MyBank

MyBank ASA

Quarterly Report
Q3 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 144.7 million, and the good growth has continued into Q4. As of the reporting date the bank had lent NOK 173 million. The bank therefore expects to meet the year-end target portfolio of NOK 250.0 million.
- 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 were NOK 15.9 million, up 42.0% from NOK 11.2 million in the previous quarter. The increase comes from further one-off restructuring costs, temporary staffing, and marketing expenses to grow the mortgage portfolio in a rapid but controlled manner. All costs related to change of key personnel have now been provided for.
- Total loan losses including changes to provisions were NOK 10.1 million (previous quarter: NOK 11.6 million), which corresponds to 1.56% of total net loans outstanding (previous quarter: 1.84%) or 6.24% annualized (previous quarter: 7.36%).
    - The bank's non-performing loans portfolio, defined as loans that are more than 90 days past due, was NOK 36.2 million (previous quarter: NOK 35.0 million). Of this, NOK 4.5 million are mortgage loans.
    - The bank's doubtful loans amounted to NOK 15.3 million in the quarter, corresponding to 2.30% of gross loans (previous quarter: 22.7 million or 3.52%). Of this, NOK 1.1 million are mortgage loans.
    - Loan loss provisions in per cent of gross loans amounted to 2,28% (previous quarter: 2.25%). The bank's coverage ratio, defined as loan loss provisions in per cent of non-performing loans, was 41.8% (previous quarter: 41.4%).
    - Sale forward flow consumer loans for Q3 was NOK 30.5 million.

Key Performance Indicators	
Net interest income YTD (MNOK)	43,5
Net loans to customers (MNOK)	649,7
Total assets (MNOK)	909,0
Core equity tier 1 capital (MNOK)	146,2
Deposit to loan ratio	108 %
Operating cost % of net interest income (Q3)	114 %
Liquidity coverage ratio	694 %
NSFR	127 %
Profit per share YTD (after tax) (NOK)	-0,10
Equity per share (NOK)	0,47

Comments from the CEO

"The third quarter was a turning point for MyBank. We have shown 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 boosted our lending volumes, despite only having two full-time credit officers. We have welcomed our new Chief Credit Officer, Marius Matatula, who has extensive experience in this specialized product. Our new Risk Manager, Cathrine Dalen, has already taken steps to ensure we remain in control of our cost of risk, and that we remain compliant with all the relevant guidelines and regulations.

We have implemented a new, low-cost front end to enable us to reuse the automated systems we have developed for consumer loans. We have brought onboard more agents specialising in restart mortgages, many of whom have seized the opportunity to integrate their systems with our new front end – reducing manual intervention for us, and reducing the time to a solution for their clients' problems.

Many of the new agents were added late in the quarter, and therefore did not contribute significantly to our lending run-rate in the quarter. They are now beginning to deliver good applications in significant volumes. Combined with further process improvements made in our operations, this makes us confident that we can deliver on our planned lending volume for 2019.

The bank's financial performance for the quarter reflects a number of one-off charges and costs incurred as part of the restructuring process. There are no further such costs expected, and the administration remains focused on cost control while building up the new business area."

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

Growth in net loans to customers was NOK 19.8 million during the quarter. As a part of the company's forward flow agreement, NOK 30.5 million was sold, compared to NOK 34.8 million in the previous quarter. Gross new consumer loans paid out to customers during the quarter was NOK 11.4 million compared to NOK 16.3 million in the previous quarter. New mortgage loans paid out to customers during the quarter was NOK 89.3 million compared to NOK 30.0 million in the previous quarter.

MyBank ASA recorded net interest income of NOK 14.0 million during the quarter. The bank had operating expenses of NOK 15.9 million for the quarter, of which NOK 8.0 million were staff costs and NOK 6.9 million were other administrative costs. One-off restructuring costs amounted to NOK 3.2 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 664.8 million, of which NOK 144.7 million in restart loans and NOK 520.1 million in consumer loans. Gross deposits were NOK 701.0 million.

The bank's liquidity position was NOK 179.3 million (compared to NOK 209.7 million in the previous quarter).

