

# Plain. Simple. Banking.

## Q3 2018 Presentation

24 October 2018

# Highlights of the quarter

## Stable loan growth and improved cost/income ratio

- Growth in net loans of NOK 120.9m in Q3 2018 (25% portfolio growth from Q2)
- Operating costs of NOK 9.7m in Q3 2018, down 22% from Q2, driven mainly by lower administrative expenses
- Total loan losses in Q3 of NOK 8.5m

## New credit scoring model to strengthen credit quality

- During Q3 the bank maintained stable loan growth while developing a new and improved credit scoring model
- The model will be implemented in Q4 2018 and will allow the bank to further improve portfolio quality

## Restatement of Q2 results

- Due to an error in recognition of loan losses for June 2018, the Q2 results have been restated and losses increased by NOK 5m. Total loss for the period was NOK -30m

## Key figures

*Figures in NOKm*

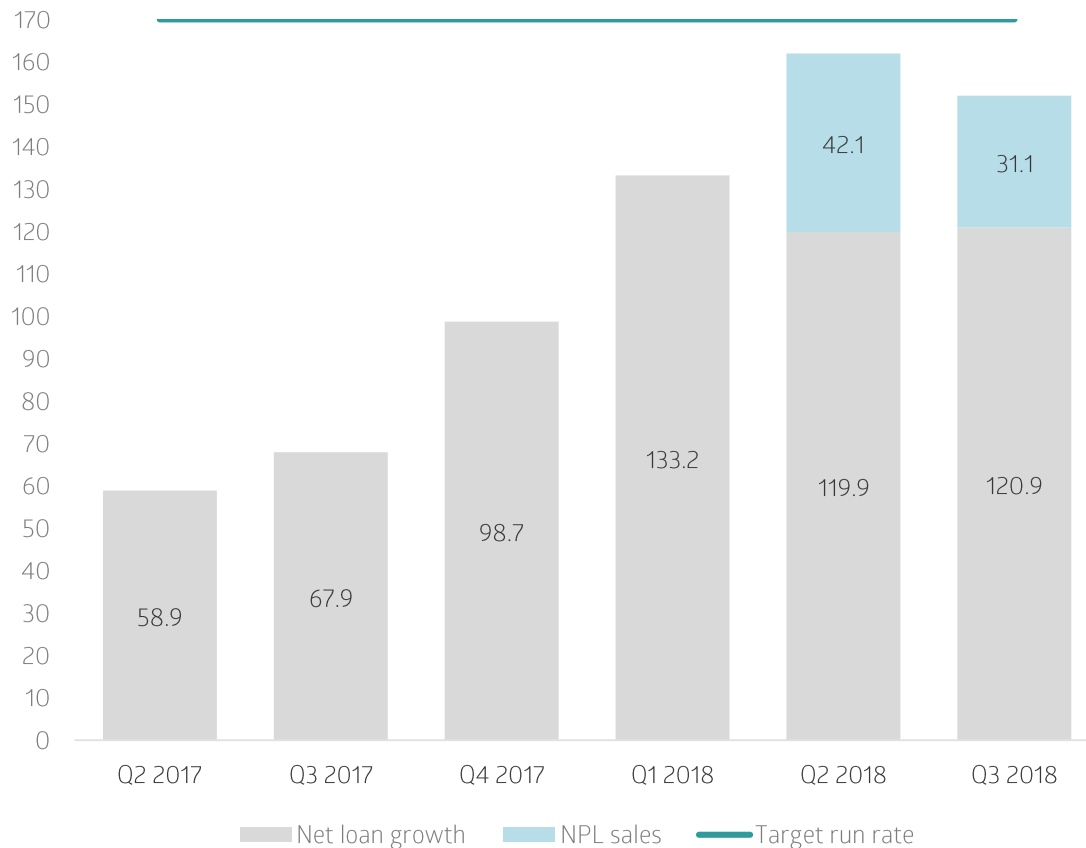
	Q3 2018	Q2 2018*	Q1 2018	YTD 2018*
<b>Net loan growth</b>	<b>120.9</b>	<b>119.9</b>	<b>133.2</b>	<b>381.4</b>
<b>Net interest income</b>	<b>12.3</b>	<b>11.6</b>	<b>8.2</b>	<b>32.1</b>
Operating costs	-9.7	-12.4	-9.6	-31.8
Provisions for loan impairments	-8.5	-24.9	-3.8	-37.3
<b>Profit / loss (-) for the period**</b>	<b>-8.2</b>	<b>-30.0</b>	<b>-7.2</b>	<b>-45.3</b>

*\*Figures restated*

\*\* Including extraordinary income of NOK 2.8 million from the re-sale of the bank's application handling system to other customers of SDC.

