Instabank

Interim Presentation Q1 – 2020
May 7th 2020

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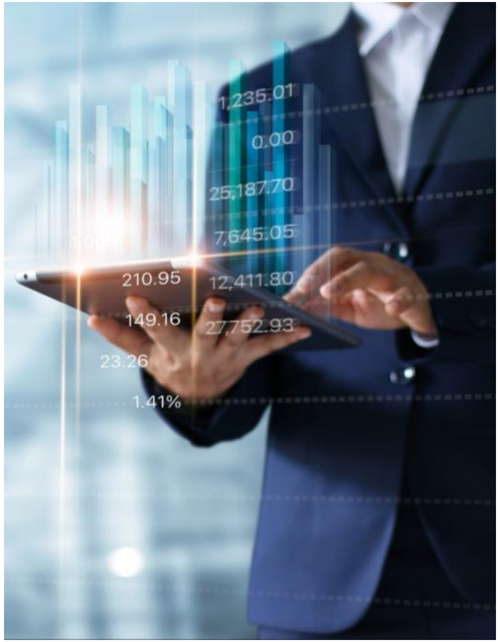
Key highlights Q1-20

No negative effects on payments related to Covid-19 observed
No observation of changed payment behavior following Covid-19, however Profit before tax of 7.1 MNOK negatively affected by an increase in loan loss allowance related to Covid-19 of 5 MNOK

Strategy transition towards a paytech partner position
We aim to establish Instabank as a paytech partner for companies seeking to innovate and digitize their business models leveraging our existing core competences in paytech and sales financing

Gross loans increased by 186 MNOK in Q1-20 as a result of positive currency effects
Net loans increased by 72 MNOK, one off IFRS 9 impact of 85.5 MNOK

One new partner agreement signed and a new sales finance solution launched
Conecto AS is signed and pilot launch already executed – full launch in Q2. Launched sales finance solution at Elektroimportøren



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Key figures Q1-2020

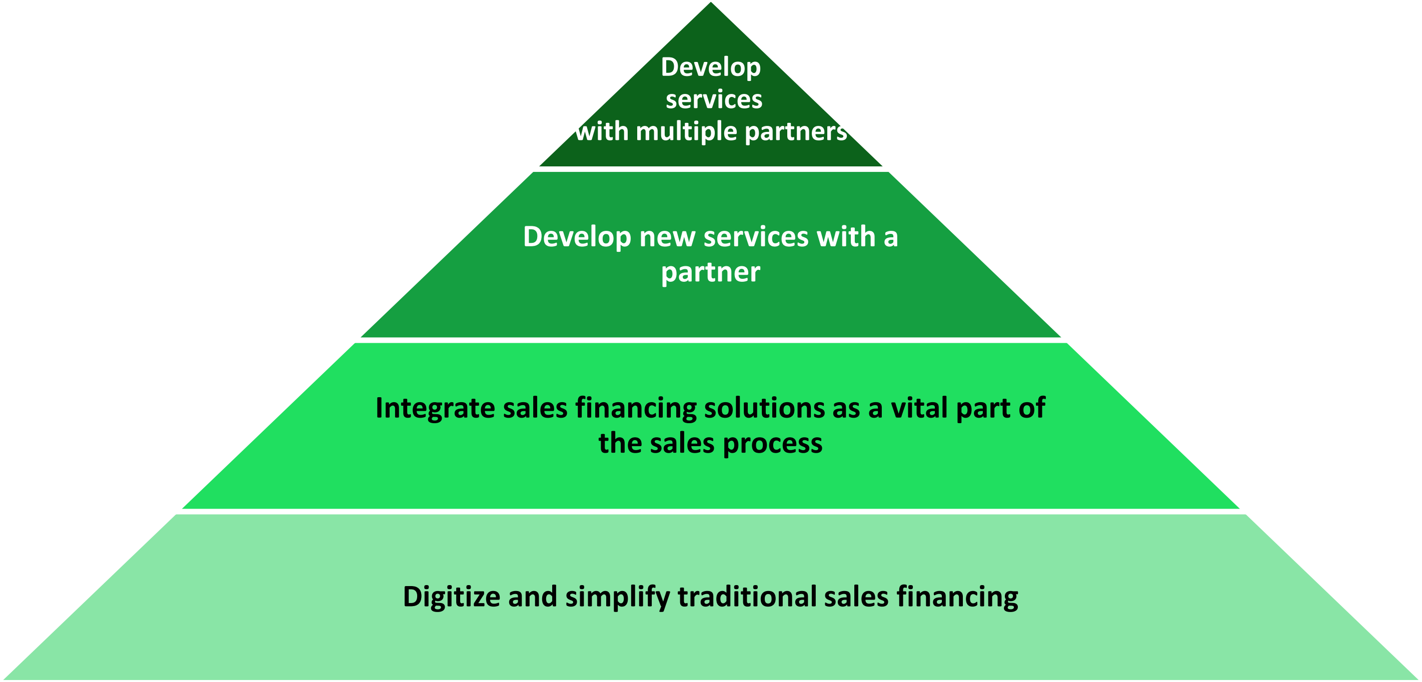
- Net profit before tax of 7.1 MNOK + 62 % vs Q1-19
- Total income of 67.0 MNOK + 15 % vs Q1-19
- Losses on loans 4.6 % vs 3.4 % Q1-19
- Quarterly increase in net loans of 72 MNOK vs +122 MNOK Q1-19
- Outstanding net loans of 2,768 MNOK vs 2,604 Q1-19
- Equity per share of 1.53 NOK vs 1.59 Q1-19
- Return on Equity of 4 % vs 2.6 % in Q1-19

