INSTABANK ASA

INTERIM REPORT Q3 2019

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Key highlights & developments:

- **Positive experiences from the new debt register**
  Having complete and “real time” information about the unsecured debt of applicants has improved the credit assessments significantly

- **Launch of Instapay Mastercard in additional distribution channels.**
  Distribution extended from partner distribution to the direct and agent channel

- **Record high Q3 net profit before tax of 17.6 MNOK**
  Driven by volume growth, increased margins and low costs

- **Quarterly net loan growth of 101 MNOK**.
  Finland performed well with a net loan growth of 155 MNOK, net loans in Norway decreased by 90 MNOK, while net loans in Sweden grew by 36 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 by simplifying banking services and Point of Sale (POS) financing. We aim to help customers achieve both large and small ambitions, and our partners to increase revenues through smoother user experiences.

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 28 employees.

Instabank operates in Norway, Finland and Sweden offering competitive savings, insurance, POS financing 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 3 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 22 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 2 MNOK in Norway and EUR 100k in Sweden and Finland.

Instabank is primarily owned by Norwegian investors. By the end of Q3, Kistefos AS was the bank's largest shareholder owning 24.9 %. There were no other individual shareholders holding more than 10% of the shares.

Operational developments

On October 15th, Instabank launched Instapay Mastercard, a new type of credit card in the direct and agent channels. While most credit cards have an interest rate of around 22-24%, the Instapay card has an interest rate of only 14.9%, which is one of the market's lowest interest rates.

Instabank first launched the Instapay Mastercard in Q1-19 as a payment instrument on top of the flexible loan product for POS finance customers at Skeidar.

The bank has already secured distribution through agents and retailers in addition to the bank's website.

Finland continues to be a very attractive market and the bank increased net loans by 155 MNOK in Q3, up from 91 MNOK in the previous quarter. The increased growth was driven by increased direct marketing efforts as well as optimised pricing and process improvements. Among Instabank's three countries, Finland is the most attractive market with the highest margins and lowest capital requirements.

In Norway, net loans decreased by 90 MNOK in Q3, 10 MNOK less than in Q2. The balance decrease was a result of decreased marketing as well as the consumer finance by-law introduced in May, which has had considerable impact on the credit application approval ratio. The requirement to stress test all applications by applying a 5 % point increase in interest rate on all debt (including the consumer's existing mortgage interest) has had the most significant impact. As the Norwegian market has tightened, the bank is prioritising volume growth outside of Norway where more attractive margins are attainable.

In Norway, the POS financing solution continues to develop very well, attracting a large number of small-ticket customers, representing a significant upsell potential to an attractive segment.

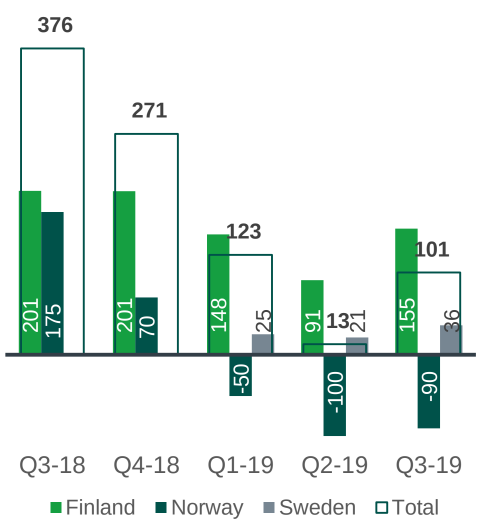
The bank entered the very competitive Swedish market at the end of 2018, taking a cautious approach to credit risk. The team has spent time analysing application data and win-rates in the agent channel to optimise both risk levels and pricing. Although the market is competitive, the bank has identified attractive segments representing a good balance between risk and returns. However, margins are still less attractive than in Finland and Norway. In Q3, the bank achieved a growth in net loans of 36 MNOK, up from 21 MNOK in the previous quarter.

