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Surname	Area	information	Publication date	Relevance
N26 GmbH Berlin	Accounting / financial reports	Annual financial statements for the financial year from January 1, 2018 to December 31, 2018	24.03.2020	100%

### N26 GmbH

Berlin

#### Annual financial statements for the financial year from January 1, 2018 to December 31, 2018



N26 concern, Berlin

#### Combined management report 2018

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#### 1. Foundations of the group

##### Organizational structure

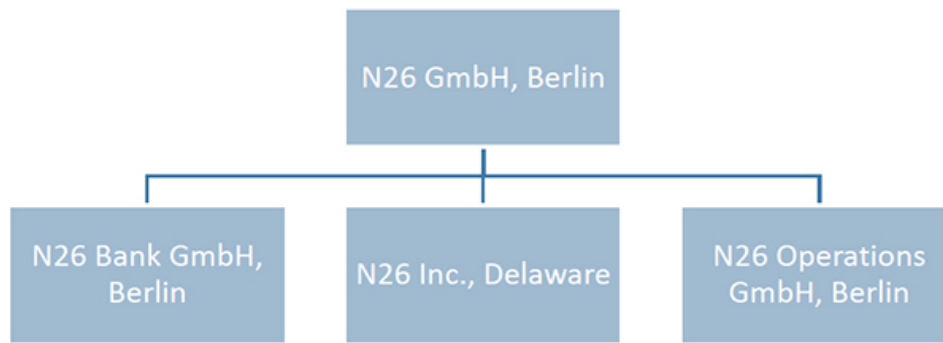
N26 GmbH, Berlin, is the parent company of the group.

As of the balance sheet date, the N26 Group included the parent company, the fully consolidated N26 Bank GmbH, N26 Inc. and N26 Operations GmbH, in which N26 GmbH each had a 100% stake. N26 Operations GmbH will be included in the consolidated financial statements for the first time in 2018.

The company is based in Berlin, with additional locations in New York, Barcelona and London.

At the end of 2018, a total of 731 people were employed in the N26 group. The Group's business development is largely determined by N26 Bank. N26 Bank has a full banking license and is a member of the compensation scheme for German banks (EdB). Due to the commencement of business operations in the financial year, N26 Operations GmbH is of disorderly importance for the consolidated financial statements. N26 Inc. is also still of disorderly importance for the consolidated financial statements.

The N26 Group sees itself as a leading technology developer for mobile banking applications. The structure of the consolidated companies of the N26 group is as follows:



### Business activity

The core of the business model is technical support services for the provision of payment services, the provision of IT and communication networks, mobile apps for tracking payment transactions, the provision of banking services and the brokering of financial services by the licensed banking subsidiary N26 Bank GmbH and in future by N26 Inc. in cooperation with an American bank.

### Products and services

In the 2018 financial year, the product range was further expanded, in particular through N26 Metal, the possibility of opening sub-accounts, so-called spaces, as well as Google Pay and Apple Pay. The product range of the N26 Group follows the development of customer needs in financial matters ("Follow the life cycle of the customer"). As a basis, a customer needs an offer that enables and supports the daily cashless payment processes and transactions at low cost / Studying and building your own family increases the need for financing, e.g. for a car or an apartment. The need for protection increases. If wealth can be built up, the customer needs savings or investment products.

The N26 Group would like to offer the customer a 360 ° positioning around his wishes.

The business areas of N26 Bank GmbH are derived from this positioning along the customer's needs of living, consuming, securing, multiplying. The focus of the offer, as it were the foundation of the product house, is on the products related to the account and the card. The other business areas, financing, investing and hedging are based on this. The N26 Bank works with a large number of cooperation partners and thus expands its product range.

### Payment services

The offered payment transaction services account and cards represent the strategic anchor of the product range. The digital household book in connection with the individual statistics and evaluations motivates the user to manage all income and expenses over the N26 bank account. The business area includes the products current account, premium account, flex account, credit card and international transfers.

### Invest

The business segment consists of the products fixed deposit and funds including savings plans. The products are provided by cooperation partners and are integrated in the mobile offer.

### Finance

The business area comprises the products overdraft facility and consumer credit in various forms. Consumer loans are both taken on their own books and conveyed to cooperation partners.

### To secure

Various insurance services are offered in the insurance business area. These include, for example, insurance benefits as part of the N26 Black and N26 Metal membership and the "Insurance Wallet" for the digital management and optimization of concluded insurance contracts.

### Goals and strategies

The management of N26 GmbH has set out the corporate strategy at group level in a strategy paper. The business strategy contained therein forms the strategic framework for the business activities. The strategic positioning of the N26 Group was derived from the analysis of the industry, customers, competitors and the market potential. The bank's strategy is embedded in the group strategy, taking into account the special requirements for the personal responsibility of the managing directors of the bank.

The N26 Group pursues the following strategic positioning approach for N26 Bank GmbH:

- N26 Bank GmbH positions itself as a mobile bank in Germany and Europe. The design of products, services and processes is primarily based on mobile devices (so-called "Mobile First" approach).
- N26 Bank GmbH creates, occupies and develops a new market segment. In principle, the customer group includes everyone who has an internet-enabled mobile phone and is able to access banking transactions using their mobile phone. Demand is driven by customer behavior of so-called Generation Y, which shapes consumer behavior, which is largely accompanied by the use of smartphones and which is increasingly being adapted by other customer groups.

The market potential of smartphone-savvy customers is continuously growing in Europe and can be addressed directly and comparatively cheaply using social media or online marketing.

For N26 Inc., the strategic positioning approach of N26 Bank GmbH applies analogously to the American market.

N26 GmbH takes over operationally outsourced services from N26 Bank GmbH and in future from N26 Inc. N26 Operations GmbH in turn takes over operationally outsourced services from N26 GmbH. In addition, N26 GmbH is continuously developing the product range and the N26 brand.

### **Control system**

The annual strategy and planning process forms the basis for the business policy management of the N26 Group. Compliance with the regulatory requirements and the risk-bearing capacity of N26 Bank GmbH as well as the risk strategy adopted by the management form the strategic framework for action.

The control system of the N26 group forms a continuous cycle of planning, implementation, analysis and adaptation. The N26 Group uses the financial statements, business / product planning, risk reports and various reports on liquidity management and business development in relation to new customers, contribution margin or sales as central control instruments. Plan-actual comparisons form the basis for deviation analyzes and the development of countermeasures based on the identified causes.

### **Financial performance indicators**

The N26 Group controls according to the following financial performance indicators:

- Interest and commission surplus
- Tier 1 capital ratio: ratio of regulatory own funds to risk-bearing assets that are to be offset
- Cost-income ratio: ratio of administrative expenses to net interest and commission income plus other operating income
- Return on equity: quotient of earnings before income taxes and profit transfer and the average balance sheet equity
- Furthermore, the Liquidity Coverage Ratio (LCR), the Leverage Ratio (LR) and the Net Stable Funding Ratio (NSFR) are included in the management of N26 Bank GmbH

### **Non-financial performance indicators**

Non-financial performance indicators are also part of the management philosophy of the N26 Group:

- Acquisition of new customers
- Acquire new markets

The continuous increase in the number of new customers in the established markets and through the entry into new countries is a strategic goal and is monitored accordingly. A customer is defined as a new customer who has completed the KYC process and activated their account. In a first step, all those countries are defined as new markets that can be opened via EU passporting. In a second step, all countries outside the EU passporting with corresponding market potential.

## **2. Economic report**

The business environment continued to develop well in 2018. Driven by the expansionary monetary policy of the European Central Bank, continuous growth in Europe continued, even if the momentum weakened in the second half of the year. However, low interest rates continue to weigh on private investors' 'wealth position and banks' net interest income. Loan demand is rather weak in relation to the economic environment.

The N26 Group developed almost as planned in 2018. The course of business continues to be characterized by high investments in a scalable technical infrastructure and expenses for customer acquisition. Due to the high customer growth, the expenses for onboarding the customers are relatively high in relation to the income. Existing customers are increasingly using the services offered, so that commission income and net interest income have developed positively. N26 Inc. also continued to prepare for entry into the American market,

### **Macroeconomic and industry-related framework conditions**

#### **Economy**

According to the IMF's October 2018 World Economic Outlook, global economic growth will increase by 3.7% in 2018.

