

Initiate coverage with HOLD

Fellow Bank is through its new operating model in a better position to accelerate growth and compete in new customer sub-segments. 2022 will be heavily affected by the transition but will set a foundation for clear growth and profitability improvements. We initiate coverage of Fellow Bank with a HOLD-rating and TP of EUR 0.42.

Digital bank focused on own balance sheet lending

Fellow Bank is a digital bank providing lending and banking and financial services to individuals and SME's and offering savers a return on their deposits. Through a recent merger, the company is shifting towards lending from its own balance sheet, having been established as an international marketplace lending platform. The new operating model and cheaper form of funding in our view offers additional growth potential and improves the company's competitiveness, which opens up potential to target new customer sub-segments.

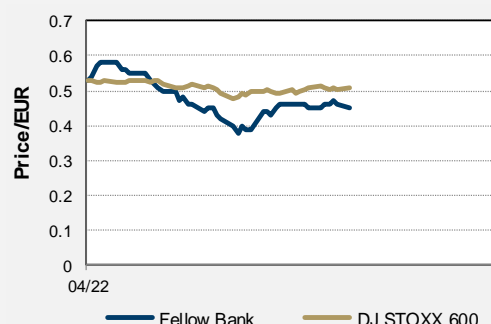
Seeking over 25% annual growth of loan portfolio

The company's financial targets for 2022-2026 are: annual growth of more than 25% of the loan portfolio, a return on equity of more than 15% by the end of the target period and a capital adequacy ratio of at least 18% (T1). 2022 will be a tougher year financially due to exceptional costs relating to the merger and the build up the company's loan book. We expect the company's financials to turn on a clearly more favourable path in 2023 with the buildup of the loan book and further new growth. We expect profitability to pick-up during 2023-2024 with the growth and scalability of the operating model and expect the ROE to improve to 13.2% by 2024.

HOLD-rating with a target price of EUR 0.42

We initiate coverage of Fellow Bank with a target price of EUR 0.42 and HOLD-rating. Valuation is currently rather stretched when comparing with peers. Fellow Bank is however still in the early stages of its planned growth phase and the near-term potential for rapid growth in our view presents a justifiable reason to stay along for the early stages of the company's growth story.

Rating 🟡 HOLD



Share price, EUR (Last trading day's closing price) **0.45**
Target price, EUR **0.42**

Latest change in recommendation 07-Jun-22
Latest report on company 07-Jun-22
Research paid by issuer: YES
No. of shares outstanding, '000's 87,157
No. of shares fully diluted, '000's 87,157
Market cap, EURm 39
Free float, % -
Exchange rate -
Reuters code FELLOW.HE
Bloomberg code FELLOW FH
Average daily volume, EURm -
Next interim report 25-Aug-22
Web site www.fellowbank.com

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🟢 BUY 🟡 HOLD 🔴 SELL

KEY FIGURES

	Revenues EURm	Op. profit EURm	Net profit EURm	EPS EUR	P/E (x)	P/B (x)	Cost/income %	ROE %	Div. yield %	DPS EUR
2020	0	0	0	0.00	0.0	0.0	0.0	0.0	0.0	0.00
2021	0	0	0	0.00	0.0	0.0	0.0	0.0	0.0	0.00
2022E	8	-4	-3	-0.03	-14.7	1.3	96.1	-9.2	0.0	0.00
2023E	18	4	2	0.03	17.9	1.2	53.6	8.9	0.0	0.00
2024E	23	6	5	0.05	8.4	1.0	46.0	13.2	0.0	0.00

All the important disclosures can be found on the last pages of this report.

Market cap, EURm	39	BV per share 2022E, EUR	0.3	CAGR EPS 2021-24, %	-
Equity 2022E, EURm	30	Loan losses 2022E, %	3.20	CAGR op. profit 2021-24, %	-
Total assets, 2022E, EURm	281	Tax rate 2022E, %	18.9	CAGR revenues 2021-24, %	-
Lending 2022E, EURm	155	Tier 1 ratio 2022E, %	20.2	CAGR DPS 2021-24, %	-
RWA 2022E, EURm	139	Capital ratio 2022E, %	20.2	PEG, P/E 22/CAGR	-

Investment summary

Newly formed digital bank with on-balance sheet activity focus

Fellow Bank was established as an international marketplace lending platform connecting investors and borrowers. Through a recent merger, the company is shifting towards lending from its own balance sheet. Fellow Bank is a FinTech company applying digital technology to challenge incumbents in the financial sector. The company was founded in 2013 and began operations in 2014, currently employing some 80 people. The company has during its history facilitated financing for just short of one billion euros worth of loans.

Lending and banking and financial services to individuals and SME's

Fellow Bank is a digital bank providing lending and banking and financial services to individuals and SME's and offering savers a return on their deposits. The company has during recent years invested into expand its offering, from formerly having offered essentially only a narrower set of lending products. The new products are transforming the company to be able to offer a comprehensive range of services to for instance be able to provide everyday banking needs for individuals. The merger also opens new opportunities for expanding the offering.

Seeking over 25% annual growth in loan book and over 15% ROE by 2026

The company has stated that its strategy revolves around a first-class customer experience in digital services combined with flexible personal customer service. The company aims for growth and high profitability by focusing on selected underserved customer segments and product areas that are attractive for the company's earnings. Fellow Bank pursues high operational efficiency aided by the digital operating model, a limited range of services, modern information systems and an efficient organization. The company's financial targets for 2022-2026 are: annual growth of more than 25% of the loan portfolio, a return on equity of more than 15% by the end of the target period and a capital adequacy ratio of at least 18% (T1).

2022 result expected to be notably negative, loan book over EUR 150m

Fellow Bank has regarding its financial performance in 2022 in its outlook estimated that the result for 2022 will be notably negative. This is a result of the non-recurring costs related to the completed corporate reorganization, the investments required by the credit institution's operations and the frontloaded costs caused by the strong growth of the loan portfolio related to new customer acquisition and loan loss provisions. The loan portfolio is estimated to reach at least EUR 150m at the end of 2022.

Expecting ROE to improve to 13.2% in 2024

We expect the company's financials to turn on a clearly more favourable path in 2023 after the exceptional 2022. With the buildup of the loan book in 2022 and further estimated growth of 35% in 2023 we expect a total income of 17.7m and an operating profit of EUR 2.8m. With the continued growth and scaling of the operations the operating profit improves to EUR 4.6m in 2024 on our estimates and ROE improves to 13.2%. Profitability is aided by the new operating model, with funding primarily based on customer deposits. Fellow Bank has set a target CET 1 ratio of 18% for the time period 2022-2026. On our estimates the company will need to seek additional by 2024 to sustain the requirement and growth in the loan book.

Initiate coverage with HOLD-rating and target price of EUR 0.42

We initiate coverage of Fellow Bank with a target price of EUR 0.42 and HOLD-rating. Valuation is currently rather stretched when comparing with peers. Fellow Bank is however still in the early stages of its planned growth phase and the near-term potential for rapid growth in our view presents a justifiable reason to stay along for the early stages of the company's growth story.

Company overview

Newly formed digital bank with on-balance sheet activity focus

Fellow Bank was established as an international marketplace lending platform connecting investors and borrowers. Through a recent merger, the company is shifting towards lending from its own balance sheet. Fellow Bank is a FinTech (abbrev. Financial Technology) company applying digital technology to challenge incumbents in the financial sector. The company was founded in 2013 and began operations in 2014, currently employing some 80 people. The company has during its history facilitated financing for just short of one billion euros worth of loans. Fellow Bank has facilitated financing to customers in Finland, Germany, Denmark, Poland, Sweden, and the Czech Republic, now operating only in the four first previously mentioned countries. Fellow Bank completed its IPO in October 2018. The company's shares are listed on Nasdaq's First North Finland exchange.

New model offers potential to gain more market share

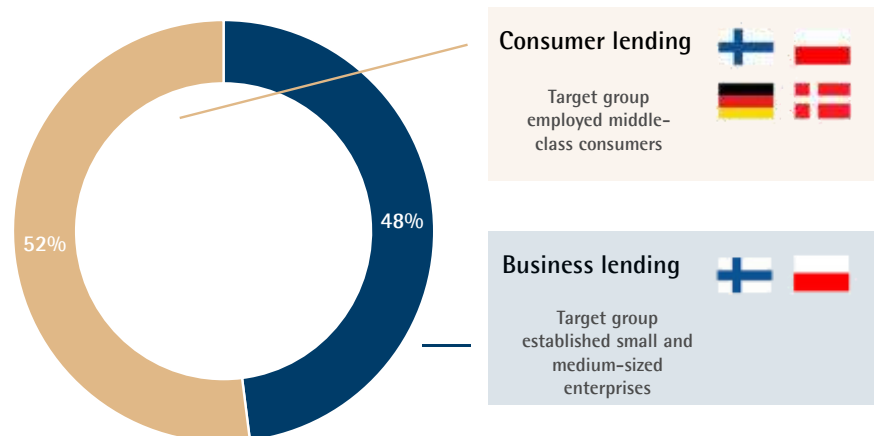
Fellow Bank acts primarily as a lender to borrowers in need of funds, with funding made from its own balance sheet using savers' deposits. A fast and effortless user experience has been central to the services offered. Fellow Bank competes with lenders, lending platforms and traditional financial institutions, such as banks and consumer finance companies, to attract borrowers. The shift towards lending from its own balance sheet, as opposed to the former business model of acting as an intermediary between borrowers and investors, offers better potential to capture a larger share of the income and compete more aggressively through lower loan interest rates.

Fellow Bank currently offers the following general loan products to its borrower customers:

- Consumer loans
- Business loans
- Invoice and purchase invoice funding

Consumer loans have been the backbone of Fellow Bank's facilitated loans (as Fellow Finance), but the mix has shifted more heavily towards business lending in recent years. Consumer lending has been impacted by the coronavirus pandemic, with restrictions having been made to the maximum interest rates as an effort to protect consumers during the period of increased uncertainty. Business lending growth has been driven by invoice funding, which has seen an overall increase in demand during recent years.

Figure 1: Share of funding (2021)

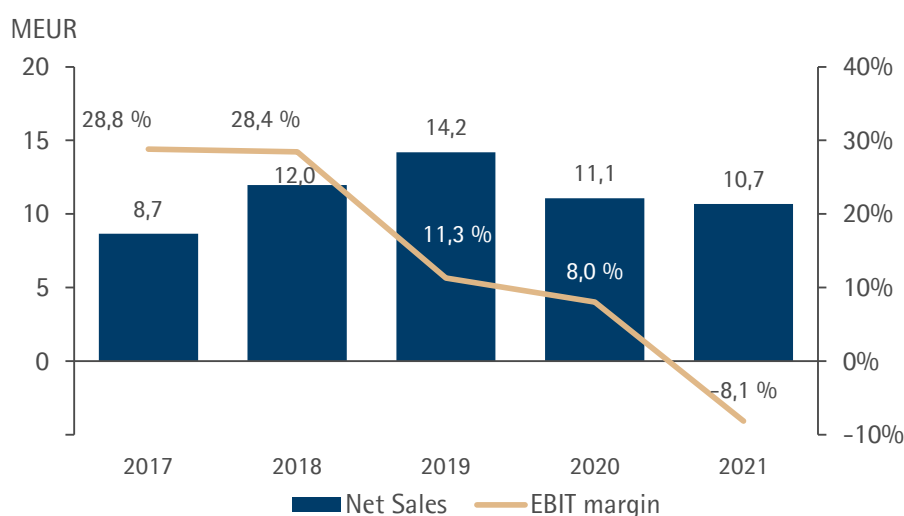


Source: Fellow Bank, Evli Research

Financial development trend has seen challenges in recent years

Before becoming Fellow Bank, as Fellow Finance, the company saw net sales decline 3.5% to EUR 10.7m (11.1m) in 2021. The operating profit in 2021 amounted to EUR -0.9m (0.9m), equaling -8.1% of net sales. The company's facilitated financing volumes grew well, but growth was driven by lower margin business loan products and although fee income also grew, the pace was below that of the loan volume growth. Furthermore, the company's interest income decreased quite notably as a result of lower loan investment activity. The company's profitability was significantly affected by costs relating to the merger.

