

MyBank ASA

Quarterly Report
Q2 2019

Summary of the Quarter

- The bank continued to grow the portfolio of “restart loans” (mortgages with higher interest rates, offered to customers with payment remarks or poor credit history). As of the balance sheet date the bank had lent NOK 62.4 million, however, growth has accelerated since then, and as of the reporting date the bank had lent NOK 109.2 million. The bank therefore expects to meet the year-end target portfolio of NOK 250.0 million.
- The portfolio of unsecured loans was reduced in the last part of the quarter. Prior to the implementation of the national debt register, the quality of loan applications has been poor, and the bank has therefore been very restrictive in making new loans.
- Total gross loans to customers ended at NOK 644.3 million, a reduction of NOK 46.1 million from the previous quarter.
 - The gross portfolio of unsecured loans ended at NOK 581.9 million, a reduction of NOK 75.6 million from the previous quarter.
 - The gross portfolio of restart loans ended at NOK 62.4 million, an increase of NOK 29.5 million from the previous quarter.
- Operating costs, including one off costs relating to change of managing director and changes to company strategy of MNOK 1.2, were NOK 11.2 million, up 5,17% from NOK 10.6 million in the previous quarter
- Total loan losses including changes to provisions were NOK 11.6 million (previous quarter: NOK 8.9 million), which corresponds to 1,84% of total net loans outstanding (previous quarter: 1,31%) or 7,36% annualized (previous quarter: 5,24%).
 - The bank's non-performing loans portfolio, defined as loans that are more than 90 days past due, was NOK 35.0 million (previous quarter: NOK 29.5 million)
 - The bank's doubtful loans amounted to NOK 22.7 million in the quarter, corresponding to 3,52% of gross loans (previous quarter: 23.2 million or 3,36%).
 - The bank's coverage ratio, defined as loan loss provisions in per cent of non-performing loans was 41,4% (previous quarter: 40,7%).
 - Loan loss provisions in per cent of gross loans amounted to 2,25% (previous quarter: 1,74%).

Comments from the CEO

"We have decided to reduce our portfolio of consumer loans and concentrate on mortgage loans that provide an attractive risk-return profile in a market segment with low risk weights, high interest rates and limited expected loan losses

After a slow start we are now confident that we can deliver on our plan to refocus MyBank to be a profitable specialist mortgage lender, providing loans to customers with a poor credit history that makes it difficult for them to obtain loans from the established banks. Our goal is to ensure that all loans to this group of customers are adequately secured by mortgages. We have improved our operational processes as well as adapted our existing technology to create an efficient and scalable model for processing mortgage applications.

The loans will be offered through agents and directly to customers using digital advertising campaigns. Several of the loan agents who have provided our consumer loan portfolio, are now also distributing our mortgage product. In addition, we have successfully used inexpensive, small-scale targeted digital advertising to obtain loan applications.

The administration remains focused on cost control while building up the new business area. We have concluded the process of insourcing several key activities such as customer service, accounting and loan processing. The change will provide significant cost reductions in 2019 compared to 2018."

Jakob Bronebakk, interim CEO

About MyBank

MyBank is an online retail bank offering unsecured consumer loans, refinancing loans secured in real-estate, 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 capital raise in Q1 2019 this increased to NOK 299.7 million. The shares trade on the NOTC list.

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

Financial information for the quarter

Net loans to customers was reduced by NOK 48.6 million during the quarter. As a part of the company's forward flow agreement, NOK 25.0 million was sold, compared to NOK 28.6 million previous quarter. Gross new consumer loans paid out to customers during the quarter was NOK 16.3 million.

MyBank ASA recorded net interest income of NOK 14.2 million during the quarter. The bank had operating expenses of NOK 11.16 million for the quarter, of which NOK 3.9 million were staff costs and NOK 4.7 million were other administrative costs. Costs related to the departure of the previous CEO amounted to NOK 1.2 million, including both staff costs and other administrative costs.

