

MyBank ASA

Quarterly Report
Q3 2018

Highlights of the Quarter

- Growth in net loans was NOK 120.9 million in Q3 2018, compared to NOK 119.9 million in Q2 2018. This was the result of a tactical decision to maintain stable loan growth while developing a new credit scoring model
- During the quarter, loans of NOK 31.1 million were sold as part of the company's forward flow agreement, further improving the quality of the remaining portfolio
- Operating costs ended at NOK 9.7 million in Q3 2018, down 22% from NOK 12.4 million in Q2 2018. The improvement was due to lower administrative expenses and increased financial income in the quarter
- Total loan losses and provisions in Q3 were NOK 8.5 million, which corresponds to 1.42% of total net loans outstanding of NOK 601.0 million per 30.09.2018
- The bank is restating its second quarter results due to errors in the recognition of loan losses for June 2018. Loan losses for Q2 have been increased by NOK 5 million. Restated profit after tax for the quarter is NOK -30.0 million

Comments from the CEO

"So far in 2018, we have taken important steps to strengthen MyBank's operating model. We have implemented measures to improve overall loan portfolio quality. We have performed several internal control projects and made important revisions to our quality assurance processes.

In Q3, we maintained a cautious approach to loan growth, with the aim of ensuring continued improvements to overall credit risk. We also saw the effects of our operational improvements with loan losses at normalized levels and decreased operational costs.

Under the supervision of our new Chief Credit Officer, we have now developed a new and improved credit scoring model, which will be implemented during the fourth quarter this year. Going forward, we expect that this will play a key part in safeguarding stable and sustainable growth as we scale up our loan activities and continue to work towards profitability in 2019."

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.

Restatement of results for Q2

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. Following the restatement, profit after tax for the quarter was NOK -30.0 million. A detailed description of the restatement can be found in Note 7 of this report.

Management and the Board of Directors have taken steps to prevent such errors from reoccurring, adding resources to the finance function and reducing the number of systems involved.

Financial Information for Q3

The bank maintained stable loan growth combined with further improvement of overall credit risk. Net loan growth was NOK 120.9m Q3 2018, including a NOK 31.1m effect from sales of non-performing loans as part of the forward flow agreement.

MyBank ASA recorded net interest income of NOK 12.3 million during the quarter. The bank had operating expenses of NOK 9.7 million for the quarter, of which NOK 4.4 million were staff costs and NOK 4.1 million were other administrative costs. Administrative costs decreased from NOK 7.3 million in Q2, largely as a result of a reduction in temporary external staffing, as well as other measures taken to reduce costs.

The bank also recognized an extraordinary income of NOK 2.8 million from the sale of application handling software to another customer of MyBank's banking software provider, SDC. The sold software has been co-developed for MyBank in collaboration with SDC.

As of the end of the quarter, the bank had made net loans to customers of NOK 600.9 million and taken deposits of NOK 653.4 million.

The bank's liquidity position was NOK 188.2 million, (compared to NOK 308 million in the previous quarter). The reduction was planned and in line with guidance given after the previous quarter.

Loan losses

Total loan losses (including changes to provisions and write-downs of disposed-of loans) were NOK 8.5 million for the quarter, representing 1.42% of net loans at the end of the quarter (1.78% of net loans at the beginning of the quarter). Provisions represent 39.4% of non-performing loans, which is considered to be an appropriate level given the bank's forward flow agreement.

Outlook

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. New credit-scoring and risk-management models are being implemented in the fourth quarter which will further improve portfolio quality.

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 new loans issued has continued to be approximately NOK 200m per quarter in new loans to customers. However, the forward flow agreement, customer repayments and customer refinancing have reduced the bank's loan growth relative to previous guidance.

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, 23 October 2018

The MyBank Board of Directors

Tom Knoff
Chairman of the Board

Knut Einar Rishovd
Board Member

Beate Nygårdshaug
Board Member

Marit Lambrechts
Board Member

Paal E Johnsen
Board Member

Christen Fredriksen
CEO

Financial Statements (Unaudited)

Income Statement

Amount in NOK thousands	Notes	Q3 2018	Q2 2018	Q1 2018	YTD 2018
Interest income		15 602	14 100	9 966	39 667
Interest expense		-3 291	-2 506	-1 776	-7 573
Net interest income		12 310	11 594	8 190	32 094
Commissions and fee income		58	-62	58	54
Extraordinary fee income from software sales		2 820	0	0	2 820
Commissions and fee expense		-5 108	-4 169	-1 926	-11 203
Net other income		-2 231	-4 231	-1 867	-8 330
Total operating income		10 079	7 363	6 322	23 764
Income (loss) from trading activities		1 163	4	-6	1 160
Staff costs		-4 427	-3 697	-3 868	-11 992
Other administrative expenses		-4 148	-7 282	-4 773	-16 202
Other operating costs		-2 309	-1 453	-979	-4 741
Total operating costs	4	-9 722	-12 427	-9 626	-31 776
Operating profit (Loss) before loan impairments		357	-5 064	-3 304	-8 011
Loan losses	2, 7	-8 533	-24 937	-3 844	-37 315
Profit (Loss) before tax		-8 176	-30 002	-7 148	-45 326
Tax					
Profit (loss) for the period	7	-8 176	-30 002	-7 148	-45 326

