



INSTABANK ASA

INTERIM REPORT Q2 2018

INTERIM REPORT Q2-18

Key highlights & developments

- ✓ Q2 profit of NOK 6.7 million
- ✓ Continued high loan growth with 266.1 MNOK during Q2
- ✓ Successful Private Placement with gross proceeds of 62.4 MNOK
- ✓ Launch of a new sales finance product together with Skeidar supporting their new private label bed collection
- ✓ Launch of Eplehuset "Oppdatert" hybrid leasing solution (dealer of Apple products)
- ✓ Sponsorship of FIFA World Cup coverage on NRK reaching millions of viewers



We think like you.

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About Instabank ASA

Instabank is a 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 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 25 full-time and 6 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 are offered a payment plan that ranges from three to 5 years, or alternatively a flexible credit facility.

The bank's products and services are distributed primarily through the bank's website, retail partners and via agents. At the end of Q2, the bank had distribution through 14 agents, various retail partners 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. By the end of Q2, there were 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 and distribution partners.

During Q1 and Q2, the bank rebuilt their credit scoring models as a result of entering into a Finnish consumer debt registry, which will further improve risk exposure and enhances credit quality for their Finnish operation. In the second quarter, the bank enters into a cooperation agreement with several new loan brokers in the Finnish market. The bank expect it will contribute to a good development in loan volumes going forward.

As part of the bank's strategy to widen its product portfolio, Instabank launched hybrid leasing/point of sales financing solutions within the Consumer Electronics retail sector together with Eplehuset (the number one Apple dealer in Norway) and Skeidar.

Through Q2 the hybrid leasing product was also developed and made ready for launch in the Finnish market.

Both loan and savings volume have exceeded the bank's initial plans. At the end of Q2, the bank had 15 253 loan customers and 3 934 deposit customers.

Income Statement

In Q2, the bank achieved a net interest income of 39.7 MNOK, other net income of 5.1 MNOK, operating expenses of 26 MNOK and a profit after tax of 6.7 MNOK.

In Q2, the bank wrote-off 9.8 MNOK in loan losses.

Balance Sheet

Total assets at the end of Q2 were 2 394.2 MNOK. Loans to customers before write-offs amounted to 1 867.34 MNOK (1 834.68 MNOK after 32.66 MNOK in loss provisions).

Liquidity amounted to 575.9 MNOK. Customer deposits amounted to 1 944.6 MNOK. Total equity amounted to 379.32 MNOK.

Future outlook

Mainland output will follow a similar trajectory to most other Nordic economies, with 2.5% growth projected for 2018. Growth will moderate somewhat in 2019 as capacity constraints begin to have an impact. Oil-related investment will return to growth, accompanied by expanding non-oil investment and robust household consumption growth. Employment growth will gather strength, lowering the unemployment rate further. Consumer price inflation and wage growth will gradually increase as spare capacity diminishes. A critical uncertainty is whether the recent housing market adjustment will prove sufficient to avoid a larger correction in the future that brings substantial consequences for the economy. Global oil price developments pose both upside and downside risks to the economy.

The base rate from the Central Bank of Norway was unchanged during Q2. The Central Bank expects the rate most likely to be raised during the autumn of 2018.

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. The team still believes there will be room to grow sales volume and profitability according to our plans. About Finland and the development there, it seems to be some "muted" discussions about the growth of consumer finance and possible measures to slow it down. The banks assessments are that new possible regulations appears to have little impact on Instabank's development in the market. The competitive situation has an increasing intensity, but there are still good growth opportunities and, according to the Bank's assessments, a good balance between risk and reward.

The bank's focus on distribution will still be the number one strategic, tactical and operational focus in the quarter. 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 banks guiding on net loans to customers remains unchanged at NOK 2.4 – 2.6 billion towards the end of 2018.

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.

The total unaudited capital ratio for the bank was 23,3% at end of Q2 (including the quarterly result, the capital ratio was 23.5%). Common equity Tier 1 Capital ration was 19.3% at the end of Q2. The bank issued 65 MNOK in additional Tier 1 and Tier 2 bonds during Q1 and 64 MNOK in new Share Capital in Q2. Both through private placements.

For information relating to capital requirements and liquidity coverage ratio, refer to the notes.