However, expansion has become more unbalanced and the IMF believes that expansion may have peaked in some major economies. Growth forecasts for the euro zone and the United Kingdom had to be revised downwards. In addition, trade tensions are weighing on the economic climate. In a global comparison, the European economy falls back a bit. In the autumn forecast for 2018, the EU Commission expects the US economy to grow somewhat faster at 2.9% than for the EU at 2.1%.

According to the Deutsche Bundesbank's February 2019 monthly report, the German economy is in a phase of cooling. According to calculations by the Federal Statistical Office, the price-adjusted gross domestic product was 1.5% higher in 2018 than in the previous year and the German economy grew for the ninth consecutive year, but growth has lost momentum. In 2018, growth impulses came primarily from Germany, both private consumer spending rose by +1.0% and government consumer spending by +1.1% compared to the previous year. However, the growth was significantly lower than in the past three years. The job market was in very good shape at the end of the year, despite the weaker economic momentum, with almost 44.8 million employees.

#### **Monetary policy**

The international financial markets were shaped by the US fiscal policy and the monetary policy of the FED and the ECB as well as increasing uncertainties regarding the economic development. The Governing Council left the key interest rates unchanged in 2018. The main refinancing rate remains at 0%, the interest rates for the marginal refinancing and deposit facilities are 0.25% and -0.40%. As the Deutsche Bundesbank presents in its February 2019 monthly report, the ECB Council assumes that key interest rates will remain at the current level at least until summer 2019 and in any case for as long as necessary. In order to,

Against the background of low interest rates and the flat interest structure, the build-up of sight deposits at banks in Germany, which has been ongoing since 2008, continued strongly in 2018.

**Regulatory**

In 2018, extensive extensions and tightening of the regulatory requirements were implemented, in particular with the addition of critical infrastructures to the banking supervisory requirements for IT (BAIT), the new guidelines for banking supervisory authorities on risk-bearing capacity and the information sheet from BaFin and the Deutsche Bundesbank on outsourcing to cloud providers. As part of the ongoing revision of the CRR and CRD IV, the regulations on the leverage ratio are also to be adopted. The date of first application will largely depend on when the amended legal acts are published in the Official Journal of the EU.

**Course of business**

The development of the N26 Group and the parent company N26 GmbH in the financial year was largely shaped by developments at N26 Bank, since N26 GmbH provides the operational outsourced services.

In the financial year, N26 GmbH also invested in the development of the N26 brand through marketing measures and promoted the targeted increase in personnel. There was a significant increase in marketing costs and personnel expenses.

The financial year of N26 Bank GmbH was primarily characterized by the acquisition of new customers, the expansion of the product range and the continuing low interest rate environment. The number of customers rose to over one million at the end of the year. There was again a significant increase in customer deposits and, as a result, the further expansion of our treasury activities.

In addition to the acquisition of new customers, the main focus of business activity in the past financial year was on optimizing banking processes and expanding staff.

In all countries outside Germany, the market was processed via so-called EU passporting. N26 Bank GmbH operates out of its location in Berlin and currently has a branch in London, United Kingdom. There are no other operational branches or representative offices.

The original product range from a free account in connection with a debit card was significantly expanded in 2017 and internationalized in 2018. As of December 31, 2018, customers with their residence in Germany were able to use the most extensive range of products and services.

**Product range of N26 Bank GmbH as of December 31, 2018 by country:**

Product category	Product expression	DE	AT		
account	default	X	X		
	Basic account	X			
	P account	X			
	Flex	X			
	Business account	X	X		
	Business black	X	X		
Payments	Moneybeam	X	X		
	Cash26	X	X		
	Transferwise	X	X		
	Apple Pay	X			
	Google Pay	X			
	3 D Secure	X	X		
cards	default	X	X		
	maestro	X	X		
	Black	X	X		
	Metal	X	X		
credit	Overdraft	X	X		
	N26 credit	X			
	Partner credit	X			
investment	N26 Invest	X			
	N26 Savings	X	X		
Assure	N26 Insurance	X			
Product category	Product expression	FR	IT	IT	UK
account	default	X	X	X	X
	Basic account				
	P account				
	Flex				
	Business account	X	X	X	
	Business black	X	X	X	
Payments	Moneybeam	X	X	X	
	Cash26				
	Transferwise	X	X	X	
	Apple Pay	X	X	X	
	Google Pay	X	X	X	X
	3 D Secure	X	X	X	X
cards	default	X	X	X	X

Product category	Product expression	FR	IT	IT	UK
	maestro				
	Black	X	X	X	
	Metal	X	X	X	
credit	Overdraft				
	N26 credit				
	Partner credit	X			
investment	N26 Invest				
	N26 Savings				
Assure	N26 Insurance				
Product category	Product expression	IE	GR	SK	NL
account	default	X	X	X	X
	Basic account				
	P account				
	Flex				
	Business account	X	X	X	X
	Business black				
Payments	Moneybeam	X	X	X	X
	Cash26				
	Transferwise	X	X	X	X
	Apple Pay	X			
	Google Pay	X		X	
	3 D Secure	X	X	X	X
cards	default	X	X	X	X
	maestro				X
	Black	X		X	X
	Metal				
credit	Overdraft				
	N26 credit				
	Partner credit				
investment	N26 Invest				
	N26 Savings				
Assure	N26 Insurance				
Product category	Product expression	BE	PT	LT	LV
account	default	X	X	X	X
	Basic account				
	P account				
	Flex				
	Business account	X	X	X	X
	Business black				
Payments	Moneybeam	X	X	X	X
	Cash26				
	Transferwise	X	X	X	X
	Apple Pay				
	Google Pay	X			
	3 D Secure	X	X	X	X
cards	default	X	X	X	X
	maestro				
	Black	X	X	X	X
	Metal				
credit	Overdraft				
	N26 credit				
	Partner credit				
investment	N26 Invest				
	N26 Savings				
Assure	N26 Insurance				
Product category	Product expression	EE	FI	SV	LUX
account	default	X	X	X	X
	Basic account				
	P account				
	Flex				
	Business account	X	X	X	X

Product category	Product expression	EE	FI	SV	LUX
	Business black				
Payments	Moneybeam	X	X	X	X
	Cash26				
	Transferwise	X	X	X	X
	Apple Pay		X		
	Google Pay				
cards	3 D Secure	X	X	X	X
	default	X	X	X	X
	maestro				
	Black	XX			X
	Metal				
credit	Overdraft				
	N26 credit				
	Partner credit				
investment	N26 Invest				
	N26 Savings				
Assure	N26 Insurance				
Product category	Product expression		PL	SE	NO
account	default		X	X	X
	Basic account				
	P account				
	Flex				
	Business account		X	X	X
	Business black				
Payments	Moneybeam		X	X	X
	Cash26				
	Transferwise		X	X	X
	Apple Pay				
	Google Pay				
cards	3 D Secure		X	X	X
	default		X	X	X
	maestro				
	Black				
	Metal				
credit	Overdraft				
	N26 credit				
	Partner credit				
investment	N26 Invest				
	N26 Savings				
Assure	N26 Insurance				

In addition to the usual payment services, customers can use country-specific special N26 features. Customers can use Cash26 to withdraw or deposit cash from over 11,500 trading partners in Germany and Austria using a barcode. With Moneybeam, transfers between N26 customers can be made in real time, so that the money recipient can immediately dispose of and dispose of the amount. In addition, N26 was one of the first banks to introduce Apple Pay and Google Pay in Germany.

The basic needs of customers in the credit and investment area are also covered by the N26 disposition and installment loan as well as N26 Invest and N26 Savings. In covering these areas of need, N26 Bank either pursues a make strategy or a buy strategy. For this purpose, solutions from other innovative providers or established market participants are integrated into the N26 application.

With N26 Black, N26 Bank GmbH already offers a premium product in 15 countries. The customer also receives a comprehensive and powerful insurance package in addition to the monthly base price. The positive acceptance of this product is reflected in the usage rates, which are over 30 percent in individual countries. As another premium product with an extensive range of services and partner programs, we launched N26 Metal in five countries in 2018.

