Instabank

Interim Presentation Q2 – 2020

August 13th 2020

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Key highlights Q2-20

Profit before tax of 13.1 MNOK, after tax 9.9 MNOK
Interest income has decreased as volume has fallen. However, with still low costs and relatively low losses given the Covid-19 pandemic, profit after tax increased from 5.3 MNOK in the previous quarter to 9.9 MNOK this quarter

Launch of second priority mortgage loans
Instabank introduced mortgage loans during Q2 and is currently in a process of scaling up distribution. Mortgage loans will improve capital utilization and reduce credit risk

Coop and Instabank signed a long-term cooperation agreement
The parties will cooperate in developing new financing solutions for Obs Bygg and Coop Byggmix, to be launched in September.

Gross loans decreased by 201 MNOK in Q2-20
The decrease is a result of negative currency effects of 69.3 MNOK and limited new sales activities from mid-March. Volumes increased again from June, a development that continues into Q3.

Instabank is admitted to be listed at Merkur Market
First day of trading will be 17th of August.

Key figures Q2-2020

- Net profit before tax of 13.1 MNOK + 3 % vs Q2-19
- Total income of 60.0 MNOK + 3 % vs Q2-19
- Losses on loans 3.0 % vs 2.4 % Q2-19
- Quarterly decrease in net loans of -204 MNOK vs +13 MNOK Q2-19
- Outstanding net loans of 2,565 MNOK vs 2,617 Q2-19
- Equity per share of 1.55 NOK vs 1.62 Q2-19
- Return on Equity of 7.7 % vs 7.2 % in Q2-19

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

- **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**

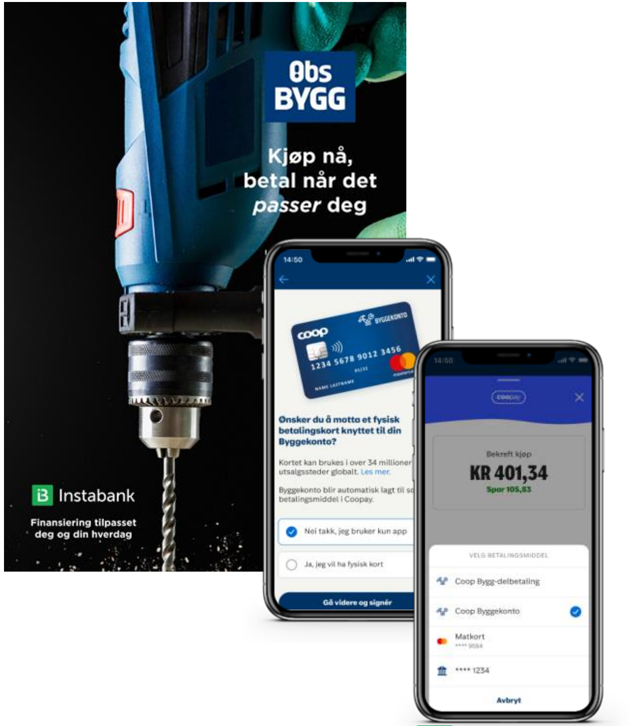
New partner agreement with Coop

- Coop and Instabank will cooperate in developing new financing solutions for Coop Norge’s building warehouses Obs Bygg and Coop Byggmix.

- New sales finance products will be distributed in-store, through the payment app Coopay and as a Coop branded credit card.

- Coop has almost 1,8 million members in Norway, and the chains in Coop represent an annual turnover of more than fifty billion NOK. The payment app Coopay has more than 200 000 users.

