MyBank ASA

Quarterly Report
Q2 2018

Restated results

MyBank

Restatement of results for Q2 2018

During the preparation of the Q2 2018 financial results, loan losses for the second quarter were underreported by NOK 5 million which were incorrectly attributed to the third quarter. The Q2 results have therefore been restated. A detailed description of the restatement can be found in Note 8 of this report.

Highlights of the Quarter

- Development of MyBank's online retail banking business continued in the quarter, with growth in net loans of NOK 119.9 million after accounting for the sale of NOK 42.1 million in non-performing loans (for a total of NOK 161.9 million compared to NOK 133.2 million in the previous quarter).

- MyBank entered into two separate agreements with Lindorff Kapital AS to dispose of its existing portfolio of loans which were more than 180 days past due, and to dispose on an ongoing basis of loans as they become 180 days past due (a "forward flow" agreement), providing greater certainty around loan losses as well as operational and capital efficiencies.

- The bank's pre-tax loss for the quarter of NOK 30.0 million includes credit loss provisions of NOK 24.9 million, of which approximately NOK 11.0 million is the additional, one-off write down caused by the non-performing loans disposal.

Comments from the CEO

"This quarter has seen MyBank take significant steps to improve the quality of our loan portfolio, by disposing of those loans which were more than 180 days past due at the end of the quarter. These loans were all originated in the early stage of operations until November 2017, and were of significantly lower quality than loans originated since then.

The quality of the portfolio originated after this period is validated by the very favorable pricing we achieved for our forward flow agreement, through which we will sell loans which become 180 days past due each month in the future. The combination of these two agreements will make it easier for investors and analysts to judge the future financial development of the bank.

MyBank's concept, 'simple and complete banking' is based on our low fixed cost base, automated processes and scalability. The sales and cost levels are now well within the indicated levels, but a number of actions have been taken to achieve further improvements, and speed up our path to profitability."

Christen Fredriksen, CEO

About MyBank

MyBank is an online retail bank offering consumer loans, refinancing loans and deposit accounts.

The bank was granted a banking license in July 2016, completed a NOK 240 million equity issue in November 2016 and commenced operations during the first quarter of 2017. In May 2017, the bank's equity was increased by the exercise of an option given during the 2016 issuance process, taking total share capital to NOK 273.3 million. The shares trade on the NOTC list.

MyBank uses agents as the sole sales channel, enabling an efficient and scalable setup – and a competitive customer offering over time.

Financial Information – Q2

MyBank ASA recorded net interest income of NOK 11.59 million during the quarter. The bank had operating expenses of NOK 12.43 million for the quarter, of which NOK 3.70 million were staff costs and NOK 7.28 million were other administrative costs. The increase in administrative costs was driven by fees for recruitment and temporary external staffing. Measures have been taken to reduce costs in the third quarter.

As of the end of the quarter, the bank had made gross loans to customers of NOK 490.6 million (after the non-performing loans disposal), and taken deposits of NOK 637.4 million.

The bank's liquidity position was NOK 308.6 million. The increase is intended to be temporary, to ensure that the bank could fund significant loan growth during the summer months. Inflows of customer deposits have already slowed down, to allow the bank's deposit to loan ratio to normalise around 100% in the third quarter.

Loan losses and portfolio sales

The bank has completed two agreements regarding the sale of its portfolio of non-performing loans during the quarter, a forward-flow agreement which will run for the next two years, and a one-off sale of non-performing loans which were already aged beyond 180 days at the time of the forward flow agreement. The one-off portfolio sale has been reflected in the balance sheet, while the first transfer of loans under the forward flow agreement will take place at the beginning of the third quarter.

While the details of both transactions are confidential under the terms of the contract, the price achieved for the forward flow agreement is at the high end of the expected range, and provides a very good and predictable foundation for reduced future loan losses. The high price reflects the improved quality of the bank's portfolio of loans issued after November 2017. Non-performing loans will be sold at 180 days past due, securing more data for credit scoring while still freeing up capital.

The one-off portfolio disposed of non-performing loans with a nominal value of NOK 34.6m. The sale price was lower than expected, and lower than was provisioned for, leading to a one-off write-down of NOK 11.0 million. This is a reflection in part of the age of the receivables, but also of the much lower credit quality of the bank's early portfolio. The sale included no loans made after the improved process, pricing and credit came into effect late in the fourth quarter of 2017.

