



INSTABANK ASA

INTERIM REPORT Q3 2018



Instabank

INTERIM REPORT Q3-18

Key highlights & developments

- ✓ Increased net loan growth by 376 MNOK/20 % in Q3/18, up from 266 MNOK in Q2/18. Finland loan balance represented 20 % of total loan balance and 53 % of quarterly loan balance growth.
- ✓ Q3 net profit of 9.3 MNOK, net profit after tax of NOK 7 MNOK, up 225 % versus Q3/17.
- ✓ Deposits launched in Finland representing an attractive funding margin.
- ✓ Marketing campaign in Finland including National Ice Hockey League TV sponsorship and radio commercials.
- ✓ Sales financing volume increased by 69 % from the previous quarter mainly driven by increased penetration at Skeidar, Instabank's largest point of sales finance partner.
- ✓ New share issue to Kistefos AS through a private placement with gross proceeds of 48.5 MNOK.



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 Q3, Instabank had 27 full-time and 7 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 Q3, 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 Q3, there were no individual shareholders owning more than 10% of the bank.



Operational 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 sales finance distribution partners.

Instabank launched a brand campaign in Finland including TV, radio and online advertising as well as sponsoring coverage of the Finnish National Ice Hockey League.

The Point of Sales (POS) financing solution has proven to be attractive to partners as well as customers. Sales financing volume increased by 69 % from the previous quarter, mainly driven by increased penetration at Skeidar, Instabank's largest POS finance partner.

Preparations for entering the Swedish market through a cross-border operation in Q1/19 are proceeding according to plan.

The bank has moved to new larger offices in the building next to the old offices preparing for future growth in new markets.

Balance Sheet

Net loan balance increased by 376 MNOK/ 20 % to 2 211 MNOK by the end of Q3, versus a growth of 266 MNOK in the previous quarter. Finland represented 20 % of total loan balance and 53 % of the quarterly loan balance growth. The sale of loans through the bank's forward flow agreement in Norway reduced the loan balance by 32.6 MNOK.

Deposits from customers increased 602 MNOK in Q3, up from a 101 MNOK increase during the previous quarter. The launch of EUR deposits in Finland late in the quarter, at an attractive margin, resulted in a EUR deposit volume equaling 53 MNOK by the end of Q3. The bank decreased the interest rate to slow deposit growth in Norway as the bank aims to increase the share of EUR deposits.

The high deposit growth resulted in a growth in liquidity of 274 MNOK in the quarter to 740 MNOK by the end of Q3, giving the bank a strong position for future loan balance growth.

Total assets at the end of Q3 were 3 060 MNOK.

The unaudited total capital ratio for the bank was 21.6 % at the end of Q3 (22.5 % if the net profit after tax YTD is included). The common equity Tier 1 Capital ratio was 18.3% at end of Q3. The bank issued new shares through a private placement with gross proceeds of 48.5 MNOK during Q3. For information relating to capital requirements and liquidity coverage ratio, refer to the notes.

At the end of Q3, the bank had a total of 24 428 customers, split between 20 429 loan customers and 3 991 deposit customers with a balance.

Profit and loss

Interest income increased by 10 MNOK from the previous quarter to 60.0 MNOK in Q3 as a result of the high loan balance growth. The net interest income margin increased slightly by 0.09 % points to 9.45 % as a result of a higher share of loan balance in Finland representing a higher loan yield than in Norway.

Total operating expenses were 30.4 MNOK in Q3, representing an increase of 4.4 MNOK from the previous quarter, driven by increased marketing spending in Finland as well as preparations for the launch in Sweden. Losses on loans came in at 12.6 MNOK or 2.45 % versus 9.8 MNOK or 2.27 % in the previous quarter.

Net profit was 9.3 MNOK and net profit after tax was 7 MNOK, up from 6.7 MNOK in the previous quarter.

Outlook

There is still considerable focus on developments in Norwegian household borrowing and especially when it comes to consumer loans. Several new guidelines and regulations of the consumer loan sector have been introduced by the regulators and the new regulation of consumer loans based on the guidelines will be introduced soon. Instabank welcomes the new regulations and expects it will result in a more equal practice among competitors. Instabank expects increased competition in Norway to cause some pressure on interest margins, particularly within the agent channel, but we still believe there will be room to grow sales volume and profitability according to our plans in the Norwegian market.

Instabank has had a successful launch in the Finnish market and considers the growth opportunities to be very good, with attractive margins compared to the Norwegian market. Instabank will launch a cross-border operation in the Swedish market in Q1/19 and will continue to enter other countries in the years to come, leveraging the scalability of a lean operation from our offices in Norway. Presence in several countries gives the bank the strategic opportunity to focus resources on the countries with the best credit risk, profitability / margins, growth opportunities and regulatory environment.

The interest margin could be negatively impacted by the recent increase in the Norwegian Central Bank base rate, and the expected future raise communicated by the Central Bank, however the forecasted base rate curve has moved slightly down. At the current rate level we consider competition in the consumer finance sector to affect the deposit rates more than the increases in the Central Bank base rate. The bank will continue to grow EUR deposits in Finland at attractive rates and will also launch deposits in Sweden in Q1/19, after the loan products are launched.