In 2018, N26 Inc. again evaluated the possibilities of a market entry in the USA and consistently prepared the market entry in 2019.

N26 Operations GmbH started business in the second half of 2018 and bundles operationally outsourced services

Against the background of dynamic growth, the acquisition of new customers and the low interest rate policy, the course of business in 2018 is to be classified as satisfactory and in line with expectations from the management's perspective.

### Earnings position

The earnings position of the N26 Group was largely determined by N26 GmbH and N26 Bank GmbH in 2018.

Due to the customer growth expected in the planning, the international expansion and the persistently high investments, the earnings situation is still characterized by start-up losses. Absolute deviations from corporate planning are due in particular to the

high dynamic of the environment, but in relative terms these deviations are within our planning / expectation corridor.

Based on the 2018 consolidated profit and loss account, the following overview of earnings results:

	2018	2017	change
	Million	Million	Million
Interest and commission surplus	18.88	1.00	17.88
Net interest income	5.07	0.85	4.22
Commission surplus	13.81	0.15	13.66
Administrative burden	90.17	31.81	58.36
Personnel expenses	27.66	12.73	14.93
Other administrative expenses	62.51	19.08	43 A3
Depreciation on property, plant and equipment	0.45	0.35	0.10
Other operating income / expenses	5.63	0.25	5.38
Operating profit before risk provisions	-66.11	-30.91	-35.21
Lending business valuation result	-7.76	-1.25	-6.51
Valuation result of receivables	0.72	0.11	0.61
Risk provisioning	-7.04	-1.14	-5.90
Operating profit after risk provisioning	-73.15	-32.05	-41.10
Extraordinary income / effort	0.00	0.00	0.00
Annual surplus / annual shortfall	-73.15	-32.05	-41.10
Cost-income ratio in%	> 100	> 100	
Return on equity in%	n / A	n / A	

### Results of operations of N26 GmbH

The financial year of N26 GmbH was characterized by the takeover of operational outsourced services from N26 Bank GmbH, which essentially determine the sales revenues in the individual financial statements of EUR 43.6 million at EUR 42.5 million.

The continuous increase in personnel led to personnel expenses of N26 GmbH in the amount of EUR 20.9 million, the other operating expenses in the amount of EUR 48.1 million mainly consist of expenses for marketing and shipping costs. No risk provision was made for trade receivables in the financial year. will.

At the level of the single-entity financial statements, an annual loss of EUR 39.9 million was achieved in line with expectations.

### Overall result in a dynamic environment in line with expectations

The business year of the N26 Group was mainly characterized by the acquisition of new customers, the expansion of the product range and the persistent low interest rate environment. Due to the significant increase in customers and the expansion of our treasury activities, both a positive commission result and interest result were realized in the 2018 financial year. The increased administrative costs reflect the costs for staffing and marketing. Taking into account the high dynamics of our business, the net loss for the year is in line with expectations.

### Net interest income shaped by lending business and treasury

As expected, the low interest rate policy continued in 2018. Nevertheless, a net interest income of EUR 5.07 million was generated for 2018, of which EUR 3.52 million was attributable to the lending business and EUR 1.54 million to the securities business. Negative interest rates burden the net interest income by 0.18 million euros. The expected interest result was significantly exceeded, particularly by our Treasury, despite the continued conservative lending and investment policy.

### Net commission income shaped by credit card business

According to the planning, the main drivers for the commission surplus of EUR 13.81 million, which is also well above expectations, were the provision of payment transaction services and the card business. In particular, unplanned cost reductions were achieved here.

### Administrative expenses characterized by increasing personnel and marketing

Administrative expenses, which consist of personnel expenses, other administrative expenses and depreciation of property, plant and equipment, amounted to EUR 90.17 million. Other administrative expenses accounted for the largest share of administrative expenses in 2018 and are largely characterized by marketing and card production costs. The increased personnel costs reflect the further increase in personnel in the 2018 financial year.

### Depreciation and value adjustments appropriate

For customer business (loan loss provisions and other risks), write-downs of EUR 3.96 million, which exceeded expectations, were made and value adjustments of EUR 3.13 million were made.

The N26 Group took all discernible and latent risks into account by making value adjustments.

### Financial position

The N26 Group's financial position is largely determined by N26 Bank GmbH.

Balance sheet numbers

Balance sheet numbers	12/31/2018	12/31/2017	change	%
in € million	12/31/2018	12/31/2017	change	%
Cash reserve	119.00	60.10	58.90	98.0%
Loans and advances to banks	153.49	101.19	52.30	51.7%
Loans and advances to customers	461.17	203.32	257.85	126.8%
from customer loans	25.83	9.57	16.26	169.8%
from municipal loans	435.34	193.75	241.59	124.7%
Bonds and other fixed income securities	383.62	58.87	324.75	n / A
Liabilities to customers	1,070.09	411.80	658.29	159.9%
Reported equity	48.56	10.40	38.15	366.8%

### Financial position of N26 GmbH

The financial position of the parent company N26 GmbH is characterized by financial investments, which mainly amount to EUR 88.63 million from the participation in N26 Bank GmbH. Refinancing is carried out through the shareholders' equity. The balance sheet total of N26 GmbH amounts to EUR 115.1 million. Financial investments increased compared to the previous year due to capital increases by N26 Bank GmbH. The equity capital of N26 GmbH in the amount of EUR 104.70 million. has also increased due to capital increases of 119.9 Mb.

### Total assets in line with expectations

The consolidated balance sheet total as of December 31, 2018 was EUR 1,134.23 million (previous year: EUR 426.12 million) in line with expectations.

### Significant balance sheet items

The cash reserve held with the central banks at the balance sheet date amounted to EUR 119.0 million (previous year: EUR 60.10 million).

Loans and advances to banks amounted to EUR 153.50 million (previous year: EUR 101.19 million). These were divided into loans and advances to banks due in EUR 11.93 million and other loans and advances to banks in the amount of EUR 141.56 million.

As of the balance sheet date, claims on customers amounted to EUR 461.17 million (previous year: EUR 203.32 million). These were divided into EUR 435.34 million in municipal loans and EUR 25.83 million in loans and advances to end customers from loans and overdrafts drawn on the balance sheet date - adjusted for risk provisions of EUR 3.85 million.

As of the balance sheet date, the bonds and other fixed-income securities used to invest the existing deposit surplus of N26 Bank GmbH amounted to EUR 383.62 million (previous year: EUR 58.87 million).

As of the balance sheet date, the liabilities side of the N26 Group was characterized by two main balance sheet items, liabilities to customers and the equity position. As of December 31, 2018, daily customer deposits were EUR 1,071.73 million (previous year: EUR 411.80 million).

### Equity

As of December 31, 2018, the equity of the N26 Group was EUR 48.56 million (previous year: EUR 10.05 million). It is made up of share capital of EUR 0.10 million and a capital reserve of EUR 177.72 million, less the accumulated losses.

N26 Bank GmbH determines the regulatory capital base using the credit risk standardized approach, the market risk standardized approach and the basic indicator approach for operational risks. The underlying risks relate to counterparty default, market price and operational risks.

N26 Bank GmbH always complied with the regulatory capital requirements (CRD IV / CRR, Solvency Regulation).

### Financial position

In the 2018 financial year, the N26 Group's total equity of EUR 177.82 Mb was largely capitalized by N26 GmbH through a capital increase of EUR 110.0 million. Taking the loss carryforward into account, equity as of December 31, 2018 amounted to EUR 48.56 million. There were no further capital contributions as of the balance sheet date December 31, 2018.

There was always sufficient liquidity. The refinancing was mainly done through customer deposits and own funds.

### 3. Risk report

In addition to the banking risks typical of N26 Bank GmbH, the risk that the product and development goals cannot be achieved is essential for the risk situation of the N26 Group, with corresponding negative effects on the sales and the company result of N26 GmbH. The latter are monitored in particular through ongoing controlling and supported by reporting, and appropriate control measures are derived.

### Organization / process organization and committees of the N26 group

The organizational structure of the N26 Group ensures that activities that are incompatible with one another are carried out by different employees in accordance with AT 4.3.1 No. 1 of the MaRisk (separation of functions), particularly with regard to the regulatory requirements of N26 Bank GmbH. Furthermore, tasks, competencies, responsibilities, controls and communication channels are clearly defined and assigned at N26 Bank GmbH (see AT 4.3.1 No. 2 of the MaRisk).



