

Growth investments in 2020

Fellow Finance's H2 results fell short of our expectations, with EBIT amounting to EUR 0.3m (Evli 1.0m), affected by non-recurring personnel expense items of EUR 0.7m. Margin pressure is expected to continue in 2020 due to growth investments while accelerated turnover growth is expected in 2021–2022. Fellow Finances BoD proposes that no dividend be paid for FY2019 (Evli EUR 0.04). We retain our HOLD-rating with a target price of EUR 4.0 (4.2).

H2 EBIT below expectations mainly due to NRI's

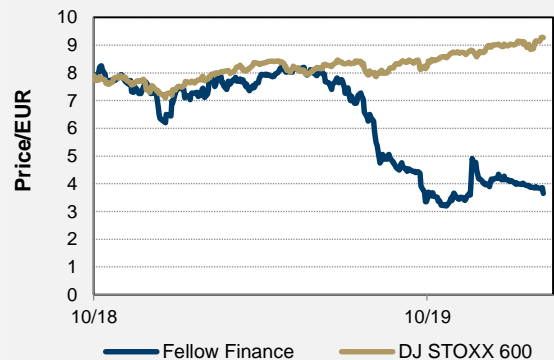
Fellow Finance's H2 results fell short of our expectations. Turnover amounted to EUR 7.0m. Turnover grew 9.1%, driven by an increase in interest yields as commission income decreased slightly. EBIT amounted to EUR 0.3m (Evli 1.0m), impacted by NRI's of EUR 0.7m. The BoD proposes that no dividend be paid (Evli EUR 0.04 per share). Turnover is expected to grow in 2020 while the operating profit is expected to decrease compared to 2019 (EUR 1.6m) due to growth investments.

Growth investments to lower margins in 2020

We have made downward revisions to our estimates post-H2. We expect an EBIT of EUR 1.3m (prev. 2.1m) and turnover growth of 4% (prev. 6%) in 2020. The consumer lending market in Finland is expected to remain challenging at least during H1/20. We expect limited growth in 2020 as the international operations ramp up and low average consumer loans in Poland, one of the furthest established international markets, will limit the growth pace but offer some upside through higher relative commission yields. We continue to expect growth pick-up in 2021. Profitability will be burdened by higher personnel costs and credit loss reservations associated with scaling up new markets.

HOLD with a target price of EUR 4.0 (4.2)

Fellow Finance's growth story continues to be challenged by the competitive situation in the consumer lending market in Finland and the visibility into accelerated international growth remains limited. On our revised estimates we adjust our target price to EUR 4.0 (4.2) and retain our HOLD-rating.

 Rating 🟡 HOLD

 Share price, EUR (Last trading day's closing price) 3.65

 Target price, EUR 4.0

 Latest change in recommendation 19-Aug-19

 Latest report on company 11-Feb-20

 Research paid by issuer: YES

 No. of shares outstanding, '000's 7,129

 No. of shares fully diluted, '000's 7,129

 Market cap, EURm 26

 Free float, % 0.0

 Exchange rate 0.000

 Reuters code FELLOW.HE

 Bloomberg code FELLOW HE

 Average daily volume, EURm 0.07

 Next interim report 28-Aug-20

 Web site www.fellowfinance.com

 Analyst Jerker Salokivi

 E-mail jerker.salokivi@evli.com

 Telephone +358 9 4766 9149
+ BUY 🟡 HOLD - SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	FCF EURm	EPS EUR	P/E (x)	EV/Sales (x)	EV/EBIT (x)	FCF yield %	DPS EUR
2018	12.0	3.4	28.3%	0.6	0.12	55.1	4.6	16.1	1.2	0.04
2019	14.2	1.6	11.6%	-0.8	-0.01	-349.3	3.2	28.0	-2.9	0.00
2020E	14.7	1.3	9.1%	-1.2	-0.03	-120.5	3.0	32.9	-4.5	0.00
2021E	18.6	2.8	15.2%	-0.7	0.13	28.3	2.4	15.8	-2.8	0.04
2022E	22.0	5.1	23.4%	1.0	0.38	9.5	2.0	8.5	3.8	0.11
Market cap, EURm	26		Gearing 2020E, %	123.8		CAGR EPS 2019-22, %		0.0		0.0
Net debt 2020E, EURm	18		Price/book 2020E	1.8		CAGR sales 2019-22, %		15.7		15.7
Enterprise value, EURm	44		Dividend yield 2020E, %	0.0		ROE 2020E, %		-1.5		-1.5
Total assets 2020E, EURm	36		Tax rate 2020E, %	20.0		ROCE 2020E, %		3.8		3.8
Goodwill 2020E, EURm	0		Equity ratio 2020E, %	39.6		PEG, P/E 20/CAGR		0.0		0.0