Figure 2: Net sales and EBIT 2017-2021 (as Fellow Finance)



Source: Fellow Bank, Evli Research

Mixed success as Fellow Finance, expansion potential in place through new operating model

Fellow Bank has as Fellow Finance been able to prove its operating capabilities, with challenges that have been met having related mainly to unfavourable market conditions and regulatory framework. We see that the new Fellow Bank has good potential to continue expansion. The main driver in our view is the more affordable source of funding, with savers deposits as the primary source of income as opposed to investors with much higher requirements for return on capital. Fellow Bank has also been investing into new products and services, which should benefit in winning new customers and increasing the amount of repeat customers.

Merger to form Fellow Bank

Merger with company carrying out Evli's banking services

On the 4.4.2022, a merger between the former Fellow Finance and the company carrying on Evli's (former Evli Bank) banking services was carried out to form Fellow Bank. Operationally the largest change in our view is the change in model for loan funding, as formerly Fellow Bank operated a peer-to-peer lending platform, with a smaller subsidiary (Lainaamo Oy) for limited own balance lending. The new Fellow Bank will transition to becoming solely a balance sheet lender. Fellow Bank now also serves savers, with Evli Bank having operated as a deposit bank since 2001. In terms of offered services, the merger for now has not materially affected the offering but has opened new opportunities.

Merger offers more favourable funding potential for Fellow Bank

Fellow Bank and Evli announced on the 14.7.2021 that a combination agreement had been signed between the two parties. Evli had earlier during the year announced that it had commenced a strategic review regarding its banking services. For Fellow Bank, the merger in our view makes sense from several perspectives, maybe the most significant being the relatively expensive capital from investors in the peer-to-peer lending model as opposed to own balance sheet lending backed by deposits.

Involved a directed share issue to strengthen Tier 1 capital and own funds

In the merger, Evli carried out a partial demerger, with the asset management group Evli continuing as a listed company, and the company carrying on Evli's banking services, Evli Bank, merged with Fellow Finance to become Fellow Bank. In the merger, Evli Bank's class A shares were converted into class B shares to have only a single share class. In the merger, the shareholders of Fellow Finance received six new shares of Evli Bank for each share they held in Fellow Finance. As part of the arrangement Taaleri Plc and TN Ventures Oy subscribed and paid for new shares in Fellow Bank in the merger in a directed share issue so that Fellow Bank received approximately a total of EUR 11.7m of additional capital, in order to strengthen the bank's core Tier 1 capital and own funds. The share issue represents approximately 23 percent of Fellow Bank's all shares immediately after the completion of the agreement.

Fellow Bank now has over 12 000 deposit customers

With the completion of the merger, the assets and liabilities relating to banking services of the former Evli Bank, i.e. the operations falling under the credit institution license, were transferred to Fellow Bank. This included customer deposits in Evli, which as of 2.4.2022 were over EUR 230m from over 13 000 deposit customers. As a result, Fellow Bank now holds a credit institution license, which it previously did not have. Evli's equity was divided so that approximately EUR 6.4m of Tier 1 core equity (CET 1) remained in Fellow Bank. Furthermore, some 10 employees were transferred from Evli Bank to Fellow Bank.

Key figures of Fellow Bank after completion of the merger

- Deposit customers: over 12 000
- Active borrower customers: over 33 000 customers
- Deposits: over EUR 230m
- Balance sheet total: over EUR 280m (unaudited estimate)
- Personnel: 80 persons

Business overview

Digital bank providing lending and banking and financial services

Fellow Bank is a digital bank providing lending and banking and financial services to individuals and SME's and offering savers a return on their deposits. The company has during recent years invested into expand its offering, from formerly having offered essentially only a narrower set of lending products. The new products are transforming the company to be able to offer a comprehensive range of services to for instance be able to provide everyday banking needs for individuals. The merger also opens new opportunities for expanding the offering.

Figure 4: Intermediated loan volume, cumulative (EURm)*

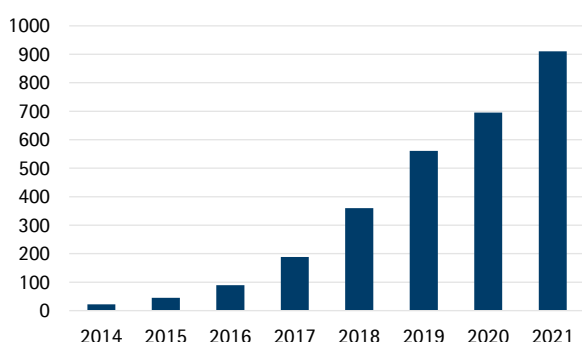
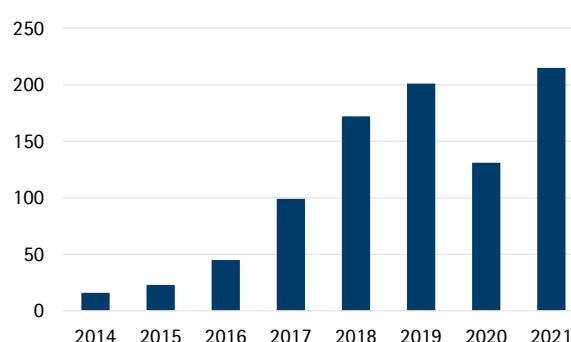


Figure 5: Intermediated loan volume, annual (EURm)*



Source: Fellow Bank, Evli Research. *As Fellow Finance

Interest income from loans primary source of income

The company's primary source of income has been fees from arranging and maintaining loans. With the on-going shift towards lending from its own balance sheet, the income model will be based on interest on the loans. A simplified illustration of Fellow Bank's business model in terms of lending and funding is illustrated in figure 5. In simplicity, the validity of the business model relies on the difference between the costs of funding and lending. With the transition to balance sheet lending and funding primarily sought from savings deposits, the cost of funding has decreased substantially from the earlier P2P model, as investor's return requirement were clearly higher than the 0.5%-1.5% that Fellow Bank pays on deposits. The interest rates charged from consumer lenders on the other hand are clearly higher, as funds are lent on a non-collateral basis and the risks as such necessitate much higher interest rates when comparing to for instance mortgage loans. Interest rates for business lending vary based on the type of loans, as business loans with a longer duration will have lower effective annual interest rates compared with short duration invoice funding.

Seeking to be able to provide everyday banking services

Fellow Bank is also to an increasing extent expanding its service range to more and more become a bank to provide everyday banking services needs for its customers. This includes for instance credit cards and e-commerce payments, and Fellow Bank has communicated that it is seeking to broaden its offering. Although we argue that the financial impact of the additional services in terms of income is limited compared with the income earned from fees and interest on loans, the more important aspect lies in the perceived customer experience. Individuals and entities that seek financing will in many cases seek to utilize these services in the future. As such, if Fellow Bank is able to provide a good customer experience, the customers may well become repeat customers in the future. This will then translate into lower customer acquisition costs and an increase in fee and interest income.

Figure 6: Simplified illustration of Fellow Bank's lending model



Source: Fellow Bank, Evli Research

Fellow Bank has set its focus on three customer segments: personal customers, business customer and savers. Fellow Bank has already before the merger served personal and business customers, and now also serves savers transferred through the merger and seeks to attract new customers.

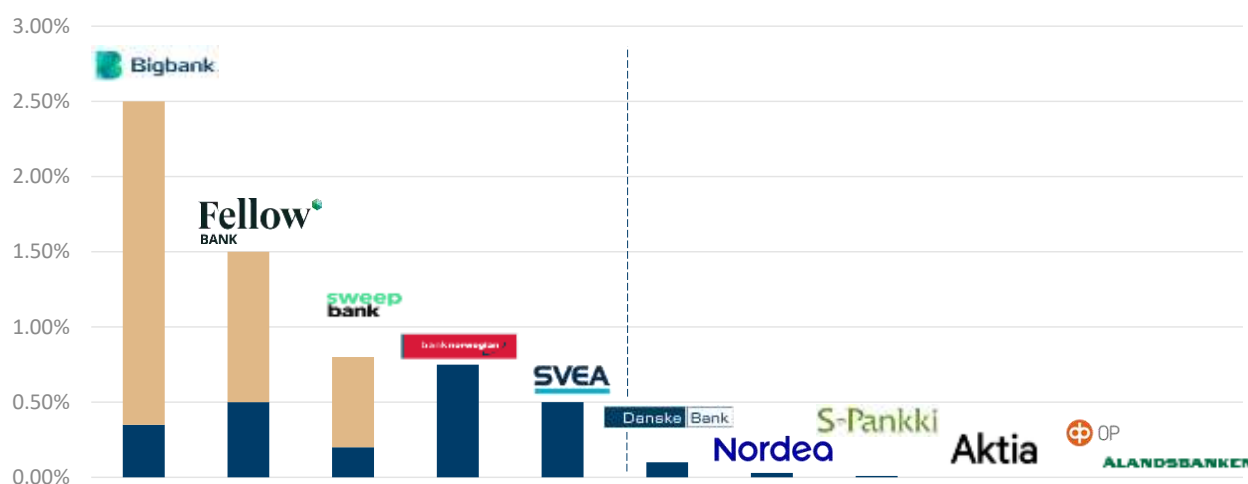
Figure 7: Attributes of Fellow Bank's offering to attract lenders and borrowers

	Primary target segments	Service offering						
<p>Personal customers</p>	<ul style="list-style-type: none"> Private individuals in need of banking services for management of everyday financial matters and flexible financing 	<p>Everyday banking services</p> <table border="1"> <tr> <td>Accounts and payments</td> <td>Savings account</td> </tr> <tr> <td>Credit cards</td> <td>Consumer loans</td> </tr> <tr> <td>E-commerce payments</td> <td>Car loans</td> </tr> </table> <p>Tools for managing personal finances</p>	Accounts and payments	Savings account	Credit cards	Consumer loans	E-commerce payments	Car loans
Accounts and payments	Savings account							
Credit cards	Consumer loans							
E-commerce payments	Car loans							
<p>Business customers</p>	<ul style="list-style-type: none"> SME's with a stable business in need of flexible banking and financing services 	<p>Comprehensive services for SME's</p> <table border="1"> <tr> <td>Accounts and payments</td> <td>Credit limit</td> </tr> <tr> <td>Invoice funding</td> <td>E-commerce payments</td> </tr> <tr> <td>Credit cards</td> <td>Business loans</td> </tr> </table> <p>Financial management services integrations</p>	Accounts and payments	Credit limit	Invoice funding	E-commerce payments	Credit cards	Business loans
Accounts and payments	Credit limit							
Invoice funding	E-commerce payments							
Credit cards	Business loans							
<p>Savers</p>	<ul style="list-style-type: none"> Savers seeking safe and competitive returns on deposits Integrated service model for deposited funds for Evli's customers 	<p>Competitive and secure returns made easy</p> <table border="1"> <tr> <td>Savings account</td> <td>Time deposits</td> </tr> </table>	Savings account	Time deposits				
Savings account	Time deposits							

Source: Fellow Bank, Evli Research

A key driver for the rise in alternative financing to both businesses and personal customers has been due to certain needs being underserved by the more traditional banks. One contributing factor has been the challenges in smaller loans and collateral free loans. Otherwise creditworthy individuals were formerly quite excluded from the lending market when seeking financing for certain investments or needs that they would not have been able to fund in one go but instead over time. These could for instance be related to renovations, travel or certain celebratory occasions such as weddings. This also applies in a similar manor to businesses, were certain short- or longer-term needs can not be covered fully when needed, but through cash flows over time. Banks were typically not known for providing such loans, as smaller loans and loans without collateral were seen as financially unattractive or too risky. The alternative financing lenders have through digitalization, flexibility, and enhanced credit scoring models been able to provide services for these formerly underserved individuals and entities.