Towards a paytech partner position

Our ambition is to establish Instabank as **a paytech partner** for companies seeking to innovate and digitize their business models

This **leverage our existing expertise** within paytech and sales financing

Paytech partner levels



Benefits of a paytech partner strategy

- **Potential growth** as companies switch from selling products to selling product-as-a-service
- **Increase profit** through long-term integration with partners and clients, and lower acquisition cost
- **Reduce risk** due to smaller loans and potential for recurring revenue streams
- **Reposition and differentiate the bank**

Status partner agreements

- One new partner signed and piloted during Q1
- One new partner launched
- Ongoing discussion with several potential partners

Conecto

Elektro importøren

Distribution channels

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Agents

Lendo
Centum
compare king.no
Salus Group
Zmarta
STK Finans
etua.fi
aconto
LVS brokers
[SAMBLA]
Telefinans
rahalaitos

Partners

SKEIDAR
eplehuset
POWER
Conmodo
Elektro importøren
telering
telehuset
PiqPin
Conecto

Volume as of Q1-20	17 %
Volume as of Q1-20	**76 %**
Volume as of Q1-20	**7 %**

Present product portfolio

Unsecured consumer loans

KEY METRICS

NOK 2,692m
in net loans

23,674
customers

NOK 98k
in avg. loan size

13.0 %
avg. loan yield

Sales financing

KEY METRICS

NOK 77m
in net loans

5,648
customers

NOK 14k
in avg. loan size

15.2 %
avg. loan yield

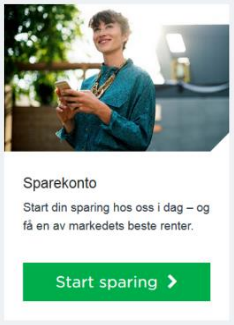
KEY METRICS

NOK 48 m
in invoice balance

2,396
customers

NOK 19k
in avg. invoice size

Deposit accounts



KEY METRICS

NOK 2,887m
in deposits

9,406
customers

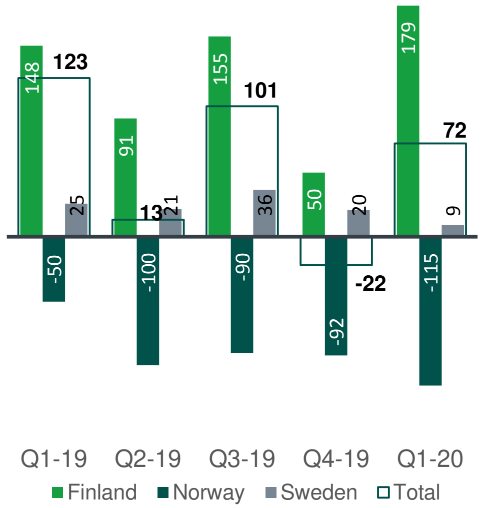
NOK 307k
avg. deposit size

2.03 % (NO) / 0.9 % (FI) / 1.0 % (SE)

