

MyBank ASA

Quarterly Report
Q1 2019

Summary of the Quarter

- The bank successfully completed a capital raise of NOK 25 million and a follow-on issue of NOK 1.4 million, both of which were pending approval by the NFSA as of the balance sheet date and have since been approved. Pro-forma capital ratios including the capital raises were 23.5% CET1 (20.3% excluding new capital, vs. 22.6% at Q4 2018).
- The portfolio of unsecured loans was reduced in the last part of the quarter, due to uncertainty surrounding the capital raise and to avoid breaching capital requirements. This contributed to flat loan book development and net interest income during the quarter.
- The launch of “restart loans” (mortgages with higher interest rates, offered to customers with payment remarks or poor credit history) was successful. As of the reporting date the bank had lent NOK 33.4 million, and the product will constitute a high proportion of future lending.
- Growth in net loans was NOK 41.8 million in Q1 2019, compared to NOK 35.0 million in Q4 2018. Of this, NOK 31.9 million were restart mortgages. Consumer loans paid out to customers was NOK 105.5 million in Q1 2019 compared to NOK 115 million in Q4 2018.
- Operating costs were NOK 10.5 million in Q4 2018, down 28% from NOK 14.6 million in Q4 2018. The decrease comes partly due to one-off costs in Q4, and partly as a result of the banks cost reduction measures.
- Total loan losses including changes to provisions were NOK 8.9 million (Q4: NOK 4.7 million), which corresponds to 1.29% of total net loans outstanding (Q4: 0.74%) or 5.16% annualized (Q4: 2.9%).
 - The bank's NPL portfolio, defined as loans that are more than 90 days past due, was NOK 29.5m (Q4: 25.3m)
 - The bank's doubtful loans amounted to NOK 23.2m in the quarter, corresponding to 3.3% of gross loans (Q4: 14.5m or 2.2%).
 - The bank's coverage ratio, defined as loan loss provisions in per cent of non-performing loans was 40.7% (Q4: 39.6%).
 - Loan loss provisions in per cent of gross loans amounted to 1.7% (Q4: 1.6%).
- MyBank submitted its ICAAP and supplementary documentation to the NFSA as part of the SREP process. The bank expects, as previously communicated, a higher CET1 requirement, but the timing of this is uncertain. The bank is therefore continuing the process of raising additional capital, as communicated in the investor presentation of March 2019.

Comments from the CEO

"The decision by the NFSA in Q4 2018 to reject MyBank's reclassification of the consumer loan portfolio as mass market exposures was unprecedented. The decision came as a surprise to both Mybank and our legal advisors. This made it necessary for MyBank to slow down its lending while performing an operational review and capital raise. The capital raise has now been concluded and has secured the bank's capital adequacy.

We will leverage the business model for consumer loans to service the growing market for refinancing of mortgages to customers with payment remarks or poor credit history as planned. The combination of lower risk weights, high interest rates and lower loan losses from collateral in residential property makes this product very interesting from a profitability perspective.

The administration is strongly focused on cost cutting and has initiated further initiatives that will materialize throughout 2019. We have also concluded the process of insourcing several key activities such as customer service, accounting and loan processing, which will provide significant cost reductions in 2019 compared to 2018. The organization has been shifted towards secured loans and any further changes will support the growth of the new product. Our new operating model will also contribute to further improved credit quality.

The new model for calculating applicants' disposable income is a solid improvement on previously available models. It improves pre-scoring and reduces the cost of scoring applicants who in any case would not be granted loans, as well as ensuring automated and scalable compliance with the new guidelines. In addition, the new scorecard has shown much better ability to identify poor credit quality in applicants, allowing better pricing, higher acceptance rates and lower loan losses in the future. This will play a key part as we 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, and commenced operations during the first quarter of 2017. The bank had previously raised a total share capital of NOK 273.3 million in 2016 and 2017. Following the successful capital raise in Q1 2019 this will increase to NOK 299.7 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 for Q1

Growth in net loans was NOK 41.8 million, of restart loans and consumer loans combined. As a part of the company's forward flow agreement, NOK 27.4 million were sold, compared to NOK 22.4 million previous quarter. Gross new consumer loans to customers paid out during the quarter was NOK 105.5 million.

MyBank ASA recorded net interest income of NOK 15.3 million during the quarter. The bank had operating expenses of NOK 8.6 million for the quarter, of which NOK 4.7 million were staff costs and NOK 3.9 million were other administrative costs.

As of the end of the quarter, the bank had made gross loans to customers of NOK 690.4 million, in which NOK 33.4 million is restart loans and NOK 657.0 million is consumer loans. Gross deposits was NOK 752.0 million.