Total loan losses (including increases to provisions and write-downs of the disposed-of portfolio) were NOK 24.9 million for the quarter, representing 5.2 % of net loans. Provisions after the one-off sale now represent 27.5 % of non-performing loans, which is considered to be an appropriate level given the bank's forward flow agreement.

Outlook

MyBank is well capitalized and has a capital base that enables significant loan growth. MyBank's secure and recently implemented IT systems to automate business processes enables the scalable growth that is at the core of MyBank's operations. In the coming months, the bank will fine-tune its systems to further optimize the pricing and portfolio risk profile.

The FSA guidelines published in 2017 were in line with MyBank's expectations. MyBank focuses on solid credit risk management, and particularly documentation of the customer's debt service ability, so these elements of the new guidelines do not represent a significant change.

The guidelines, and particularly the restriction of loan maturity, are expected to restrict the market growth in unsecured lending. The total effect on market development is of course uncertain and strongly dependent on how the banks will implement the new guidelines in their credit assessment.

The bank's gross loan growth has continued to be in line with previous guidance, and is now at a level required for approximately NOK 200m per quarter increases in gross loans outstanding. However, the forward flow agreement is expected to reduce the bank's gross loan growth as non-performing loans are removed from the balance sheet.

The Annual General Meeting approved the issuance of subordinated and additional tier 1 capital instruments, if this is necessary to ensure continued compliance with capital requirements.

Risks and Uncertainties

Risks and uncertainties include lower customer acquisition and volumes than expected, a reduced interest margin, a lack of cost-effectiveness and an inappropriate choice of technology. A macro recession may result in slower growth, higher loss and lower performance, and may make it difficult to raise further capital. Negative impacts from a decline in the economy should be partly offset by a lower level of interest rates, which in isolation would be positive for the bank's earnings.

In addition to having a flexible and scalable business model, the board and management have implemented sound practices for planning, control and adaptability in order to reduce any potential losses related to operational and strategic risks.

Oslo, 13 August 2018

The MyBank Board of Directors

Tom Knoff	Knut Einar Rishovd
Chairman of the Board	Board Member
Beate Nygårdshaug	Marit Lambrechts
Board Member	Board Member
Paal E Johnsen	Christen Fredriksen
Board Member	CEO

MyBank

Financial Statement (Unaudited)

Income Statement

Amount in NOK millions	Notes	Q2 2018	Q1 2018	YTD 2018	FY 2017	Q2 2017
Interest income		14.10	9.97	24.07	11.56	1.37
Interest expense		2.51	1.78	4.28	3.08	0.48
Net interest income		**11.59**	**8.19**	**19.78**	**8.48**	**0.89**
Commissions and fee income		-0.06	0.06	0.00	0.04	0.00
Commissions and fee expense		4.17	1.93	6.09	0.30	0.02
Net other income		**-4.23**	**-1.87**	**-6.10**	**-0.26**	**-0.02**
Total operating income		**7.36**	**6.32**	**13.69**	**8.22**	**0.87**
Income (loss) from trading activities		-0.004	0.006	-0.003	2.35	3.09
Staff costs		3.70	3.87	7.56	12.73	5.30
Other administrative expenses		7.28	4.77	12.05	9.76	2.35
Other operating costs		1.45	0.98	2.43	4.26	1.10
Total operating costs	**5**	**12.43**	**9.63**	**22.05**	**24.40**	**5.64**
Operating profit (Loss) before loan impairments		**-5.06**	**-3.30**	**-8.37**	**-16.18**	**-4.77**
Loan losses	2	24.94	3.84	28.78	5.32	0.25
Profit (Loss) before tax		**-30.00**	**-7.15**	**-37.15**	**-21.50**	**-5.02**
Tax						
Profit (loss) for the period		**-30.00**	**-7.15**	**-37.15**	**-21.50**	**-5.02**