Net loan development

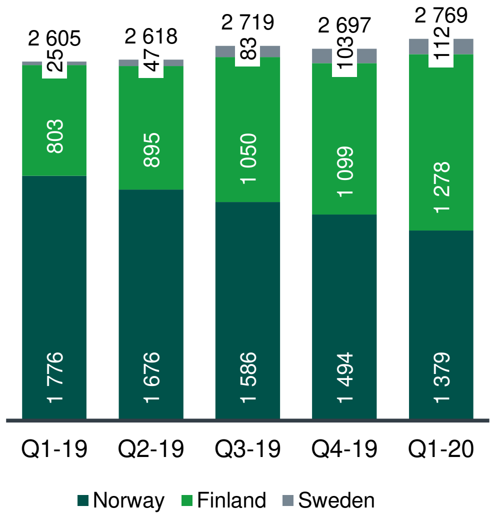
Net loan balance growth

MNOK



Net loans to customers

MNOK



Key comments

- Instabank suspended all new loans sales, except for sales financing through paytech partners, in mid-March in conjunction with risk associated with the Covid-19 outbreak and the possible economic consequences for the loan applicants.
- Gross loans increased by 186 MNOK in Q1-20 as a result of positive currency effects of approximately 180 MNOK
- Net loan balance increase of 72 MNOK, affected by one off impact of IFRS 9 implementation of 85.5 MNOK and other changes in loan loss provisions.
- Of the total net loan balance of 2,769 MNOK, 50 % was outside Norway at the end of the quarter up from 45 % at the end of 2019.

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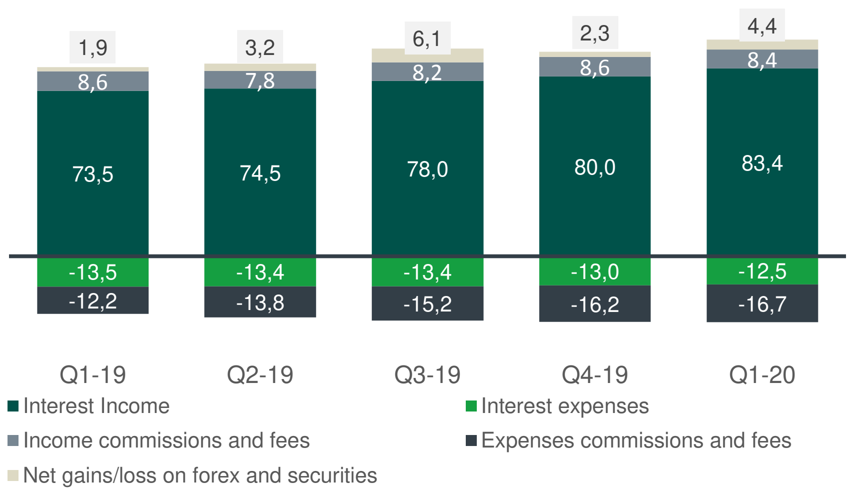
Total income