## Maintaining stable loan growth while developing new credit scoring model

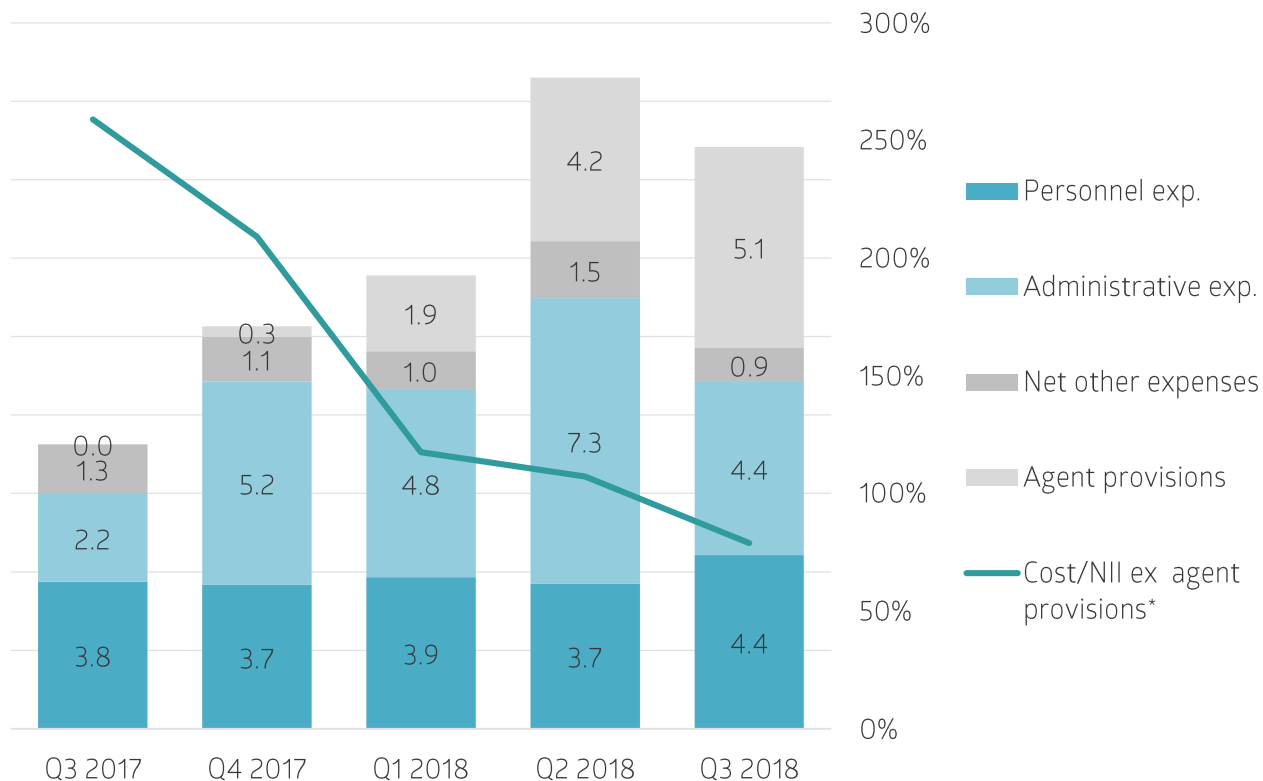
### Net loan growth (NOKm)



- Net loan growth was NOK 120.9m Q3 2018, including a NOK 31.1m effect from forward flow agreement NPL sales
- In Q3 around 70,000 loan applications were processed, up from 52,000 applications in the previous quarter and 26,000 in Q1
- Loan growth was stable during the quarter while a new and improved credit scoring model was being developed
- The new model will be implemented in Q4 2018, and will contribute to continued credit risk improvements while loan growth is scaled up during the next quarter

