



# INSTABANK ASA

INTERIM REPORT 1H & Q2 2017

# INTERIM REPORT 1H & Q2-17

## Key highlights & developments



### Profitability

Positive result of 1.2 MNOK, within the bank's third full quarter of operations.



### Loan Growth

Continued high loan growth exceeding initial plans.



### Geographical Expansion

Started project to launch in the Finnish market in early 2018.



### Credit Risk Management

Well balanced and diversified risk profile. Loan portfolio classified as mass market engagements as of July 1st with a risk weight of 75 % going forward.



### Product Offering

Developed a range of insurance products (i.e. car, house, household contents, travel etc.) in cooperation with Troll Forsikring (launched July 6th).



# We think like you.

## INTERIM REPORT 1H & Q2 2017

### About Instabank ASA

Instabank is a new Norwegian digital bank with offices in Oslo, Norway. Instabank ASA was granted a banking license by The Financial Supervisory Authority of Norway (Finanstilsynet) on September 19th, 2016. On September 23rd, 2016, the bank opened for business.

Instabank has a vision to deliver the best user experience in our market and to simplify banking services. We aim to help our customers achieve both large and small ambitions. Our market promise is: "Vi tenker ikke som en bank, vi tenker som deg" (we don't think like a bank, we think like you).

The bank project began on the 1st of March, 2016 under the registered business name ACE Prosjekt ASA. It took just over six months from the start of the project until the bank was launched. The ability to quickly grasp opportunities, make fast decisions and immediately implement changes runs consistently through the bank's platform and culture. At the end of Q2, Instabank had 19 full-time and 4 part-time employees.

Instabank offers competitive savings, insurance, and unsecured loan products to consumers who qualify after a credit evaluation. The loan product is designed to be highly customisable in order to match the consumer's preferences. Customers can choose a payment plan that ranges from three to 15 years, or alternatively opt for a fully flexible option, where they can choose the tempo at which they repay the loan.

The bank's products and services are distributed primarily through the bank's website and via agents. At the end of the Q2, the bank had distribution through eight agents as well as through our own website and marketing mix.

Instabank is a member of "Bankenes Sikringsfond", which secures all deposits up to two million kroner. Instabank is primarily owned by Norwegian investors. There are no individual shareholders owning more than 10% of the bank.



## Developments

The bank's marketing and operations teams have continued to function very well, with a strong focus on direct distribution combined with loan agents. New insurance products have been developed and launched during the quarter in cooperation with Troll Forsikring, aiming at broadening our product offering (launched July 6th).

During the second quarter, the bank announced plans to launch in Finland in early 2018.

The bank has initiated activities to comply with the recent guidelines issued by The Financial Supervisory Authority of Norway, Finanstilsynet. Both loan and savings volume have exceeded plans made during the project phase. At the end of Q2, the bank had 4 990 loan customers and 1 480 deposit customers.

## Income Statement

In Q2, the bank achieved a net interest income of 17.7 MNOK, other net income of 6 MNOK, operating expenses of 18.8 MNOK and a profit after tax of 1.2 MNOK.

In Q2, the bank wrote-off 3.3 MNOK in loan losses, in line with expectations.

## Balance Sheet

Total assets at the end of Q2 were 1 010.9 MNOK. Loans to customers before write-offs amounted to 797.7 MNOK (787.4 MNOK after 10.3 MNOK in write-offs).

Liquidity amounted to 181.5 MNOK. Customer deposits amounted to 760.1 MNOK. Total equity amounted to 234.9 MNOK.

## Future outlook

The Norwegian economy appears to be stable. There have been no significant changes during the last quarter which are seen to influence the ability or expectation for private households to fulfil loan obligations. Interest rates are expected to remain at the low level we have seen for some time. GDP growth in first quarter of 2017 was stronger than last year, and unemployment seems to have peaked as the unemployment rates have dropped from its highest levels.

Competition in Norway is expected to cause some pressure on interest margins, particularly within the agent channel. There is still considerable focus on developments in Norwegian household borrowing and especially when it comes to consumer loans. New guidelines and further regulation of the consumer loan sector have been introduced by the regulators.

Instabank believes that better regulation of the industry is positive. The bank is dedicated to remaining highly informed regarding current and future regulations, and to using available channels to ensure that regulations do not distort competition within the market. Proposed new guidelines and regulations will affect the market for consumer loans in Norway. However, we still believe there will be room to grow volume and profitability according to our plans.

Geographical expansion has been part of the bank's plans ever since its inception. In order to ensure continued strong development in volume and profitability, these plans have been accelerated. A project to enter the Finnish market has been launched and the goal is to start lending operations in Finland early next year.

In Q3, additional actions will be taken within the bank's marketing and operational set-up to provide a basis for strong growth in loan volume. Our focus on distribution will still be the number one strategic, tactical and operational focus in the quarter. It is likely that growth will meet or surpass forecasts communicated to the market prior to now. It is also expected that defaults and losses will increase in line with the bank's increased loan volume and in line with expectations.

The bank's liquidity and capital situation is expected to remain at a satisfactory level in the future. It should be noted that there is typically uncertainty related to assessments of future conditions. The team will continuously evaluate new products and distribution channels that can supplement the bank's current platform. For information relating to capital requirements and liquidity coverage ratio, refer to the notes.

The Board of Directors have determined that the portfolio of consumer loans as of July 1st fulfils the requirements for classification as mass market engagements outlined in the Capital Adequacy Regulation § 5-8. From this date on the loan portfolio will therefore be subject to a risk weight of 75 %, down from the previous 100 % risk weight. The Financial Supervisory Authority has been notified in accordance to the conditions in the banking license granted in June 2016.