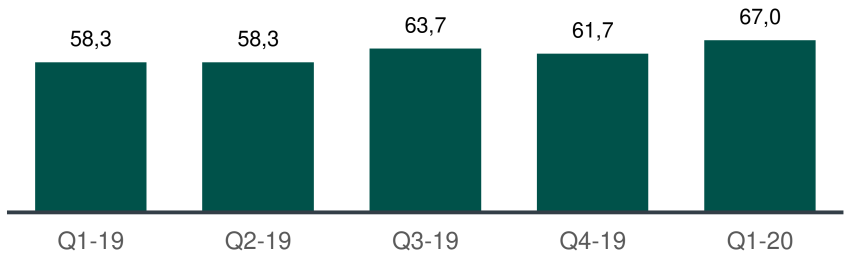
Total income detailed

MNOK



Total income

MNOK

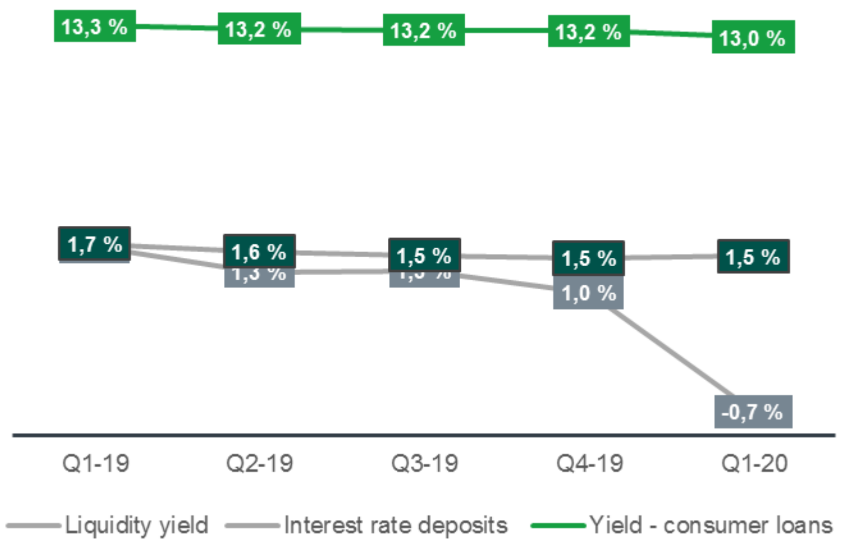


Key comments

- A new principle for calculating interest on loans in debt collection was implemented in Q1-20 replacing the principle of only booking paid interests on loans in debt collection, resulting in a net increase in interest income of 4.7 MNOK in the quarter.
- The Covid-19 impact resulted in a loss on bonds of 2.1 MNOK in March and a loss of 0.5 MNOK in the quarter. Gains on foreign exchange amounted to 4.9 MNOK.

Funding cost and yields

Development in funding cost and yields

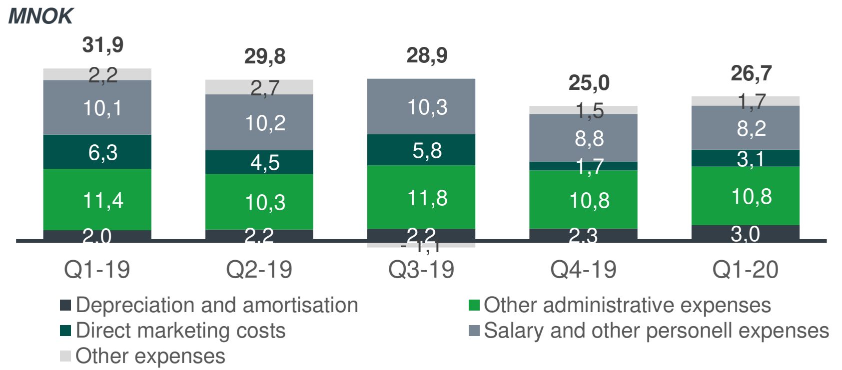


Key comments

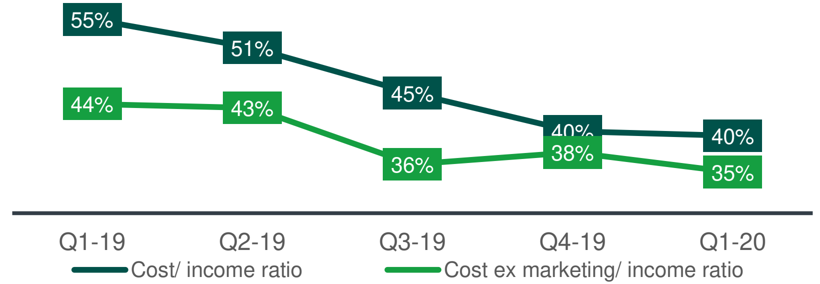
- Although loan yield vary across markets and products and the mix among them changes, the total yield remains stable.
- Interest rate on deposits has decreased during 2019 as the deposit mix has changed in favor of EUR and SEK deposits at lower deposit rates than in Norway
- Share of deposits outside Norway has increased to 47 %, up from 40 % by year end 2019
- Liquidity yield negative in Q1-20 as a result of the Covid-19 economic impact on the bond market in March