The competence regulations of N26 Bank GmbH are regularly checked by the internal auditors in accordance with risk-oriented audit planning in cooperation with the management. Essential IT authorizations and signing authorizations in connection with payment transaction accounts are checked regularly, at least annually, particularly critical IT authorizations are checked every six months. Other competencies granted are checked regularly, as well as in the event of changes in the functions of employees and when the company leaves the company, by the responsible management officer.

#### Management board of N26 Bank GmbH

The management board consists of the managing directors of N26 Bank GmbH and has overall responsibility for the risk management of N26 Bank GmbH according to AT 3 of the MaRisk, regardless of the internal responsibility regulation. In coordination with the advisory board, the management board defines the business and risk strategy and adopts downstream guidelines and work instructions. His tasks also include determining an appropriate organizational structure and process organization.

#### Advisory boards

The advisory boards of N26 GmbH and N26 Bank GmbH act as control bodies for the management and, as such, monitor the regularity of the business. The Advisory Board of N26 Bank GmbH also discusses the business and risk strategy with the management and monitors compliance with risk-bearing capacity and other banking regulations. The advisory board of N26 Bank GmbH is informed by the management about the risk situation on a quarterly or occasion basis and about the change in the management of risk controlling,

#### Risk management function of N26 Bank GmbH

Risk management at N26 Bank GmbH reports directly to the managing director at the back office.

Risk management is responsible for the continuous monitoring of the overall risk position, the risk inventory, the risk analysis, the support of the management in the strategy process, as well as for risk reporting and professional documentation.

Risk management employees are responsible for operational risk identification, measurement, monitoring and reporting. This includes the risk and limit monitoring set out in the relevant guidelines as well as the continuous further development of the risk management and controlling processes. The employees responsible for risk management monitor the risks on the operational level by means of regular reports and evaluations, ad-hoc evaluations, ie on request or on special occasions.

#### Internal audit of the N26 group

The internal audit serves as a management tool and is designed according to the complexity and size of the N26 Group. The internal audit department supports the management and the advisory board in their control, steering and steering functions. As a process-independent component of the internal monitoring system, it is the responsibility of the internal audit to review all business processes on a regular basis, taking into account the scope and risk content of the business activity.

The internal audit is carried out independently and objectively as described in AT 4.4.3 Item 3 of the MaRisk. In addition, the internal audit supports the organization in achieving its goals by using systematic and targeted approaches to assess the effectiveness of risk management, risk controls and the established management and monitoring processes. The internal audit of N26 Bank GmbH is currently outsourced to the accounting firm Ernst & Young (EY).

#### Reporting

The aim of the N26 Group's reporting is to provide and process data from accounting and controlling, risk measurement and assessment for external and internal target groups. A distinction must be made between regular risk reporting in monthly or quarterly frequency and event-related reporting (ad hoc reporting). In addition, the management is informed immediately if limits are exceeded or special changes are made.

### **Basic framework and risk management system**

The overarching goal of the N26 Group is to continuously increase the company's value through the expansion of the product range and through profitable customer growth. Due to this objective and the associated business activity, N26 Bank GmbH is exposed to risks customary in the industry.

The ongoing identification, measurement, monitoring and control of these risks represents a core element of risk management. In accordance with the requirements of MaRisk, N26 Bank GmbH has implemented processes that enable identification, appropriate measurement, planning, crediting against risk limits, reporting and management of the risks. It is an integral part of the business model of N26 Bank GmbH to take certain risks in a targeted manner and in accordance with the risk strategy and the existing risk cover funds.

Through an integrated and dynamic allocation process, capital, liquidity and other (especially regulatory) ancillary conditions are managed during the year to ensure efficient use, taking risk and return into account.

The aim of risk management is to identify significant risks and to provide appropriate risk cover to ensure risk-bearing capacity or to take mitigation measures.

In addition to strategic guidelines, the risk strategy includes the documentation of all identified significant risks in all areas of the company (risk inventory), including the presentation of all essential measures for analyzing, evaluating and managing or limiting risks.

Risks that can have a material impact on the assets, earnings or liquidity situation (risk inventory) are reviewed at least annually and as required if necessary. It is discussed at least once a year during the management meeting. A systematic analysis and identification of risks also takes place as part of regular reporting.

### **Risk-bearing capacity**

To monitor and control the risks, the company has set up an internal process to ensure risk-bearing capacity in accordance with AT 4.1 of Ma Risk.

This ensures that the main risks are covered by the risk coverage potential on an ongoing basis and that the risk-bearing capacity is therefore always available. The risk-bearing capacity is fully taken into account when determining the business and risk strategy.

To determine the overall risk profile, the sub-risk types are added, taking into account the potential risk impact, and the implicit assumption of 1 is therefore used. Up to and including November 30, 2018, the risk management of N26 Bank GmbH measured the risk-bearing capacity using both the gone concern approach (liquidation principle) and the going concern approach (continuation principle). As of December 31, 2018, N26 Bank GmbH replaced the gone concern approach with the economic ICAAP approach in accordance with the published guidelines of BaFin on May 24, 2018. The bank plans the going concern approach by 1.1.

The gone concern approach up to November 30th, 2018 and the economic ICAAP approach as of December 31st, 2018 each represent the primary control group of N26 Bank GmbH for the assessment of the risk-bearing capacity. Both approaches have in common that the risk potential of the main risks is determined to determine the risk-bearing capacity available or assigned risk coverage potential is compared. N26 Bank GmbH is risk-bearing if the risk potential of the main risks is at most as high as the available risk coverage potential. The risk assessment horizon is uniformly 1 year;

For the time being, the going concern approach at N26 Bank GmbH is the secondary control group for assessing risk-bearing capacity. In the going concern approach, the risk coverage potential is determined by the total capital minus the regulatory minimum capital for pillar I according to CRR. The quotient of the risk coverage potential and the sum of (i) the monthly planned return / loss and (ii) the economic risk potential on a monthly basis represents the survival period as the number of months and thus the duration of the ongoing risk-bearing capacity.

The risk-bearing capacity calculation is carried out on a quarterly basis as part of the preparation of the risk report by risk management and the results are presented in the quarterly risk report. In the risk report, the stress tests as well as their potential effects on the risk situation and the risk coverage potential of N26 Bank GmbH are explicitly presented in accordance with MaRisk AT 4.3.2 Item 4.

#### Stress testing

With each risk-bearing capacity run, N26 Bank GmbH also simulates the effects of a severe economic downturn and integrates the result in the respective risk reports. It looks at unlikely but plausible events (see AT 4.3.3 of the MaRisk). In addition, other plausible stress cases are considered at least once a year. This includes, in particular, the inverse stress test (AT 4.3.3 No. 4) and the adverse stress test to continuously ensure risk-bearing capacity even in the event of deviations from the plan (AT 4.1. No. 11).

### **Risk management system in the individual risk types**

#### **Credit risk**

Credit risk is the risk of an unexpected loss from an on-balance or off-balance sheet claim against a business partner or an issuer. N26 Bank GmbH also divides credit risks into counterparty default risk, migration risk and country risk.

N26 Bank GmbH defines the counterparty risk as the risk of bad debts due to partial or complete non-fulfillment of the repayment claim for bad debit positions. The default threshold is a payment default > 90 days or bankruptcy or bankruptcy filing by the borrower.

For N26 Bank GmbH, counterparty risks arise due to the business model (i) for all claims against customers from credit transactions through the granting of overdraft facilities, installment and framework loans as well as other loan commitments and tolerated overdrafts, (ii) for all claims against banks in the form of deposits, time deposits, credits and promissory notes, (iii) through the acquisition or settlement of interest-bearing securities and (iv) for claims from other assets and prepaid expenses. N26 Bank GmbH controls default risks in an integrated approach.

The counterparty default risk also includes the migration risk. This includes the risk of a deterioration in creditworthiness (e.g. due to a scoring / rating deterioration) and thus an increase in the probability of default, with the result that the need for economic capital and the associated risk costs increase. The bank generally has migration risks in the area of credit and securities. Migration risks are reduced at N26 Bank GmbH through regular review processes, early warning indicators and the proactive adjustment of credit limits.