Balance Sheet

	Note	30.09.2018	30.06.2018	31.03.2018	31.12.2017
<u>Assets</u>					
Loans to, and deposits at, credit institutions		83 192	154 526	51 374	76 044
Net loans to customers	2, 3	600 972	480 040	360 116	226 328
Total loans		684 165	634 566	411 490	302 372
Short term financial investments		104 996	154 100	175 999	180 431
Other intangible assets incl. deferred tax		32 159	26 017	24 859	19 995
Prepaid agent commissions		17 332	17 231	13 074	6 551
Receivables, prepayments, accrued income and other assets	6	19 597	20 399	1 028	927
Total other assets		174 084	217 747	214 960	207 904
Total assets		858 249	852 312	626 451	510 276
<u>Liabilities</u>					
Deposits from customers		653 473	637 465	385 258	270 463
Accounts payable		9 067	10 963	7 518	4597
Total liabilities		662 540	648 428	392 776	275 060
<u>Equity</u>					
Share capital		241 035	241 035	240 822	256 717
Retained earnings		-45 326	-37 150	-7 148	-21 501
Total equity	5	195 708	203 884	233 674	235 216
Total liabilities and equity		858 249	852 312	626 451	510 276

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

<i>Amounts in NOK millions</i>	30.09.2018	30.06.2018	30.03.2018	31.12.2017	30.09.2017
Loans to customers	611.14	490.2	369.5	231.8	128.5
Provision for impairment losses	-10.16	-10.2	-9.4	-5.5	-0.9
Net loans to customers	601.0	480.0	360.1	226.3	127.6

During the quarter the bank disposed of NOK 31.1 million in non-performing loans aged 180 days or more past due.

Provisions for impairments on groups of loans	30.09.2018	30.06.2018	30.03.2018	31.12.2017	30.09.2017
Provisions at the beginning of the period	10.2	9.4	5.5	0.9	0.3
Provisions during the period	8.53	24.9	3.8	4.6	0.6
Loans written off	-8.57	-24.1	-	-	-
Amounts recovered from previous write-offs			-	-	-
Provisions at the end of the period	10.16	10.2	9.4	5.5	0.9

Note 3 Non-performing loans

Non-performing and doubtful loans

<i>Amounts in NOK millions</i>	Q3 18	Q2 18	Q1 18	Q4 17	Q3 17
Gross non-performing and doubtful loans	38.2	52.9	54.3	30.2	5.4
Individual write-downs	-8.1	-8.0	-7.3	-4.6	-0.4
Provisions for write-downs	-2.0	-2.2	-2.1	-0.9	-0.5
Net non-performing and doubtful loans	28.1	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

<i>Amounts in NOK millions</i>	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	490.2
30.09.2018	30.8	19.9	12.3	25.8	611.1

Note 4 Operating costs excluding depreciation

	2018			2017		
<i>Amounts in NOK millions</i>	Q3	Q2	Q1	Q4	Q3	Q2
Personnel expenses	4.4	3.7	3.9	3.7	3.8	2.7
Property, plant and equipment	0.5	1.2	0.5	0.4	0.4	0.5
External fees/services	4.3	5.0	2.9	4.0	1.8	1.0
Travel expenses	0.2	0.4	0.3	0.5	0.2	0.2
Sales and advertising	0.0	0.2	0.1	0.3	0.1	0.1
Other expenses	0.3	1.9	1.8	1.0	0.4	0.4
Non-personnel operating expenses	5.3	8.7	5.7	6.2	2.9	2.2

Note 5 Capital adequacy

<i>Amounts in NOK millions</i>	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Share capital	23.8	23.8	23.8	23.8	23.8
Share premium reserve	232.9	232.9	232.9	232.9	232.9
Retained earnings	-61.22	-53.1	-23.3	-16.1	-11.7
Deduction of intangible assets	32.2	26.0	37.9	31.9	26.5
Core equity tier 1 capital	163.28	177.5	198.0	213.9	223.3
Additional tier 1 capital instruments	0	0	0.0	0.0	0.0
Tier 1 capital	163.2	177.5	198.0	213.9	223.3
Subordinated loans	0	0	0.0	0.0	0.0
Tier 2 capital	163.2	177.5	198.0	213.9	223.3
Capital requirements					
<i>Amounts in NOK 1000s</i>	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Institutions	11.6	10.1	12.6	15.2	14.1
Unsecured loans to retail customers	496	514.8	318.1	215.8	127.8
Collective investments undertakings (CIU)	0	3.2	2.3	15.2	25.2
Other	20	20	44.8	24.8	25.2
Operational risk	20.7	20.7	19.7	19.7	19.7
Total risk-weighted assets	548.3	568.8	397.5	283.6	190.3
Core equity tier 1 capital ratio	29.8 %	30.3 %	49.8 %	75.4 %	117.3 %
Tier 1 capital ratio	29.8 %	30.3 %	49.8 %	75.4 %	117.3 %
Capital ratio	29.8 %	30.3 %	49.8 %	75.4 %	117.3 %

Note 6 Receivables and other assets

The level of 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.

Note 7 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.

Balance Sheet

Amounts in NOK thousands	30.06.2018 (revised)	30.06.2018 (as reported)
<u>Assets</u>		
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
<u>Liabilities</u>		
Deposits from customers	637 465	6374 65
Accounts payable	10 963	10 963
Total liabilities	648 428	648 428
<u>Equity</u>		
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.

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