Operating expenses

Operating expenses detailed



Cost/income ratio



Key comments

- Instabank have succeed in bringing costs down by decreasing the use of external advisory as well as operational efficiency improvements mainly related to reduced credit assessment costs in Sweden and Finland where cost per application is quite expensive compared to Norway
- Cost/income level hits lowest level since inception reflecting improved operational efficiency as well as economy of scale

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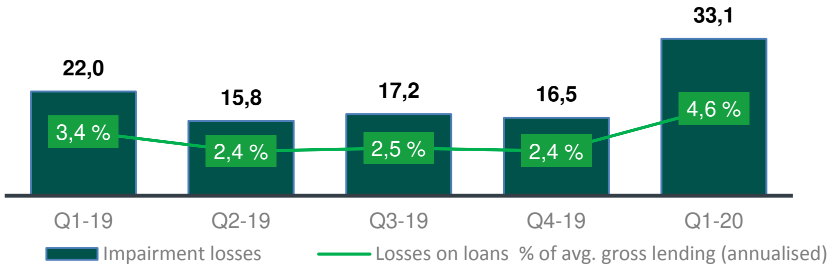
Credit risk

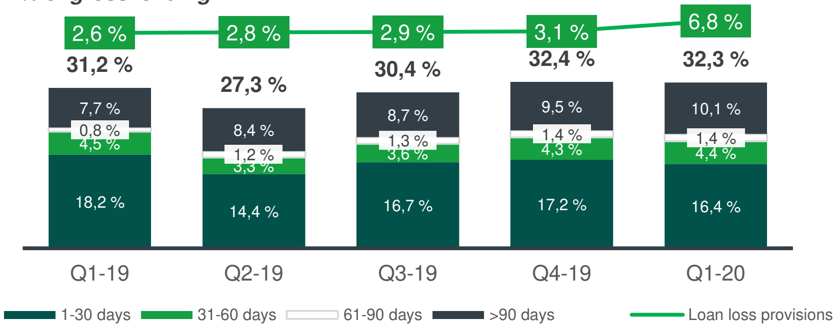
Impairment losses

MNOK



Loans past due

% of gross lending



Key comments

- The increase in losses on loans is mainly due to extra provisions for loan losses related to Covid-19 of 5 MNOK, as well as a new principle of calculating interest on loans in debt collection amounting to 4.7 MNOK. The latter has no impact on net profit as the interest are also added to interest income
- Up until the reporting date, Instabank has not observed any worsening in customer's payment behaviour and share of loans past due 1-30 days were lower per Q1-20 than the two past quarters which is also the case per April 30th
- Volume of granted payments reliefs related to Covid-19 from mid March until the reporting date represents 4.6 % of total loan volume.

IFRS volume distribution and ECL %

IFRS 9 Impairment losses

IFRS 9 vs IAS 39

- Whereas IAS 39 is an incurred loss model based on objective evidence, the standard IFRS 9 includes an expected credit loss model
- IFRS 9 produce higher losses on loans for the total portfolio compared to IAS 39 as impairments are also recognized for the loans in Stage 1 and Stage 2 in addition to those in Stage 3

Expected credit losses (ECL)

- ECL is the probability-weighted estimate of credit losses over the expected life of the financial instrument
- ECL = PD x EAD x LGD

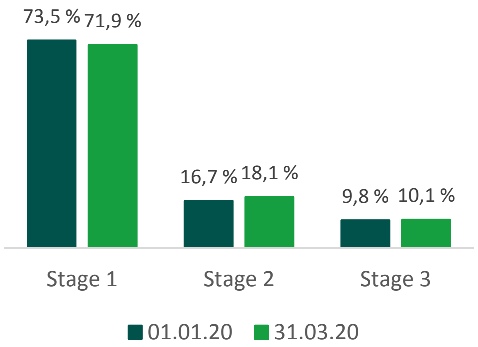
  PD = Probability of default

  EAD = Exposure at default

  LGD = Loss given default

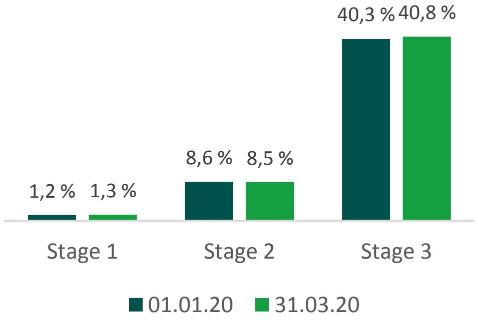
Volume distribution %

- Stage 1: Performing loans, past due <30 days
- Stage 2: Past due 30-60 days *or* significant increase in credit risk
- Stage 3: Defaulted