In bulk business, N26 Bank GmbH has implemented an automated, multi-level credit decision model. This controls the granting of credit limits depending on the respective creditworthiness or rating class and income situation as well as other decision rules. As part of the monitoring, compliance with the defined rules and early warning indicators is continuously monitored and adjustments, including limit deletions, are made if necessary. Risk provisions are made according to the default probabilities assigned to the rating classes.

Migration risks outside of retail business exist particularly in relation to investments in the Treasury area. For N26 Bank GmbH there is currently a comparatively low migration risk due to the implementation of the treasury strategy, in particular due to the focus on good to very good credit ratings with a maximum medium term and sectors with high systemic importance. This risk is particularly represented in its systemic form in the context of market price risk measurement via the effect of credit spread changes in securities and credit indices on the VaR.

N26 Bank GmbH regards concentration risks as a risk of particularly severe loss as a result of the failure of individual or risk-related risk positions. Risk concentrations can arise from:

1. the size of a single exposure (cluster risks) and
- 2nd the synchronization of risk positions within a risk type (intra-risk concentrations) and between risk types (inter-risk concentrations).

The term risk position includes both credit risks, market risks, operational risks, liquidity risks and other business risks (eg concentrations of sources of income).

At N26 Bank, risk concentrations are determined as follows:

1. Quantitative,

- a. by determining the risk contributions per risk type within the framework of the RTF
- b. through the aggregation of exposure sizes via the borrower unit
- c. by determining the portfolio VaR in the RTF based on a historical simulation (intra-risk concentration)
- d. by determining interest rate sensitivities based on the 200 bps standard shift and including it in the capital charge

2. Qualitative,

- a. As part of the risk inventory
- b. within the framework of individual large credit decisions.

Risk concentrations are controlled and limited by:

1. the small scale and geographical spread of the primary retail business (affects liquidity risks, operational risks, credit risks),
- 2nd the defined risk type limits in the RTF,
- 3rd the sector and individual exposure limits as part of the Treasury NPP business plans,
- 4th the credit exposure limits in the context of large-scale loan decisions, taking into account the borrower unit (KNE).

Individual concentrations that could arise, for example, from the granting of large loans, are only entered into by N26 Bank GmbH as part of the treasury business. The business is focused on good to very good debtors of a public-law nature (exempt from crediting against the large loan cap in accordance with CRR and GroMiKV), unsubordinated, secured and unsecured claims against regulated credit institutions and government bonds from member states of the euro zone (currently not including Greece). N26 Bank GmbH does not consider the concentration risk to be material.

Country risk is understood to mean the risk that foreign currency positions cannot be converted or can no longer be fully converted into EUR, or that monetary transactions abroad can be restricted by states (transfer risk). N26 Bank GmbH limits the transfer risk by restricting it to debtors from industrialized countries and especially the EU as far as possible and only takes positions in the major international currencies such as GBP, USD, SFR, ZIP and SEK. The unexpected change in economic conditions, the political environment or other negative influences on our foreign retail customers are already sufficiently taken into account in the country-specific risk analysis procedures (scoring, decision rules), so that no separate consideration is necessary. N26 Bank GmbH currently does not consider the country risk to be material.

### Market price risk

Market price risks arise when the performance of a business depends on the future development of foreign currency and share prices, raw material prices, credit spreads or interest rates. Due to the business model, there is primarily a potential interest rate risk for N26 Bank GmbH due to variable and fixed-interest retail loans and treasury investments (including central bank balances) on the assets side, in contrast to non-interest-bearing and non-scheduled deposits on the liabilities side.

The interest rate risk is considered essential by N26 Bank GmbH and measured in the risk-bearing capacity concept using an economic value of equity (EVE) approach based on a 200 bps parallel interest rate shock and a VaR approach and taken into account as risk potential. The VaR calculation is carried out as a historical simulation with a confidence level of 99.9% and 250 successive measurement points. This calculation also takes into account the other market price-induced risks, in particular the credit spread-induced market price risk in the banking book.

### Liquidity risk

According to MaRisk BTR 3.1, N26 Bank GmbH is obliged to be able to meet its payment obligations at all times. A distinction is made between liquidity risk and refinancing cost risk in the case of liquidity risk. The insolvency risk refers to the risk that the bank will no longer be able to meet payment obligations in full or on time. The refinancing cost risk relates to the risk that additional refinancing funds can only be procured at higher market interest rates - and thus higher refinancing costs. The insolvency risk is considered to be significant, but is not taken into account in the risk-bearing capacity, since the bank effectively secures this risk by providing appropriate crisis liquidity for at least 30 days (mapping of a temporary market access or market dysfunction). Furthermore, the quality and intrinsic value of the assets as a prerequisite for long-term refinancing are already reflected in the credit and market risk. There are basically restrictions on how to effectively hedge liquidity risk with additional capital. but not taken into account in the risk-bearing capacity, since the bank effectively secures this risk by providing appropriate crisis liquidity for at least 30 days (mapping of a temporary market access or market dysfunction). Furthermore, the quality and intrinsic value of the assets as a prerequisite for long-term refinancing are already reflected in the credit and market risk. There are basically restrictions on how to effectively hedge liquidity risk with additional capital. but not taken into account in the risk-bearing capacity, since the bank effectively secures this risk by providing appropriate crisis liquidity for at least 30 days (mapping of a temporary market access or market dysfunction). Furthermore, the quality and recoverability of assets as a prerequisite for long-term refinancing are already reflected in the credit and market risk. There are basically restrictions on how to effectively hedge liquidity risk with additional capital. since the bank effectively hedges this risk by providing appropriate crisis liquidity for at least 30 days (depiction of a temporary market access or market malfunction). Furthermore, the quality and intrinsic value of the assets as a prerequisite for long-term refinancing are already reflected in the credit and market risk. There are basically restrictions on how to effectively hedge liquidity risk with additional capital. since the bank effectively hedges this risk by providing appropriate crisis liquidity for at least 30 days (depiction of a temporary market access or market malfunction). Furthermore, the quality and recoverability of assets as a prerequisite for long-term refinancing are already reflected in the credit and market risk. There are basically restrictions on how to effectively hedge liquidity risk with additional capital. since the bank effectively hedges this risk by providing appropriate crisis liquidity for at least 30 days (depiction of a temporary market access or market malfunction). Furthermore, the quality and recoverability of assets as a prerequisite for long-term refinancing are already reflected in the credit and market risk. There are basically restrictions on how to effectively hedge liquidity risk with additional capital.

At N26 Bank GmbH, the liquidity risk also consists of the risk of increased refinancing costs due to time mismatches in the liquidity commitment on the asset and liability side. If there is a meltdown of customer deposits at N26 Bank GmbH (call risk), N26 Bank

GmbH must procure additional liquid funds on the market if there is a longer liquidity commitment on the assets side. This also applies to a tense market environment (see MaRisk BTR 3.4). Against the background of focusing on transaction-related,

### Operational risks

The operational risk arises as a result of inadequacies or the unexpected failure of people, internal processes or IT systems as well as external influences. Legal risks and outsourcing are included.

N26 Bank GmbH classifies operational risk as material and takes this into account in the risk-bearing capacity. In the risk-bearing capacity concept, these are measured using the basic indicator approach. In order to ensure that the actual major operational risks remain below the unexpected loss determined in the basic indicator approach, N26 Bank GmbH records losses in a loss database.

The bank implements a proactive approach to operational risk management; this concerns above all the very significant technology and outsourcing risks due to the business model.

### Business risk

Business risk generally describes the risk of unexpected fluctuations in earnings. N26 Bank GmbH divides the business risks into strategic, innovation, competition and corporate risks. The risk-bearing capacity concept is not explicitly taken into account because the risk of unexpected fluctuations in earnings is already largely contained in the market, credit and operational risk and therefore cannot be classified as material. In addition, the fluctuations in earnings are tightly controlled,

### Other risks

N26 Bank GmbH essentially combines model risks under other risks. Other intangible risks are also taken into account in this item. Under the model risk, N26 Bank GmbH describes the risk of possible losses that arise from incorrect or limited financial mathematical models and the decisions made from them. The model risk can also be a consequence of insufficient and / or incorrect amounts of data and the dependence on historical data and model assumptions.

