|-------------------|
| Defaulted loans                | 474 662           | 251 745           | 436 110           |
| Individual impairment of loans | (130 727)         | (55 384)          | (122 979)         |
| Net defaulted loans            | 343 936           | 196 361           | 313 131           |

### Note 3 Capital adequacy

| <i>In NOK thousands</i>  | <b>31.03.2019</b> | <b>31.03.2018</b> | <b>31.12.2018</b> |
|--|-------------------|-------------------|-------------------|
| Share capital  | 304 467           | 249 196           | 274 023           |
| Surplus capital  | 311 676           | 274 551           | 286 621           |
| Retained Earnings  | 48 527            | 10 058            | 48 527            |
| - Deduction of deferred tax assets, other intangible assets and additional valuation adjustments | (70 939)          | (41 458)          | (67 916)          |
| <b>Common equity Tier 1 capital</b>  | <b>593 731</b>    | <b>492 347</b>    | <b>541 255</b>    |
| Additional Tier 1 capital instruments  | 50 000            | 50 000            | 50 000            |
| <b>Tier 1 capital</b>  | <b>643 731</b>    | <b>542 347</b>    | <b>591 255</b>    |
| Subordinated loan capital  | 50 000            | 50 000            | 50 000            |
| <b>Tier 2 capital</b>  | <b>693 731</b>    | <b>592 347</b>    | <b>641 255</b>    |
| <b>Capital requirements</b>  | <b>31.03.2019</b> | <b>31.03.2018</b> | <b>31.12.2018</b> |
| Institutions   | 41 074            | 54 445            | 23 939            |
| Loans to customers 75% as of 25.04.17  | 2 748 029         | 2 014 736         | 2 552 646         |
| Defaulted loans 100%   | 343 936           | 196 361           | 313 130           |
| Covered bonds  | 10 920            | 8 159             | 8 743             |
| Other assets   | 160 883           | 105 202           | 135 813           |
| Corporate  | -                 | 150 152           | -                 |
| Regional governments or local authorities  | 12 061            | 39 135            | 4 506             |
| <b>Market risk</b>   | <b>0</b>          | <b>0</b>          | <b>0</b>          |
| <b>Operational risk</b>  | <b>316 914</b>    | <b>196 783</b>    | <b>316 914</b>    |
| <b>CVA risk</b>  | <b>2 065</b>      | <b>235</b>        | <b>239</b>        |
| <b>Total risk-weighted volume and capital requirements</b>                                       | <b>3 635 881</b>  | <b>2 765 207</b>  | <b>3 355 930</b>  |
| Common equity Tier 1 capital ratio   | 16,3 %            | 17,8 %            | 16,1 %            |
| Tier 1 capital ratio   | 17,7 %            | 19,6 %            | 17,6 %            |
| Capital ratio  | 19,1 %            | 21,4 %            | 19,1 %            |
| Minimum CET 1 capital ratio requirement  | 13,3 %            | 13,6 %            | 13,5 %            |

LCR (Liquidity Coverage Ratio) 552% and NSFR (Net Stable Funding Ratio) 172 % as of 31.3.2019

# MONOBANK

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Monobank ASA - Starvhusgaten 4, 5014 Bergen - 55 96 10 00 - [www.monobank.no](http://www.monobank.no)