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, but the bank's main focus will be growth on existing products and solutions as well as entering new countries to leverage the scalable platform.

The bank expects that the SREP process that FSA (Finanstilsynet) has started will conclude with a pillar 2 requirement for the bank in Q1/19.

Other information

The accounting profit for Q3 is entirely predisposed against retained earning. The presented figures are not audited by the bank's external auditor.

Oslo, October 26th, 2018
Instabank ASA, Board of Directors



INCOME STATEMENT

Amounts in NOK 1 000	Q3 2018	YTD 2018	Q3 2017	YTD 2017	2017
Interest income	60 090	152 338	29 074	61 119	97 536
Interest expenses	11 931	31 872	4 592	10 018	17 948
Net interest income	48 159	120 466	24 482	51 102	79 587
Income commissions and fees	10 286	26 447	8 355	22 421	28 379
Expenses commissions and fees	7 807	18 599	2 585	5 318	8 877
Net gains/loss on foreign exchange and securities classified as current assets	1 709	6 857	273	1 082	2 291
Net other income	4 187	14 704	6 043	18 185	21 793
Total income	52 346	135 171	30 525	69 287	101 380
Salary and other personnel expenses	8 652	22 567	7 493	17 692	25 459
Other administrative expenses, of which:	18 858	51 569	11 097	32 997	43 917
- <i>direct marketing cost</i>	11 971	31 635	8 033	23 728	31 705
Depreciation and amortisation	1 557	4 215	672	1 866	2 784
Other expenses	1 345	3 537	743	2 199	3 044
Total operating expenses	30 413	81 889	20 006	54 754	75 204
Losses on loans	12 600	29 649	7 644	14 252	22 125
Operating (loss)/profit before tax	9 333	23 633	2 875	281	4 051
Tax expenses	2 333	5 908	719	70	1 751
PROFIT/LOSS AFTER TAX	7 000	17 725	2 156	211	2 301

BALANCE SHEET

Amounts in NOK 1 000	30.09.2018	31.12.2017	30.09.2017
Loans and deposits with credit institutions	145 110	40 929	46 456
Loans to customers	2 210 903	1 317 942	1 092 977
Certificates and bonds	595 383	682 091	130 896
Deferred tax assets	1 722	7 629	9 310
Other intangible assets	25 516	17 175	9 810
Fixed assets	1 031	1 228	1 228
Other receivables, of which:	80 360	44 007	31 960
- prepaid agent commission	54 387	36 706	29 798
TOTAL ASSETS	3 060 024	2 111 002	1 322 636
Deposit from and debt to customers	2 546 928	1 804 600	1 062 458
Other debts	24 844	12 313	12 328
Accrued expenses and liabilities	12 954	11 420	10 780
Subordinated loan	40 000	0	0
Total liabilities	2 624 726	1 828 332	1 085 567
Share capital	402 717	294 228	254 266
Tier 1 capital	25 000	0	0
Retained earnings	7 581	-11 557	-17 196
Total equity	435 298	282 670	237 070
TOTAL LIABILITIES AND EQUITY	3 060 024	2 111 002	1 322 636

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	30.09.2018	31.12.2017	30.09.2017
<u>Gross and net lending</u>			
Revolving credit loans	579 676	356 801	310 817
Installment loans	1 672 403	986 893	797 498
Gross lending	2 252 079	1 343 694	1 108 314
Impairment of loans	-41 176	-25 752	-15 710
Net loans to customers	2 210 903	1 317 942	1 092 604
<u>Defaults and losses</u>			
Gross defaulted loans	134 340	73 301	47 166
Individual impairment of loans	-35 118	-19 991	-14 569
Other impairment of loans	-6 059	-5 761	-1 141
Net defaulted loans	93 164	47 549	31 455

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	30.09.2018	31.12.2017	30.09.2017
Share capital	262 462	205 000	185 000
Share premium	140 255	89 228	69 266
Other equity	-11 557	-11 557	-17 407
Deferred tax asset / intangible assets / other deductions	-27 833	-25 487	-19 119
Common equity tier 1 capital	363 326	257 184	217 740
Hybrid capital	25 000	0	0
Core capital	388 326	257 184	217 740
Supplement capital	39 623	0	0
Total capital	427 949	257 184	217 740
<i>Calculation basis</i>			
Credit risk:			
Loans and deposits with credit institutions	29 022	8 186	9 291
Loans to customers	1 583 760	933 481	784 358
Certificates and bonds	86 957	98 875	19 738
Other assets	180 614	118 536	80 354
Calculation basis credit risk	1 880 353	1 159 078	893 742
Calculation basis operational risk	100 789	100 789	76 429
Total calculation basis	1 981 142	1 259 866	970 171
Common equity tier 1 capital ratio	18.3%	20.4%	22.4%
Tier 1 capital ratio	19.6%	20.4%	22.4%
Total capital ratio	21.6%	20.4%	22.4%
LCR	330%	389%	162%