Due to the comparatively low complexity of the financial mathematical models used, the other risk is not classified as material.

### Overall statement on the risk situation

The risk-bearing capacity was ensured throughout the 2018 financial year, even under stress conditions. The regulatory indicators were complied with at all times in the 2018 financial year. N26 Bank GmbH and the N26 Group were always solvent in the reporting period.

The procedures and processes of risk management have been and will be continuously further developed and adapted to new requirements resulting from the further development of the product range and the increasing regional diversification through the internationalization of the business model.

Overview of risk-bearing capacity:

	value	limit
Risk-bearing capacity		
Adjusted risk cover amount	EUR 34,878 thousand	N / A
Risk potential	EUR 18,130 thousand	EUR 21,000 thousand
Of which credit risk (retail)	1,944 kEUR	2,500 kEUR
Of which credit risk (treasury)	EUR 6,662 thousand	EUR 7,500 thousand
Of which market risk	EUR 9,367 thousand	EUR 9,500 thousand
Of which operational risk	157 kEUR	1,500 kEUR
Free risk cover pool	16,748 kEUR	N / A

## 4. Opportunity and forecast report

### Assumptions for the development of the overall economy and the industry

Uncertainty about political and economic developments will continue in 2019. According to the European Commission's winter forecast 2019, the economic outlook is highly uncertain and the forecasts are subject to downside risks. Financial markets and many emerging markets are susceptible to abrupt changes in risk perception and growth expectations. Brexit remains an uncertainty factor for the EU.

The outlook for the global economy in 2019 has therefore deteriorated compared to the previous year. The pace of economic growth will slow down. A stronger slowdown in China can weigh on global growth and further weaken growth in Europe.

For the euro area, the EU Commission is forecasting GDP growth of 1.3% for 2019 in the interim forecast for 2019, for Germany the federal government expects the price-adjusted gross domestic product to increase by 1.5 percent in 2019 and thus a continuation of the growth trend in the tenth year. The OECD only expected growth of 0.7% for the euro area.

Inflation in the euro area was 1.7 percent in 2018, according to evaluations by the Federal Statistical Office. It is likely to remain at this level in 2019. According to the Bundesbank in its February 2019 monthly report, the ECB assumes that key interest rates will remain at the current level at least until summer 2019 and in any case for as long as necessary. In December the Governing Council decided to end the expanded asset purchase program after December 2018.

2019 will also be characterized by further regulatory measures. In particular, the review focuses on the revision of the CRR and CRD IV as well as the revision of the approach to risk-bearing capacity. Above all, the introduction of the leverage ratio will have an impact on banks' business models.

### Business development

The N26 Group and the parent company N26 GmbH continue to see themselves as very well positioned. The chosen path of expanding an internationally scalable infrastructure in connection with the internationalization of the business model offers additional opportunities, since there are attractive business opportunities in particular in the non-German-speaking markets in Europe and in the United States of America. Through the efficient continuous expansion of the product and service range, while the market potential of smartphone-savvy users of financial services is growing,

As in 2018, targets for 2019 are specified by the planning. We continue to expect significantly higher growth rates, particularly in commission income, driven by card sales and the premium products N26 Black and N26 Metal from N26 Bank GmbH and by the market entry of N26 Inc.

Due to the expansion into European markets and the United States of America as well as the expansion of our account functionalities, we expect the customer deposits of N26 Bank GmbH to increase significantly. Free cash and cash equivalents will therefore continue to be invested as part of the Treasury activities in order to reduce the effects of the negative deposit rate policy of the ECB.

We anticipate a significant increase in the volume of loans granted, which in turn will lead to a correspondingly rising interest result. The increase is primarily borne by our treasury activities; we expect the volume of original customer loans to remain constant.

We therefore expect loan loss provisions to remain unchanged in 2019 compared to 2018 due to the constant risky customer business. Administrative expenses will continue to be shaped primarily by the expected customer growth and the associated costs and will increase accordingly.

The planned market entry into the United States of America as well as the planned opening of further branches in other European countries, the further expansion of the product range and the customer growth will lead to the fact that 2019 will end with a strongly increased start-up loss of the group compared to 2018.

The financial performance indicators will be negative due to the planned start-up losses. The cost-income ratio is over 100% and the return on capital is still negative.

The N26 Group's equity base is sufficiently large and will be further strengthened in 2019 through a round of financing. All regulatory requirements for adequate capital resources and compliance with the regulatory indicators of N26 Bank GmbH are ensured at all times.

Register court District court Charlottenburg

Commercial register number HRB 151080 B

Balance sheet as of December 31, 2018

N26 GmbH, Berlin

### Active side (€)

	12/31/2018	12/31/2017
A. Fixed assets	105,512,160.64	40,137,241.21
I. Property, plant and equipment	3,867,602.64	1,181,087.45
1. Other equipment, operating and office equipment	1,988,305.25	732,928.80
2. Advance payment and facilities under construction	1,879,297.39	448,158.65
II. Financial investments	101,644,558.00	38,956,153.76
1. Shares in affiliated companies	91,793,285.00	38,956,153.76
2. Loans to affiliated companies	5,000.00	0.00
3. other loans	9,846,273.00	0.00
B. Current assets	8,853,759.03	642,368.98
I. Receivables and other assets	4,092,483.42	414,289.36
1. Trade receivables	0.00	166,238.49
2. Claims against affiliated companies	3,366,451.45	27,934.53
3. Other assets	726,031.97	220,116.34
II. Cash in hand and bank balances	4,761,275.61	228,079.62
C. Prepaid expenses	808,752.39	115,861.27
	115,174,672.06	40,895,471.46

### Liability side (€)

	12/31/2018	12/31/2017
A. Equity	104,702,425.43	32,971,227.46
I. Drawn capital	104,493.00	77,569.00
II. Capital reserves	177,723,859.07	66,113,755.92
III. Loss carryforward	-33,220,097.46	-20,352,204.11

	12/31/2018	12/31/2017
IV. Annual loss	-39,905,829.18	-12,867,893.35
B. Provisions	656,747.91	415,374.53
1. Other provisions	656,747.91	415,374.53
C. Liabilities	9,815,498.72	3,558,869.47
1. Trade payables	8,304,949.86	2,216,968.07
2. Liabilities to affiliated companies	27,486.39	794,417.89
3. Other liabilities	1,483,062.47	547,483.51
- thereof from taxes	283,716.21	187,649.93
- thereof within the framework of social security	267.84	1,157.66
D. Prepaid expenses	0.00	3,950,000.00
	115,174,672.06	40,895,471.46
Contingent liabilities		
a) liabilities from guarantees and Warranty contracts	15,000,000.00	10,000,000.00

### Income statement

#### of N26 GmbH for the period from January 1, 2018 to December 31, 2018

Income statement (€)	1.1. - 31.12.2018	1.1. - December 31, 2017
1. Revenue	43,648,383.27	17,545,822.28
2. Other operating income	537,855.27	249,665.98
3. Cost of materials	-14,539,040.32	-5,978,912.29
Expenses for raw, auxiliary and operating materials a) and purchased goods	-10,664,973.31	-3,032,085.74
b) Expenses for purchased services	-3,874,067.01	-2,946,826.55
4. Personnel expenses	-20,927,227.94	-11,143,754.34
a) Wages and salaries Social security and pension expenses	-17,878,291.87	-9,443,453.83
b) and support	-3,048,936.07	-1,700,300.51
5. Depreciation	-445,198.53	-348,186.21
a) on property, plant and equipment	-445,198.53	-348,186.21
6. Other operating expenses	-48,106,498.66	-13,116,196.77
7. Other interest and similar income	-133.77	0.00
8. Expenses from loss assumption	-27,623.30	-76,332.00
9. Interest and similar expenses	-46,345.20	0.00
10. Annual loss	-39,905,829.18	-12,867,893.35

### Notes to the 2018 annual financial statements of N26 GmbH

#### I. General information

The annual financial statements as of December 31, 2018 have been prepared in accordance with the accounting regulations (structure, accounting and valuation regulations) of the Commercial Code and the GmbH Act. As of the balance sheet date, the company is to be classified as a large corporation in accordance with Section 267 (3) and (4) HGB.