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Balance Sheet

	Notes	30.06.2018	31.03.2018	31.12.2017	30.06.2017
Assets					
Loans to, and deposits at, credit institutions		154.53	51.37	76.0	81.4
Net loans to customers	2, 3, 4	480.04	360.12	226.3	60.3
Total loans		**634.57**	**411.49**	**302.4**	**141.8**
Short term financial investments		154.10	176.0	180.4	226.9
Other intangible assets incl. deferred tax		21.74	23.11	25.4	16.2
Prepaid agent commissions		21.51	14.82	6.6	0.0
Property, plant and equipment		0.00	0.0	0.0	2.8
Receivables, prepayments, accrued income and other assets	7	20.40	1.0	0.9	0.6
Total other assets		**217.75**	**214.96**	**213.3**	**247.2**
Total assets		**852.31**	**626.45**	**515.7**	**388.9**
Liabilities					
Deposits from customers		637.46	385.26	270.5	136.0
Accounts payable		10.96	7.52	4.6	3.0
Total liabilities		**648.43**	**392.78**	**275.1**	**139.0**
Equity					
Share capital		241.03	240.82	256.7	256.5
Retained earnings		-37.15	-7.15	-16.1	-6.5
Total equity	6	**203.88**	**233.67**	**240.6**	**249.9**
Total liabilities and equity		**852.31**	**626.45**	**515.7**	**388.9**

Notes to the Condensed Consolidated Financial Statements

Note 1 Accounting Principles

This quarterly report has been prepared in accordance with Norwegian generally accepted accounting principles, and has not been audited.

Note 2 Loans to customers

Amounts in NOK millions	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Loans to customers	490.6	369.5	231.8	128.5
Provision for impairment losses	-10.2	-9.4	-5.5	-0.9
Net loans to customers	**480.4**	**360.1**	**226.3**	**127.6**

During the quarter the bank disposed of NOK 34.6 million in non-performing loans aged 180 days or more past due.

Provisions for impairments on groups of loans	**Q2 2018**	**Q1 2018**	**Q4 2017**	**Q3 2017**
Provisions at the beginning of the period	9.4	5.5	0.9	0.3
Provisions during the period	24.9	3.8	4.6	0.6
Loans written off	-24.1	-	-	-
Amounts recovered from previous write-offs		-	-	-
Provisions at the end of the period	**10.2**	**9.4**	**5.5**	**0.9**

Total loan losses (including increases to provisions and write-downs of the disposed-of portfolio) were NOK 19.9 million for the quarter, representing 4.1 % of net loans. Provisions after the one-off sale now represent 27.5 % of non-performing loans.

Note 3 Risk classification

Amounts in NOK 1000s	Gross loans to customers				Average probability of default for category
Risk category	30.06.2018	31.03.2018	31.12.2017	30.09.2017	
1	191	235	182	-	0.1 %
2	39 505	57 070	29 728	1	0.2 %
3	170 658	99 029	73 155	1 873	0.4 %
4	68 049	21 267	13 738	27 437	0.6 %
5	44 936	31 388	25 276	34 993	1.0 %
6	47 048	31 263	19 293	30 378	1.5 %
7	9 777	6 942	2 854	9 597	2.5 %
8	14 631	9 724	5 446	479	3.6 %
9	5 721	3 113	1 290	-	6.1 %
10	69 290	24 708	11 916	1 999	24.7 %
11	796	29 301	11 661	1 117	99.7 %

Customers are classified from category 1 (best, lowest risk) to 11 (worst, highest risk) according to probability of default. The bank only offers unsecured loans to retail customers, based on an automated process as well as manual assessments.

Note 4 Non-performing loans

Non-performing and doubtful loans

Amounts in NOK millions	30.06.2018	31.03.2018	31.12.2017	30.09.2017
Gross non-performing and doubtful loans	52.9	54.3	30.2	5.4
Individual write-downs	-8.0	-7.3	-4.6	-0.4
Provisions for write-downs	-2.2	-2.1	-0.9	-0.5
Net non-performing and doubtful loans	**42.7**	**44.9**	**24.7**	**4.6**

Doubtful loans are loans which are 60 or more days past due. Non-performing loans are 90 or more days past due. The bank has entered into an agreement with Lindorff Kapital AS to dispose on a monthly basis of loans which are more than 180 days past due (with some minor exclusions).