Figure 8: Interest on savings and maximum interest on time deposits offered by selected digital banks/lenders and more traditional financial institutions



Source: Company websites, Evli Research, situation in Finland as of the 25.4.2022

Offered interest on deposits competitive compared with other local players

For savers, the growth in alternative lending is also advantageous. Individuals will, when possible, likely want to make savings of their own in addition to potential pensions. For many, the expectation of being able to withdraw the funds at any given time and not having to worry about a potential default of the savings bank are a priority. Finnish credit institutions are covered by the Finnish deposit guarantee scheme, which guarantees the safety of savings to up to EUR 100,000. Given that the potential relative income on loans earned by alternative financing lenders can be greater than the more traditional banks, such lenders could also be able to offer a higher return on the deposits. Fellow Bank currently offers 0.5% on deposits and up to 1.5% on time deposits. When comparing with the larger banks, that based on our research appear to in general offer rates below 0.2% and in many cases no interest, this can be seen to be quite competitive.

More rapid and wider access to capital

To borrowers, Fellow Bank offers a means to access financing in a more flexible and rapid way, compared to some of the more established financial institutions. Borrowers are through the interface able to define the sought for loan terms and loan amounts. Fellow Bank's software automatically reviews the loan application and evaluates the credit worthiness of the applicant through credit details and other information regarding for instance the applicant's income and indebtedness. Further evaluation of applicants' credit worthiness is done through a model based on machine-learning, based on which applicants are placed in one of five groups based on the probability of faultless repayment. The model is believed to continuously improve as data cumulates, with over 240 000 loans already facilitated. The application screening process serves to narrow down the applications to only those that are deemed to fulfil certain criteria. Potential borrowers receive a decision regarding the loan application instantly. The typically sought consumer borrower clientele would be employed middle class individuals with the typical business loan borrower would be a Finnish SME-company that is seeking financing for working capital needs, equipment investments and funding of receivables.

Consumer loans in Finland, Denmark, Poland and Germany

For consumers, Fellow Bank offers loans in Finland, Denmark and Poland, with the re-starting of operations in Germany under way. The maximum amounts offered are EUR 30,000 in Finland, DKK 100,000 in Denmark and PLN 60,000 in Poland. In the largest market for Fellow Bank, Finland, the interest rates for consumer loans start at seven per cent. The effective interest rate for the borrower is higher, as Fellow Bank for example in Finland charges an installment fee of EUR 150. Within consumer financing, Fellow Bank expects the effective annual interest rate including fee income of consumer loans to be 8-15 percentage points higher than the applicable reference rate. The same effective annual interest rates for credit cards and e-commerce payments are expected to be 16-21 percentage points higher than the applicable reference rate. Consumer loans in Finland are offered for a duration of up to 10 years.

Business loans are available for businesses in Finland and Poland. In Finland business loans of up to EUR 1m are offered, with the interest rates starting at 3%. Fellow Bank expects the effective annual interest rate including fee income of invoice funding to be 7-17 percentage points higher than the applicable reference rate. For business credit the rate is expected to be 8-17 percentage points higher than the applicable reference rate. Business loans in Finland are offered for a duration of up to seven years. Fellow Bank's offering for businesses furthermore includes for instance invoice and purchase invoice funding, credit limits, with certain banking services intended to be offered during 2022.

Table 1: Expected average interest rates in Finland

	Annual interest rate of loans*	Annual effective interest rate of loans*
Consumer lending		
Consumer loans	6-12	8-15
Credit cards	14-20	16-21
E-commerce payments	14-20	16-21
Business lending		
Invoice funding	6-16	7-17
Business loans	6-15	8-17

Source: Fellow Bank, Evli Research. *Without applicable reference rate

Expecting annual interest margin of 8-11% on the loan base after credit losses

Fellow Bank has indicated that it expects the effective annual interest rate of its loan base to be 13-15% higher than the applicable reference rate. Annual credit losses are based on historical data expected to be 2.0-3.5% of the loan base. As a result of these factors, the company sees that it should be able to achieve an annual interest margin of 8-11% on the loan base after credit losses.

Customer acquisition costs

User acquisition costs to a large extent variable

Fellow Bank has a team of salespeople that are responsible for consumer and business user acquisition and additional sales to existing users. Fellow Bank has used a mix of marketing channels, such as social media, search engines and various loan comparison websites and services. The company has not disclosed its direct user acquisition costs. As Fellow Finance, the company's materials and services costs, which include user acquisitions costs and other mainly variable onboarding related costs, were EUR 2.9m in 2021 (28% of net sales or ~1.4% of loans issued).

Comparison websites playing key part in consumer lending go-to-market strategy

Loan comparison websites and services have played a key role in consumer go-to-market strategy. To our understanding, the advantage of this channel is that the user acquisition costs are dominantly variable, and the company only pays for onboarded clients, which means that the user acquisition cost can also scale downwards.

Go-to-market strategy for business lending relies on direct sales

Regarding user acquisition for the offering to businesses, the model has been more traditional, i.e. direct sales to clients. The company has had a team of employees working in direct business sales and some employees supporting the sales team with financial credit worthiness analysis. During the near past the business lending side has seen good growth, with invoice funding a key driver.

Financial targets and strategy

With the recent merger, Fellow Bank's focus more recently has been on near-term factors relating to start-up of operations as Fellow Bank and expansion of the services offering. The service range is sought to be expanded gradually during 2022. The company will also be looking to convert the existing loan base made during the time as Fellow Finance to loans from its own balance sheet. We also expect to see the old lending limits and interest rates being reviewed, with potential for larger limits and lower interest rates given the more affordable source of funding. With the new brand and the transfer of customers in the merger to Fellow Bank, we also assume that some effort will be needed in developing certain functions within for instance marketing and communications. The return on savings deposits offered by Fellow Bank is also more competitive than previously offered, and we expect to see notable efforts to grow the savings deposit base.

The cornerstones of Fellow Bank's strategy

First class customer service: Customers are served by providing easy-to-use digital services connected with easily approachable personal customer service. Fellow Bank combines the strengths of both digital services with straightforward, easy-going, and professional customer service.

Customer segment and product area focus: Fellow Bank will focus on underserved customer segments private individuals and SME's seeking flexible financing and banking services as well as savers looking for safe and competitive interest return.

High operational efficiency: Fellow Bank aims for high operational efficiency by utilizing a digital operating model, modern IT-systems, and focused services together with a professional and efficient organization.

A well-capitalized, Finnish, and responsible bank: Fellow Bank is a Finnish, well capitalized bank with committed and strong anchor owners. Responsibility is in the core of the company's credit issuing and communication is done in a clear manner.

The company aims to grow profitably by scaling up its business through expansions to new markets, introducing new products, and investing in marketing. The company sees growing the investment funds from institutional investors as a key element to achieve growth. By increasing institutional investment volumes, management expects interest rates on its platform to decrease which will enable even more competitive and attractive financing products to borrowers. Fellow Bank intends to improve its profitability by focusing on efforts that increase existing borrowers returning to the platform and experimenting with new marketing channels.

Financial targets

Customer and services focus with growth and high profitability sought

The company has stated that its strategy revolves around a first-class customer experience in digital services combined with flexible personal customer service. The company aims for growth and high profitability by focusing on selected underserved customer segments and product areas that are attractive for the company's earnings. Fellow Bank pursues high operational efficiency aided by the digital operating model, a limited range of services, modern information systems and an efficient organization

The company's financial targets for 2022-2026 are:

- Growth: annual growth of more than 25% of the loan portfolio
- Profitability: return on equity of more than 15% by the end of the target period
- Capital adequacy ratio: a capital adequacy ratio of at least 18% (T1).

Economic outlook

2022 result expected to be clearly negative

Fellow Bank expects its result for 2022 to be clearly negative. The result is affected by non-recurring costs relating to the completed corporate reorganization, the investments required by the credit institution's operations and the frontloaded costs caused by the strong growth of the loan portfolio related to new customer acquisition and loan loss provisions. The bank's loan portfolio is estimated to reach at least EUR 150m at the end of 2022.

Strong profitability expected after initial impact of investments and costs

The following information has been given by Fellow Bank regarding the first years of operation after the merger. Strong growth of the credit portfolio, frontloaded customer acquisition costs and increased personnel costs are expected to weigh on profitability in the first two years. Due to these factors, the result for the first year of operation is estimated to be notably negative. In the future, the operating result is expected to turn strongly profitable through the positive development of net interest income.

Market Overview

New digital platforms emerging in financial services

Fellow Bank operates in the overall consumer and business lending market, competing with the large spectrum of lending providers from other digital banks to large generalist banks. For the purpose of illustrating the partly disruptive impact and also the role of serving previously underserved customers that the newer entrants to the market have had, we present below data on the development of the alternative financing market. Alternative finance refers to the more recently emerged platforms intermediating capital outside the traditional financial markets. Alternative finance should not be equated with alternative investments such as private equity and real assets. Alternative finance channels apply modern digital technology to allocate funds from surplus to deficit. Examples of such are FinTech companies providing balance sheet, crowdfunding and peer-to-peer lending, which have seen impressive growth over the past years. Key attributes differentiating alternative finance platforms from the traditional financial system are speed of delivery and a convenient user experience.

Developments in the financial sector making room for disruption

Alternative finance is riding the wave of the prevailing disruption in the financial services sector. Since earlier financial crisis', there have been significant changes in the financial sector. Banks are strained by increased regulation and tightened capital requirements while trust in the financial markets has been adversely impacted. These factors coupled with innovative technology and sharing economy trends have paved way for new agile players to fill in the gaps. Further, millennials have increasing expectations of customer experience. Disintermediation and platform economies have proven efficient in several sectors where digital matchmakers such as Amazon, Airbnb and Uber have thrived. This development is hitting payment services as well as lending. In addition, the low-rate environment has led to capital being allocated to new asset classes in search of yield.