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

Fellow Finance	2018	H1/'19	H2/'19	2019	H1/'20E	H2/'20E	2020E	2021E	2022E
Net sales	12.0	7.2	7.0	14.2	7.1	7.6	14.7	18.6	22.0
<i>sales growth, %</i>	38%	30%	10%	19%	-2%	8%	4%	26%	18%
Fee income	9.0	5.3	4.7	10.0	4.8	5.2	10.0	13.8	17.2
Interest income	3.0	1.9	2.2	4.2	2.3	2.4	4.7	4.8	4.8
Facilitated loans	172	109	92	201	94	102	196	265	330
<i>change, %</i>	74%	43%	-4%	17%	-14%	11%	-2%	35%	25%
Expenses									
Materials and services	-3.8	-2.3	-2.0	-4.3	-2.0	-2.1	-4.1	-5.6	-6.9
<i>as % of facilitated loans</i>	2.2%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%
Personnel expenses	-1.7	-1.0	-1.8	-2.9	-1.3	-1.4	-2.7	-3.2	-3.5
Other op. expenses	-2.7	-2.3	-2.6	-5.0	-2.9	-3.2	-6.1	-6.5	-6.0
D&A	-0.4	-0.2	-0.2	-0.4	-0.2	-0.2	-0.5	-0.5	-0.4
EBIT	3.4	1.4	0.3	1.6	0.7	0.6	1.3	2.8	5.1
<i>EBIT margin</i>	28.1%	19.0%	3.9%	11.6%	9.8%	8.4%	9.1%	15.2%	23.4%
Adj. EBIT	3.5	1.4	1.0	2.3	0.7	0.6	1.3	2.8	5.1
<i>Adj. EBIT margin</i>	29.5%	19.0%	14.0%	16.5%	9.8%	8.4%	9.1%	15.2%	23.4%