As of the end of the quarter, the bank's gross loans to customers totalled NOK 644.3 million, of which NOK 62.4 million in restart loans and NOK 581.9 million in consumer loans. Gross deposits were NOK 694.8 million.

The bank's liquidity position was NOK 209.7 million (compared to NOK 241.4 million in the previous quarter).

Loan losses

Total loan losses (including changes to provisions and write-downs of disposed-of loans) were NOK 11.6 million for the quarter, representing 1,84% of net loans at the end of the quarter (or 1,99% of gross

consumer loans at the end of the quarter). The high level of loan losses is a result of the poor credit quality of loans paid out in late Q4 2018 and early Q1 2019. Having reserved a significant amount for losses on these loans we now believe that the remaining loans will have losses in line with the remaining portfolio. Loan losses are expected to fall with the reduction of the consumer loan portfolio. The bank aims to provide detailed segment information on this from Q3 2019.

Provisions represent 41,4% of non-performing loans, which is considered to be an appropriate level given the bank's forward flow agreement.

Regulatory developments

The bank has previously classified its consumer 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 previous quarter. It is expected that the bank's pillar 2 requirements will be increased as a result of this, in or after the third quarter of 2019, to be in line with peers.

The NFSA has suggested in a letter to the Ministry of Finance that as part of the introduction to Norwegian law of the EU's Mortgage Credit Directive (MCD), *all* loan agents should require *permission* from the NFSA (as opposed to *registration*, under the current regime). This may, if it comes into force as suggested, make it more difficult for smaller loan agents to operate, potentially reducing the number of partners MyBank can use to distribute its loans (mortgages and unsecured loans).

Outlook

The bank expects to continue its strategy of transition towards its mortgage product throughout 2019 and 2020, a process which is well under way. Lending volumes for the mortgage product are expected to match or exceed those outlined during the capital raise in February 2019, while lending volumes for unsecured loans is expected to be lower

than outlined. The bank's board and management will continue to explore strategic options while closely monitoring the bank's capital situation.

The FSA regulations on unsecured lending, and particularly the implementation of the debt register and the restriction of loan maturity, are expected to continue to restrict the market growth in unsecured lending.

MyBank considers it likely that the regulations will lead to an increase in the number of borrowers who need to refinance existing consumer credit into their home mortgages, as the new debt register makes it impossible for them to continue to roll their credit over to new consumer loans. This is likely to lead to an increase in demand for mortgages, but it may also contribute to higher defaults in the consumer loan portfolio, as those with insufficient equity in their homes to refinance (and those who do not own a home) are unable to make payments on their loans.

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 recent tightening of the regulations 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 is still awaiting the regulator's response to its ICAAP and supplemental information, filed as part of a process of considering the appropriate pillar 2 capital requirements for MyBank. The bank expects this to lead to an increase in its capital requirements.

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 until the expiration of the agreement in May 2020. Recent pronouncements by the NFSA have significantly increased the capital requirements for buyers of such portfolios. Future forward flow agreements are likely to reflect this change, leading to higher loss-given-default.

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 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

Jakob Bronebakk
CEO (interim)

Financial Statements (Unaudited)