- The agreement strengthens Instabank´s position as a major paytech player, and could also represent a future opportunity for Instabank to deliver products to other parts of the Coop chain



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Distribution channels

Instabank

Volume
as of Q2-20

22 %

Agents

Volume
as of Q2-20

66 %

Partners

Volume
as of Q2-20

12 %

Present product portfolio

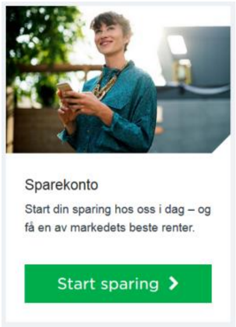
Unsecured consumer loans and mortgages

KEY METRICS	KEY METRICS
NOK 2,461m in net unsecured loans	NOK 4,5m in net mortgage loans
24,184 customers	10 customers
NOK 99k in avg. loan size	NOK 450k in avg. loan size
12.8 % avg. loan yield	7.7 % avg. loan yield

Sales financing

KEY METRICS	KEY METRICS
NOK 99m in net loans	NOK 36 m in invoice balance
6,045 customers	1,247 customers
NOK 16k in avg. loan size	NOK 29k in avg. invoice size
16.7 % avg. loan yield	

Deposit accounts

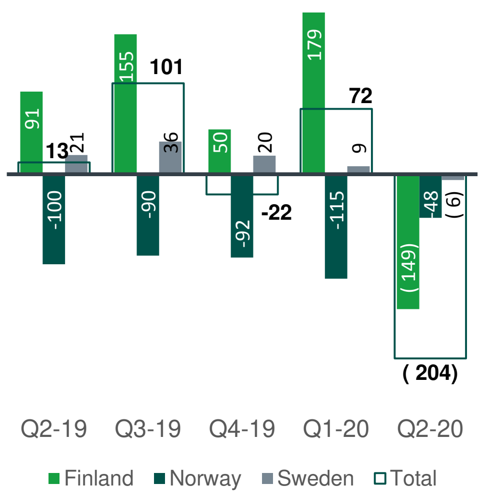


KEY METRICS
NOK 3,129m in deposits
10,324 customers
NOK 303k avg. deposit size
1.8 % (NO) / 0.9 % (FI) / 0.85 % (SE)

Net loan development

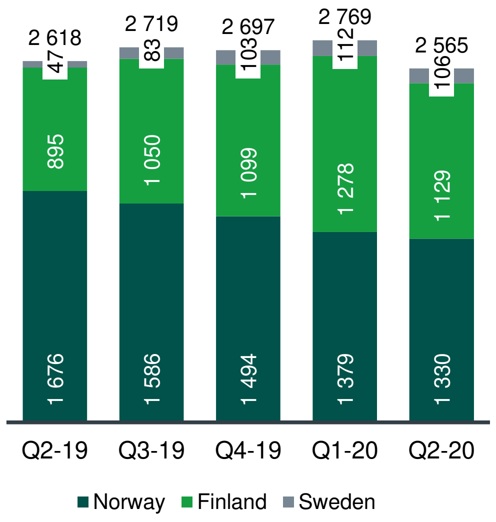
Net loan balance growth

MNOK



Net loans to customers

MNOK



Key comments

- In mid-March, Instabank suspended all new loans sales, except for sales financing through paytech partners, in conjunction with risk associated with the Covid-19 outbreak
- Through Q2-20, the strict credit policy introduced in March has gradually been lifted in line with the gradually recovery. The decrease in net loans has turned to an increase in volume from June.
- Net loans decreased by 204 MNOK in Q2-20 as a result of low new sales as well as negative currency effects of 69.3 MNOK
- Of the total net loan balance of 2,769 MNOK, 48 % was outside Norway at the end of the quarter down from 50 % at the end of Q1-20.