INTERIM FIGURES

EVLI ESTIMATES, EURm	2019Q1	2019Q2	2019Q3	2019Q4	2019	2020Q1E	2020Q2E	2020Q3E	2020Q4E	2020E	2021E	2022E
Net sales	0.0	7.2	0.0	7.0	14.2	0.0	7.1	0.0	7.6	14.7	18.6	22.0
EBITDA	0.0	1.6	0.0	0.5	2.1	0.0	0.9	0.0	0.9	1.8	3.3	5.8
<i>EBITDA margin (%)</i>	<i>0.0</i>	<i>21.7</i>	<i>1,673.0</i>	<i>6.9</i>	<i>14.5</i>	<i>2,826.8</i>	<i>13.0</i>	<i>2,826.8</i>	<i>11.3</i>	<i>12.5</i>	<i>18.0</i>	<i>26.4</i>
EBIT	0.0	1.4	0.0	0.3	1.6	0.0	0.7	0.0	0.6	1.3	2.8	5.1
<i>EBIT margin (%)</i>	<i>0.0</i>	<i>19.0</i>	<i>0.0</i>	<i>3.9</i>	<i>11.6</i>	<i>0.0</i>	<i>9.8</i>	<i>0.0</i>	<i>8.4</i>	<i>9.1</i>	<i>15.2</i>	<i>23.4</i>
Net financial items	0.0	-0.7	0.0	-0.8	-1.5	0.0	-0.8	0.0	-0.8	-1.6	-1.7	-1.7
Pre-tax profit	0.0	0.6	0.0	-0.5	0.1	0.0	-0.1	0.0	-0.2	-0.3	1.1	3.4
Tax	0.0	-0.2	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.1	-0.2	-0.7
<i>Tax rate (%)</i>	<i>0.0</i>	<i>34.3</i>	<i>0.0</i>	<i>4.6</i>	<i>176.3</i>	<i>0.0</i>	<i>20.0</i>	<i>0.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>
Net profit	0.0	0.4	0.0	-0.5	-0.1	0.0	-0.1	0.0	-0.1	-0.2	0.9	2.7
EPS	0.00	0.06	0.00	-0.07	-0.01	0.00	-0.01	0.00	-0.02	-0.03	0.13	0.38
EPS adjusted (diluted no. of shares)	0.00	0.06	0.00	-0.07	-0.01	0.00	-0.01	0.00	-0.02	-0.03	0.13	0.38
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.04	0.11
SALES, EURm												
Fellow Finance	0.0	7.2	0.0	7.0	14.2	0.0	7.1	0.0	7.6	14.7	18.6	22.0
Total	0.0	7.2	0.0	7.0	14.2	0.0	7.1	0.0	7.6	14.7	18.6	22.0
SALES GROWTH, Y/Y %												
<i>Fellow Finance</i>	<i>0.0</i>	<i>29.6</i>	<i>0.0</i>	<i>8.4</i>	<i>18.3</i>	<i>0.0</i>	<i>-2.0</i>	<i>0.0</i>	<i>9.3</i>	<i>3.5</i>	<i>26.4</i>	<i>18.2</i>
<i>Total</i>	<i>0.0</i>	<i>29.6</i>	<i>0.0</i>	<i>8.4</i>	<i>18.3</i>	<i>0.0</i>	<i>-1.9</i>	<i>0.0</i>	<i>9.3</i>	<i>3.5</i>	<i>26.4</i>	<i>18.2</i>
EBIT, EURm												
Fellow Finance	0.0	1.4	0.0	0.3	1.6	0.0	0.7	0.0	0.6	1.3	2.8	5.1
Total	0.0	1.4	0.0	0.3	1.6	0.0	0.7	0.0	0.6	1.3	2.8	5.1
EBIT margin, %												
<i>Fellow Finance</i>	<i>0.0</i>	<i>19.0</i>	<i>0.0</i>	<i>3.9</i>	<i>11.6</i>	<i>0.0</i>	<i>9.8</i>	<i>0.0</i>	<i>8.4</i>	<i>9.1</i>	<i>15.2</i>	<i>23.4</i>
<i>Total</i>	<i>0.0</i>	<i>19.0</i>	<i>0.0</i>	<i>3.9</i>	<i>11.6</i>	<i>0.0</i>	<i>9.8</i>	<i>0.0</i>	<i>8.4</i>	<i>9.1</i>	<i>15.2</i>	<i>23.4</i>

INCOME STATEMENT, EURm	2015	2016	2017	2018	2019	2020E	2021E	2022E
Sales	4.0	5.6	8.7	12.0	14.2	14.7	18.6	22.0
<i>Sales growth (%)</i>	<i>0.0</i>	<i>39.6</i>	<i>55.0</i>	<i>38.5</i>	<i>18.3</i>	<i>3.5</i>	<i>26.4</i>	<i>18.2</i>
EBITDA	1.6	1.3	2.9	3.8	2.1	1.8	3.3	5.8
<i>EBITDA margin (%)</i>	<i>40.7</i>	<i>22.5</i>	<i>33.1</i>	<i>31.9</i>	<i>14.5</i>	<i>12.5</i>	<i>18.0</i>	<i>26.4</i>
Depreciation	-0.3	-0.3	-0.4	-0.4	-0.4	-0.5	-0.5	-0.7
EBITA	1.3	0.9	2.5	3.4	1.6	1.3	2.8	5.1
Goodwill amortization / writedown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	1.3	0.9	2.5	3.4	1.6	1.3	2.8	5.1
<i>EBIT margin (%)</i>	<i>32.2</i>	<i>16.4</i>	<i>28.8</i>	<i>28.3</i>	<i>11.6</i>	<i>9.1</i>	<i>15.2</i>	<i>23.4</i>
Reported EBIT	1.3	0.9	2.5	3.4	1.6	1.3	2.8	5.1
<i>EBIT margin (reported) (%)</i>	<i>32.2</i>	<i>16.4</i>	<i>28.8</i>	<i>28.3</i>	<i>11.6</i>	<i>9.1</i>	<i>15.2</i>	<i>23.4</i>
Net financials	-1.3	-0.8	-1.3	-2.3	-1.5	-1.6	-1.7	-1.7
Pre-tax profit	0.0	0.1	1.2	1.1	0.1	-0.3	1.1	3.4
Taxes	-0.1	-0.1	-0.1	-0.3	-0.2	0.1	-0.2	-0.7
Minority shares	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	-0.3	0.1	1.1	0.8	-0.1	-0.2	0.9	2.7
Cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET, EURm								
Assets								
Fixed assets	11	10	14	17	24	24	24	24
Goodwill	0	0	0	0	0	0	0	0
Right of use assets	0	0	0	0	0	0	0	0
Inventory	0	0	0	0	0	0	0	0
Receivables	3	5	6	7	8	9	11	13
Liquid funds	2	2	2	9	4	3	4	4
Total assets	16	17	22	32	36	36	39	41
Liabilities								
Shareholder's equity	3	3	4	15	14	14	15	18
Minority interest	0	0	0	0	0	0	0	0
Convertibles	0	0	0	0	0	0	0	0
Lease liabilities	0	0	0	0	0	0	0	0
Deferred taxes	0	0	0	0	0	0	0	0
Interest bearing debt	11	13	17	17	20	21	22	22
Non-interest bearing current liabilities	2	1	1	1	1	1	1	2
Other interest-free debt	0	0	0	0	0	0	0	0
Total liabilities	16	17	22	32	36	36	39	41
CASH FLOW, EURm								
+ EBITDA	2	1	3	4	2	2	3	6
- Net financial items	-1	-1	-1	-2	-2	-2	-2	-2
- Taxes	0	0	0	0	0	0	0	-1
- Increase in Net Working Capital	-2	-1	1	0	0	-1	-1	-1
+/- Other	0	0	0	0	0	0	0	0
= Cash flow from operations	-2	-1	2	1	0	-1	0	2
- Capex	-11	0	0	-1	-1	-1	-1	-1
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	-13	-1	2	1	-1	-1	-1	1
+/- New issues/buybacks	3	0	0	10	0	0	0	0
- Paid dividend	0	0	0	-1	0	0	0	0
+/- Other	11	2	-2	-3	-4	0	2	0
Change in cash	2	1	0	7	-5	-1	1	1