The new debt register was introduced at the very beginning of Q3-19. Although there were some technical issues and not all banks were delivering data to the register to start, Instabank has had a very positive experience with the debt register. Having complete and "real time" information about the unsecured debt of applicants has improved credit assessments significantly. We expect that the debt register will soon also deliver debt information for existing customers four times a year which will benefit the risk assessment of existing customers. One disadvantage with the debt register is that it does not include secured loans, such as mortgages, car loans as well as student loans so banks have to rely on last year's tax returns to ensure that this debt information is reliable.

Balance Sheet

Net loan balance increased by 101 MNOK/ 4 % to 2,719 MNOK by the end of Q3 19, up from a growth of 13 MNOK in Q2-19. Finland represented 39 % of the total loan balance at the end of Q3 19, up from 34 % at the end of the previous quarter.

Net loan balance growth:



Deposits from customers decreased by 43 MNOK in Q3 19, a result of a planned reduction of a high liquidity volume entering the quarter. The deposit mix has changed during the quarter in favour of Finland and Sweden with lower deposit rates than Norway. The share of deposits outside Norway increased to 37 % by the end of Q3 19, from 34 % by the end of the previous quarter. The average deposit rate fell to 1.51 % from 1.57 % from the previous quarter. By the end of Q3 19 the bank had 2,891 MNOK in deposits and a deposit/net loan ratio of 106 %, down from 112 % at the end of Q2 19.

Total assets at the end of Q3 19 were 3,555 MNOK.

The total capital ratio was 23.6 % at the end of Q3, 2.6 % above the regulatory capital requirement of 21.0 %. The common equity Tier 1 Capital ratio was 21.0 %, the same as at the end of Q2.

At the end of Q2 19, the bank had a total of 37 215 customers, of which 28,765 were loan customers and 8,450 were deposit customers.

Profit and loss

Net interest income increased by 3.5 MNOK from the previous quarter to 64.6 MNOK in Q3-19 as a result of loan balance growth as well as an improved net interest income margin (net interest income/average net loans) from 9.4 % in Q2-19 to 9.6 % in Q3-19.

Net other income was minus 0.9 MNOK, 1.9 MNOK higher than the previous quarter, positively affected by forex gains and increased commission income. Commission expenses (accrued agent commission) increased as expected by 1.4 MNOK.

Total income came in at 63.7 MNOK, up from 58.3 MNOK in the previous quarter.

Total operating expenses were reduced by 0.9 MNOK from the previous quarter to 28.9 MNOK, including a positive one-off effect of 2.7 MNOK.
The increase in "Other administrative expenses" from the previous quarter was mainly driven by high credit information expenses in the Swedish market. This was significantly reduced by the end of the quarter.

Losses on loans in Q3-19 increased slightly to 17.2 MNOK, 2.5 % of average gross loans, from a low level in the previous quarter (15.7 MNOK/ 2.4 %).

Loan losses have decreased significantly over the past two quarters compared to Q4-18 and Q1-19. This decrease is partly due to seasonal variations and partly due to the introduction of new payment methods for Norwegian customers as well as decreased credit risk as a result of credit assessment changes over the last year.

Net profit was 17.6 MNOK and net profit after tax was 13.3 MNOK, up from 9.6 MNOK in the previous quarter.

Outlook

When the European capital requirements framework becomes part of the EEA agreement by the end of 2019, many Norwegian banks' actual requirements will be reduced, but this might not be the case for the smaller niche banks.
The Ministry of Finance has proposed an increase in the systemic risk buffer requirement from 3.0 % to 4.5 % over three years to compensate for other reduced requirements. It is proposed that the requirement shall apply for foreign banks' activities in Norway and that the systematic risk buffer requirement for Norwegian banks should be calculated based on buffer rates applicable to exposures in different countries. In this case, the systemic risk buffer requirement for Instabank would decrease as the requirement is 1.0 % in Finland and 0 % in Sweden. As this proposal is still not yet decided, Instabank is planning for a worst case scenario in which the systematic buffer requirement would increase from 3.0 % to 3.5 % by year-end for the bank's total exposure across all three countries.
In the best case scenario, Instabank's systematic risk buffer requirement will be reduced by year-end by an estimated 0.6 % points.