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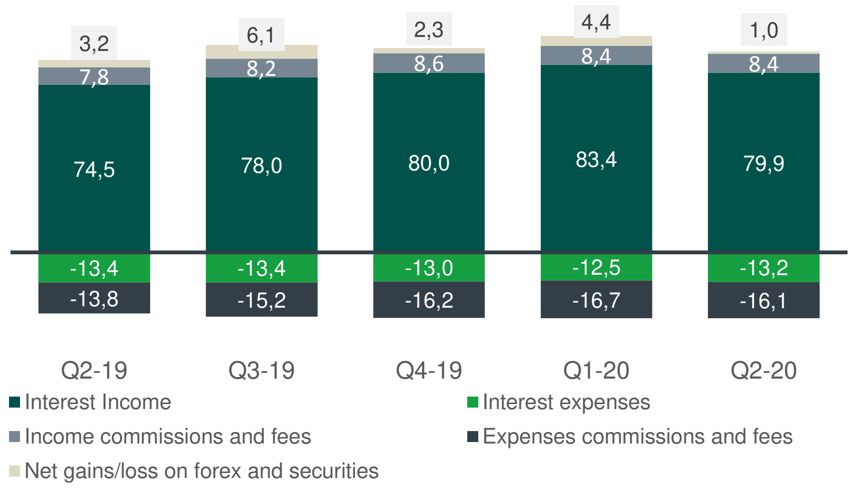
Total income

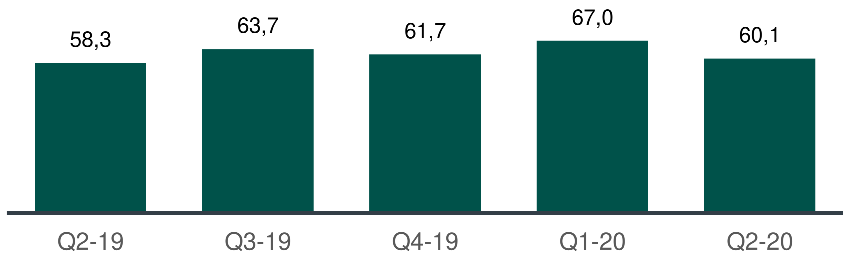
Total income detailed

MNOK



Total income

MNOK



Key comments

- Interest income decreased by 3.5 MNOK from Q1-20 to 79.9 MNOK in Q2-20 as a result of decreased loan balance and negative currency effects.
- A growth in deposit volume of 241 MNOK in the quarter resulted in an increase in interest expenses of 0.6 MNOK while the funding cost remained at 1.5 %.

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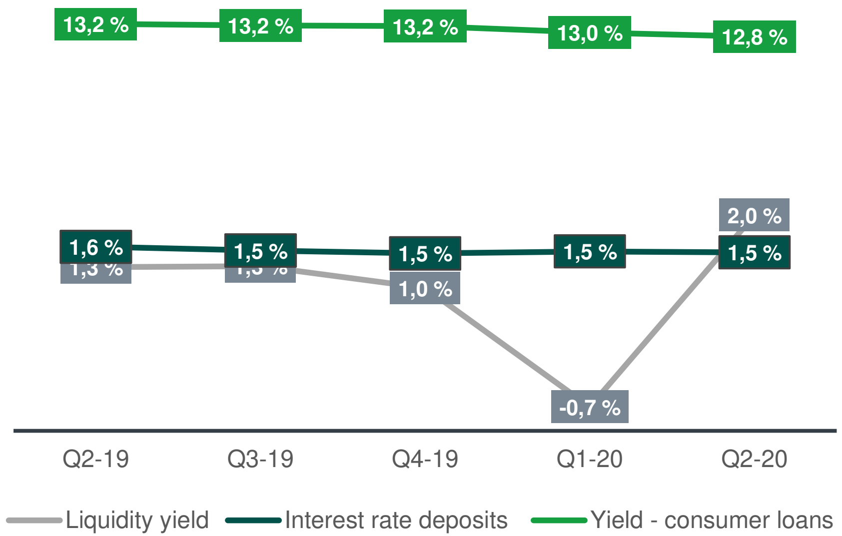
Funding cost and yields