Loan losses

Total loan losses (including changes to provisions and write-downs of disposed-of loans) were NOK 10.1 million for the quarter, representing 1.56% of net loans at the end of the quarter (or 1.94% 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 41,8% 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.

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. It is expected that the bank's pillar 2 requirements will in the future be increased 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 "restart 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 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.

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 "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 approximately 19%. This may require the bank to raise new capital, most likely both equity and additional tier-1 and tier 2 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.

Oslo, 30 October 2019

The MyBank Board of Directors

Tom Knoff

Chairman of the Board

Tone Haugland

Board Member

Paal E Johnsen

Board Member

Knut Einar Rishovd

Board Member

Cathrine G Kjeldsberg

Board Member

Jakob Bronebakk

CEO (interim)

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Financial Statements (Unaudited)

Income Statement

Amount in NOK thousands	Notes	Q3 2019	Q3 2018	YTD 2019	YTD 2018	2018
Interest income		17 921	15 602	55 179	39 667	57 045
Interest expense		-3 911	-3 291	-11 692	-7 573	-11 044
Net interest income		**14 010**	**12 310**	**43 487**	**32 094**	**46 000**
Commissions and fee income		105	58	346	54	158
Extraordinary fee income from software sales		-	2 820	-	2 820	2 820
Commissions and fee expense		-4 723	-5 108	-15 063	-11 203	-14 569
Net other income		**-4 618**	**-2 231**	**-14 717**	**-8 330**	**-11 591**
Total operating income		**9 392**	**10 079**	**28 770**	**23 764**	**34 409**
Income (loss) from trading activities		491	1 163	746	1 160	1 318
Staff costs		-7 964	-4 427	-16 526	-11 992	-15 487
Other administrative expenses		-6 913	-4 148	-15 603	-16 202	-23 598
Other operating costs		-1 530	-2 309	-6 302	-4 741	-6 430
Total operating costs	4	**-15 916**	**-9 722**	**-37 685**	**-31 776**	**-44 196**
Operating profit (Loss) before loan impairments		**-6 523**	**357**	**-8 915**	**-8 011**	**-9 787**
Loan losses	2	-10 148	-8 533	-30 644	-37 315	-42 004
Profit (Loss) before tax		**-16 671**	**-8 176**	**-39 559**	**-45 326**	**-51 791**
Tax		-4 168	-2 044	-9 890	-11 332	-12 948
Profit (loss) for the period		**-12 503**	**-6 132**	**-29 669**	**-33 995**	**-38 804**

Balance Sheet

	Note	30.09.2019	30.09.2018	31.12.2018
Assets				
Cash and central bank deposits		30 196	0	25 016
Loans to, and deposits at, credit institutions		70 424	83 192	63 227
Net loans to customers	2, 3, 4	649 660	600 972	636 596
Total loans		**750 280**	**684 165**	**724 839**
Short term financial investments		78 701	104 996	105 141
Other intangible assets incl. deferred tax		49 830	32 159	44 792
of which deferred tax asset		*-28 871*	*-17 366*	*-19 021*
Prepaid agent commissions		24 706	17 332	24 191
Fixed assets		59	0	69
Other assets		3 161	0	7 563
Receivables, prepayments and accrued income		2 238	19 597	735
Total other assets		**158 695**	**174 084**	**182 491**
Total assets		**908 975**	**858 249**	**907 330**
Liabilities				
Deposits from customers		701 032	653 473	695 220
Accounts payable		11 535	9 067	9 880
Total liabilities		**712 567**	**662 540**	**705 100**
Equity				
Share capital		282 996	241 035	259 151
Earlier retained earnings		-56 918	-45 326	-56 921
This years retained earnings		-29 669		
Total equity	5	**196 408**	**195 708**	**202 231**
Total liabilities and equity		**908 975**	**858 249**	**907 330**

MyBank

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	30.09.2019	30.06.2019	31.03.2019	31.12.2018
Loans to customers	664,8	644,3	690,4	646,62
of which consumer loans	520,1	581,9		
of which mortgage loans	144,7	62,4		
Provision for impairment losses	-15,1	-14,5	-12,0	-10,02
of which consumer loans	-14,7	-14,5		
of which mortgage loans	-0,4	-		
Net loans to customers	649,7	629,8	678,4	636,6