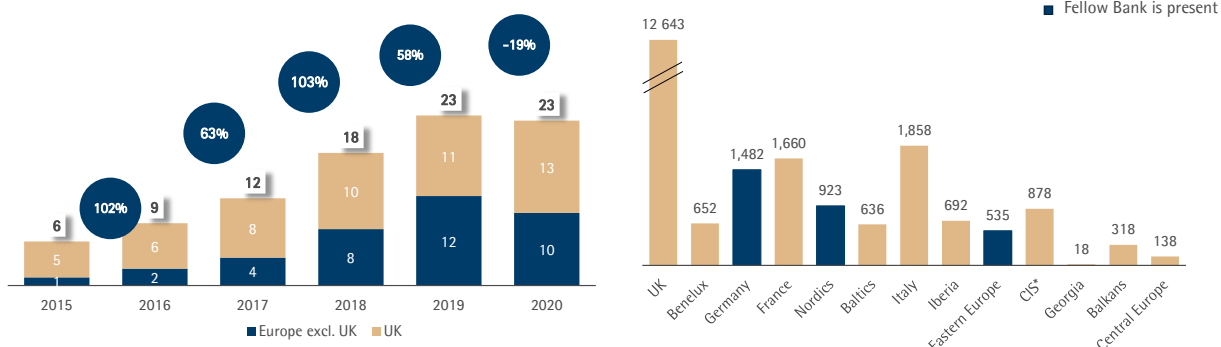
Clear decline in global volumes due to the Chinese market

The global alternative finance volumes saw impressive initial growth. The total volumes amounted to USD 305bn in 2018 but had declined to USD 114bn in 2020. The decline has been dominated by the Chinese Market, driven by local market development and regulatory change. The share of the Chinese market of the global volume amounted to 48% in 2019 but only % in 2020. Excluding China the growth in 2019 amounted to 3% in 2019 and 24% in 2020 to USD 113bn. (Source: University of Cambridge. The 2nd Global Alternative Finance Market Benchmarking Report, 2021)

European market had a volume of USD 22.6bn in 2020

The European market has seen significant growth, and total volume reached USD 22.6bn in 2020, compared with USD 1.5bn in 2013. The European market declined slightly in 2020 from USD 23.6bn in 2019. The market in the UK is clearly the largest, with a volume of USD 12.6bn, accounting for 56% of the European market in terms of volume. The UK has a handful of established players with strong market positions. The rest of Europe has been catching up to the UK but saw a notable decline in 2020 as volumes declined from USD 12.2bn in 2019 to USD 9.9bn in 2020. On a global level, most markets have experienced significant growth over the long-term. 2020 saw mixed development, as several of the global sub-markets saw declines y/y but in the Americas, volumes increased by 40% y/y USD 79bn in 2020 (Source: University of Cambridge. The 2nd Global Alternative Finance Market Benchmarking Report, 2021)

Figure 9: Alternative finance volume development in Europe and European alternative finance volume by Country (USDm)

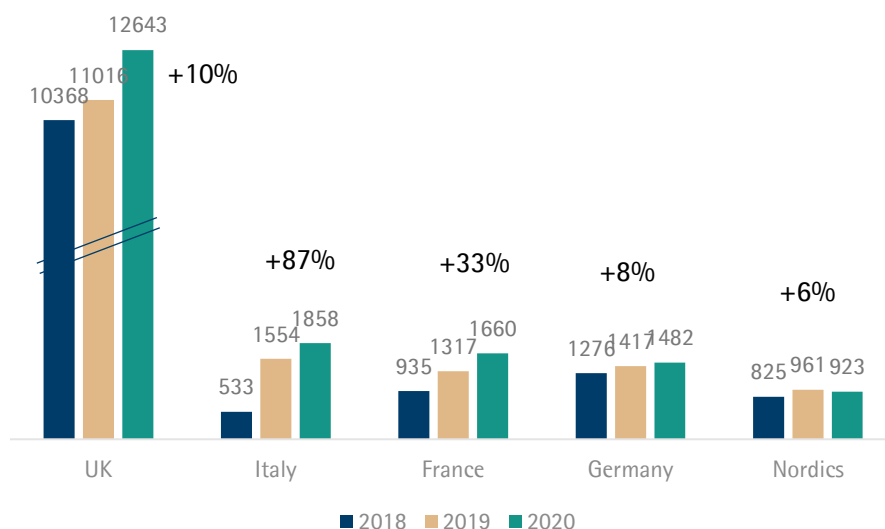


Source: University of Cambridge. The 2nd Global Alternative Finance Market Benchmarking Report, 2021, Evli Research. *CIS: Russia, Belarus, Ukraine, Moldova, Armenia

Fellow Bank's target countries represent slightly over 20% of the European market (excl. UK)

The three largest markets in Europe behind the UK are Italy, Germany and France, with combined volumes around USD 5bn in 2020. On a per capita basis, in Europe, the UK ranks the highest in Europe with Latvia and Estonia on second and third place. Finland ranks fifth after Lithuania. The Baltics have become a home to some of the more prominent European-based international P2P lending platforms, contributing to the development both domestically and other developing regions. The Nordics also perform well on the per capita statistics supported by the wealth and highly digitalized societies and high levels of social trust. The combined volume of the countries where Fellow Bank is active in amounted to approximately USD 2.3bn, which would represent slightly over 20% of the European market excl. the UK. (Source: University of Cambridge. The 2nd Global Alternative Finance Market Benchmarking Report, 2021)

Figure 10: Market volume and two-year CAGR in largest European alternative finance markets

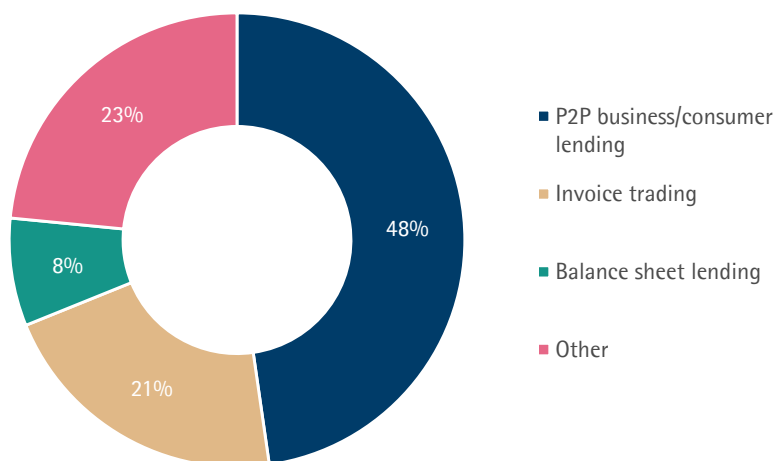


Source: University of Cambridge. The 2nd Global Alternative Finance Market Benchmarking Report, 2021, Evli Research.

Balance sheet lending on the rise also among traditional P2P companies

Based on the alternative financing volumes in 2020, P2P business and consumer lending appears to be the dominant form with nearly half of the European (excl. UK) volumes. Invoice trading has grown very rapidly, from EUR 800m in 2018 to EUR 2.0bn in 2020. On-balance sheet activities have also been clearly on the rise and several firms previously only operating as under a P2P/marketplace model are now also engaging in on-balance sheet activities.

Figure 11: European (excl. UK) alternative finance split by model 2020



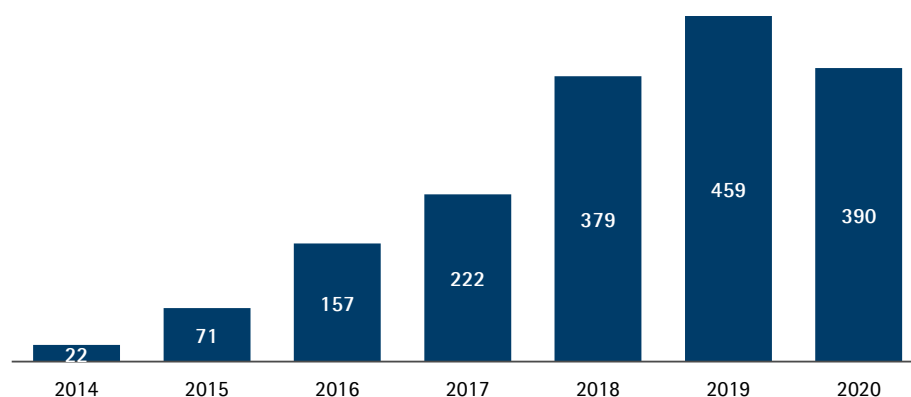
Source: University of Cambridge. The 2nd Global Alternative Finance Market Benchmarking Report, 2021, Evli Research.

Finland

Growth woes in 2020

The Finnish alternative finance volumes have grown at a healthy pace but declined in 2020. In the Finnish market, which accounts for the majority of Fellow Bank's operations, the volume shrank by 15% in 2020 to USD 390m. The 2014-2019 CAGR amounted to some 180%. (Source: University of Cambridge. The 2nd Global Alternative Finance Market Benchmarking Report, 2021)

Figure 12: Alternative Finance volume in Finland (USDm)



Source: University of Cambridge. The 2nd Global Alternative Finance Market Benchmarking Report, 2021, Evli Research.

The importance of the cost of financing has shown due to recent regulation

Despite the rapid growth, alternative financing as presented above still represented only a fraction of the ~EUR 17bn consumer loan market in Finland and ~EUR 7bn unsecured customer credit market (excl. auto loans and credit cards). It should be noted that the data may not be fully representable, as the line between alternative financing and financial institutions may be hard to define. For instance, in Finland, the share of foreign digital banks appears to be notably larger than what the alternative financing volumes suggests, and this could be a result of these not being included or treated as alternative financing. Data on the trend of consumer loans also suggests that growth has continued throughout the pandemic albeit at a slower pace. The financing market data includes also balance sheet lending, but to a greater extent P2P based lending. It should also be noted that Fellow Finance was a clear market leader in P2P based lending before becoming Fellow Bank, while the business of other P2P lenders in Finland has been limited. With the cap on interest rates for consumer lending put in place during the pandemic and considering the data suggesting overall continued growth in consumer lending, the importance of the cost of financing becomes quite evident. Based on available information of digital banks operating in the Nordics, those operating lending functions from their own balance sheet have shown good performance, which would suggest that financing companies operating with other financing models have had more of a struggle.

Figure 13: Change in consumer loan base in Finland, y/y, 2017-2022



Source: Bank of Finland, Evli Research

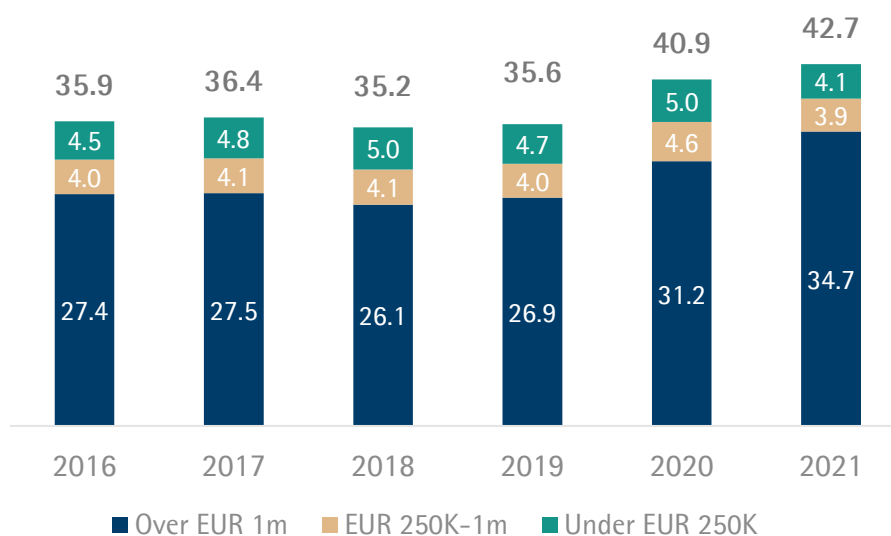
26% of individuals in Finland held a consumer loan in 2021

According to a survey by Finance Finland, 26% of individuals in Finland had some form of consumer loan in 2021, implying that some 1.13m individuals had a consumer loan. The share is two percentage points higher than in 2019. The largest share of consumer loans are issued by banks, with 21% of individuals in Finland holding a consumer loan from a bank. The share of individuals having taken quick loans was 0.6%, down from 1.5% in 2019, although the survey notes that the number of respondents is not sufficient to draw conclusions.