KEY FIGURES	2016	2017	2018	2019	2020E	2021E	2022E
M-cap	0	0	46	30	26	26	26
Net debt (excl. convertibles)	11	15	8	17	18	18	18
Enterprise value	11	15	55	46	44	44	44
Sales	6	9	12	14	15	19	22
EBITDA	1	3	4	2	2	3	6
EBIT	1	2	3	2	1	3	5
Pre-tax	0	1	1	0	0	1	3
Earnings	0	1	1	0	0	1	3
Equity book value (excl. minorities)	3	4	15	14	14	15	18
Valuation multiples							
EV/sales	2.0	1.7	4.6	3.2	3.0	2.4	2.0
EV/EBITDA	8.8	5.2	14.3	22.4	23.8	13.3	7.5
EV/EBITA	12.1	5.9	16.1	28.0	32.9	15.8	8.5
EV/EBIT	12.1	5.9	16.1	28.0	32.9	15.8	8.5
EV/OCF	-13.8	7.0	41.5	-228.4	-68.6	595.2	22.8
EV/FCFF	-34.5	-5.0	-65.4	-6.6	441.5	74.7	18.4
P/FCFE	0.0	0.0	81.8	-34.9	-22.0	-35.3	26.0
P/E	0.0	0.0	55.1	-349.3	-120.5	28.3	9.5
P/B	0.0	0.0	3.2	2.0	1.8	1.7	1.5
Target EV/EBITDA	0.0	0.0	0.0	0.0	25.2	14.1	8.0
Target EV/EBIT	0.0	0.0	0.0	0.0	34.7	16.7	9.0
Target EV/FCF	0.0	0.0	0.0	0.0	-39.1	-63.6	46.2
Target P/B	0.0	0.0	0.0	0.0	2.0	1.9	1.6
Target P/E	0.0	0.0	0.0	0.0	-132.0	31.0	10.5
Per share measures							
Number of shares	5,818	5,818	7,129	7,129	7,129	7,129	7,129
Number of shares (diluted)	5,818	5,818	7,129	7,129	7,129	7,129	7,129
EPS	0.01	0.19	0.12	-0.01	-0.03	0.13	0.38
Operating cash flow per share	-0.14	0.36	0.18	-0.03	-0.09	0.01	0.27
Free cash flow per share	-0.17	0.34	0.08	-0.12	-0.17	-0.10	0.14
Book value per share	0.53	0.72	2.04	2.03	2.00	2.13	2.48
Dividend per share	0.00	0.09	0.04	0.00	0.00	0.04	0.11
Dividend payout ratio, %	0.0	47.2	33.9	0.0	0.0	30.0	30.0
Dividend yield, %	0.0	0.0	0.6	0.0	0.0	1.1	3.1
FCF yield, %	0.0	0.0	1.2	-2.9	-4.5	-2.8	3.8
Efficiency measures							
ROE	2.4	29.8	9.0	-0.6	-1.5	6.2	16.6
ROCE	6.0	13.4	13.0	5.0	3.8	7.8	13.3
Financial ratios							
Inventories as % of sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Receivables as % of sales	93.6	71.3	58.4	58.3	62.9	58.7	57.6
Non-interest bearing liabilities as % of sales	12.1	13.5	6.9	7.7	7.7	7.7	7.7
NWC/sales, %	81.5	57.8	51.5	50.6	55.1	51.0	49.9
Operative CAPEX/sales, %	3.0	1.9	6.3	4.6	3.7	4.4	4.2
CAPEX/sales (incl. acquisitions), %	3.0	1.9	6.3	4.6	3.7	4.4	4.2
FCFF/EBITDA	-0.3	-1.0	-0.2	-3.4	0.1	0.2	0.4
Net debt/EBITDA, book-weighted	8.8	5.2	2.2	8.0	9.6	5.5	3.1
Debt/equity, market-weighted	0.0	0.0	0.4	0.7	0.8	0.9	0.8
Equity ratio, book-weighted	18.1	19.1	44.8	40.2	39.6	39.2	42.6
Gearing, %	358.8	354.2	57.4	114.0	123.8	121.2	100.3