Provisions for impairments on groups of loans

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

Note 3 Non-performing loans

Non-performing and doubtful loans

Consumer loans

Amounts in NOK millions	Q3 19	Q2 19	Q1 19	Q4 18
Gross non-performing and doubtful loans	45,9	54,7	52,8	39,7
Individual write-downs	-12,3	-12,2	-9,3	-8,0
Provisions for write-downs	-2,5	-2,0	-2,7	-2,0
Net non-performing and doubtful loans	31,2	40,5	40,8	29,7

Mortgage loans

Amounts in NOK millions	Q3 19	Q2 19	Q1 19	Q4 18
Gross non-performing and doubtful loans	5,6	3,0	0,0	0,0
Individual write-downs	0,0	0,0	0,0	0,0
Provisions for write-downs	-0,4	0,0	0,0	0,0
Net non-performing and doubtful loans	5,2	3,0	0,0	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

Amounts in NOK millions	1 - 30 days	31 – 60 days	61 – 90 days	91+ days	Total portfolio
31.12.2018	40,9	24,5	14,5	25,3	649,2
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

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

Mortgage loans

Amounts in NOK millions	1 - 30 days	31 – 60 days	61 – 90 days	91+ days	Total portfolio
31.12.2018	1,5				1,5
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

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

Note 5 Capital adequacy

Amounts in NOK millions	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Share capital	47,6	47,5	23,8	23,8	23,8
Share premium reserve	232,9	232,9	232,9	232,9	232,9
Retained earnings	-84,4	-71,9	-61,5	-51,7	-61,2
Deduction of intangible assets	-49,8	-42,3	41,3	43,0	32,1
Core equity tier 1 capital	146,2	166,2	153,8	158,8	163,2
Additional tier 1 capital instruments				0,0	0,0
Tier 1 capital	146,2	166,2	153,8	158,8	163,2
Subordinated loans				0,0	0,0
Tier 2 capital	146,2	166,2	153,8	158,8	163,2

Capital requirements

Amounts in NOK 1000s	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Institutions	14,1	13,9	17,2	12,6	11,6
Unsecured loans to retail customers	508,3	570,6	649,0	635,1	600,9
Secured by mortgages	56,5	22,6	11,0	0,5	
Collective investments undertakings	2,7	2,6	2,8	2,8	2,7
Other	30,2	42,1	29,6	34,3	17,3
Operational risk	49,4	49,4	49,4	20,7	20,7
Total risk-weighted assets	661,2	701,2	759,1	706,0	653,2
Core equity tier 1 capital ratio	22,1 %	23,7 %	20,3 %	22,5 %	25,0 %
Tier 1 capital ratio	22,1 %	23,7 %	20,3 %	22,5 %	25,0 %
Capital ratio	22,1 %	23,7 %	20,3 %	22,5 %	25,0 %
Liquidity Coverage Ratio (LCR):	694 %	833 %	859 %	860 %	923 %

MyBank

Note 6 Major shareholders

Twenty largest shareholders as of 30.9.2019.

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	JUUL-VADEM HOLDING AS	21 654 503	5,23		
5	Nordnet Bank AB	20 713 592	5,00	Yes	
6	SEB LIFE INTERN ASSUR COMPANY DAC	20 254 992	4,89		
7	DOBER AS	17 500 532	4,23		
8	J AANERØD & SØNN AS	16 955 000	4,09		
9	DAIMYO AS	15 000 000	3,62		
10	BIMO KAPITAL AS	14 000 000	3,38		
11	ATOM INVEST AS	13 333 333	3,22		
12	Swedbank AB	10 167 356	2,46	Yes	
13	NORDIC PROPERTY HOLDING AS	10 000 000	2,41		
14	NORDIC FRONTIER AS	10 000 000	2,41		
15	KG INVESTMENT COMP AS	6 900 000	1,67		
16	GRAFFA AS	6 180 000	1,49		
17	DATSUN AS	5 098 307	1,23		
18	GJERSVIK	4 904 925	1,18		
19	ØSTERLUND INVEST AS	4 180 000	1,01		
20	CMD AS	4 079 166	0,99		

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