Business loans a big opportunity, both domestic and abroad

Finnish financial institutions have issued approximately EUR 42.7bn worth of loan agreements to companies in the Euro-region. Just below 20% of the loan agreements are below EUR 1m. Fellow Bank issues through its platform business loans for amounts as high as EUR 1m. The total outstanding loan base for Finnish businesses at the end of 2021 was approximately EUR 99bn.

Figure 14: Loan agreements by Finnish financial institutions to companies in the Euro-region (EURbn) *



Source: Bank of Finland, Evli Research *Includes housing co-operatives

Payment Services Directive (PSD2) offered new opportunities

A major regulatory change also impacting the alternative financing market is the Payment Services Directive (PSD2) which kicked off in 2018 and entered fully into effect in 2019. The goal is to increase innovation and competition in payment services previously monopolized by banks, through improved transparency, security and access. Banks are required to open their APIs to allow third-party payment services providers access to account information and initiate transactions. This provides opportunities for agile FinTechs to penetrate the market. Threats of ecosystems, the likes of Facebook, further increasing their reach have been uttered, as has been seen in China with the emergence of mega platforms. PSD2 is an opportunity to offer more integrated services and improve credit risk modeling with enhanced data availability

Regulation has been impacting the market

On September 1, 2019 the Finnish consumer loan market was affected by new legislation. To control the growing indebtedness of consumers and increase transparency of lending, the Finnish Parliament capped the effective interest rate of unsecured loans at 20%. The legislation adversely affected the interest income of consumer loan providers and the competitive landscape in Finland and certain lending services were forced to stop offering new consumer loans as a result. Furthermore, the interest rates of certain unsecured consumer loans were temporarily capped at 10% during the pandemic. The intention of the temporary regulation was to ease the financial situation of consumers due to the coronavirus pandemic and hinder problems arising from indebtedness. As we discussed earlier, the impact should in our view have been more significant for financing companies due to the typically higher cost of funding compared with balance sheet lending. Fellow Bank for instance had to deal with the interest rate cap by compensating investors for the difference between interest rates and the interest rate cap.

Key drivers in the alternative financing market

We have listed below some of the key drivers in the global alternative financing market;

- **Disintermediation and the emergence of platforms**

The advancements in technology and increasing digitalization of information has paved the way for the emergence of platform economies in various industries. The value proposition of new platforms compared to incumbent service providers are lower costs through scalability and disintermediation, and faster and more convenient service.

- **The aftermath of the financial crisis and tightening regulation on banks has had an adverse impact on SME lending**

The increasing bank regulation, such as increased capital requirements under Basel III, as well as the traditional banking business model focusing on larger corporations, has led to SME company's financing needs often being underserved by traditional banks. This has led to market opportunities for smaller players.

- **Legacy IT infrastructure inhibiting traditional players to capture technological advances**

Even though the digitalization trend has already been around for a longer time, a large part of banks still spend a major part of their IT budgets on maintaining current and, in many instances, local legacy systems, which inhibit them from investing in technological advances to significantly improve customer experience or compete on a global level.

- **Regulatory changes**

Regulators and policymakers have shown support for ways of diversifying lending, increasing access to financing and reducing dependency on large banks. Local frameworks have however proven to have a negative impact on certain players.

- **Demand for new alternative investment products and search for yield**

Thanks to technological advancements, new alternative investment products that previously were only available to banks or large investors, have emerged.

Competitors

Fellow Bank competes with other companies offering loans to consumers and businesses. The company sees competition from three main categories: digital banks, banks specialized in consumer and business financing and generalist banks.

Figure 15: Overview of Fellow Bank's competitive landscape



Source: Fellow Bank, Evli Research

Digital banks more technology-focused and nimbler, service offering often more limited

The digital banks, sometimes referred to as neobanks or formerly also challenger banks, are among the newer generation of financial services providers that started to rise after the 2007-2008 financial crisis. These typically operate exclusively without the traditional physical branches that generalist banks operate. Some operate under their own banking license whereas some have partnered with larger financial institutions. The digital banks offer apps, software and technology that are intended to make the services easy to use. The digital banks would typically be nimbler and more transparent but have a more limited service offering compared with the large generalist banks. The service offering could include for instance some of the following: credit cards, lending, investments, and e-commerce payments. Due to the technology focus these have also been more appealing to the younger generations.

The specialized banks to a certain extent more established, highly profitable, and have seen rapid growth

The specialized banks are to a certain extent more established than the digital banks and of the ones mentioned in figure 16 apart from Bank Norwegian, all have started operations before the millennium-shift. These have found their own focus areas within consumer and business financing, for instance Bank Norwegian focuses on consumer financing. The banks have overall exhibited a longer phase of profitable growth. These banks also more often offer some form of lending and several of them also act as savings banks and finance the lending with the deposits.

Generalist banks offer comprehensive service model but are quite selective in lending

The generalist banks are large and established financial institutions with a comprehensive service offering. These operate physical branches and have followed the market trend in digitalizing the service offering. The advantages of the generalist banks are their reputation and thus trustworthiness, personal service and comprehensive service model. The generalist banks are clearly dominant in major areas of certain services such as mortgage loans and larger corporate loans. The generalist banks however tend to be quite selective and potential individual and business borrowers that have fallen outside the scope of the generalist banks are now seeking services from the digital and specialized banks.

The table below shows a summary of key facts and figures of providers of consumer and business financing selected primarily based on their presence in the Nordics and their size. The field is rather competitive, with other non-generalist bank competitors including for instance Santander Consumer Finance, Komplet Bank, BigBank, Lea Bank, Instabank, SweepBank, Balanzia, Finance Link, Qred and Northmill. P2P lending platform competitors include for instance Fixura and Bondora.

Table 2: Key facts and figures of selected competitors

Established	2007	1981	1977	1987	2003	2000
Countries	NORDICS, ESP, GER	NORDICS, EST, NLD, HUN, CHE, AUT, GER	NORDICS	NORDICS, BALTICS, POL, AUT, GER	NORDICS, GER	FIN, SWE, NOR
Consumers loans	✓	✓	✓	✓	✓	✓
Business loans		✓	✓			✓
Lending to public (y/y change), EURm	3,430 (-11%)	1,700 (2020)	3,205 (+8%)	1,040 (+37%)	6,787 (+155%)	3,470 (+14%)
Operating income	482	312	297	101	252	254
Return on equity (2020)	10.8% (18.9%)	- (13.7%)	18.2% (18.2%)	24.4% (22.3%)	-0.2% (17.9%)	14.1% (7.1%)
CET1 Ratio (2020)	25.5% (22%)	- (14.5%)	14.8% (15.1%)	12.3% (12.8%)	16.2% (16.2%)	13.9% (13.7%)
Cost/income ratio (2020)	0.34 (0.23)	- (0.70)	0.41 (0.4)	0.42 (0.39)	0.63 (0.38)	0.30 (0.39)
Loan loss ratio (2020)	3.8% (4.1%)	- (2.8%)	2% (2.7%)	2.8% (3.8%)	2.1% (1.6%)	2.6% (2.8%)

Note: Nordax Bank acquired Bank Norwegian in 2021

Source: Company websites and filings, Evli Research.

Estimates

As a first general note, we see that in modelling estimates for Fellow Bank one should be cautious in using previous financial performance data of Fellow Finance. We have in previous parts of this report opted to present figures merely for illustrative purposes of the performance and challenges faced by Fellow Finance. The financial figures of Fellow Finance are to a large extent not comparable or informative in the new context and provides only some information in for instance estimating Fellow Finance's cost base. Transactions related to the merger and business transformation also have and will impact on figures in the near-term.

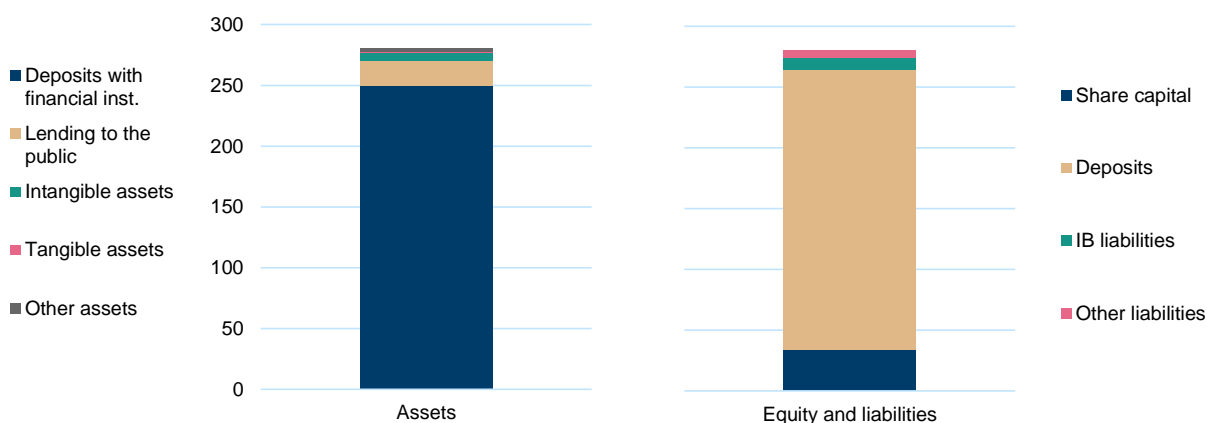
2022 exceptional year due to NRI's and loan base transformation

The merger to form Fellow Bank was completed in April 2022. Financially, the implications of the merger will weigh on 2022 figures through some extraordinary expenses related to the merger and through the ramp up of operations and conversion of the peer-to-peer and crowdfunding loans facilitated by Fellow Finance to loans from Fellow Bank's own balance sheet, which will likely still have a small impact on 2023. The larger share of the expenses relating to the merger materialized already during 2021 and we expect the amount attributable to 2022 to be in the realm of EUR 300-500k. The merger will also slightly elevate Fellow Bank's initial cost base through the addition in personnel of some 10 employees and other costs.

Initial balance sheet at over EUR 280m

At the beginning of operations, Fellow Bank's balance sheet reportedly stood at over EUR 280m. Assets consists mainly of cash and deposits with financial institutions, at inception to our understanding largely central bank deposits. Other assets include the smaller share of balance sheet lending, intangible assets and goodwill from the merger and some small amount of tangible and other assets. The company's share capital reportedly was at over EUR 30m at launch and deposits over EUR 230m. Liabilities include the bond issued by Fellow Finance in 2019, with remaining amount of some EUR 8m, which to our understanding was repaid in May 2022.

Figure 16: Estimated balance sheet at beginning of operations



Source: Fellow Bank, Evli Research

Estimates 2022

2022 result expected to be notably negative, loan book over EUR 150m

Fellow Bank has regarding its financial performance in 2022 in its outlook estimated that the result for 2022 will be notably negative. This is a result of the non-recurring costs related to the completed corporate reorganization, the investments required by the credit institution's operations and the frontloaded costs caused by the strong growth of the loan portfolio related to new customer acquisition and loan loss provisions. The loan portfolio is estimated to reach at least EUR 150m at the end of 2022.

Fellow Bank's total income will consist primarily of net interest income and net fee income:

- Net interest income: Interest income on loans issued – cost of capital used to fund the loans
- Net fee income: Fees earned from loan issuance – costs relating to loan issuance incl. for instance broker and partner fees

Effective annual interest rate seen to be 13–15% on the loan base

The interest income and fee income combined will constitute the bulk of Fellow Bank's income. Fellow Bank has estimated that the effective annual interest on its loan base will be 13–15%, which also includes fee income. Based on the expected annual interest rates and effective annual interest rates (in more detail on page 9) the interest income will form a larger share of the income.