The accounting profit for Q2 is entirely pre-disposed against retained earnings.

The presented figures are not audited by the company's external auditor.

Oslo, August 10th, 2017  
Instabank ASA, Board of Directors

# INCOME STATEMENT

Amounts in NOK 1 000	Q2-2017	1H-2017	2016	Q2-2016	1H-2016
Interest income	20 939	32 045	3 147	25	26
Interest expenses	3 235	5 426	505	0	0
<b>Net interest income</b>	<b>17 703</b>	<b>26 620</b>	<b>2 641</b>	<b>25</b>	<b>26</b>
Income commissions and fees	6 867	14 066	3 985	0	0
Expenses commissions and fees	1 696	2 733	311	0	0
Net gains/loss on foreign exchange and securities classified as current assets	867	808	-188	0	0
<b>Net other income</b>	<b>6 038</b>	<b>12 141</b>	<b>3 487</b>	<b>0</b>	<b>0</b>
<b>Total income</b>	<b>23 741</b>	<b>38 761</b>	<b>6 128</b>	<b>25</b>	<b>26</b>
Salary and other personnel expenses	5 217	10 199	12 368	1 326	1 763
Other administrative expenses, of which:	12 278	21 900	14 831	1 510	1 562
- <i>direct marketing cost</i>	9 671	15 695	6 414	0	0
Depreciation and amortisation	617	1 194	624	10	10
Other expenses	693	1 456	1 240	163	166
<b>Total operating expenses</b>	<b>18 804</b>	<b>34 748</b>	<b>29 062</b>	<b>3 009</b>	<b>3 501</b>
Losses on loans	3 312	6 608	3 852	0	0
<b>Operating (loss)/profit before tax</b>	<b>1 624</b>	<b>-2 595</b>	<b>-26 787</b>	<b>-2 984</b>	<b>-3 476</b>
Tax expenses	406	-649	-9 380	-1 099	-1 099
<b>PROFIT/LOSS AFTER TAX</b>	<b>1 218</b>	<b>-1 946</b>	<b>-17 407</b>	<b>-1 885</b>	<b>-2 377</b>

# BALANCE SHEET

Amounts in NOK 1 000	30.06.2017	31.12.2016	30.06.2016
Loans and deposits with credit institutions	50 887	109 542	21 512
Loans to customers	787 401	190 310	0
Certificates and bonds	130 626	199 817	0
Deferred tax assets	10 029	9 380	1 099
Other intangible assets	9 282	8 791	3 493
Fixed assets	1 124	1 309	181
Other receivables, of which:	21 571	7 756	0
- prepaid agent commission	21 058	5 946	0
<b>TOTAL ASSETS</b>	<b>1 010 918</b>	<b>526 905</b>	<b>26 284</b>
Deposit from and debt to customers	760 053	277 802	0
Other debts	8 290	7 360	4 384
Accrued expenses and liabilities	7 663	4 884	-68
<b>Total liabilities</b>	<b>776 006</b>	<b>290 046</b>	<b>4 316</b>
Share capital	254 266	254 266	24 344
Retained earnings	-19 353	-17 407	-2 377
<b>Total equity</b>	<b>234 913</b>	<b>236 859</b>	<b>21 967</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1 010 918</b>	<b>526 905</b>	<b>26 284</b>

# NOTES

## Note 1: General accounting principles

The interim report is prepared in accordance with the principles in the annual report for 2016.

## Note 2: Loans to customers

Amounts in NOK 1 000	30.06.2017	31.12.2016	30.06.2016
<u>Gross and net lending</u>			
Revolving credit loans	248 048	52 591	0
Installment loans	549 625	141 572	0
<b>Gross lending</b>	<b>797 673</b>	<b>194 162</b>	<b>0</b>
Impairment of loans	-10 273	-3 852	0
<b>Net loans to customers</b>	<b>787 401</b>	<b>190 310</b>	<b>0</b>
<u>Defaults and losses</u>			
Gross defaulted loans	29 817	73	0
Individual impairment of loans	-8 945	-29	0
Other impairment of loans	-1 328	-3 823	0
<b>Net defaulted loans</b>	<b>19 545</b>	<b>-3 779</b>	<b>0</b>

Gross defaulted loans are loans which are more than 90 days in arrear in relation to the agreed payment schedule.

### Note 3: Regulatory capital and LCR

Amounts in NOK 1 000	30.06.2017	31.12.2016	30.06.2016
Share capital	185 000	185 000	25 000
Share premium	69 266	69 266	-656
Other equity	-19 353	-17 407	-2 377
Deferred tax asset / intangible assets / other deductions	-19 311	-18 171	-4 592
<b>Common equity tier 1 capital</b>	<b>215 602</b>	<b>218 688</b>	<b>17 376</b>
<b>Core capital</b>	<b>215 602</b>	<b>218 688</b>	<b>17 376</b>
<b>Total capital</b>	<b>215 602</b>	<b>218 688</b>	<b>17 376</b>
<i>Calculation basis</i>			
Credit risk:			
Loans and deposits with credit institutions	10 177	21 908	4 302
Loans to customers	787 401	190 310	0
Certificates and bonds	20 808	22 579	0
Other assets	22 695	9 065	181
<b>Calculation basis credit risk</b>	<b>841 080</b>	<b>243 863</b>	<b>4 483</b>
Calculation basis operational risk	76 429	76 429	76 429
<b>Total calculation basis</b>	<b>917 509</b>	<b>320 292</b>	<b>80 912</b>
Common equity tier 1 capital ratio	23 %	68 %	21 %
Tier 1 capital ratio	23 %	68 %	21 %
Total capital ratio	23 %	68 %	21 %
LCR	219 %	1 365 %	73 %