The income statement is drawn up using the total cost method in accordance with Section 275 (2) HGB. The present annual financial statements have been prepared while maintaining the classification and valuation principles applied for the previous year. The recognition, valuation and identification methods on which the previous year's financial statements as of December 31, 2017 are based, will continue unchanged. In accordance with the requirements for large corporations, the items in the profit and loss account are not summarized in accordance with section 275 (2) nos. 1 to 5 HGB on the gross result.

The company continues to capitalize no development costs for internally generated intangible assets.

Unless otherwise stated, all amounts are stated in euros.

Assets, purchased services and other operating expenses in foreign currencies were converted into euros at the time of access to the middle spot exchange rate.

Receivables, bank balances and liabilities in foreign currencies are valued at the mean spot exchange rate of the European Central Bank on the balance sheet date, with remaining terms of more than one year taking into account the realization and imparity principle. With terms of up to one year, the realization and acquisition cost principles are not used in the valuation in accordance with Section 256a of the German Commercial Code.

#### II. Accounting, valuation and identification methods

##### Capital assets

Fixed assets are valued at acquisition cost. Scheduled depreciation is carried out for depreciable fixed assets. Fixed assets are depreciated over their normal useful life. The lower fair values are used where necessary.

Advance payments made on leasehold improvements are stated at nominal value. Additions are valued at cost.

Since 2017, no pool valuation for newly acquired low-value assets has been carried out. Collective items formed in previous years are amortized over the remaining useful life. Low-value assets with acquisition costs up to EUR 250.00 are fully depreciated in the year of acquisition.

Shares in affiliated companies are valued at market value, at most at acquisition cost. The results of the financing round concluded in early 2019 were used to determine the indicative market value.

Loans are recognized at their nominal value and, if value adjustments exist, less any value adjustments made. In 2018, as in the previous year, no value adjustments were made.

#### Current assets

Receivables and other assets are stated at their nominal value.

Cash in hand and bank balances are shown at nominal values on the balance sheet date.

#### Liabilities and provisions

The liabilities are stated at their settlement amount. The other provisions are measured in the amount of their required settlement amount, which results in accordance with Section 253 (1) HGB in accordance with the principles of reasonable commercial judgment. Provisions with a remaining term of more than one year are discounted using the average market interest rate corresponding to their remaining term, which results from the past seven financial years.

#### Prepaid expenses

Accruals and deferrals are created in accordance with the provisions of Section 250 HGB for income and expenses that are to be allocated to future accounting periods.

### III. Notes to the balance sheet

#### Capital assets

The composition and development of the fixed assets are shown in the following fixed asset schedule:

in EUR thousand	Acquisition or production costs as of January 1, 2018	Access	Finish	Rebooking	Acquisition or production costs as of December 31, 2018
Other equipment, factory and office equipment	1,143.0	1,698.0	466.5	0.0	2,374.5
Advance payment and facilities under construction	453.9	1,335.4	0.0	0.0	1,789.3
Financial investments	38,956.2	62,688.4	0.0	0.0	101,644.6
total	40,553.0	65,721.8	466.5	0.0	105,808.3
in EUR thousand		accumulated depreciation as of 01/01/2018	Depreciation 2018	Accumulated depreciation and disposal	
Other equipment, factory and office equipment		410.0	442.0	0.0	
Advance payment and facilities under construction		5.8	3.2	0.0	
Financial investments		0.0	0.0	0.0	
total		415.8	445.2	0.0	
in EUR thousand		accumulated depreciation as of December 31, 2018	Residual book value as of December 31, 2017	Residual book value as of December 31, 2018	
Other equipment, factory and office equipment		852.1	732.9	1,988.3	
Advance payment and facilities under construction		8.9	448.1	1,879.3	
Financial investments		0.0	38,956.2	101,644.6	
total		861.0	40,137.2	105,512.2	

#### Financial investments

Financial assets in the amount of EUR 101,644,558.00 (previous year: EUR 38,956,153.76) essentially consist of shares in affiliated companies in accordance with Section 271 (2) HGB. The atypical silent participation in N26 Bank GmbH was increased in the financial year by EUR 50,000,000.00 to EUR 88,630,000.00 (previous year: EUR 38,630,000.00) and is taking on its share in the company's assets of N26 Bank GmbH Losses. In addition, loan receivables from shareholders from the deferral of payments to the capital reserve in the amount of EUR 9,846,273.00 (previous year: EUR 0.00) are shown in the financial assets.

#### Investments in companies:

name and seat	Amount of the capital	Equity in EUR	Final conclusion	Earnings for the financial year in EUR
N26 Bank GmbH, Berlin	100%	88,630,000.00	December 31, 2018	0 *
N26 Inc., Delaware	100%	2,277,185.00	December 31, 2018	-1,954,251.67
N26 administrative basement, Berlin	100%	1,000.00	December 31, 2017	well **
N26 Operations GmbH, Berlin	100%	775,000.00	December 31, 2018	-63,573.34

\* according to profit and loss transfer agreement

\*\* Completion is not yet available

#### Remaining terms of receivables and payables

With the exception of the security payments in the amount of EUR 721,924.83 (previous year: EUR 192,206.46) shown under other assets, the receivables and liabilities have a remaining term of less than one year.

#### accruals

The other provisions in the amount of EUR 656,747.91 (previous year: EUR: 415,374.43) include in particular provisions for personnel expenses in the amount of EUR 365,373.91 (previous year: EUR 212,203.53) as well as closing and auditing costs in the amount of EUR 50,000.00 (previous year: EUR 75,000.00).

As part of a Virtual Option Program (hereinafter "ESOP"), N26 GmbH grants virtual board members and employees with subscription rights, which entitle them to receive a payment in cash, provided the majority of the company is sold to an investor (exit). In accordance with the judgment of the Federal Court of Justice BFH of March 15, 2017 - IR 11/15, no provision was made.

#### liabilities

The liabilities mainly result from trade payables in the amount of EUR 8,304,949.86 (previous year; 2,216,968.07). Liabilities to affiliated companies amount to EUR 27,486.39 (previous year: EUR 794,417.89), thereof EUR 0.00 (previous year: 718,085.85) from trade payables.

#### IV. Notes to the income statement

The income statement was drawn up using the total cost method (section 275 (2) HGB). Revenue was generated exclusively in Germany. Revenues include income of EUR 43,528,523.40 (previous year: EUR 17,386,285.73) from the service allocation between N26 Bank GmbH and N26 GmbH.

#### Other company income

In the financial year, there was other operating income from the sale of parts of the business to a company in the N26 Group in the amount of EUR 466,000.00 (previous year: 0.00).

#### Cost of materials

The cost of materials in the amount of EUR 14,539,040.32 (previous year: EUR 5,978,912.29) essentially results from costs for card production in the amount of EUR 6,069,115.83 (previous year: EUR 1,446,125.82) and related Benefits in the amount of EUR 3,874,067.01 (previous year: EUR 2,946,826.55).

#### Other operating expenses

The other operating expenses of EUR 48,106,498.66 (previous year: EUR 13,116,196.77) result in particular from marketing expenses of EUR 26,148,927.03 (previous year: EUR 7,952,940.42) as well as shipping costs in EUR 6,478,293.75 (previous year: EUR 375,761.45)

#### Currency translation expenses

Currency translation expenses of EUR 14,138.12 (previous year: EUR 285.89) are reported under other operating expenses.

#### V. Other information

##### General Information

##### Contingent liabilities and other financial obligations

As of December 31, 2018, there was a patronage in favor of N26 Bank GmbH. The guarantee shown under the balance sheet exists to secure certain claims of HypoVereinsbank against N26 Bank GmbH.

Due to the economic development of N26 Bank GmbH, the risk of claims is considered to be low.

Other financial obligations consist of future rent payments, the credit card business (contracts for card processing), the virtual stock option program (ESOP), the contract for the core banking system of N26 Bank GmbH and the exit agreement with Wirecard Bank AG



totaling around EUR 22,520 .000.00. There are no other other financial obligations that are not shown in the balance sheet and that are essential for the assessment of the company's financial position.