The bank's liquidity position was NOK 241.4 million (compared to NOK 190.4 million in the previous quarter).

Loan losses

Total loan losses (including changes to provisions and write-downs of disposed-of loans) were NOK 8.9 million for the quarter, representing 1.29% of net loans at the end of the quarter (or 1.35% of net consumer loans at the end of the quarter). Provisions represent 40.7% of non-performing loans, which is considered to be an appropriate level given the

bank's forward flow agreement. The bank will perform a full calibration of the current scorecard in Q2 2019 to further improve its ability to predict future default based on the most recent data.

Regulatory developments

The bank has classified its loan portfolio to a risk weighting of 100% following a decision by the NFSA. MyBank has not contested the decision and will use the higher risk weighting until at least 2020.

MyBank received a request from the NFSA for the bank's ICAAP and additional information as part of the SREP process. The bank's ICAAP was submitted to the NFSA at the end of the quarter. It is expected that the bank's pillar 2 requirements will be increased as a result of this, in or after the second quarter of 2019.

Events after balance sheet date

The NFSA approved the bank's capital increase on the 10th of April 2019. The additional capital is not included in the accounts for Q1 except where noted as pro-forma.

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 were developed and implemented in the fourth quarter 2018 which will allow the bank to increase its lending and further improve portfolio quality.

The FSA guidelines published in 2017 and recently converted to mandatory regulations were in line with MyBank's expectations. MyBank focuses on solid credit risk management, and particularly on documentation of the customer's debt servicing ability, in line with the regulations' intent.

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. MyBank

considers it likely that the guidelines will also lead to an increase in the number of borrowers who need to refinance existing consumer credit into their home mortgages, leading to an increase in demand for “restart” mortgages which the bank launched in the first quarter of 2019.

While the bank’s capital situation remains uncertain, and the market for consumer loans is under stress, the bank will seek to maintain its consumer loan portfolio, or to shrink it while replacing these loans with new, secured lending (“restart mortgages”).

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.

The increasingly strict interpretation of the guidelines for unsecured lending could precipitate increased loan losses for MyBank and its peers, if customers who previously were able to refinance doubtful loans are instead forced into default.

The bank relies on a forward flow agreement to dispose of its non-performing loans once these are 180 days past due. This gives the bank a fixed loss-given-default. Recent pronouncements by the NFSA have significantly increased the capital requirements for buyers of such portfolios. This is likely to mean that the bank’s future forward flow agreements will be entered into (if renewed) at lower prices, leading to higher loss-given-default. This will, all else equal, increase the bank’s potential credit losses.

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, 7 May 2019

The MyBank Board of Directors

Tom Knoff
Chairman of the Board

Knut Einar Rishovd
Board Member

Tone Haugland
Board Member

Cathrine G Kjeldsberg
Board Member

Paal E Johnsen
Board Member

Christen Fredriksen
CEO

Financial Statements (Unaudited)

Income Statement

| Amount in NOK thousands | Notes | Q1 2019 | Q1 2018 | 2018 |
|--|-------|----------------|---------------|----------------|
| Interest income | | 19 134 | 9 966 | 57 044 |
| Interest expense | | -3 842 | -1 776 | - 11 044 |
| Net interest income | | 15 292 | 8 190 | 46 000 |
| Commissions and fee income | | 106 | 58 | 158 |
| Extraordinary fee income from software sales | | 0 | 0 | 2 820 |
| Commissions and fee expense | | -4 890 | -1 926 | -14 569 |
| Net other income | | -4 783 | -1 867 | -11 591 |
| Total operating income | | 10 510 | 6 322 | 34 409 |
| Income (loss) from trading activities | | 28 | -6 | 1 318 |
| Staff costs | | -4 682 | -3 868 | -15 487 |
| Other administrative expenses | | -3 950 | -4 773 | -23 598 |
| Other operating costs | | -2 007 | -979 | -6 430 |
| Total operating costs | 4 | -10 611 | -9 626 | -44 196 |
| Operating profit (Loss) before loan impairments | | -101 | -3 304 | -9 787 |
| Loan losses | 2 | -8 898 | -3 844 | -42 004 |
| Profit (Loss) before tax | | -8 998 | -7 148 | -51 791 |
| Tax | | -2 250 | -1 787 | -12 987 |
| Profit (loss) for the period | | -6 749 | -5 361 | -38 804 |