Income Statement

Amount in NOK thousands	Notes	Q2 2019	Q2 2018	H1 2019	H1 2018	2018
Interest income		18 125	14 100	37 259	24 066	57 044
Interest expense		-3 940	-2 506	-7 782	-4 282	-11 044
Net interest income		14 185	11 594	29 477	19 784	46 000
Commissions and fee income		134	-62	241	-4	158
Extraordinary fee income from software sales		0	0	0	0	2 820
Commissions and fee expense		-5 451	-4 169	-10 340	-6 095	-14 569
Net other income		-5 317	-4 231	-10 099	-6 099	-11 591
Total operating income		8 868	7 363	19 378	13 685	34 409
Income (loss) from trading activities		226	4	254	-3	1 318
Staff costs		-3 880	-3 697	-8 562	-7 565	-15 487
Other administrative expenses		-4 741	-7 282	-8 690	-12 054	-23 598
Other operating costs		-2 766	-1 453	-4 773	-2 432	-6 430
Total operating costs	4	-11 160	-12 427	-21 771	-22 054	-44 196
Operating profit (Loss) before loan impairments		-2 292	-5 064	-2 393	-8 369	-9 787
Loan losses	2	-11 598	-24 937	-20 496	-28 782	-42 004
Profit (Loss) before tax		-13 890	-30 002	-22 888	-37 150	-51 791
Tax		-3 472	-7 500	-5 722	-9 288	-12 987
Profit (loss) for the period		-10 417	-22 501	-17 166	-27 863	-38 804

Balance Sheet

	Note	30.06.2019	30.06.2018	31.12.2018
<u>Assets</u>				
Cash and central bank deposits		50 115	0	25 016
Loans to, and deposits at, credit institutions		69 364	154 526	63 227
Net loans to customers	2, 3, 4	629 817	480 040	636 596
Total loans		749 296	634 566	724 839
Short term financial investments		90 210	154 100	105 141
Other intangible assets incl. deferred tax		42 271	26 017	44 792
<i>of which deferred tax asset</i>		24 703	6 034	19 021
Prepaid agent commissions		24 517	17 231	24 191
Fixed assets		63	0	69
Other assets		11 872	0	7 563
Receivables, prepayments and accrued income		2 155	20 399	735
Total other assets		171 088	211 713	182 491
Total assets		920 383	846 279	907 330
<u>Liabilities</u>				
Deposits from customers		694 835	637 465	695 220
Accounts payable		16 871	10 963	9 880
Total liabilities		711 707	648 428	705 100
<u>Equity</u>				
Share capital		282 761	241 035	259 151
Earlier retained earnings		-56 918	-37 150	-56 921
This year's retained earnings		-17 166	0	0
Total equity	5	208 677	203 884	202 231
Total liabilities and equity		920 383	852 312	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

<i>Amounts in NOK millions</i>	30.06.2019	31.03.2019	31.12.2018	30.09.2018	30.06.2018
Loans to customers	644.3	690.4	646.6	611.1	490.2
Provision for impairment losses	-14.5	-12.0	-10.0	-10.2	-10.2
Net loans to customers	629.8	678.4	636.6	601.0	480.0

Provisions for impairments on groups of loans	30.06.2019	31.03.2019	31.12.2018	30.09.2018	30.06.2018
Provisions at the beginning of the period	12.02	10.02	10.16	10.2	9.4
Provisions during the period	11.61	8.77	6.22	8.53	24.9
Loans written off	-9.14	-6.77	-6.36	-8.57	-24.1
Amounts recovered from previous write-offs	-	-	-	-	-
Provisions at the end of the period	14.49	12.02	10.02	10.16	10.2

Note 3 Non-performing loans

Non-performing and doubtful loans

<i>Amounts in NOK millions</i>	Q2 19	Q1 19	Q4 18	Q3 18	Q2 18
Gross non-performing and doubtful loans	57.7	52.8	39.7	38.2	52.9
Individual write-downs	-12.2	-9.3	-8.0	-8.1	-8.0
Provisions for write-downs	-2.0	-2.7	-2.0	-2.0	-2.2
Net non-performing and doubtful loans	43.5	40.8	29.7	28.1	42.7

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, on a monthly basis, dispose of loans which are more than 180 days past due (with some minor exclusions).