We base our estimates on an effective annual interest rate of 13%

We estimate the combined interest income and fee income essentially on a straight-line basis as a function of the estimated period average loan book. We have opted for a conservative approach and use a 13% effective annual interest rate, the lower end of the company's estimated range. The actual effective annual interest rates will depend upon the future growth areas. Invoice funding has been an area where Fellow Bank as Fellow Finance was able to grow, but the shorter maturities require a larger volume to fill up the loan book. In terms of consumer financing the new business model opens up considerable growth potential. As Fellow Bank's cost of capital is now clearly lower, the company is better able to compete against other market players and should also be able to offer larger loan sizes at longer maturities. The advantage of these loans is the more stable nature of income, but we estimate the effective annual interest rate to be slightly lower when compared with business lending products. As we expect to see Fellow Bank now focusing more also on consumer financing and somewhat aggressively compete with margins, we see that the lower end of the company's estimated effective annual interest range to be more reasonable in the company's early growth stages.

Deposits to offer cheap funding, according to our estimates initially at 0.75% interest

In terms of costs relating to the total income, Fellow Bank's primary source of capital will be the customer deposits upon which it pays an interest rate to the savers. The interest rates currently offered by Fellow Bank is 0.5%–1.5%. The lowest rate is for savings accounts without withdrawal restrictions while the company offers up to 1.5% for time savings of 36 months. As the savings transferred through the merger were all of the former and for customers transferred in the merger, which to our understanding started at a 0.75% interest rate, we expect the interest expenses during 2022 to be quite near the 0.75% mark. Fee expenses constitute the expenses paid to certain partners such as credit card companies and fees to loan brokerage platforms. The former are quite limited while the latter can be quite notable, as the role of loan brokers has become rather significant due to competition in the market. Especially earlier on in the company's growth phase we expect these to be at elevated levels relative to the loan book. In the future the growth in consumer lending and increased share of repeat customers should help in reducing the relative share of the costs.

We expect a total income of EUR 8.1m in 2022

For 2022 we expect a total income of EUR 8.1m. The income will be heavily skewed towards H2/22, as the first half of 2022 is expected to be weak. Fellow Bank halted new P2P lending in March 2022 and the initial balance sheet lending was not significant. As

the company is able to convert the old loans to new loans from its own balance sheet and increase new lending the income will start to ramp-up during the second half. We expect the loan book to grow to EUR 155m by the end of 2022 and interest income to amount to EUR 7.6m. We expect interest expenses to be quite steady during 2022, as financial expenses relating to the bond will impact H1, while the timing of the merger will lower interest expenses relating to deposits in H1. With expected interest expenses of some EUR 1.4m we expect a net interest income of EUR 6.2m.

“Old” Fellow Finance loans to contribute to fee income in 2022

The existing loans facilitated as Fellow Finance as will contribute to Fellow Bank’s fee income during 2022. To our understanding the contribution should be within a few million euros, and we have assumed a contribution of approx. EUR 2.5m. With the lower loan activity during H1 we also expect lower fee expenses in absolute terms, with pick-up seen from H2 onwards. We expect fee income of EUR 4.5m in 2022 and a net fee income of EUR 1.7m.

Operating costs in 2022 estimated to be EUR 8.8m

In terms of expenses the main items in the income statement are expected to be personnel expenses, other administrative expenses, other operating expenses and depreciation and amortization, along with loan losses and provisions. For 2022 we estimate the expenses based on pro-forma figures for Fellow Bank. We expect Fellow Bank to seek to grow the number of employees already during 2022, as part of its front-loaded growth investments and new operating model and see minor growth in expenses during H2. For the full year we estimate expenses of EUR 4.6m. The other administrative expenses we expect to grow in conjunction with the growth of operations and personnel. For 2022 we expect the costs to amount to EUR 2.0m. The same goes for the other operating expenses, but we expect an elevated level in 2022 due to expenses related to the merger. We estimate other operating expenses of EUR 1.6m, of which EUR 0.4m extraordinary costs. We expect D&A to amount to EUR 0.6m. The main item within D&A is the depreciation of the IT software developed by the company. The remainder relates to right-of-use assets, other intangibles and tangible assets. Our total operating cost estimate for Fellow Bank in 2022 is EUR 8.8m (not including loan losses and provisions).

Loan losses and provisions expected to be proportionately higher in 2022

The loan losses and provisions are the provisions made for and realized losses of the loans issued by the company and other receivables. As the company formerly facilitated loans as an intermediary as opposed to lending from its own balance sheet, the cost item will be front-loaded in relative terms. Upon origination a stage 1 loss allowance is established. As the company converts the old loans to new loans from its own balance and issues new loans the impact will be disproportionately high during 2022, as the company’s own balance sheet loan base at the beginning of operations was limited. Fellow Bank has estimated that the annual percentage relative to the loan base will be 2–3.5% based on historical levels. We estimate loan losses and provisions of EUR 2.8m in 2022 and that the relative level will be higher than in the coming years.

Operating profit in 2022 expected to amount to EUR -3.5m

Based on the previously discussed income and cost items we expect the operating profit in 2022 to be clearly negative and amount to EUR -3.5m. Profitability is expected to improve towards H2 but still be negative as the income starts to ramp-up and due to the expected extraordinary costs in H1.

Estimates 2023–2024

2022–2026: seeking annual growth of loan book of over 25% and over 15% ROE by 2026

Fellow Bank has in its financial targets for 2022–2026 set to achieve an annual growth in its loan book of at least 25%. The company further seeks to achieve a ROE of over 15% towards the end of the financial target period while achieving a CET1 ratio of at least 18%. Given the initial balance sheet and ramp-up of operations, we see that the materialization of the “full” potential of the company will happen towards 2024.

2023–2024: expect annual growth of loan book of 35% and 30% respectively

We estimate a growth in the company's loan book of 35% and 30% respectively in 2023 and 2024, resulting in a loan book of EUR 272m in 2024. One of the key drivers for growth for Fellow Bank in our view is the overall good traction for digital banks and the favourable financing model with the shift to balance sheet lending. Although for instance the growth in consumer lending has overall only been fairly modest, there is a clear shift in market share among the established players. Regulation has also favoured certain operating models while others have faced challenges to operate in the new environments. As Fellow Bank is commencing operations from a relatively small starting position, faster growth figures could well be achievable. 2022 will mostly be a year of establishing and ramping up the new operations and building new products and services, but we also expect sales and marketing efforts to start picking up, which should bear fruition in 2023. One limiting factor for growth is the company's funding, but in our view it is unlikely that this would become a challenge in 2023. In terms of funding, deposits will be the main source. We expect to see Fellow Bank putting effort into increasing the deposit base. The company offers rather attractive returns for deposit customers, which should enable growth, but we see that Fellow Bank's current brand awareness among potential new savers is still low. Marketing efforts to improve awareness should support an acceleration in the deposit growth pace in 2024.

Seeing total income growth of 118% and 30% in 2023 and 2024

In terms of interest and fee income we have assumed a flat-line effective annual interest rate of 13%. For the interest expenses, we estimate that the mix in withdrawal accounts and time deposits will shift slightly in favour of the latter, which will slightly increase the relative interest expenses. We estimate that the interest expenses will amount to 0.8% of the total customer deposits by the end of 2024. For the fee expenses we assume that the company's focus on growth will keep the share of broker fees relatively high and assume total fee expenses of 2.5% during 2023–2024. We have further estimated trading income of EUR 0.6m in 2023. We discuss the trading income assumptions more in detail on page 28 in conjunction with the CET 1 requirement. In total, these assumptions lead to an estimated total income of EUR 17.7m and EUR 23.0m in 2023 and 2024, resulting in growth percentages of 118% and 30% respectively.

Costs seen to grow clearly notably slower than income

With regards to operating expenses, we estimate the costs as a function of viewed growth in operations and inflationary pressure in for instance wages. In our view Fellow Bank will need to continue to strengthen its organization, but unless any new larger investments or product launches need to be made the needs are relatively small. The core business in itself is very scalable in terms of acquiring new customers once in place. General smaller scale growth needs resulting in cost base increases could in our view likely arise from strengthened local market presence and boosts in sales and marketing. Our estimates put the cost base growth at some 10% p.a. during 2022–2024, which compared with the estimated over 30% annual growth during the same period support the early scalability of the business.

Loan losses and provisions estimated at mid-point of company's estimate of 2–3.5% of the loan book

For the loan losses and provisions, we assume the mid-point of the company's estimated range of 2–3.5% of the loan book. In our view, without comparison data, it is too early to assume figures above or below the mean and this also does not appear to deviate in any substantial manner from peers. Fellow Bank has extensive experience from estimating credit risks through its internal models and should based on historical figures be well positioned to stay within the estimated range. An argument that could be made is that the lower cost of funding would enable Fellow Bank to seek a lower risk level by being

better able to target the most credit-worthy borrowers and seek to grow the relative share and size of loans among that group, which could lower default rates.

We estimate a 25.2% operating profit margin in 2024

With the growth in the loan book and a more modest growth in expenses, we expect to see clear improvements in profitability during 2023-2024. We estimate an operating profit of EUR 3.5m and 5.8m in 2023 and 2024 respectively, for margins of 19.7% and 25.2% respectively.

Table 3: Estimates summary

Fellow Bank	H1/'22E	H2/'22E	2022E	2023E	2024E
Total income	2.8	5.3	8.1	17.7	23.0
<i>growth %</i>				<i>118 %</i>	<i>30 %</i>
Net interest income	2.0	4.2	6.2	16.2	21.8
Net fee income	0.8	0.9	1.7	0.9	1.2
Other operating income	0.0	0.2	0.2	0.6	0.0
-Trading income	0.0	0.2	0.2	0.6	0.0
Personnel expenses	-2.2	-2.4	-4.6	-5.4	-6.0
Other administrative expenses	-1.0	-1.0	-2.0	-2.1	-2.3
Loan losses and provisions	-0.6	-2.2	-2.8	-4.7	-6.6
Depreciation and amortization	-0.3	-0.3	-0.6	-0.6	-0.7
Other operating expenses	-1.0	-0.6	-1.6	-1.4	-1.6
EBIT	-2.3	-1.2	-3.5	3.5	5.8
<i>EBIT margin</i>			<i>-42.9%</i>	<i>19.7%</i>	<i>25.2%</i>
Financial expenses	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	-2.3	-1.2	-3.5	3.5	5.8
Income taxes	0.5	0.2	0.7	-0.7	-1.2
Net earnings	-1.8	-0.9	-2.8	2.8	4.6

Source: Evli Research

Key financial ratios

Capital adequacy

CET1 ratio target of at least 18%

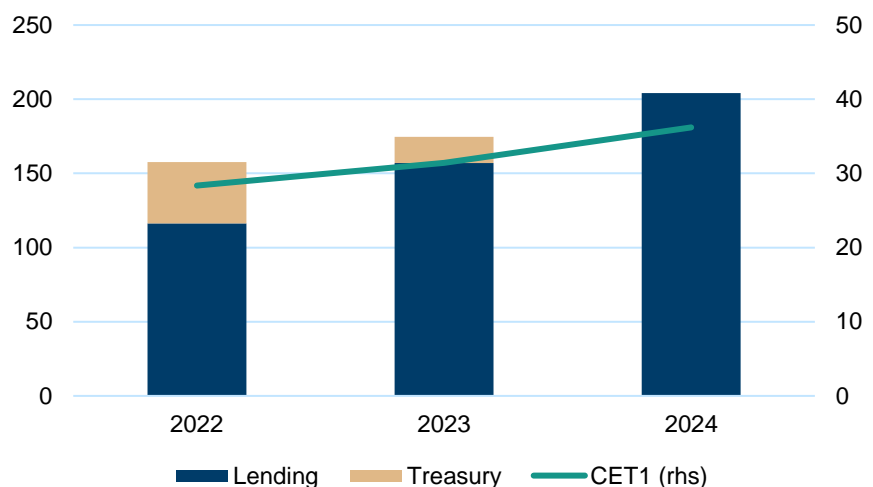
Fellow Bank has in its financial targets regarding its capital adequacy sought to maintain a Tier 1 capital adequacy ratio of over 18% (CET1). The CET1 ratio is a measure of a bank's core capital in relation to its risk-weighted assets. Simplified for Fellow Bank, the core capital is the company's shareholder's equity adjusted for certain intangible assets. When commencing operations, the core capital would in our view have been around EUR 30m, consisting of the initial shareholders equity of over EUR 30m with a slight downward adjustment due to intangibles and goodwill relating to the merger.