Development in funding cost and yields

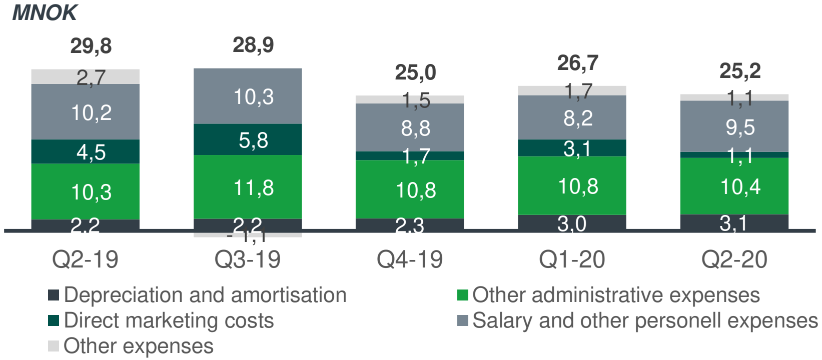


Key comments

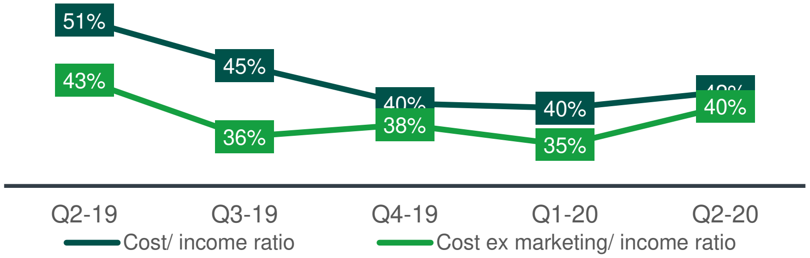
- Although loan yield vary across markets and products and the mix among them changes, the total yield remains relatively stable.
- Share of deposits outside Norway was at 45 %, down from 47 % by the end of Q1-20 as a result of high growth in Norway and a reduction in deposit volume in Sweden.
- Liquidity yield came back high at 2.0 % in Q2-20 after a negative return 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



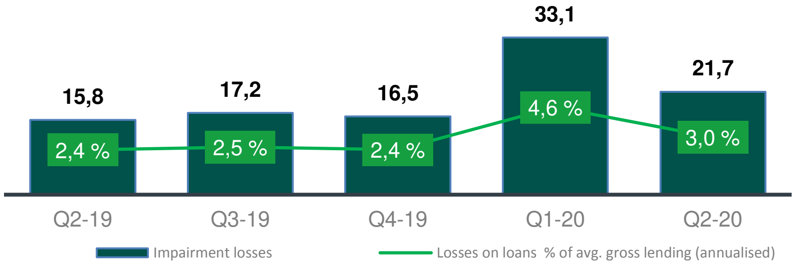
Key comments

- Instabank maintain a strong focus on cost control and operational efficiency and had lower operating expenses in Q2-20 compared to the same quarter in both 2019 and 2018
- Total operating expenses decreased by 1.5 MNOK from the previous quarter to 25.2 MNOK. Personnel expenses increased by 1.3 MNOK as a result of booked bonus provisions and an increase in number of employees
- Cost/income level slightly higher than the two previous quarters as a result of the reduction in total income.