#### **Auditor's fee**

The auditor's fee for the financial year is made up as follows:

in EUR thousand	01.01.-31.12.2018	01.01.-31.12.2017
Final examination services	50.0	75.0
other confirmation services	-	-
Tax advisory services	-	-
other services	-	-
total	50.0	75.0

#### **Employee**

The average number of employees at N26 GmbH in the past four quarters of the 2018 financial year was 367 employees.

#### **Managing directors**

Mr. Valentin Stalf

Occupation: merchant  
Management spokesman

Mr. Maximilian Tayenthal,

Occupation: merchant  
Managing Director (Finance, Operations, People Team, Legal, Data)

#### **Total remuneration of the management**

In accordance with Section 286 (4) of the German Commercial Code (HGB), management board remuneration is not disclosed.

#### **Advisory Board**

Andrew McCormack,  
Profession: entrepreneur  
Valar Ventures Management LLC

Nazim Cetin  
Profession: entrepreneur  
Allianz X GmbH

Valentin Stalf:  
Occupation: merchant  
N26 GmbH

Stefan Klestil  
Profession: entrepreneur  
Belview Partners GmbH

Christian Nagel  
Profession: entrepreneur  
Earlybird Verwaltungs GmbH

Maximilian Tayenthal:  
Occupation: merchant  
N26 GmbH

No remuneration was granted for the activities of the Advisory Board in the financial year.

#### **Supplementary report**

A financing round of EUR 230 million had been completed up to the preparation of these annual financial statements. The funds will be used to further expand business activities and strengthen the capital base of N26 Bank GmbH.

**Berlin, May 24, 2019**

***Valentin Stalf***

***Maximilian Tayenthal***

#### **INDEPENDENT AUDITOR'S REPORT**

To the N26 GmbH, Berlin

#### *Audit opinions*

We have the annual financial statements of N26 GmbH, Berlin, - consisting of the balance sheet as of December 31, 2018 and the profit and loss account for the financial year from January 1, 2018 to December 31, 2018 as well as the appendix, including the presentation of the accounting and assessment methods - checked. In addition, we audited the management report of N26 GmbH, which is combined with the group management report, for the financial year from January 1, 2018 to December 31, 2018.

In our judgment based on the knowledge gained during the examination

- the attached annual financial statements comply in all essential respects with the German commercial law regulations and, taking into account the German principles of proper bookkeeping, convey a true and fair view of the company's net assets and financial position as of December 31, 2018 as well as its earnings situation for the fiscal year from January 1, 2018 until December 31, 2018 and
- The attached management report gives an overall accurate picture of the company's situation. This management report is in

line with the annual financial statements in all material respects, corresponds to the German legal regulations and accurately presents the opportunities and risks of future development.

In accordance with Section 322 (3) Sentence 1 of the German Commercial Code (HGB), we declare that our audit has not led to any reservations about the regularity of the annual financial statements and the management report.

#### *Basis for the test results*

We have carried out our audit of the annual financial statements and the management report in accordance with Section 317 of the German Commercial Code (HGB), taking into account the German principles of proper audit, as determined by the Institut der Wirtschaftsprüfer (IDW). Our responsibility according to these regulations and principles is further described in the section 'Responsibility of the auditor for the audit of the annual financial statements and the management report' of our auditor's report. We are independent of the company in accordance with German commercial and professional regulations and have fulfilled our other German professional obligations in accordance with these requirements. We are of the opinion that the audit evidence we have obtained is sufficient and suitable to serve as the basis for our audit opinions on the annual financial statements and the management report.

#### *Responsibility of the legal representatives and the advisory board for the annual financial statements and the management report*

The legal representatives are responsible for the preparation of the annual financial statements, which comply with the German commercial law regulations in all essential matters, and for the fact that the annual financial statements, taking into account the German principles of proper accounting, give a true and fair view of the net assets, financial position and results of operations of Society mediates. Furthermore, the legal representatives are responsible for the internal controls, which they have determined as necessary in accordance with the German principles of proper bookkeeping.

When preparing the annual financial statements, the legal representatives are responsible for assessing the company's ability to continue operating. Furthermore, they are responsible for disclosing matters relating to the continuation of business, if relevant. In addition, they are responsible for accounting for the going concern based on the accounting principle, unless this is opposed to actual or legal circumstances.

In addition, the legal representatives are responsible for the preparation of the management report, which overall provides an accurate picture of the situation of the company and is in line with the annual financial statements in all material respects, corresponds to the German legal regulations and correctly presents the opportunities and risks of future development. Furthermore, the legal representatives are responsible for the precautions and measures (systems) that they have considered necessary

The Advisory Board is responsible for monitoring the company's accounting process for the preparation of the annual financial statements and the management report.

#### *Responsibility of the auditor for the audit of the annual financial statements and the management report*

Our aim is to gain sufficient certainty as to whether the financial statements as a whole are free of material misrepresentations, whether intentional or unintentional, and whether the management report as a whole conveys an accurate picture of the situation of the company and in all material matters with the financial statements and is in line with the knowledge gained during the examination, corresponds to the German legal regulations and correctly presents the opportunities and risks of future development, as well as issue a certificate of approval, which includes our audit opinions on the annual financial statements and the management report.

Adequate security is a high level of security, but it does not guarantee that an audit carried out in accordance with Section 317 of the German Commercial Code (HGB) and in compliance with the German principles of proper auditing as determined by the Institut der Wirtschaftsprüfer (IDW) will always reveal a significant misrepresentation. Misrepresentations may result from violations or inaccuracies and are considered material if reasonably expected

During the audit, we exercise due judgment and maintain a critical attitude. Furthermore

- we identify and assess the risks of material misrepresentation, whether intentional or unintentional, in the annual financial statements and management report, plan and carry out audit procedures in response to these risks, and obtain audit evidence that is sufficient and suitable to serve as the basis for our audit opinions. The risk that significant misrepresentations are not revealed is higher for violations than for inaccuracies, since violations fraudulent interaction, falsification, intended incompleteness, misleading representations or
- we gain an understanding of the internal control system relevant for the audit of the annual financial statements and the precautions and measures relevant for the audit of the management report in order to plan audit procedures that are appropriate under the given circumstances, but not with the aim of making an audit opinion on the effectiveness of these Systems of society.
- we assess the appropriateness of the accounting methods used by the legal representatives and the acceptability of the estimated values and related information presented by the legal representatives.
- we draw conclusions about the appropriateness of the going concern basis of accounting applied by the legal representatives and, based on the audit evidence obtained, whether there is material uncertainty about events or circumstances, meaningful doubts as to the ability of the company to continue doing business can pose. If we conclude that there is material uncertainty, we are obliged to draw attention to the corresponding information in the annual financial statements and management report in the auditor's report or, if this information is inappropriate, to modify our respective audit opinion. We draw our conclusions based on the evidence obtained by the date of our audit. However, future events or circumstances may result in the company being unable to continue operating. We draw our conclusions based on the evidence obtained by the date of our audit. However, future events or circumstances may result in the company being unable to continue operating.
- we assess the overall presentation, structure and content of the annual financial statements, including the information and whether the annual financial statements represent the underlying business transactions and events in such a way that the

annual financial statements, taking into account the German principles of proper bookkeeping, reflect a true and fair view of the assets, financial and earnings situation of the company.

- we assess the conformity of the management report with the annual financial statements, its compliance with the law and the image it provides of the situation of the company.
- we carry out audit procedures on the forward-looking information presented by the legal representatives in the management report. On the basis of sufficient, appropriate audit evidence, we particularly review the significant assumptions on which the legal representatives base the forward-looking statements and assess the correct derivation of the forward-looking statements from these assumptions. We do not give an independent opinion on the forward-looking information and the underlying assumptions. There is a significant unavoidable risk

We discuss with the supervisors, among other things, the planned scope and timing of the audit, as well as significant audit findings, including any defects in the internal control system that we identify during our audit.

**Berlin, June 28, 2019**

**PricewaterhouseCoopers GmbH  
Wirtschaftsprüfungsgesellschaft**

***Mark Maternus, auditor***

***ppa. Harald Melchior-Becker, auditor***

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