MyBank ASA

Quarterly Report

Q4 2018

Summary of the Quarter

- The bank had to reclassify its consumer loans from a risk weighting of 75% to 100% following a decision by the NFSA. MyBank has not contested the decision and will use the higher risk weighting until at least 2020. As a result, the bank's capital adequacy ratios have been significantly reduced.
- As a result of the change in risk weight classification, MyBank has during the fourth quarter undertaken an operational review and capital structure assessment to ensure it is able to fulfil its regulatory requirements. The bank is looking to raise NOK 25 million in equity during the first quarter of 2019 and likely further equity or AT1/T2 during the 2nd half of 2019.
- Growth in unsecured loans has been reduced, and the planned launch of "restart loans" (mortgages with higher interest rates, offered to customers with payment remarks or poor credit history) has been accelerated and will constitute a high proportion of future lending. Growth in net loans was NOK 35.0 million in Q4 2018, compared to NOK 120.9 million in Q3 2018. New loans paid out to customers was NOK 115 million in Q4 2018 compared to NOK 198.5 million in Q3 2018.
- Operating costs were NOK 14.6 million in Q4 2018, up 48% from NOK 9.7 million in Q3 2018. The increase includes approximately NOK 1.6 million in one-off costs to external advisors as part of the operational review and capital structure assessment, and a reduction of NOK 1 million in income from the bank's liquidity portfolio. MyBank has identified NOK 6.8 million in costs for 2018 which will not recur in 2019, and has initiated further cost cuts which are expected to be effective throughout 2019.
- Total loan losses including changes to provisions were NOK 4.7 million (Q3: NOK 8.5 million), which corresponds to 0.74% of total net loans outstanding (Q3: 1.42%) or 2.9% annualized (Q3: 6.3%).
    - The bank's NPL portfolio, defined as loans that are more than 90 days past due, was NOK 25.3m (Q3: 25.8m)
    - The bank's doubtful loans amounted to NOK 14.5m in the quarter, corresponding to 2.2% of gross loans (Q3: 12.3m or 2.0%).
    - The bank's coverage ratio, defined as loan loss provisions in per cent of non-performing loans was 39.6% (Q3: 39.5%).
    - Loan loss provisions in per cent of gross loans amounted to 1.6% (Q3: 1.7%).

Comments from the CEO

“The decision by the NFSA to reject MyBank’s reclassification of the consumer loan portfolio as mass market exposures (and so reduce its risk weight from 100% to 75%) 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 structure assessment.

This review has confirmed our belief that we should leverage the model we have built for consumer loans to service the growing market for refinancing of mortgages to customers with payment remarks or poor credit history, which was part of our business plan from the start. 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.

Under the supervision of our new Chief Credit Officer, we finalised development of two new and improved credit scoring models. Firstly, a new model for calculating applicants’ disposable income was implemented in December and is a solid improvement on previously available models. It will improve pre-scoring and reduce the cost of scoring applicants who in any case would not be granted loans, and ensure automated and scalable compliance with the new guidelines.

Secondly, a new scorecard was developed together with Lindorff, using our database of applications screened against their debt collection database. The new model 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. We expect that this will play a key part as we continue to work towards profitability in 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 bank now has the right organisational structure and size to grow into quarterly profitability in late 2019. The new operating model will also contribute to further improving the quality of the portfolio, which has seen loan losses starting to normalise.”

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.

Financial Information for Q4

The bank maintained stable loan growth combined with further improvement of overall credit risk. Growth in net loans was NOK 35.0m, net of NOK 26.5 million in non-performing loans which were sold as part of the company's forward flow agreement, a reduction of NOK 86 million from the previous quarter. Gross new loans to customers paid out during the quarter was NOK 115 million.

MyBank ASA recorded net interest income of NOK 13.9 million during the quarter. The bank had operating expenses of NOK 14.6 million for the quarter, of which NOK 5.1 million were staff costs and NOK 7.6 million were other administrative costs. Administrative costs increased from NOK 4.1 million in Q3, largely as a result of one-off costs to external advisors during the operational review and capital structure assessment.

As of the end of the quarter, the bank had made gross loans to customers of NOK 646.6 million and taken deposits of NOK 705 million.