Balance Sheet

| | Note | 31.03.2019 | 31.03.2018 | 31.12.2018 |
|--|---------|----------------|----------------|----------------|
| <u>Assets</u> | | | | |
| Cash and central bank deposits | | 50 045 | 0 | 25 016 |
| Loans to, and deposits at, credit institutions | | 86 182 | 51 374 | 63 227 |
| Net loans to customers | 2, 3, 4 | 678 425 | 360 116 | 636 596 |
| Total loans | | 814 653 | 411 490 | 724 839 |
| Short term financial investments | | 80 200 | 175 999 | 105 141 |
| Other intangible assets incl. deferred tax | | 41 373 | 24 859 | 44 792 |
| of which deferred tax asset | | - 21 231 | -6 034 | -19 021 |
| Prepaid agent commissions | | 25 644 | 13 074 | 24 191 |
| Fixed assets | | 68 | 0 | 69 |
| Other assets | | 1 523 | 0 | 7 563 |
| Receivables, prepayments and accrued income | | 2 393 | 1 028 | 735 |
| Total other assets | | 151 242 | 214 960 | 182 491 |
| Total assets | | 965 895 | 626 451 | 907 330 |
| <u>Liabilities</u> | | | | |
| Deposits from customers | | 751 988 | 385 258 | 695 220 |
| Accounts payable | | 18 423 | 7 518 | 9 880 |
| Total liabilities | | 770 411 | 392 776 | 705 100 |
| <u>Equity</u> | | | | |
| Share capital | | 259 151 | 258 938 | 259 151 |
| Retained earnings, previous years | | -56 918 | -18 116 | -18 116 |
| Retained earnings, this year | | -6 749 | -7 148 | -38 804 |
| Total equity | 5 | 195 484 | 233 674 | 202 231 |
| Total liabilities and equity | | 965 895 | 626 451 | 907 330 |

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 | 31.03.2019 | 31.12.2018 | 30.09.2018 | 30.06.2018 | 30.03.2018 |
|---------------------------------|------------|------------|------------|------------|------------|
| Loans to customers | 690.4 | 646.6 | 611.14 | 490.2 | 369.5 |
| Provision for impairment losses | -12.02 | -10.02 | -10.16 | -10.2 | -9.4 |
| Net loans to customers | 678.43 | 636.6 | 601.0 | 480.0 | 360.1 |

| Provisions for impairments on groups of loans | 31.03.2019 | 31.12.2018 | 30.09.2018 | 30.06.2018 | 30.03.2018 |
|---|------------|------------|------------|------------|------------|
| Provisions at the beginning of the period | 10.02 | 10.16 | 10.2 | 9.4 | 5.5 |
| Provisions during the period | 8.77 | 6.22 | 8.53 | 24.9 | 3.8 |
| Loans written off | 6.77 | -6.36 | -8.57 | -24.1 | - |
| Amounts recovered from previous write-offs | - | - | - | - | - |
| Provisions at the end of the period | 12.02 | 10.02 | 10.16 | 10.2 | 9.4 |

Note 3 Non-performing loans

Non-performing and doubtful loans

| Amounts in NOK millions | Q1 19 | Q4 18 | Q3 18 | Q2 18 | Q1 18 |
|---|-------|-------|-------|-------|-------|
| Gross non-performing and doubtful loans | 52.8 | 39.7 | 38.2 | 52.9 | 54.3 |
| Individual write-downs | -9.3 | -8.0 | -8.1 | -8.0 | -7.3 |
| Provisions for write-downs | -2.7 | -2.0 | -2.0 | -2.2 | -2.1 |
| Net non-performing and doubtful loans | 40.8 | 29.7 | 28.1 | 42.7 | 44.9 |

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 |
|------------|-------------|--------------|--------------|----------|-----------------|
| 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 |
| 31.12.2018 | 42.4 | 24.5 | 14.5 | 25.3 | 646.6 |
| 31.03.2019 | 58.4 | 32.2 | 23.2 | 29.5 | 690.4 |

Note 4 Operating costs

| | 2019 | 2018 | | | |
|----------------------------------|------|------|-----|-----|-----|
| Amounts in NOK millions | Q1 | Q4 | Q3 | Q2 | Q1 |
| Personnel expenses | 4.7 | 5.1 | 4.4 | 3.7 | 3.9 |
| Property, plant and equipment | 1.1 | 0.6 | 0.5 | 1.2 | 0.5 |
| External fees/services | 2.5 | 7.6 | 4.3 | 3.8 | 2.9 |
| Travel expenses | 0.3 | 0.4 | 0.2 | 0.4 | 0.3 |
| Sales and advertising | 0.1 | 0.3 | 0.0 | 0.2 | 0.1 |
| Other expenses | 1.9 | 0.3 | 0.3 | 1.9 | 1.8 |
| Non-personnel operating expenses | 5.9 | 9.1 | 5.3 | 7.5 | 5.7 |