COMPANY DESCRIPTION: Fellow Finance operates a lending platform for debt-based consumer and business financing. The company operates in Finland, Sweden, Germany, Poland, and Denmark. The company began its operations in 2014 and listed on the Nasdaq First North Finland -marketplace in 2018. Over EUR 500m worth of loans have been intermediated through the company's platform since inception.

INVESTMENT CASE: The alternative finance markets in Europe have been growing rapidly and Fellow Finance should seek to capitalize on the growth. A key for success in our view lies in expansion abroad given the limited size and competition in the domestic market, with the international operations still in ramp-up. The scalability of its technology offers solid margin potential although growth investments will have a significant impact on margins in the coming years.

OWNERSHIP STRUCTURE	SHARES	EURm	%
Taaleri Oyj	1,847,163	6.742	25.9%
Margin Investments Oy	836,721	3.054	11.7%
TN Ventures Oy	830,843	3.033	11.7%
Oy T&T Nordcap Ab	656,436	2.396	9.2%
OP-Finland Small Cap	266,642	0.973	3.7%
OP-Finland Micro Cap	265,000	0.967	3.7%
Avensis Capital Oy	263,090	0.960	3.7%
Fennia Life Insurance Company	156,512	0.571	2.2%
Säästöpankki Small Cap mutual fund	128,841	0.470	1.8%
Swiss Life (Luxembourg) S.A.	77,392	0.282	1.1%
Ten largest	5,328,640	19.450	75%
Residual	1,799,985	6.570	25%
Total	7,128,625	26.019	100%

EARNINGS CALENDAR	
August 28, 2020	Q2 report
OTHER EVENTS	
April 03, 2020	AGM

COMPANY MISCELLANEOUS	
CEO: Jouni Hintikka	Pursimiehenkatu 4 A, FIN-00150 Helsinki
CFO: Niko Stark	Tel: 0203, 80,101
IR:	