# Low-cost banking setup with increased operational efficiency

## Operating costs (NOKm) and cost ratios (%)

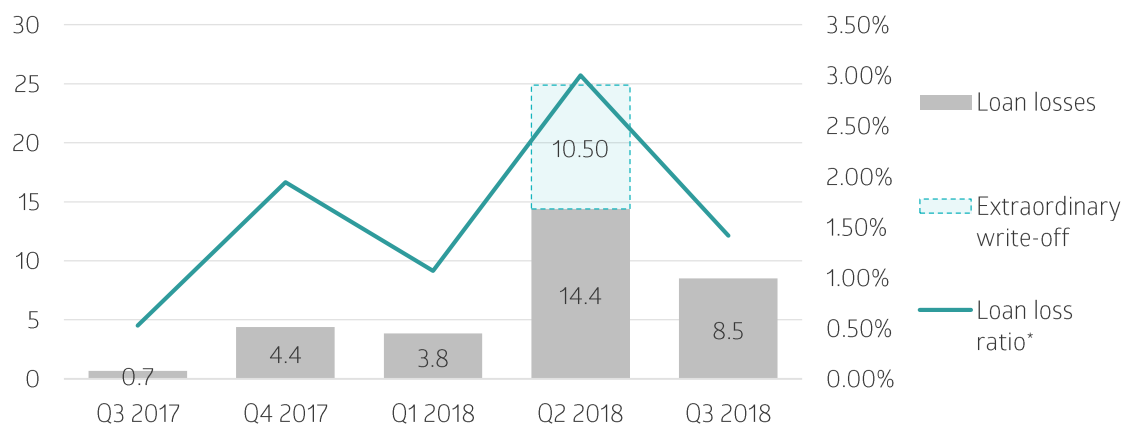


- Administrative costs decreased in Q3 as a result of a reduction in temporary external staffing, as well as other measures taken to reduce costs
- Cost/Net Interest Income ex. agent provisions has steadily decreased, but significantly improved as a result of the lower cost levels in Q3
- MyBank's lean, low-cost business model is expected to drive further improvements in Cost/Income ratios going forward



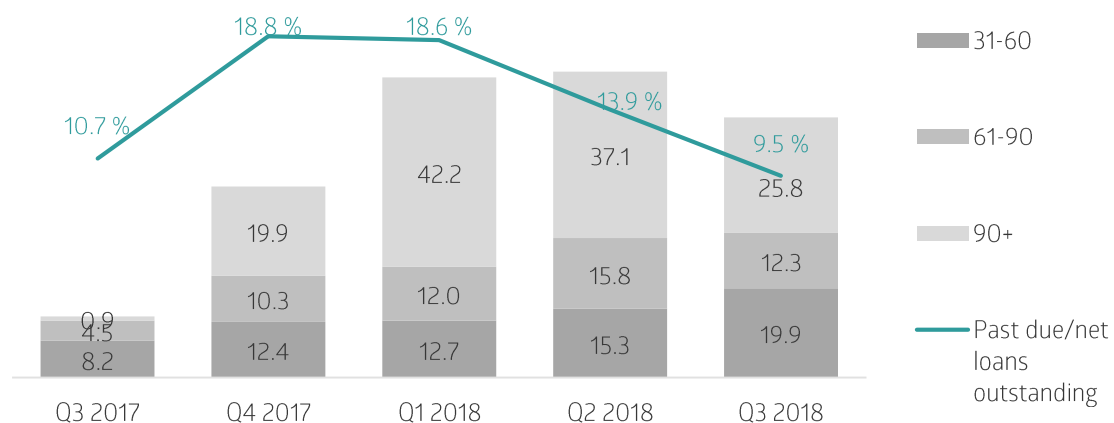
# Normalized loan loss levels and steady improvement of portfolio quality

## Quarterly loan losses (NOKm)



- Loan losses normalized in the quarter, following high losses in Q2 due to a write-off related to a one-off NPL sale
- Loan loss ratio\* expected to trend down as a result of stable loan loss provisions and continued loan growth
- Total provisions represent 39.4% of non-performing loans