Note 5 Capital adequacy

| Amounts in NOK 1000s | Q1 2019 | Q4 2018 | Q3 2018 | Q2 2018 | Q1 2018 |
|---------------------------------------|---------|---------|---------|---------|---------|
| 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 | -63.7 | -54.7 | -61.2 | -53.0 | -23.3 |
| Deduction of intangible assets | 38.9 | 43.0 | 32.1 | 26.0 | 37.9 |
| Core equity tier 1 capital | 154.1 | 158.8 | 163.2 | 177.6 | 195.5 |
| Additional tier 1 capital instruments | | 0 | 0 | 0 | 0 |
| Tier 1 capital | 154.1 | 158.8 | 163.2 | 177.6 | 195.5 |
| Subordinated loans | | 0 | 0 | 0 | 0 |
| Tier 2 capital | 154.1 | 158.8 | 163.2 | 177.6 | 195.5 |
| Capital requirements | | | | | |
| Amounts in NOK 1000s | Q1 2019 | Q4 2018 | Q3 2018 | Q2 2018 | Q1 2018 |
| Institutions | 17.2 | 12.6 | 11.6 | 10.1 | 10.2 |
| Unsecured loans to retail customers | 649.0 | 635.1 | 600.9 | 480.4 | 318.1 |
| Secured by mortgages | 11.0 | 0.5 | | | |
| Collective investments undertakings | 2.8 | 2.8 | 2.7 | 3.2 | 7.1 |
| Other | 29.6 | 34.3 | 17.3 | 54.3 | 41.3 |
| Operational risk | 49.4 | 20.7 | 20.7 | 20.7 | 19.7 |
| Total risk-weighted assets | 759.0 | 706.0 | 653.2 | 568.7 | 396.4 |
| Core equity tier 1 capital ratio | 20.3 % | 22.5 % | 25.0 % | 30.3 % | 46.9 % |
| Tier 1 capital ratio | 20.3 % | 22.5 % | 25.0 % | 30.3 % | 46.9 % |
| Capital ratio | 20.3 % | 22.5 % | 25.0 % | 30.3 % | 46.9 % |
| Liquidity Coverage Ratio (LCR): | 859% | 860% | 923% | 846% | 1496% |

Note 6 Major shareholders

Twenty largest shareholders as of 31.3.2018, not including shares subscribed to in the most recent capital raise.

| Rank | Name | Number of shares | % holding | Nominee | Board/management |
|------|--------------------------------------|------------------|-----------|---------|------------------|
| 1 | Skandinaviska Enskilda Banken AB | 54 745 190 | 22.99 | | |
| | - of which Erik Selin Fastigheter AB | 47 576 984 | 19.99 | | |
| 2 | DANSKE BANK A/S | 25 786 177 | 10.82947 | Yes | |
| 3 | BIMO KAPITAL AS | 14 000 000 | 5.87961 | | |
| 4 | ATOM INVEST AS | 13 333 333 | 5.59962 | | |
| 5 | J AANERØD & SØNN AS | 11 955 000 | 5.02076 | | Yes |
| 6 | Nordnet Bank AB | 11 903 529 | 4.99915 | Yes | |
| 7 | SEB LIFE INTERN ASSUR COMPANY DAC | 11 267 655 | 4.73210 | | |
| 8 | DOBER AS | 10 333 866 | 4.33993 | | |
| 9 | Europa Link AS | 9 911 424 | 4.16252 | | Yes |
| 10 | Swedbank AB | 6 265 000 | 2.63112 | Yes | |
| 11 | GRAFFA AS | 6 180 000 | 2.59543 | | |
| 12 | DATSUN AS | 5 098 307 | 2.14115 | | Yes |
| 13 | EUROPA LINK AS | 4 933 316 | 2.07185 | | Yes |
| 14 | KARSTEIN GJERSVIK | 4 904 925 | 2.05993 | | |
| 15 | ØSTERLUND INVEST AS | 4 180 000 | 1.75548 | | Yes |
| 16 | JUUL-VADEM HOLDING AS | 2 267 157 | 0.95214 | | |
| 17 | CRESCENT BELL & HARE LTD | 2 100 000 | 0.88194 | | Yes |
| 18 | KG INVESTMENT COMP AS | 2 000 000 | 0.83994 | | |
| 19 | SVENSKA HANDELSBANKEN AB | 1 825 000 | 0.76645 | | |
| 20 | BES INVEST AS | 1 600 000 | 0.67195 | | |

Top twenty shareholders as after the capital raise is available on the company's website.

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