DEFINITIONS

P/E	$\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS	$\frac{\text{Profit before extraord. items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$
P/BV	$\frac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$	DPS	Dividend for the financial period per share
Market cap	Price per share * Number of shares	OCF (Operating cash flow)	EBITDA – Net financial items – Taxes – Increase in working capital – Cash NRIs ± Other adjustments
EV (Enterprise value)	Market cap + net debt + minority interest at market value – share of associated companies at market value	FCF (Free cash flow)	Operating cash flow – operative CAPEX – acquisitions + divestments
EV/Sales	$\frac{\text{Enterprise value}}{\text{Sales}}$	FCF yield, %	$\frac{\text{Free cash flow}}{\text{Market cap}}$
EV/EBITDA	$\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortization}}$	Operative CAPEX/sales	$\frac{\text{Capital expenditure} - \text{divestments} - \text{acquisitions}}{\text{Sales}}$
EV/EBIT	$\frac{\text{Enterprise value}}{\text{Operating profit}}$	Net working capital	Current assets – current liabilities
Net debt	Interest bearing debt – financial assets	Capital employed/Share	$\frac{\text{Total assets} - \text{non-interest bearing debt}}{\text{Number of shares}}$
Total assets	Balance sheet total	Gearing	$\frac{\text{Net debt}}{\text{Equity}}$
Div yield, %	$\frac{\text{Dividend per share}}{\text{Price per share}}$	Debt/Equity, %	$\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$
Payout ratio, %	$\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$	Equity ratio, %	$\frac{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}{\text{Total assets} - \text{interest-free loans}}$
ROCE, %	$\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{non-interest bearing debt (average)}}$	CAGR, %	Cumulative annual growth rate = Average growth per year
ROE, %	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholder's equity} + \text{minority interest} + \text{taxed provisions (average)}}$		

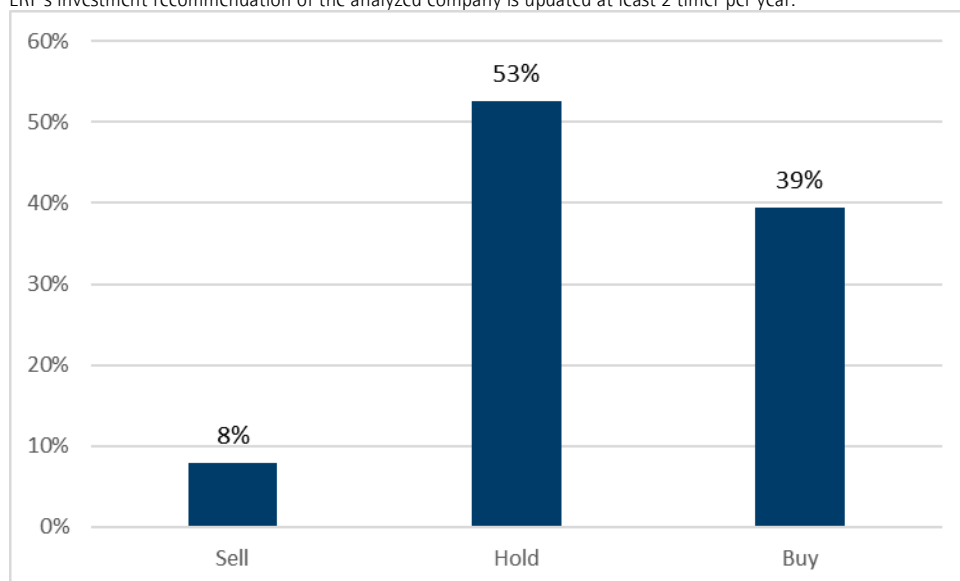
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Investment recommendations are defined as follows:

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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Contact information**SALES, TRADING AND RESEARCH****Equity Sales**

Ari Laine +358 9 4766 9115
Lauri Ahokanto +358 9 4766 9117
Niclas Henelius +358 9 4766 9116

Trading

Lauri Vehkaluoto (Head) +358 9 4766 9120
Pasi Väisänen +358 9 4766 9120
Antti Kässi +358 9 4766 9120
Miika Ronkanen +358 9 4766 9120

ETFs and Derivatives

Joachim Dannberg +358 9 4766 9123
Kimmo Lijja +358 9 4766 9130

Structured Investments

Heikki Savijoki +358 9 4766 9726
Aki Lakkisto +358 9 4766 9123

Equity Research

Jonas Forslund +358 9 4766 9314
Joonas Ilvonen +358 44 430 9071
Jerker Salokivi +358 9 4766 9149
Anna-Liisa Rissanen +358 40 157 9919

Evli Investment Solutions

Johannes Asuja +358 9 4766 9205
Markku Reinikainen +358 9 4766 9669



EVLI BANK PLC
Aleksanterinkatu 19 A
P.O. Box 1081
FIN-00101 Helsinki, FINLAND
Phone +358 9 476 690
Fax +358 9 634 382
Internet www.evli.com
E-mail firstname.lastname@evli.com

**EVLI BANK PLC,
STOCKHOLMSFILIAL**
Regeringsgatan 67 P.O. Box 16354
SE-103 26 Stockholm
Sverige
stockholm@evli.com
Tel +46 (0)8 407 8000
Fax +46 (0)8 407 8001