Expected Credit Losses (ECL) %

- Stage 1: ECL next 12 months
- Stage 2: ECL lifetime
- Stage 3: ECL lifetime

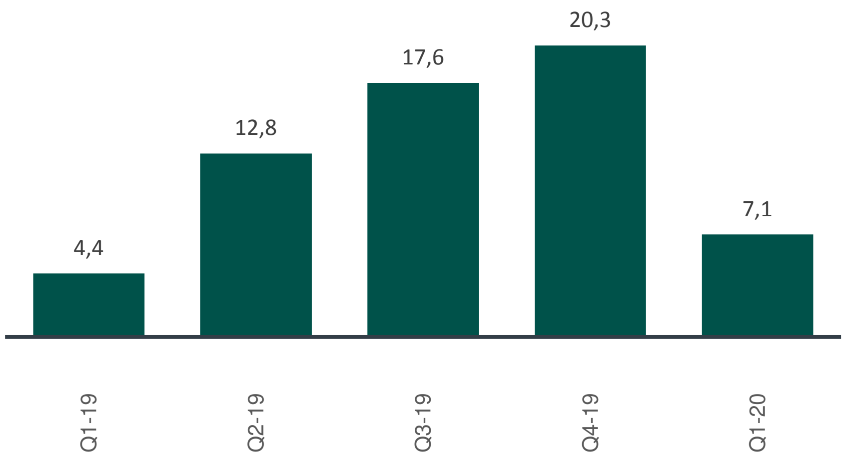


The transition from IAS 39 to IFRS 9 at the date of changeover 01.01.2020, had a one off impact represented by an increase in impairment losses of 85.5 MNOK and reduced equity by 64.1 MNOK. The IFRS 9 transitional rules allow for a gradual phase-in of the one-off IFRS 9 effect on the Bank's capital adequacy over a three year period with 30 % in 2020.

Profit development

Net profit before tax

MNOK

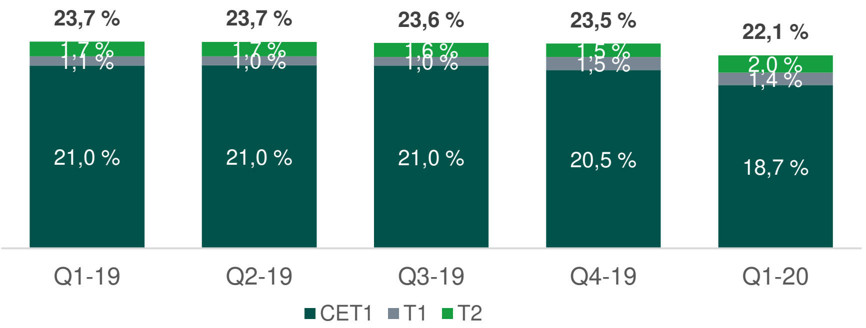


Key comments

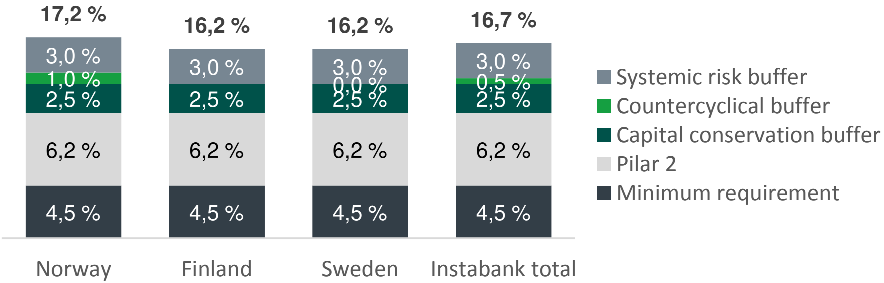
- Net profit before tax 7,1 MNOK, up 2,7 MNOK from Q1-19
- Q1-20 profit strongly affected by Covid-19 related loan loss provisions
- Although operational cost increased slightly from the previous quarter, the operational costs were still below the quarterly average both in 2019 and 2018 as a result of the operational efficiency, economies of scale as well as cost control