Loans categorised by days past due

Amounts in NOK millions	1 - 30 days	31 – 60 days	61 – 90 days	91+days	Total portfolio
30.09.2017	8.6	8.2	4.5	0.9	**128.5**
31.12.2017	16.7	12.4	10.3	19.9	**231.8**
31.03.2018	21.9	12.7	12.0	42.2	**369.5**
30.06.2018	25.4	15.3	15.8	37.1	**490.6**

Note 5 Operating costs excluding depreciation

	2018		2017		
Amounts in NOK millions	Q2	Q1	Q4	Q3	Q2
Personnel expenses	3.7	3.9	3.7	3.8	2.7
Property, plant and equipment	1.2	0.5	0.4	0.4	0.5
External fees/services	3,8	2.9	4.0	1.8	1.0
Travel expenses	0.4	0.3	0.5	0.2	0.2
Sales and advertising	0.2	0.1	0.3	0.1	0.1
Other expenses	1.9	1.8	1.0	0.4	0.4
Non-personnel operating expenses	7,5	5.7	6.2	2.9	2.2

The increase in administrative costs was driven by fees for recruitment and temporary external staffing. Measures have been taken to reduce costs in the third quarter.

Note 6 Capital adequacy

Amounts in NOK millions	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Share capital	23.8	23.8	23.8	23.8	23.8
Share premium reserve	232.9	232.9	232.9	232.9	232.7
Retained earnings	-53.1	-23.3	-16.1	-11.7	-6.7
Deduction of intangible assets	26.0	37.9	31.9	26.5	16.2
Core equity tier 1 capital	**177.5**	**198.0**	**213.9**	**223.3**	**233.5**
Additional tier 1 capital instruments	0	0.0	0.0	0.0	0.0
Tier 1 capital	**177.5**	**198.0**	**213.9**	**223.3**	**233.5**
Subordinated loans	0	0.0	0.0	0.0	0.0
Tier 2 capital	**177.5**	**198.0**	**213.9**	**223.3**	**233.5**

Capital requirements *Amounts in NOK 1000s*	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Institutions	8.0	12.6	15.2	14.1	16.3
Unsecured loans to retail customers	514.8	318.1	215.8	127.8	60.6
Collective investments undertakings (CIU)	3.2	2.3	15.2	25.2	20.1
Other	20	44.8	24.8	25.2	4.0
Operational risk	20.7	19.7	19.7	19.7	19.7
Total risk-weighted assets	**568.8**	**397.5**	**283.6**	**190.3**	**120.7**
Core equity tier 1 capital ratio	30.32%	49.8 %	75.4 %	117.3 %	193.5 %
Tier 1 capital ratio	30.32%	49.8 %	75.4 %	117.3 %	193.5 %
Capital ratio	30.32%	49.8 %	75.4 %	117.3 %	193.5 %

Note 7 Receivables and other assets

The increase in Receivables, prepayments, accrued income and other assets is due to the proceeds from the portfolio sale to Lindorff Kapital being due to the bank over the balance sheet date. In subsequent quarters the smaller, monthly sales will occur earlier in the month, and the proceeds will therefore not be a receivable over the balance sheet date.

Note 8 Restatement of Q2 results

Profit & Loss

Amounts in NOK thousands	Q2 2018 (revised)	Q2 2018 (as reported)
Interest income	14 100	14 100
Interest expense	-2 506	-2 506
Net interest income	11 594	11 594
Commissions and fee income	-62	-62
Commissions and fee expense	-4 169	-4 169
Net other income	-4 231	-4 231
Total operating income	7 363	7 363
Income (loss) from trading activities	4	4
Staff costs	-3 697	-3 697
Other administrative expenses	-7 282	-7 282
Other operating costs	-1 453	-1 453
Total operating costs	-12 427	-12 427
Operating profit (Loss) before loan impairments	-5 064	-5 064
Loan losses	-24 937	-19 874
Profit (Loss) before tax	-30 002	-24 938
Tax		
Profit (loss) for the period	-30 002	-24 938

Yellow shading indicates restated items.

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Balance Sheet

Amounts in NOK thousands	30.06.2018 (revised)	30.06.2018 (as reported)
Assets		
Loans to, and deposits at, credit institutions	154 526	154 526
Net loans to customers	480 040	487 440
Total loans	634 566	641 966
Short term financial investments	154 100	154 100
Other intangible assets incl. deferred tax	26 017	21 740
Prepaid agent commissions	17 231	21 508
Receivables, prepayments, accrued income and other assets	20 399	18 063
Total other assets	217 747	215 410
Total assets	852 312	857 376
Liabilities		
Deposits from customers	637 465	6374 65
Accounts payable	10 963	10 963
Total liabilities	648 428	648 428
Equity		
Share capital	241 035	241 035
Retained earnings	-37 150	-32 087
Total equity	203 884	208 948
Total liabilities and equity	852 312	857376

Yellow shading indicates restated items.

MyBank

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