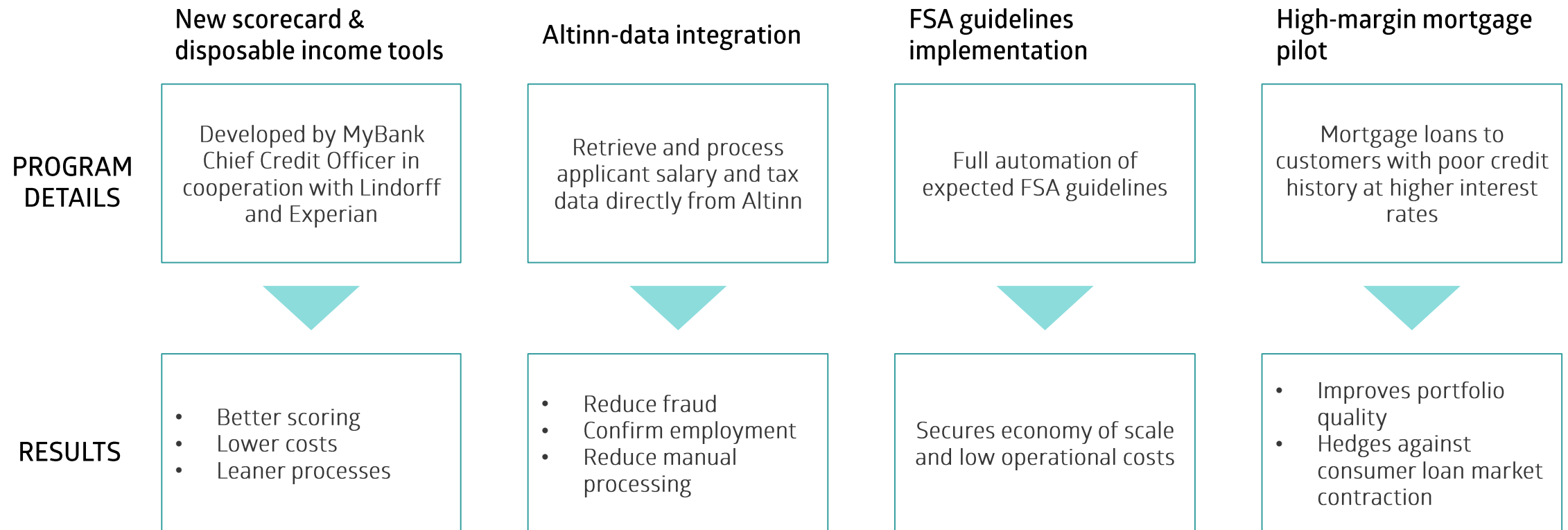
## Loans categorized by days past due (NOKm)



