

MyBank ASA

Quarterly Report
Q4 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 net outstanding loans of NOK 234.9 million. This was after the bank had lent NOK 110.3 million, with NOK 19.4 million returned in prepayments and repayments, during the quarter. The good growth has continued in 2020.
- The portfolio of unsecured loans has been reduced during the quarter according to the bank’s strategy to withdraw from the unsecured loans segment. 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.
- Operating costs for the quarter were NOK 13.4 million, down 16% from NOK 15.9 million in the previous quarter. Adjusted for one-off restructuring costs taken in the previous quarter, Q4 had operating costs at the same level as Q3.
- Total loan losses including changes to provisions were NOK 9.6 million (previous quarter: NOK 10.1 million), which corresponds to 1.46% of total net loans outstanding (previous quarter: 1.56%) or 5.84% annualized (previous quarter: 6.24%).
 - The bank’s non-performing loans portfolio, defined as loans that are more than 90 days past due, was NOK 45.8 million (previous quarter: NOK 36.4 million). Of this, NOK 8.1 million are mortgage loans.
 - The bank’s doubtful loans amounted to NOK 19.4 million in the quarter, corresponding to 2.83% of gross loans (previous quarter: 16.4 million or 2.43%). Of this, NOK 0.1 million are mortgage loans.
 - Loan loss provisions in per cent of gross loans amounted to 2.64% (previous quarter: 2.28%). The bank’s coverage ratio, defined as loan loss provisions in per cent of non-performing loans, was 39.5% (previous quarter: 41.8%).
 - Sale forward flow consumer loans for Q4 was NOK 29.1 million compared to 30.5 million in the previous quarter.

Key Performance Indicators YTD	
Net interest income YTD (MNOK)	60.7
Net loans to customers (MNOK)	658.1
Total assets (MNOK)	908.2
Core equity tier 1 capital (MNOK)	137.1
Deposit to loan ratio	108 %
Operating cost % of net interest income	84 %
Liquidity coverage ratio	738 %
NSFR	136 %
Profit per share YTD (after tax) (NOK)	-0.09
Equity per share (NOK)	0.46

Comments from the CEO

"We continued to make excellent progress in the fourth quarter – lending volume was almost a third higher than the previous quarter, we have improved our underwriting capacity by retraining existing staff, and our continuous process improvements are reducing the time required from application received to loan disbursement. This shows that we can deliver on our plan to become a specialist mortgage lender, helping customers with poor credit history to return to mainstream financial services.

We have continued to improve our front-end system in a cost-effective manner, leveraging our existing infrastructure where possible. This shortens processing time for customers, reduces manual intervention for our underwriting team, and improves the experience for agents. The majority of our agents are now connected to our front-end via our API, allowing them to send us applications with no additional effort on their part. In addition, the use of tax and salary information from Altinn allows us to efficiently receive important documentation with less delays and lower risk of fraud. We are confident that this will lead to better service for customers, and better credit quality for MyBank.

We have improved our distribution both by adding additional agents (including both restart mortgage specialists and consumer-loan agents who are beginning to see the value of restart mortgages) and using digital marketing in a highly cost-effective manner. As our underwriting capacity further improves we will be able to fully utilise this to reduce customer acquisition costs and diversify our distribution.

We will continue to improve MyBank in 2020, including further improvements to the underwriting and document production processes. We are adding some additional staff to strengthen our debt collection and credit underwriting capacity, while keeping total headcount relatively stable."

Jakob Bronebakk, interim CEO

About MyBank

MyBank is an online retail bank offering refinancing loans secured by real estate and deposit accounts. The bank has in 2019 withdrawn from the unsecured consumer loans market.

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

Growth in net loans to customers was NOK 8.4 million during the quarter. As a part of the company's forward flow agreement, NOK 29.1 million was sold, compared to NOK 30.5 million in the previous quarter. Gross new consumer loans paid out to customers during the quarter was NOK 0.9 million compared to NOK 12.3 million in the previous quarter. New mortgage loans paid out to customers during the quarter was NOK 110.4 million compared to NOK 89.3 million in the previous quarter.