The bank's liquidity position was NOK 190 million., (compared to NOK 188 million in the previous quarter).

Loan losses

Total loan losses (including changes to provisions and write-downs of disposed-of loans) were NOK 4.7 million for the quarter, representing 0.74% of net loans at the end of the quarter (0.78% of net loans at the beginning of the quarter). Provisions represent 39.6% of non-performing loans, which is considered to be an appropriate level given the bank's forward flow agreement.

Retail exposures and capital ratios

The bank had to reclassify its loan portfolio from a risk weighting of 75% (for mass market exposures) to 100% following a decision by the NFSA. MyBank has not contested the decision and will use the higher risk weighting until at least 2020. This represents a change in practice from the Financial Supervisory Authority of Norway (Finanstilsynet), which now states that all new banks will be required to maintain 100% risk-weighting on loan portfolios for the first three years of operations.

MyBank adopted mass market weighting of its loan portfolio in Q3 2018, following a decision by the company's Board of Directors. The adoption followed Norwegian capital adequacy regulations (Kapitalkravforskriften §5-8) and the conditions outlined in MyBank's banking license. As a result, risk-weighting of 75% was reflected in the bank's Q3 2018 report.

As of this report, MyBank has reverted to 100% risk weighting of its loan portfolio, which will result in reduced capital adequacy ratios. Restated ratios for Q3 can be found in Note 5 of this report.

MyBank has received a request from the NFSA for the bank's ICAAP and additional information as part of the SREP process. 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 the balance sheet date

Following the abovementioned decision by the NFSA, the bank has accelerated the process of raising additional equity to ensure continued compliance with capital adequacy requirements. Following a consultation with shareholders on an initial proposal of a NOK 50 million equity issue, the bank has revised its growth and capital forecasts. MyBank will now seek to raise NOK 25 million through a private placement to existing and new investors in the course of the first quarter.

The bank's launch of restart loans has proceeded according to plan, and as of February 26th had made NOK 31.4 million to customers.

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 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, 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.

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, 26 February 2019

The MyBank Board of Directors

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Tom Knoff	Knut Einar Rishovd
Chairman of the Board	Board Member
_____________________________	_____________________________
Beate Nygårdshaug	Marit Lambrechts
Board Member	Board Member
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Paal E Johnsen	Christen Fredriksen
Board Member	CEO

Financial Statements (Unaudited)

Income Statement

Amount in NOK thousands	Notes	Q4 2018	Q3 2018	YTD 2018
Interest income		17 377	15 602	57 045
Interest expense		-3 471	-3 291	-11 044
Net interest income		**13 906**	**12 310**	**46 000**
Commissions and fee income		104	58	158
Extraordinary fee income from software sales		0	2 820	2 820
Commissions and fee expense		-3 365	-5 108	-14 569
Net other income		**-3 261**	**-2 231**	**-11 591**
Total operating income		**10 645**	**10 079**	**34 409**
Income (loss) from trading activities		158	1 163	1 318
Staff costs		-5 128	-4 427	-17 120
Other administrative expenses		-7 651	-4 148	-23 854
Other operating costs		-1 748	-2 309	-6 489
Total operating costs	4	**-14 369**	**-9 722**	**-46 144**
Operating profit (Loss) before loan impairments		**-3 724**	**357**	**-11 408**
Loan losses	2	-4 689	-8 533	-42 004
Profit (Loss) before tax		**-8 413**	**-8 176**	**-53 739**
Tax		-2 103	-2 044	-13 435
Profit (loss) for the period		**-6 310**	**-6 132**	**-40 304**

Balance Sheet

	Note	31.12.2018	30.09.2018	31.12.2017
Assets				
Cash and central bank deposits		25 016	25 000	0
Loans to, and deposits at, credit institutions		63 228	58 192	76 044
Net loans to customers	2, 3, 4	636 596	600 972	226 328
Total loans		**724 839**	**684 165**	**302 372**
Short term financial investments		105 141	104 996	180 431
Other intangible assets incl. deferred tax		43 081	32 159	19 995
Prepaid agent commissions		25 894	17 332	6 551
Other assets		6 057	17 987	0
Receivables, prepayments and accrued income		735	19 597	927
Total other assets		**180 909**	**174 084**	**207 904**
Total assets		**905 748**	**858 249**	**510 276**
Liabilities				
Deposits from customers		695 220	653 473	270463
Accounts payable		9 553	9 067	4597
Total liabilities		**704 772**	**662 540**	**275060**
Equity				
Share capital		241 035	241 035	256 717
Retained earnings		-40 059	-45 326	-21 501
Total equity	5	**200 976**	**195 708**	**235 216**
Total liabilities and equity		**905 748**	**858 249**	**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