Loans categorised by days past due

(Amounts in NOK millions)

<i>Portfolio as of:</i>	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
30.06.2019	36.5	22.6	22.7	35.0	644.3

Note 4 Operating costs excluding depreciation

	2019		2018			
<i>Amounts in NOK millions</i>	Q2	Q1	Q4	Q3	Q2	Q1
Personnel expenses	4.0	4.7	5.1	4.4	3.7	3.9
Property, plant and equipment	1.1	1.1	0.6	0.5	1.2	0.5
External fees/services	3.9	2.5	7.6	4.3	3.8	2.9
Travel expenses	0.2	0.3	0.4	0.2	0.4	0.3
Sales and advertising	0.3	0.1	0.3	0.0	0.2	0.1
Other expenses	2.1	1.9	0.3	0.3	1.9	1.8
Non-personnel operating expenses	7.5	5.9	9.1	5.3	7,5	5.7

Note 5 Capital adequacy

<i>Amounts in NOK millions</i>	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Share capital	47.5	23.8	23.8	23.8	23.8
Share premium reserve	232.9	232.9	232.9	232.9	232.9
Retained earnings	-71.9	-61.5	-54.7	-61.2	-53.0
Deduction of intangible assets	-42.3	41.3	43.0	32.1	26.0
Core equity tier 1 capital	166.2	153.8	158.8	163.2	177.6
Additional tier 1 capital instruments			0	0	0
Tier 1 capital	166.2	153.8	158.8	163.2	177.6
Subordinated loans			0	0	0
Tier 2 capital	166.2	153.8	158.8	163.2	177.6
Capital requirements					
<i>Amounts in NOK 1000s</i>	Q1 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Institutions	13.9	17.2	12.6	11.6	10.1
Unsecured loans to retail customers	570.6	649.0	635.1	600.9	480.4
Secured by mortgages	22.6	11.0	0.5		
Collective investments undertakings	2.6	2.8	2.8	2.7	3.2
Other	42.1	29.6	34.3	17.3	54.3
Operational risk	49.4	49.4	20.7	20.7	20.7
Total risk-weighted assets	701.2	759.0	706.0	653.2	568.7
Core equity tier 1 capital ratio	23.7 %	20.3 %	22.5 %	25.0 %	30.3 %
Tier 1 capital ratio	23.7 %	20.3 %	22.5 %	25.0 %	30.3 %
Capital ratio	23.7 %	20.3 %	22.5 %	25.0 %	30.3 %
Liquidity Coverage Ratio (LCR):	833%	859%	860%	923%	846%

Note 6 Major shareholders

Twenty largest shareholders as of 30.6.2019.

Rank	Name	Number of shares	% holding	Nominee	Board/management
1	Skandinaviska Enskilda Banken AB (including Erik Selin Fastigheter AB held in nominee)	89 217 063	21.55	Yes	
2	DANSKE BANK A/S	39 932 881	9.64	Yes	
3	Europa Link AS	28 568 695	6.90		
4	SEB LIFE INTERN ASSUR COMPANY DAC	20 779 992	5.02		
5	Nordnet Bank AB	20 713 592	5.00	Yes	
6	DOBER AS	17 500 532	4.23		
7	J AANERØD & SØNN AS	16 955 000	4.09		
8	BIMO KAPITAL AS	14 000 000	3.38		
9	ATOM INVEST AS	13 333 333	3.22		
10	NORDIC PRIVATE EQUITY AS	11 729 503	2.83		
11	Swedbank AB	10 167 356	2.46	Yes	
12	DAIMYO AS	10 000 000	2.41		
12	MELESIO CAPITAL AS	10 000 000	2.41		
12	NORDIC PROPERTY HOLDING AS	10 000 000	2.41		
12	NORDIC FRONTIER AS	10 000 000	2.41		
16	KG INVESTMENT COMP AS	6 900 000	1.67		
17	GRAFFA AS	6 180 000	1.49		
18	DATSUN AS	5 098 307	1.23		
19	JUUL-VADEM HOLDING AS	5 000 000	1.21		
20	GJERSVIK KARSTEIN	4 904 925	1.18		

MyBank
Enebakkveien 133
0680 Oslo
Norway

Tel: +47 22 71 97 17
www.mybank.no