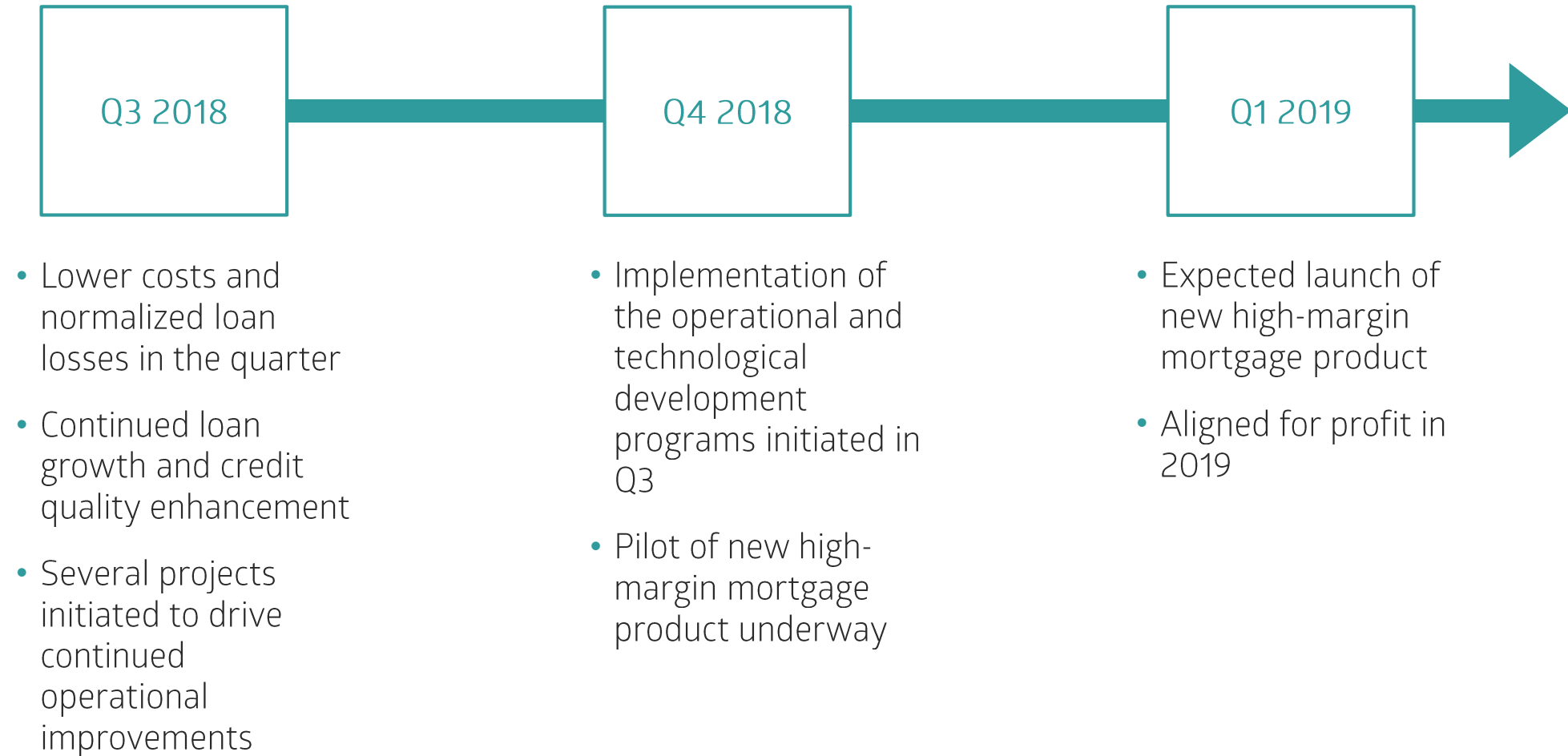
- Gross non-performing and doubtful loans amounted to NOK 38.2m at the end of Q3 2018, a reduction of 28% from Q2, mainly driven by improved credit quality
- 90+ days past due reduced by NOK 31.1m from 180+ days NPL portfolio sold in the quarter
- Going forward, quarterly NPL sales through forward flow agreement are expected at NOK 25-30m

\*Loan loss ratio = Loan losses LTM / End-of-period net loans (not annualized)

## Several operational and technological improvements coming in Q4 and Q1



## Summary and outlook



## Appendix

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- Profit and loss statement
- Balance sheet
- Capital adequacy
- Restatement of Q2 results
- Disclaimer



# Profit & loss

<i>Amounts in NOK million</i>	<b>Q3 2018</b>	<b>Q2 2018</b>	<b>Q1 2018</b>	<b>YTD 2018</b>	<b>FY 2017</b>
Interest income	15.60	14.10	9.97	39.67	11.56
Interest expense	3.29	2.51	1.78	7.57	3.08
<b>Net interest income</b>	<b>12.31</b>	<b>11.59</b>	<b>8.19</b>	<b>32.10</b>	<b>8.48</b>
Commissions and fee income	0.06	-0.06	0.06	0.05	0.04
Commissions and fee expense	-5.11	-4.17	-1.93	-11.20	-0.30
Extraordinary fee income from software sales	2.82	0.00	0.00	2.82	0.00
<b>Total operating income</b>	<b>10.08</b>	<b>7.36</b>	<b>6.32</b>	<b>23.76</b>	<b>8.22</b>
Income/loss from trading activities	1.16	0.004	-0.006	1.16	2.35
Staff costs	-4.43	-3.70	-3.87	-11.99	-12.73
Other administrative expenses	-4.15	-7.28	-4.77	-16.20	-9.76
Other operating costs	-2.31	-1.45	-0.98	-4.74	-4.26
<b>Total operating costs</b>	<b>-9.72</b>	<b>-12.43</b>	<b>-9.63</b>	<b>-31.78</b>	<b>-24.40</b>
<b>Profit / loss (-) before loan losses</b>	<b>0.36</b>	<b>-5.06</b>	<b>-3.30</b>	<b>-8.01</b>	<b>-16.18</b>
Loan losses	-8.53	-24.94	-3.84	-37.32	-5.32
<b>Profit / loss (-) before tax</b>	<b>-8.18</b>	<b>-30.00</b>	<b>-7.15</b>	<b>-45.33</b>	<b>-21.50</b>
Tax					-5.38
<b>Profit / loss (-) for the period</b>	<b>-8.18</b>	<b>-30.00</b>	<b>-7.15</b>	<b>-45.33</b>	<b>-16.13</b>