The countercyclical buffer requirement will increase by 0.5 % points for the Norwegian loan portfolio, impacting the total capital requirement for Instabank by approximately 0.3 % points taking into consideration the share of exposure in Norway of the total exposure in all three countries.

The proposed changes in the systemic risk buffer requirement would reduce the capital requirement gap between banks operating in Norway and abroad. Instabank's Board of Directors have therefore decided to put the Swedish banking licence application process on hold.

The bank is in preparation to adapt its accounts to IFRS 9 on Financial Instruments by 01.01.2020. It is expected that the adoption of IFRS 9 will have a one-off impact on the provisions for impairment of loans that will be reported for the first time in the Q1-20 report as a change in equity per 01.01.2020. The one-off impact represented by an increase in impairment provisions is expected to reduce the regulatory capital, but according to the IFRS 9 transition rule, the one-off impact shall be distributed over three years. For capital planning purposes, the bank has taken into consideration increased provisions as a result of the IFRS 9 adoption in the capital planning, and will have a cautious approach to loan balance growth in Q4-19.

Presence in three countries gives Instabank the strategic opportunity to focus its efforts where the

most profitable growth can be achieved. The business model is set up to handle significantly higher volumes in all three countries without further investments or an increase in fixed costs.
The bank considers Finland and Sweden to represent the best growth opportunities going forward, while volumes in Norway are expected to remain at current levels or decrease slightly.

Instabank has proven its ability to adapt to new regulations, technology and services quickly.

Instabank is committed to continuing its profitable growth story, but the cost of capital may limit growth short term.

The bank's liquidity situation and capital situation are 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.

Other information

There has been a limited review of the accounts in accordance with ISRE 2410 as of 30.09.19 by the bank's auditors and the result after tax is added to retained earnings in full.

Oslo, October 28th, 2019
Board of Directors, Instabank ASA

INCOME STATEMENT

NOK 1000	Q3-2019	YTD 2019	2018	Q3-2018
Interest Income	77 950	225 767	222 546	60 090
Interest expenses	13 360	40 206	46 344	11 931
Net interest income	**64 590**	**185 561**	**176 202**	**48 159**
Income commissions and fees	8 235	24 846	35 238	10 286
Expenses commissions and fees	15 217	41 195	29 554	7 807
Net gains/loss on foreign exchange and securities classified as current assets	6 124	11 186	7 546	1 709
Other income	0	0	0	0
Net other income	**-858**	**-5 164**	**13 230**	**4 187**
Total income	**63 732**	**180 397**	**189 432**	**52 346**
Salary and other personnel expenses	10 251	30 568	30 871	8 652
Other administrative expenses, of which:	17 542	49 928	66 153	18 858
- direct marketing cost	*5 751*	*16 460*	*38 330*	*11 971*
Depreciation and amortisation	2 229	6 413	6 138	1 557
Other expenses	-1 143	3 726	5 085	1 345
Total operating expenses	**28 879**	**90 635**	**108 246**	**30 413**
Losses on loans	17 203	54 947	47 189	12 600
Operating (loss)/profit before tax	**17 650**	**34 816**	**33 996**	**9 333**
Tax expenses	4 378	8 601	7 945	2 333
Profit/loss after tax	**13 272**	**26 214**	**26 051**	**7 000**