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, July 27th, 2018
Instabank ASA, Board of Directors

INCOME STATEMENT

Amounts in NOK 1 000	Q2 2018	YTD 2018	Q2 2017	YTD 2017	2017
Interest income	49 926	92 249	20 939	32 045	97 536
Interest expenses	10 231	19 941	3 235	5 426	17 948
Net interest income	39 695	72 308	17 703	26 620	79 587
Income commissions and fees	8 344	16 161	6 867	14 066	28 379
Expenses commissions and fees	6 074	10 792	1 696	2 733	8 877
Net gains/loss on foreign exchange and securities classified as current assets	2 829	5 148	867	808	2 291
Net other income	5 099	10 517	6 038	12 141	21 793
Total income	44 793	82 825	23 741	38 761	101 380
Salary and other personnel expenses	6 287	13 916	5 217	10 199	25 459
Other administrative expenses, of which:	17 251	32 711	12 278	21 900	43 917
- <i>direct marketing cost</i>	10 178	19 580	9 671	15 695	31 705
Depreciation and amortisation	1 415	2 658	617	1 194	2 784
Other expenses	1 067	2 166	693	1 456	3 044
Total operating expenses	26 019	51 476	18 804	34 748	75 204
Losses on loans	9 831	17 049	3 312	6 608	22 125
Operating (loss)/profit before tax	8 943	14 300	1 624	-2 595	4 051
Tax expenses	2 235	3 575	406	-649	1 751
PROFIT/LOSS AFTER TAX	6 708	10 725	1 218	-1 946	2 301

BALANCE SHEET

Amounts in NOK 1 000	30.06.2018	31.12.2017	30.06.2017
Loans and deposits with credit institutions	116 521	40 929	50 887
Loans to customers	1 834 682	1 317 942	787 401
Certificates and bonds	349 391	682 091	130 626
Deferred tax assets	4 055	7 629	10 029
Other intangible assets	22 613	17 175	9 282
Fixed assets	1 066	1 228	1 124
Other receivables, of which:	65 972	44 007	21 571
- prepaid agent commission	46 953	36 706	21 058
TOTAL ASSETS	2 394 299	2 111 002	1 010 918
Deposit from and debt to customers	1 944 615	1 804 600	760 053
Other debts	18 896	12 313	8 290
Accrued expenses and liabilities	11 466	11 420	7 663
Subordinated loan	40 000	0	0
Total liabilities	2 014 977	1 828 332	776 006
Share capital	354 161	294 228	254 266
Tier 1 capital	25 000	0	0
Retained earnings	161	-11 557	-19 353
Total equity	379 322	282 670	234 913
TOTAL LIABILITIES AND EQUITY	2 394 299	2 111 002	1 010 918

NOTES

Note 1: General accounting principles

The interim report is prepared in accordance with the principles in the annual report for 2017.

Note 2: Loans to customers

Amounts in NOK 1 000	30.06.2018	31.12.2017	30.06.2017
<u>Gross and net lending</u>			
Revolving credit loans	492 737	356 801	248 048
Installment loans	1 374 610	986 893	549 625
Gross lending	1 867 347	1 343 694	797 673
Impairment of loans	-32 665	-25 752	-10 273
Net loans to customers	1 834 682	1 317 942	787 401
<u>Defaults and losses</u>			
Gross defaulted loans	108 849	73 301	29 817
Individual impairment of loans	-28 303	-19 991	-8 945
Other impairment of loans	-4 362	-5 751	-1 328
Net defaulted loans	76 184	47 549	19 545

Gross defaulted loans are loans which are more than 90 days in arrear in relation to the agreed payment schedule. The bank has entered into a forward flow agreement with Axactor regarding the monthly sale of part of the bank's non-performing loans.

Note 3: Regulatory capital and LCR

Amounts in NOK 1 000	30.06.2018	31.12.2017	30.06.2017
Share capital	236 215	205 000	185 000
Share premium	117 946	89 228	69 266
Other equity	-11 557	-11 557	-19 353
Deferred tax asset / intangible assets / other deductions	-27 017	-25 487	-19 311
Common equity tier 1 capital	315 588	257 184	215 602
Hybrid capital	25 000	0	0
Core capital	340 587	257 184	215 602
Supplement capital	40 000	0	0
Total capital	380 587	257 184	215 602
<i>Calculation basis</i>			
Credit risk:			
Loans and deposits with credit institutions	23 304	8 186	10 177
Loans to customers	1 299 418	933 481	787 401
Certificates and bonds	42 496	98 875	20 808
Other assets	169 163	118 536	22 695
Calculation basis credit risk	1 534 381	1 159 078	841 080
Calculation basis operational risk	100 789	100 789	76 429
Total calculation basis	1 635 170	1 259 866	917 509
Common equity tier 1 capital ratio	19.3%	20.4%	23%
Tier 1 capital ratio	20.8%	20.4%	23%
Total capital ratio	23,3%	20.4%	23%
LCR	172%	389.4%	219%