MyBank ASA recorded net interest income of NOK 17.3 million during the quarter. The bank had operating expenses of NOK 13.4 million for the quarter, of which NOK 5.1 million were staff costs and NOK 8.3 million were other costs.

As of the end of the quarter, the bank's gross loans to customers totalled NOK 675.0 million, of which NOK 234.9 million in restart loans and NOK 440.1 million in consumer loans. Gross deposits were NOK 708.5 million.

The bank's liquidity position was NOK 162.4 million (compared to NOK 179.3 million in the previous quarter).

Loan losses

Total loan losses (including changes to provisions and write-downs of disposed-of loans) were NOK 9.6 million for the quarter, representing 1.46% of net

loans at the end of the quarter (or 2.18% of gross consumer loans at the end of the quarter). The high level of loan losses was a result of poor credit quality in late Q4 2018 and early Q1 2019 vintages, as well as some deterioration in the remaining loans from 2017. Loan losses are expected to fall in absolute terms with the reduction of the consumer loan portfolio but increase in relative terms.

Provisions represent 39.5% of non-performing loans, which is considered to be an appropriate level given the bank's forward flow agreement.

The bank will implement simplified IFRS from 2020 as allowed by Norwegian accounting regulations. The change from current accounting principles will include changing the bank's loan loss calculations to be in line with IFRS 9. The change is currently expected to cause a one-time increase of approximately NOK 14 million in loan loss reserves in the first quarter of 2020. The bank will use the transition arrangements allowed to reduce the impact on capital adequacy during the period 2020 – 2022.

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.

In the first quarter of 2019, 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 first quarter 2019. It is expected that the bank's pillar 2 requirements will be increased to be in line with peers within the first or second quarter of 2020.

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 will continue its strategy of transition towards its “restart mortgage” product throughout 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 will be lower than outlined. The bank’s board and management will continue to explore both capital raising and other 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, a market that the bank has abandoned.

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 almost 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 “restart 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 from the current 16% CET-1 to at least 19%. This may require the bank to raise new equity capital. Additional equity may also be required to support growth in the mortgage product.

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. 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.

Events after the balance sheet date

The company held an extraordinary general meeting on January 8th, 2020 to elect new members of the board. Three of the five members of the board were elected at this meeting and have therefore not served on the board during the reporting period.

Oslo, 30 January 2020

The MyBank Board of Directors

Tom Knoff
Chairman of the Board

Espen Aubert
Board Member

Linn Hoel Ringvoll
Board Member

Thomas Monsen
Board Member

Cathrine Kjeldsberg
Board Member

Jakob Bronebakk
CEO (interim)

Financial Statements (Unaudited)

Income Statement

Amount in NOK thousands	Notes	Q4 2019	Q4 2018	YTD 2019	YTD 2018
Interest income		20 336	17 377	75 515	57 045
Interest expense		-3 081	-3 471	-14 773	-11 044
Net interest income		17 255	13 906	60 742	46 000
Commissions and fee income		39	104	385	158
Extraordinary fee income from software sales		-	-	-	2 820
Commissions and fee expense		-2 756	-3 365	-17 819	-14 569
Net other income		-2 717	-3 261	-17 434	-11 592
Total operating income		14 538	10 645	43 308	34 409
Income (loss) from trading activities		199	158	944	1 318
Staff costs		-5 080	-5 128	-21 606	-15 487
Other administrative expenses		-6 118	-7 651	-21 721	-23 598
Other operating costs		-2 365	-1 748	-8 667	-6 430
Total operating costs	4	-13 365	-14 369	-51 050	-44 196
Operating profit (Loss) before loan impairments		1 173	-3 724	-7 742	-9 787
Loan losses	2	-9 557	-4 689	-40 201	-42 004
Profit (Loss) before tax		-8 384	-8 413	-47 943	-51 791
Tax		-2 096	-2 103	-11 986	-12 948
Profit (loss) for the period		-6 288	-6 310	-35 957	-38 804