For the risk-weighted assets in calculating the CET1 ratio, the largest item is the company's loan book. At start-up of operations this would have been small but increases rapidly with the build up in the loan book. The type of loans offered by Fellow Bank are weighted at 75%. Of the initial balance sheet, the deposits with financial institutions were to our understanding solely central bank deposits, which have a weight of zero. As such the initial CET1 ratio would have been clearly above 100%.

Additional capital needed by 2024 to sustain CET1 ratio target on our estimates

Going forward, the CET1 ratio will decline as the loan book grows. We also note that the fiscal period result impacts the core capital. The company's core capital will according to our estimates as such decline by the end of 2022 compared with the initial capital and be below EUR 30m. We have based our assumptions for our 2022-2024 estimates on keeping the CET1 ratio at above 18%, and not assumed that the company would seek to increase its core capital through additional capital, although this is something we see that Fellow Bank could likely be looking to do in the coming years. The CET 1 ratio affects the company's ability to "invest" the share of deposits that has not been utilized for loan issuance. Fellow Bank can through its treasury invest in financial securities, which are assigned a weight depending upon the to type of security. In our estimates we assume that the company's priority order is lending, financial securities providing returns (with risk-weight) and central bank deposits. On our estimates, Fellow Bank would have to seek additional capital by 2024 to maintain the 18% CET 1 target when solely accounting for the lending function.

Figure 17: Estimated risk-weights assuming company seeks to maintain 18% CET 1 ratio



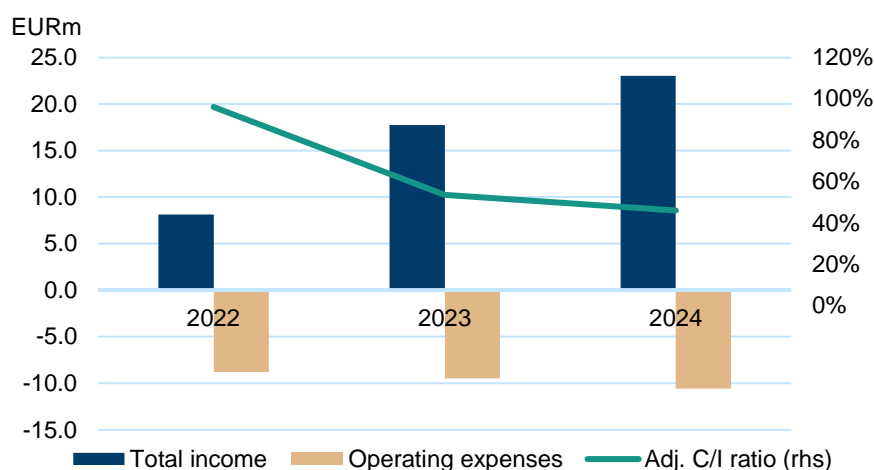
Source: Evli Research

Cost to income ratio

C/I ratio seen to improve to around 45% by 2024

Figure 18 illustrates the development of the cost to income ratio on our estimates. As the company's total income early on is expected to be weak, the C/I ratio is as such expected to be clearly higher than in the coming years. With the expected rapid increase in total income from 2022 to 2023 through the growth in the company's loan book and the clearly more limited expected increase in costs the C/I ratio declines significantly in 2023. Our estimates put the C/I ratio during 2023-2024 at some 45-55%, which appears to be somewhat above competitors but also understandable given the estimated ramp-up. Fellow Bank's operating model provides good potential for scalability, and we see that a more profitable operating model as measured by the C/I ratio would be possible. The company's earlier stages will however be focused on growth, which will have some impact on the relative profitability.

Figure 18: Estimated adjusted cost to income ratio



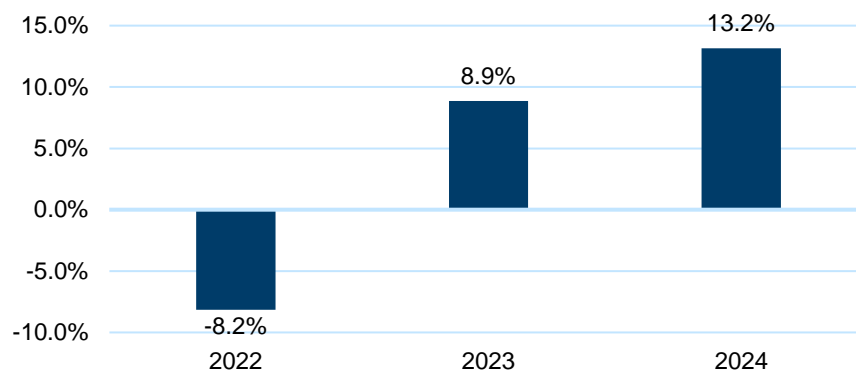
Source: Evli Research

Return on equity

Return on equity expected to improve to 13.2% by 2024

Fellow Bank has in its financial targets regarding its profitability sought to achieve a return on equity of over 15% by the end of the target period. On our estimates, assuming the target minimum 18% CET 1 ratio is held, Fellow Bank's return on equity improves to 13.2% by 2024.

Figure 19: Estimated adj. return on equity



Source: Evli Research



FELLOW BANK

Diversified Financial Services/Finland, June 7, 2022

Company report

15% return on equity
target by 2026 seen to be
achievable

In our view Fellow Bank is in a position to achieve the target minimum return on equity of 15% during 2025-2026, assuming that the company achieves the target annual growth of its loan portfolio of over 25% during the strategy period, given the scalability of the operating model. Based on our assumptions for 2022-2024, we see that the availability of cheaper funding may become more challenging. We see that the interest rates on deposits offered by Fellow Bank should provide good opportunities for growing its deposits but are somewhat cautious to assuming that Fellow Bank will be able to keep up growth in comparison to the loan portfolio. This would in turn result in a slower loan book growth or a need to seek additional more expensive funding. The CET 1 target will also impact on the company's ability to grow and as the company would on our estimates need to seek additional funding during the coming years this would weigh on future ROE. The CET 1 target also impacts the company's ability to distribute dividends, and we see that the company is unlikely to pay any dividends at least before the end of its 2022-2026 strategy period.

Valuation

Initiate coverage with HOLD-rating and target price of EUR 0.42

We initiate coverage of Fellow Bank with a target price of EUR 0.42 and HOLD-rating. Valuation is currently rather stretched when comparing with peers. Fellow Bank is however still in the early stages of its planned growth phase and the near-term potential for rapid growth in our view presents a justifiable reason to stay along for the early stages of the company's growth story.

In deriving our valuation for Fellow Bank we have opted to rely largely on peer multiples. The company's transformation phase poses certain challenges, as the company is expected to post clearly negative earnings figures in 2022 and the uncertainty relating to expected future profitability levels is high. As the company was formed in 2022, the company also does not have historical figures for profitability or valuation levels. In our view the most applicable valuation multiple currently is the price-to-book ratio, while the price to earnings ratio provides tools for assessing the future potential.

Our peer group consists of the publicly listed Nordic digital banks. We have identified six companies: Collector Bank (SWE), Resurs Bank (Resurs Holding) (SWE), TF Bank (SWE), Komplet Bank (NO), Instabank (NO) and Lea Bank (BRABank until May 2022) (NO). The companies are all clearly larger than Fellow Bank.

Figure 4: Peer group

FELLOW BANK PEER GROUP	MCAP MEUR	P/B			P/E		
		22	23	24	22	23	24
Collector	778	1.3x	1.1x	1.0x	8.3x	8.2x	7.5x
Resurs Holding	509	0.7x	0.7x	0.6x	6.3x	5.7x	5.3x
TF Bank	323	2.2x	1.7x	1.4x	9.8x	7.5x	5.9x
Komplet	176	1.0x	0.9x	0.9x	12.2x	6.5x	5.2x
Instabank	121				11.9x	10.0x	7.5x
Lea Bk	94	0.7x	0.7x	0.7x	7.8x	7.1x	6.2x
Peer Group Average	334	1.2x	1.0x	0.9x	9.4x	7.5x	6.3x
Peer Group Median	249	1.0x	0.9x	0.9x	9.0x	7.3x	6.0x
Fellow Bank (Evli est.)	39	1.3x	1.2x	1.0x	neg.	14.0x	8.4x
<i>Fellow Bank prem./disc. to peer median</i>		<i>25 %</i>	<i>27 %</i>	<i>21 %</i>	<i>91 %</i>	<i>40 %</i>	

Source FactSet, Evli Research

FELLOW BANK PEER GROUP	ROE-%			Div. yield		
	22	23	24	22	23	24
Collector	15.2 %	13.5 %	12.9 %	0.0 %	0.0 %	0.0 %
Resurs Holding	11.2 %	11.5 %	11.8 %	9.0 %	9.8 %	10.9 %
TF Bank	22.8 %	23.1 %	23.2 %	0.9 %	1.3 %	1.7 %
Komplet	8.5 %	14.4 %	16.7 %	5.7 %	10.9 %	13.8 %
Instabank						
Lea Bk	9.5 %	9.9 %	10.7 %	6.0 %	7.0 %	8.0 %
Peer Group Average	13.4 %	14.5 %	15.0 %	4.3 %	5.8 %	6.9 %
Peer Group Median	11.2 %	13.5 %	12.9 %	5.7 %	7.0 %	8.0 %
Fellow Bank (Evli est.)	-8.2 %	8.9 %	13.2 %	0.0 %	0.0 %	0.0 %

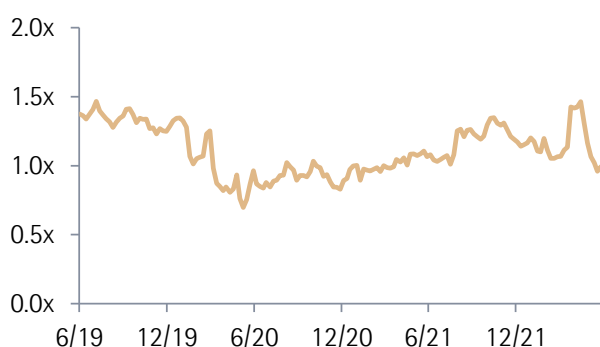
Fellow Bank prem./disc. to peer median

Source FactSet, Evli Research

Peer median 2022e P/B and P/E at 1.0x and 9.0x respectively

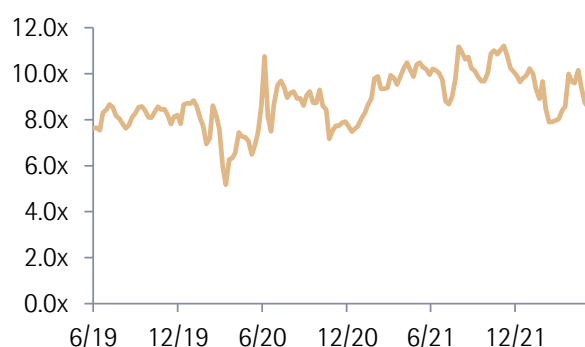
When considering the peer companies valuation, the larger mass is positioned at around 1.0x on 2022e P/B. TF Bank is in this regard an outlier at 2.2x, but is also expected to achieve a clearly higher return on equity compared with the other peers. On 2022e P/E the peer median is at 9.0x, while the lowest and highest multiples are at around 6.0x and 12.0x respectively. When looking at the development of next twelve-month (NTM) P/B and P/E multiples during the past three years, the valuation levels appear to have peaked roughly a year ago at around 1.4x and 10x levels respectively. The levels have been gradually declining during the past twelve months, with the levels now at around 1.0x and 8.0x respectively.