Amounts in NOK millions	31.12.2018	30.09.2018	30.06.2018	30.03.2018	31.12.2017
Loans to customers	646.6	611.14	490.2	369.5	231.8
Provision for impairment losses	-10.02	-10.16	-10.2	-9.4	-5.5
Net loans to customers	636.6	601.0	480.0	360.1	226.3

Provisions for impairments on groups of loans	31.12.2018	30.09.2018	30.06.2018	30.03.2018	31.12.2017
Provisions at the beginning of the period	10.16	10.2	9.4	5.5	0.9
Provisions during the period	6.22	8.53	24.9	3.8	4.6
Loans written off	-6.36	-8.57	-24.1	-	-
Amounts recovered from previous write-offs	-	-	-	-	-
Provisions at the end of the period	10.02	10.16	10.2	9.4	5.5

Note 3 Non-performing loans

Non-performing and doubtful loans

Amounts in NOK millions	Q4 18	Q3 18	Q2 18	Q1 18	Q4 17
Gross non-performing and doubtful loans	39.7	38.2	52.9	54.3	30.2
Individual write-downs	-8.0	-8.1	-8.0	-7.3	-4.6
Provisions for write-downs	-2.0	-2.0	-2.2	-2.1	-0.9
Net non-performing and doubtful loans	29.7	28.1	42.7	44.9	24.7

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 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

Note 4 Operating costs excluding depreciation

	2018				2017		
Amounts in NOK millions	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Personnel expenses	5.1	4.4	3.7	3.9	3.7	3.8	2.7
Property, plant and equipment	0.6	0.5	1.2	0.5	0.4	0.4	0.5
External fees/services	7.6	4.3	3,8	2.9	4.0	1.8	1.0
Travel expenses	0.4	0.2	0.4	0.3	0.5	0.2	0.2
Sales and advertising	0.3	0.0	0.2	0.1	0.3	0.1	0.1
Other expenses	0.3	0.3	1.9	1.8	1.0	0.4	0.4
Non-personnel operating expenses	9.1	5.3	7,5	5.7	6.2	2.9	2.2

Note 5 Capital adequacy

Amounts in NOK millions	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Share capital	23.8	23.8	23.8	23.8	23.8
Share premium reserve	232.9	232.9	232.9	232.7	232.7
Retained earnings	-69.6	-61.2	-53.0	-23.3	-16.1
Deduction of intangible assets	29.7	32.1	26.0	37.9	26.5
Core equity tier 1 capital	157.2	163.2	177.6	195.5	213.9
Additional tier 1 capital instruments	0	0	0	0	0
Tier 1 capital	157.2	163.2	177.6	195.5	213.9
Subordinated loans	0	0	0	0	0
Tier 2 capital	157.2	163.2	177.6	195.5	213.9

Capital requirements *Amounts in NOK 1000s*	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Institutions	12.6	11.6	10.1	10.2	15.2
Unsecured loans to retail customers	635.6	600.9	480.4	318.1	215.8
Collective investments undertakings	2.8	2.7	3.2	7.1	8.1
Other	32.7	17.3	54.3	41.3	24.8
Operational risk	20.7	20.7	20.7	19.7	19.7
Total risk-weighted assets	704.4	653.2	568.7	396.4	283.6
Core equity tier 1 capital ratio	22.3 %	25.0 %	30.3 %	46.9 %	75.4 %
Tier 1 capital ratio	22.3 %	25.0 %	30.3 %	46.9 %	75.4 %
Capital ratio	22.3 %	25.0 %	30.3 %	46.9 %	75.4 %

MyBank
Enebakkveien 133
0680 Oslo
Norway

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