Balance Sheet

	Note	31.12.2019	31.12.2018
<u>Assets</u>			
Cash and central bank deposits		30 295	25 016
Loans to, and deposits at, credit institutions		67 934	63 227
Net loans to customers	2, 3,	658 051	636 596
Total loans		756 280	724 839
Short term financial investments		64 141	105 141
Other intangible assets incl. deferred tax		54 607	44 792
<i>of which deferred tax asset</i>		-30 967	-19 021
Prepaid agent commissions		21 337	24 191
Fixed assets		54	69
Other assets		9 749	7 563
Receivables, prepayments and accrued income		2 050	735
Total other assets		151 938	182 491
Total assets		908 218	907 330
<u>Liabilities</u>			
Deposits from customers		708 528	695 220
Accounts payable		9 864	9 880
Total liabilities		718 392	705 100
<u>Equity</u>			
Share capital		282 702	259 151
Earlier retained earnings		-56 918	-56 921
This years retained earnings		-35 958	
Total equity	5	189 826	202 231
Total liabilities and equity		908 218	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>	31.12.2019	30.09.2019	30.06.2019	31.03.2019	31.12.2018
Loans to customers	675,0	664,8	644,3	690,4	646,6
of which consumer loans	440,1	520,1	581,9	657,0	645,1
of which mortgage loans	234,9	144,7	62,4	33,4	1,5
Provision for impairment losses	-16,9	-15,1	-14,5	-12,0	-10,0
of which consumer loans	-15,8	-14,7	-14,5	-12,0	-10,0
of which mortgage loans	-1,1	-0,4	-	-	-
Net loans to customers	658,1	649,7	629,8	678,4	636,6

Provisions for impairments on groups of loans

<i>Amounts in NOK millions</i>	31.12.2019	30.09.2019	30.06.2019	31.03.2019	31.12.2018
Provisions at the beginning of the period	15,1	14,5	12,0	10,0	10,2
Provisions during the period	9,6	9,5	11,6	8,8	6,2
Loans written off forward flow	-7,3	-7,8	-9,1	-6,8	-6,4
Amounts recovered from previous	-	-	-	-	-
Write-offs individual loans	-0,5	-1,0	-	-	-
Provisions at the end of the period	16,9	15,1	14,5	12,0	10,0

Note 3 Non-performing loans

Non-performing and doubtful loans

Consumer loans

<i>Amounts in NOK millions</i>	Q4 19	Q3 19	Q2 19	Q1 19
Gross non-performing and doubtful loans	54,7	45,9	54,7	52,8
Individual write-downs	-13,4	-12,3	-12,2	-9,3
Provisions for write-downs	-3,6	-2,5	-2,0	-2,7
Net non-performing and doubtful loans	37,7	31,2	40,5	40,8

Mortgage loans

<i>Amounts in NOK millions</i>	Q4 19	Q3 19	Q2 19	Q1 19
Gross non-performing and doubtful loans	9,2	5,6	3,0	0,0
Individual write-downs	-0,7	0,0	0,0	0,0
Provisions for write-downs	-0,4	-0,4	0,0	0,0
Net non-performing and doubtful loans	8,1	5,2	3,0	0,0

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 consumer loans which are more than 180 days past due (with some minor exclusions). Mortgage loans past due are handled on a case-by-case basis and are not sold as part of the agreement.

Loans categorised by days past due

Consumer loans

<i>Amounts in NOK millions</i>	1 - 30 days	31 – 60 days	61 – 90 days	91+ days	Total portfolio
31.03.2019	55,4	32,2	23,2	29,5	661,1
30.06.2019	31,8	22,6	22,7	31,9	585,3
30.09.2019	41,6	28,4	15,3	36,2	523,1
31.12.2019	29,7	30,3	19,3	35,4	442,4

Note: Total portfolio in this table includes pre-paid fees which are amortised over the expected life of the loan.