Figure x: Peer median NTM P/B



Source: FactSet, Evli Research

Figure x: Peer median NTM P/E



Source: FactSet, Evli Research

Fellow Bank's multiples stretched compared with peers

On our estimates Fellow Bank currently trades on a 2022e P/B of 1.3x, with P/E not applicable due to the expected negative earnings. Looking ahead, with the expected rapid growth and scalability the 2024e P/B and P/E amount to 1.1x and 8.4x respectively. When comparing with peers, the valuation appears quite challenging. Extrapolated from peer figures, Fellow Bank would essentially have to achieve the target ROE of at least 15% in 2025 to be at comparable figures with peers.

Considerable growth potential could provide clear upside

In our view, the near-term value driver for Fellow Bank is the growth potential. Our loan book growth estimates for 2023 of 35% could arguably appear to be large given the lack of performance track for Fellow Bank. However, considering the quite small starting position, relative ease in growth (i.e. low capital investments), competitiveness of Fellow Bank's operating model and potential to target new customer segments, growth could pick up rapidly early on. We have also assumed quite modest growth in deposits, which is a key limiting factor for growth, but the seemingly attractive rates offered by Fellow Bank could well speed up growth. Although valuation currently appears stretched, the potential for early rapid growth, supporting the long-term case, is a card that should not be discounted.



FELLOW BANK

Diversified Financial Services/Finland, June 7, 2022
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INTERIM FIGURES

EVLI ESTIMATES, EURm	2021Q1	2021Q2	2021Q3	2021Q4	2021	2022Q1E	2022Q2E	2022Q3E	2022Q4E	2022E	2023E	2024E
Net interest income	0	0	0	0	0	0	2	0	4	6	16	22
Net commission income	0	0	0	0	0	0	1	0	1	2	1	1
Trading/items at fair value	0	0	0	0	0	0	0	0	0	0	0	0
Other income	0	0	0	0	0	0	0	0	0	0	0	0
Total income	0	0	0	0	0	0	3	0	5	8	18	23
Total costs	0	0	0	0	0	0	-4	0	-4	-9	-9	-11
Profit before loan losses	0	0	0	0	0	0	-2	0	1	-1	8	12
Loan losses	0	0	0	0	0	0	-1	0	-2	-3	-5	-7
Operating profit	0	0	0	0	0	0	-2	0	-1	-4	4	6
Taxes	0	0	0	0	0	0	0	0	0	1	-1	-1
Minorities	0	0	0	0	0	0	0	0	0	0	0	0
Net profit	0	0	0	0	0	0	-2	0	-1	-3	3	5
EPS	0.00	0.00	0.00	0.00	0.00	0.00	-0.02	0.00	-0.01	-0.03	0.03	0.05
EPS adjusted (diluted no of shares)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

INCOME STATEMENT, EURm	2017	2018	2019	2020	2021	2022E	2023E	2024E
Net interest income	0	0	0	0	0	6	16	22
Net commission income	0	0	0	0	0	2	1	1
Trading/items at fair value	0	0	0	0	0	0	1	0
Other income	0	0	0	0	0	0	0	0
Total income	0	0	0	0	0	8	18	23
<i>Income growth (%)</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>118</i>	<i>30</i>
Total costs	0	0	0	0	0	-9	-9	-11
<i>Costs growth (%)</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>8.0</i>	<i>11.6</i>
Profit before loan losses	0	0	0	0	0	-1	8	12
Loan losses	0	0	0	0	0	-3	-5	-7
Operating profit	0	0	0	0	0	-4	4	6
<i>Operating profit growth (%)</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>-</i>	<i>65.8</i>
Taxes	0	0	0	0	0	1	-1	-1
Minorities	0	0	0	0	0	0	0	0
Net profit	0	0	0	0	0	-3	2	5
BALANCE SHEET, EURm								
Assets								
Lending to credit institutions	0	0	0	0	0	116	84	61
Lending to the public	0	0	0	0	0	155	209	272
<i>Growth (%)</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>35.0</i>	<i>30.0</i>
Interest-bearing securities	0	0	0	0	0	0	0	0
Other assets	0	0	0	0	0	3	3	3
Total Assets	0	0	0	0	0	281	304	344
<i>Growth (%)</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>8.1</i>	<i>13.0</i>
Liabilities								
Deposits by credit institutions	0	0	0	0	0	4	4	4
Deposits from the public	0	0	0	0	0	235	255	290
<i>Growth (%)</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>8.5</i>	<i>13.7</i>
Debt securities in issue	0	0	0	0	0	0	0	0
Subordinated loans	0	0	0	0	0	0	0	0
Other liabilities	0	0	0	0	0	12	12	12
Shareholders' equity	0	0	0	0	0	30	33	38
Total liabilities and equity	0	0	0	0	0	281	304	344



FELLOW BANK

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KEY FIGURES	2018	2019	2020	2021	2022E	2023E	2024E
M-cap	0	0	0	0	39	39	39
Total assets	0	0	0	0	281	304	344
Total income	0	0	0	0	8	17	23
Total costs	0	0	0	0	-9	-9	-11
Operating profit	0	0	0	0	-4	3	6
Net profit	0	0	0	0	-3	2	5
Equity	0	0	0	0	30	33	38
Tier 1 capital	0	0	0	0	28	31	36
Risk-weighted assets	0	0	0	0	139	174	216
Loans	0	0	0	0	155	209	272
Valuation multiples							
P/E	0.0	0.0	0.0	0.0	-13.1	17.9	8.4
P/E, adj.	0.0	0.0	0.0	0.0	-14.7	17.9	8.4
P/B	0.0	0.0	0.0	0.0	1.3	1.2	1.0
Dividend yield, %	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Target P/E	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Target P/B	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Per share measures							
Number of shares	0	0	0	0	87,157	87,157	87,157
Number of shares (diluted)	0	0	0	0	87,157	87,157	87,157
EPS	0.00	0.00	0.00	0.00	-0.03	0.03	0.05
EPS, adj.	0.00	0.00	0.00	0.00	-0.03	0.03	0.05
Book value per share	0.00	0.00	0.00	0.00	0.35	0.38	0.43
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividend payout ratio %	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial ratios							
ROE, %	0.0	0.0	0.0	0.0	-9.9	8.9	13.2
Adjusted ROE, %	0.0	0.0	0.0	0.0	-8.8	8.9	13.2
ROA, %	0.0	0.0	0.0	0.0	-2.1	0.7	1.4
Net interest margin, %	0.0	0.0	0.0	0.0	1.6	3.5	3.9
Cost/income, %	0.0	0.0	0.0	0.0	96.1	53.6	46.0
Loan losses/lending, %	0.00	0.00	0.00	0.00	3.20	2.60	2.75
Tier 1 ratio, %	0.0	0.0	0.0	0.0	20.2	17.8	16.5
Capital ratio, %	0.0	0.0	0.0	0.0	20.2	17.8	16.5
Equity/assets, %	0.0	0.0	0.0	0.0	10.7	10.9	11.0
Loans/assets, %	0.0	0.0	0.0	0.0	55.1	68.8	79.2
Tax rate, %	0.0	0.0	0.0	0.0	18.9	24.3	20.0
Number of employees, average	0	0	0	0	0	0	0
Income per employee, EUR	0	0	0	0	0	0	0
Op. profit per employee, EUR	0	0	0	0	0	0	0



FELLOW BANK

Diversified Financial Services/Finland, June 7, 2022
Company report

COMPANY DESCRIPTION: Fellow Bank was established as an international marketplace lending platform connecting investors and borrowers. Through a recent merger, the company is shifting towards lending from its own balance sheet. Fellow Bank is a FinTech company applying digital technology to challenge incumbents in the financial sector. The company was founded in 2013 and began operations in 2014, currently employing some 80 people.

INVESTMENT CASE:

OWNERSHIP STRUCTURE	SHARES	EURm	%
Evli Oyj	15.288	6.879	17.5 %
Taaleri Oyj	15.288	6.879	17.5 %
TN Ventures Oy	5.497	2.471	6.3 %
Oy Prandium Ab	4.754	2.138	5.5 %
Oy Scripo Ab	4.754	2.138	5.5 %
Oy T&T Nordcap Ab	3.938	1.769	4.5 %
Ingman Group Oy Ab	2.510	1.126	2.9 %
Oy Fincorp Ab	1.959	0.879	2.2 %
OP-Suomi Mikroyhtiot Erikoissijoitusrahasto	1.789	0.804	2.1 %
Op-Suomi Pienyhtiot	1.618	0.726	1.9 %
Ten largest	57.396	25.809	65.8%
Residual	29.761	13.391	34.2%
Total	87.157	39.221	100%

EARNINGS CALENDAR

Augustu 25, 2022

H1 report

OTHER EVENTS

COMPANY MISCELLANEOUS

CEO: Teemu Nyholm

CFO: Kukka Lehtimäki

Tel:

IR:

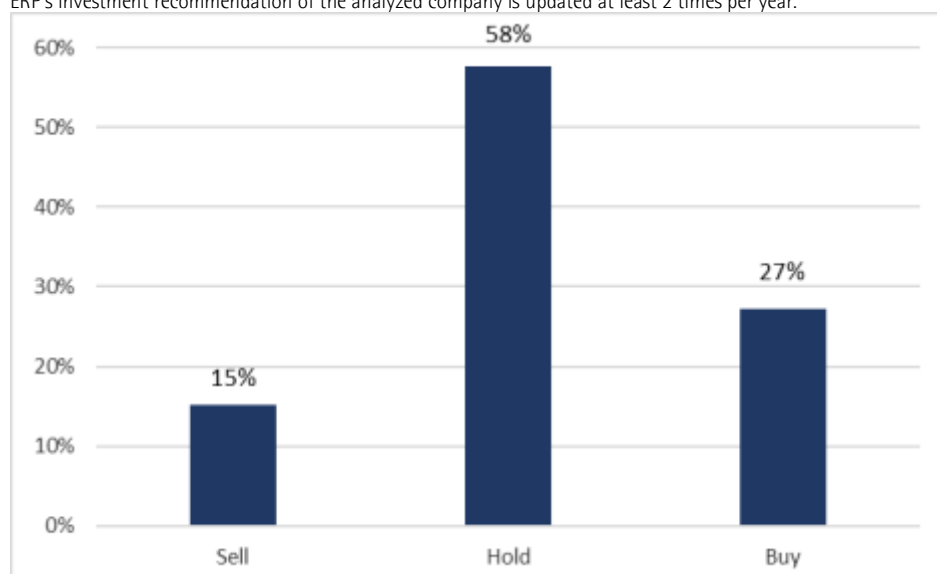
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Investment recommendations are defined as follows:

Target price compared to share price	Recommendation
< -10 %	SELL
-10 – (+10) %	HOLD
> 10 %	BUY

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Name(s) of the analyst(s): Salokivi

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