Capital adequacy

Developments in capital adequacy ratios



CET1 requirement per country and total



Key comments

- Instabank issued Tier 2 capital of 16 MNOK in the quarter, strengthening the capital adequacy ratio
- Common equity Tier 1 Capital ratio was 18.7 % and the total capital ratio was 22.1 % at the end of Q1-20, 1.9 % points above the total regulatory capital requirement of 20.2 %, making Instabank well capitalised
- The capital requirement was reduced by 0.9 % points as a result of the decision to reduce the countercyclical buffer requirement by the Norwegian and Swedish governments from 2.5 % to 1 % in Norway and from 2.5 % to 0 % in Sweden

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Outlook 2020

- Growth in net loans expected to be 200-250 million for remainder of year
- Covid-19 pandemic increases uncertainty and risk
- Paytech partner strategy strengthened with new agreements signed
- Cost and availability of capital will continue to limit growth potential
- Mortgage loan to be introduced Q2 for better capital utilization and lower risk
- Mobile platform to be introduced with deliverables through Q2 to Q4 to increase CRM possibilities and cross-selling

Financial summary

P&L (NOK '000)

Items	Q1-20	FY 2019	Q4-19	Q3-19	Q2-19	Q1-19
Operating income						
Interest income	83 432	305 725	79 957	77 950	74 466	73 351
Interest expenses	12 531	53 158	12 952	13 360	13 376	13 470
Net interest income	**70 901**	**252 567**	**67 006**	**64 590**	**61 090**	**59 881**
Net commission fees and other income	-3 900	-10 433	-5 269	-858	-2 742	-1 563
Total income	**67 001**	**242 133**	**61 737**	**63 732**	**58 348**	**58 317**
Operating expenses						
Salary and other personnel expenses	8 164	39 355	8 788	10 251	10 248	10 069
Other administrative expenses, of which	13 925	62 366	12 438	17 542	14 719	17 667
- direct marketing cost	*3 136*	*18 231*	*1 664*	*5 751*	*4 513*	*6 303*
Depreciation and amortisation	2 980	8 719	2 306	2 229	2 157	2 027
Other expenses	1 674	5 183	1 458	-1 143	2 695	2 174
Total operating expenses	**26 743**	**115 624**	**24 989**	**28 879**	**29 818**	**31 937**
Losses on loans	33 131	71 429	16 483	17 203	15 772	21 972
Operating (loss)/profit before tax	**7 127**	**55 080**	**20 264**	**17 650**	**12 757**	**4 408**
Tax	1 782	13 735	5 133	4 378	3 121	1 102
Profit/loss after tax	**5 345**	**41 345**	**15 131**	**13 272**	**9 636**	**3 306**

Balance sheet (NOK '000)

Items	Q1-20	Q4-19	Q3-19	Q2-19	Q1-19
Assets					
Loans and deposits with credit institutions	229 380	183 014	155 611	185 466	150 497
Loans to customers, of which	2 859 294	2 696 724	2 718 861	2 617 991	2 604 823
- prepaid agent commissions	*90 339*				
Certificates and bonds	328 138	516 194	534 400	640 642	488 971
Deferred tax assets	-	-		-	-
Other intangible assets	28 703	29 804	29 790	28 962	29 438
Fixed assets	10 414	563	657	777	912
Other receivables, of which:	101 827	114 520	116 060	101 665	104 737
- prepaid agent commissions		*93 216*	*96 141*	*94 379*	*92 027*
Total assets	**3 557 756**	**3 540 819**	**3 555 379**	**3 575 503**	**3 379 379**
Liabilities					
Deposits from and debt to customers	2 887 298	2 848 737	2 891 435	2 934 575	2 751 149
Other debts	38 565	22 378	31 311	23 171	19 941
Accrued expenses and liabilities	26 780	21 177	15 065	13 631	14 070
Subordinated loans	56 000	80 900	65 000	65 000	65 000
Total liabilities	**3 008 644**	**2 973 193**	**3 002 810**	**3 036 377**	**2 850 160**
Equity					
Share capital	510 834	510 834	510 834	510 834	510 834
Retained earnings	-2 622	56 792	41 734	28 291	18 385
Tier 1 capital	40 900				
Total equity	**549 113**	**567 626**	**552 568**	**539 125**	**529 219**
Total liabilities and equity	**3 557 756**	**3 540 819**	**3 555 379**	**3 575 503**	**3 379 379**