BALANCE SHEET

NOK 1000	30.09.2019	31.12.2018	30.09.2018
Loans and deposits with credit institutions	155 611	142 298	145 110
Loans to customers	2 718 861	2 481 880	2 210 903
Certificates and bonds	534 400	647 128	595 383
Deferred tax assets	0	89	1 722
Other intangible assets	29 790	27 339	25 516
Fixed assets	657	1 035	1 031
Other assets	2 844	0	0
Other receivables, of which:	113 216	115 692	80 360
- prepaid agent commission	*96 141*	*86 381*	*74 098*
Total assets	**3 555 379**	**3 415 461**	**3 060 024**
Deposit from and debt to customers	2 891 435	2 832 361	2 546 928
Other debts	31 311	22 284	24 844
Accrued expenses and liabilities	15 065	12 084	12 954
Ansvarlig kapital/lånekapital	65 000	65 000	65 000
Total liabilities	**3 002 810**	**2 931 729**	**2 649 726**
Share capital	510 834	468 651	402 717
Retained earnings	41 734	15 081	7 581
Total equity	**552 568**	**483 732**	**410 298**
Total liabilities and equity	**3 555 379**	**3 415 461**	**3 060 024**

NOTES

Note 1: General accounting principles

The interim report is prepared in accordance with the principles in the annual report for 2018.

Note 2: Loans to customers

Gross and net lending:

NOK 1000	30.09.2019	31.12.2018	30.09.2018
Revolving credit loans	646 423	635 095	579 676
Installment loans	2 154 461	1 900 112	1 672 403
Gross lending	**2 800 884**	**2 535 207**	**2 252 079**
Impairment of loans	-82 023	-53 327	-41 176
Net loans to customers	**2 718 861**	**2 481 880**	**2 210 903**

Defaults and losses

NOK 1000	30.09.2019	31.12.2018	30.09.2018
Gross defaulted loans	241 440	172 550	134 340
Individual impairment of loans	-70 356	-42 226	-35 118
Other impairment of loans	-11 667	-11 102	-6 059
Net defaulted loans	**159 417**	**119 223**	**93 164**

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

Specifications losses on loans

NOK 1000	Q3-2019	2018	Q3-2019
Realised losses in the period	-9 688	-19 549	-4 088
The period's change in individual impairment of loans	-6 054	-25 013	-6 815
The period's change in other impairment of loans	-1 460	-2 627	-1 697
Losses on loans in the period	**-17 202**	**-47 189**	**-12 600**

Ageing of loans

NOK 1000	30.09.2019	31.12.2018	30.09.2018
Loans not past due	1 958 162	1 742 943	1 621 614
Past due 1-30 days	464 359	481 232	384 380
Past due 31-60 days	100 331	109 281	82 013
Past due 61-90 days	36 592	29 915	29 263
Past due 91+ days	241 440	171 836	134 808
Total	**2 800 884**	**2 535 207**	**2 252 079**

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

Note 3: Regulatory capital and LCR

NOK 1000	30.09.2019	31.12.2018	30.09.2018
Share capital	332 642	305 000	262 462
Share premium	178 192	163 651	140 255
Other equity	41 734	15 081	-11 557
Deferred tax asset/intangible assets/other deductions	-30 324	-28 075	-27 237
Common equity tier 1 capital	**522 244**	**455 657**	**363 922**
Additional tier 1 capital	25 000	25 000	25 000
Core capital	**547 244**	**480 657**	**388 922**
Subordinated loan	40 000	40 000	39 623
Total capital	**587 244**	**520 657**	**428 545**
Calculation basis - NOK 1000			
Credit risk:			
Loans and deposits with credit institutions	31 214	28 511	29 022
Loans to customers	1 910 833	1 763 667	1 583 760
Certificates and bonds	75 647	72 479	86 957
Other assets	287 801	247 051	180 614
Calculation basis credit risk	**2 305 494**	**2 111 708**	**1 880 353**
Calculation basis operational risk	185 587	185 587	100 789
Total calculation basis	**2 491 081**	**2 297 295**	**1 981 142**
Common equity Tier 1 Capital ratio	21,0 %	19,8 %	18,3 %
Tier 1 capital ratio	22,0 %	20,9 %	19,6 %
Total capital ratio	23,6 %	22,7 %	21,6 %
LCR	233 %	419 %	330 %