Mortgage loans

<i>Amounts in NOK millions</i>	1 - 30 days	31 – 60 days	61 – 90 days	91+ days	Total portfolio
31.03.2019	3,0				34,6
30.06.2019	4,6			3,1	64,6
30.09.2019	24,7	1,0	1,1	3,5	149,7
31.12.2019	34,9	2,3	0,1	9,1	243,6

Note: Total portfolio in this table includes pre-paid fees which are amortised over the expected life of the loan.

Note 4 Operating costs excluding depreciation

	2019				2018
<i>Amounts in NOK millions</i>	Q4	Q3	Q2	Q1	Q4
Personnel expenses	5,1	8,0	3,9	4,7	5,1
Property, plant and equipment	0,5	0,3	0,5	0,4	0,6
External fees/services	4,8	5,1	4,4	2,3	7,6
Travel expenses	0,7	0,1	0,2	0,3	0,4
Sales and advertising	0,4	1,0	0,3	0,0	0,3
IT and other expenses	2,1	1,9	1,9	3,2	0,3
Non-personnel operating expenses	8,5	8,4	7,3	6,2	9,1

Note 5 Capital adequacy

<i>Amounts in NOK millions</i>	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Share capital	47,5	47,6	47,5	23,8	23,8
Share premium reserve	232,9	232,9	232,9	232,9	232,9
Retained earnings	-90,7	-84,4	-71,9	-61,5	-51,7
Deduction of intangible assets	-52,6	-49,8	-42,3	41,3	43,0
Core equity tier 1 capital	137,1	146,2	166,2	153,8	158,8

Additional tier 1 capital instruments					0,0
Tier 1 capital	137,1	146,2	166,2	153,8	158,8

Subordinated loans					0,0
Tier 2 capital	137,1	146,2	166,2	153,8	158,8

Capital requirements					
<i>Amounts in NOK 1000s</i>	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Institutions	13,6	14,1	13,9	17,2	12,6
Unsecured loans to retail customers	447,1	508,3	570,6	649,0	635,1
Secured by mortgages	85,0	56,5	22,6	11,0	0,5
Collective investments undertakings	2,6	2,7	2,6	2,8	2,8
Other	35,2	30,2	42,1	29,6	34,3
Operational risk	49,4	49,4	49,4	49,4	20,7
Total risk-weighted assets	633,0	661,2	701,2	759,1	706,0

Core equity tier 1 capital ratio	21,7 %	22,1 %	23,7 %	20,3 %	22,5 %
Tier 1 capital ratio	21,7 %	22,1 %	23,7 %	20,3 %	22,5 %
Capital ratio	21,7 %	22,1 %	23,7 %	20,3 %	22,5 %
Liquidity Coverage Ratio (LCR):	738,0 %	694,0 %	833,0 %	859,0 %	860,0 %

Note 6 Major shareholders

Twenty largest shareholders as of 31.12.2019.

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	Nordnet Bank AB	20 713 592	5,00	Yes	
5	SEB LIFE INTERN ASSUR COMPANY DAC	19 654 992	4,75		
6	DOBER AS	17 500 532	4,23		
7	J AANERØD & SØNN AS	16 955 000	4,09		
8	DAIMYO AS	15 000 000	3,62		
9	BIMO KAPITAL AS	14 000 000	3,38		
10	ATOM INVEST AS	13 333 333	3,22		
11	SILVER & GOLD AS	12 000 000	2,90		
12	JUUL-VADEM HOLDING AS	11 558 681	2,79		
13	Swedbank AB	10 167 356	2,46	Yes	
14	NORDIC PROPERTY HOLDING AS	10 000 000	2,41		
15	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	GJERSVIK	4 904 925	1,18		
20	ØSTERLUND INVEST AS	4 180 000	1,01		

MyBank
Enebakkveien 133
0680 Oslo
Norway

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