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Share price and ownership

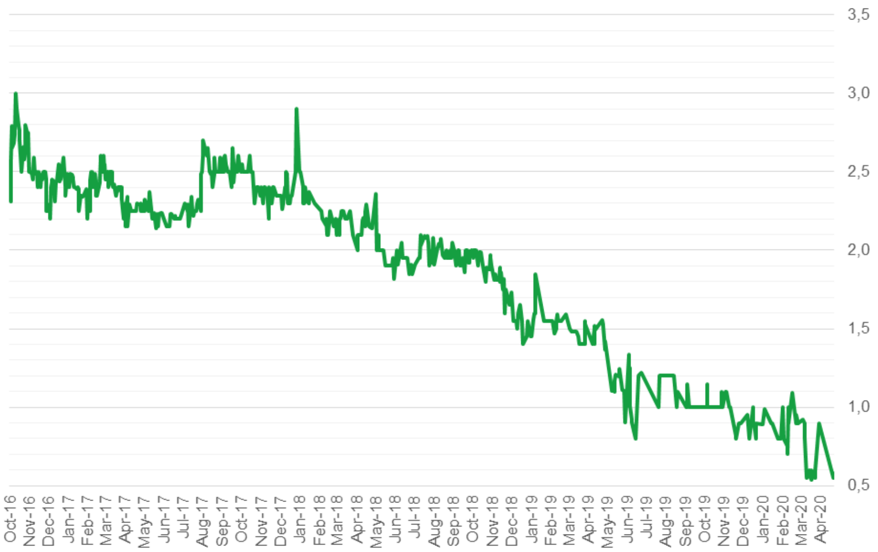
Top 20 shareholders as of 28.04.2020

#	Shareholders	# of shares	%
1	KISTEFOS AS	83 126 568	25,0%
2	HODNE INVEST AS	29 208 636	8,8%
3	VELDE HOLDING AS	23 775 000	7,1%
4	BIRKELUNDEN INVESTERINGSSELSKAP AS	18 305 911	5,5%
5	KAKB 2 AS	12 612 021	3,8%
6	HJELLEGJERDE INVEST AS	9 161 000	2,8%
7	KRISTIAN FALNES AS	9 000 000	2,7%
7	LEIKVOLLBAKKEN AS	8 500 000	2,6%
9	MOROAND AS	8 500 000	2,6%
10	APOLLO ASSET LIMITED	6 562 741	2,0%
11	ALTO HOLDING AS	5 770 000	1,7%
12	SONSINVEST AS	5 108 195	1,5%
13	ENZIAN AS	5 000 000	1,5%
14	LEIRIN HOLDING AS	4 333 333	1,3%
15	CAHE FINANS AS	3 500 000	1,1%
16	MAGDALENA HOLDING AS	3 154 001	0,9%
17	DOLPHIN MANAGEMENT AS	3 138 000	0,9%
18	TVEDT INVESTERING AS	3 138 000	0,9%
19	VELDE EIENDOM INVEST AS	3 050 000	0,9%
20	GRUNNFJELLET AS	3 010 000	0,9%
	Sum Top20	**247 953 406**	**74,5%**
	Other shareholders	84 688 633	25,5%
	Total	**332 642 039**	**100,0%**

Position	Name	# of shares	% of total
CEO	Robert Berg (Sonsinvest AS)	5 217 195	1,6 %
CCO	Eivind Sverdrup (Leirin Holding AS)	4 403 833	1,3 %
CTO	Farzad Jalily	742 417	0,2 %
CFO	Per Kristian Haug	95 000	0,0 %
CRO	Kjetil Andre Welde Knudsen	70 000	0,0 %
COO	Anne Jørgensen	35 000	0,0 %
CMO	Jørgen Rui	34 110	0,0 %
	Sum management	**10 597 555**	**3,2 %**
	Other employees	1 435 934	0,4 %
	Board members	2 150 000	0,6 %
	Total	**14 183 489**	**4,3 %**

Share price development since OTC listing in October 2016

Share price (NOK)



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Thank You