# Balance sheet

	<i>Amounts in NOK million</i>	<b>30.09.2018</b>	<b>30.06.2018</b>	<b>31.12.2017</b>
<b>Assets</b>				
Loans to, and deposits at, credit institutions		83.19	154.53	76.0
Net loans to customers		600.97	480.04	226.3
<b>Total loans</b>		<b>684.17</b>	<b>634.57</b>	<b>302.4</b>
Short term financial investments		105.00	154.10	180.4
Other intangible assets incl. deferred tax		32.16	26.02	25.4
Prepaid agent commissions		17.33	17.23	6.6
Receivables, prepayments and other assets		19.60	20.40	0.9
<b>Sum other assets</b>		<b>174.08</b>	<b>217.75</b>	<b>213.3</b>
<b>Total assets</b>		<b>858.25</b>	<b>852.31</b>	<b>515.7</b>
<b>Liabilities</b>				
Deposits from customers		653.47	637.47	270.5
Accounts payable		9.07	10.96	4.6
<b>Total liabilities</b>		<b>662.54</b>	<b>648.43</b>	<b>275.1</b>
<b>Equity</b>				
Share capital		241.04	241.04	256.7
Retained earnings		-45.33	-37.15	-16.1
<b>Total equity</b>		<b>195.71</b>	<b>203.88</b>	<b>240.6</b>
<b>Total liabilities and equity</b>		<b>858.25</b>	<b>852.31</b>	<b>515.7</b>

# 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	-61.2	-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 %

# Restatement of Q2 result

## Profit & Loss

<i>Amounts in NOK millions</i>	<i>Q2 2018 (revised)</i>	<i>Q2 2018 (as reported)</i>
Interest income	14.1	14.1
Interest expense	-2.5	-2.5
<b>Net interest income</b>	<b>11.6</b>	<b>11.6</b>
Commissions and fee income	-0.06	-0.06
Commissions and fee expense	-4.2	-4.2
<b>Net other income</b>	<b>-4.2</b>	<b>-4.2</b>
<b>Total operating income</b>	<b>7 363</b>	<b>7363</b>
Income (loss) from trading activities	4	4
Staff costs	-3.7	-3.7
Other administrative expenses	-7.3	-7.3
Other operating costs	-1.5	-1.5
<b>Total operating costs</b>	<b>-12.4</b>	<b>-12.4</b>
<b>Operating profit (Loss) before loan impairments</b>	<b>-5.1</b>	<b>-5.1</b>
Loan losses	-24.9	-19.9
<b>Profit (Loss) before tax</b>	<b>-30.0</b>	<b>-24.9</b>
Tax		
<b>Profit (loss) for the period</b>	<b>-30.0</b>	<b>-24.9</b>

## Balance Sheet

<i>Amounts in NOK millions</i>	<i>30.06.2018 (revised)</i>	<i>30.06.2018 (as reported)</i>
<u>Assets</u>		
Loans to, and deposits at, credit institutions	154.5	154.5
Net loans to customers	480.0	487.4
<b>Total loans</b>	<b>634.6</b>	<b>642.0</b>
Short term financial investments	154.1	154.1
Other intangible assets incl. deferred tax	26.0	26.0
Prepaid agent commissions	17.2	17.2
Receivables, prepayments, accrued income and other assets	20.4	18.1
<b>Total other assets</b>	<b>217.7</b>	<b>215.4</b>
<b>Total assets</b>	<b>852.3</b>	<b>857.4</b>
<u>Liabilities</u>		
Deposits from customers	637.5	637.5
Accounts payable	11.0	11.0
<b>Total liabilities</b>	<b>648.4</b>	<b>648.4</b>
<u>Equity</u>		
Share capital	241.0	241.0
Retained earnings	-37.2	-32.1
<b>Total equity</b>	<b>203.9</b>	<b>208.9</b>
<b>Total liabilities and equity</b>	<b>852.3</b>	<b>857.4</b>



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