Credit risk

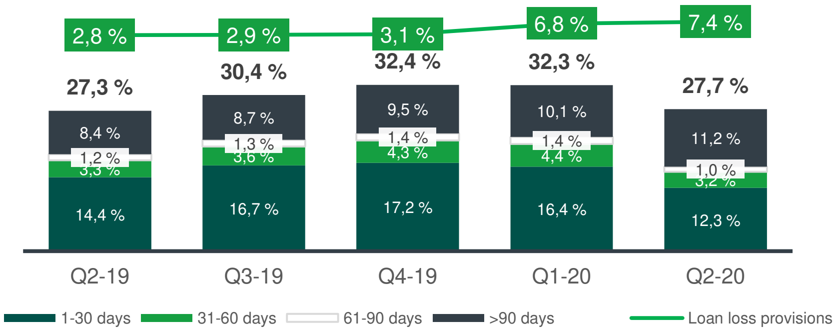
Impairment losses

MNOK



Loans past due

% of gross lending



Key comments

- Losses on loans came in at 21.7 MNOK/ 3.0 % of gross loans, down from 33.1 MNOK/ 4.6 % in the previous quarter when an extra provisions for loan losses related to Covid-19 of 5 MNOK was included.
- The IFRS 9 impairment loss model have been updated in the quarter of future projection of macroeconomic indicators, including short and long term effects of COVID-19. The new projections reflect a worsening in all employment and consumption based indicators, especially in shorter term
- Up until the reporting date, Instabank has not observed any worsening in customer's payment behaviour, rather the opposite. Share of volume past due is at its lowest levels for the categories up to 90 days compared to the previous quarters back to 2017
- Volume of granted payments reliefs related to Covid-19 from represents 1.9 % of total loan volume at the end of Q2-20, down from 4.6 % by the end of the previous quarter.

IFRS 9 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

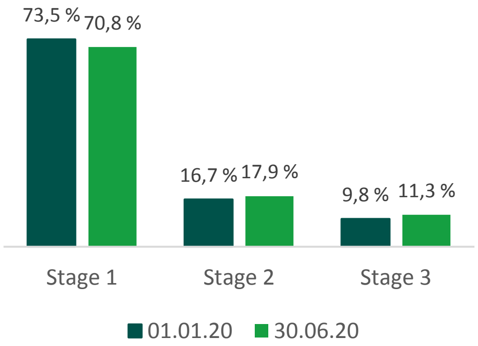
  PD = Probability of default

  EAD = Exposure at default

  LGD = Loss given default

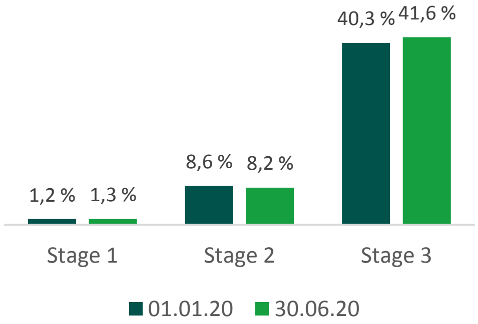
Volume distribution %

- 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

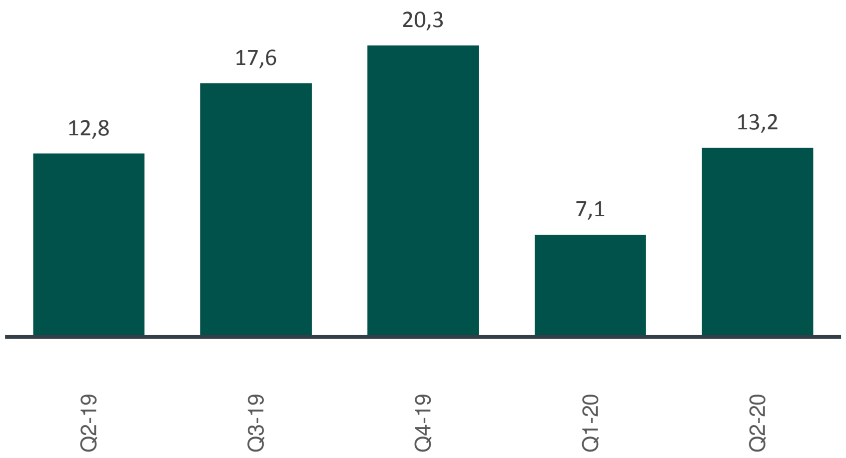


The transition from IAS 39 to IFRS 9 at the date of changeover 01.01.2020, had a one off impact represented by an increase in impairment losses of 85.5 MNOK and reduced equity by 64.1 MNOK. The IFRS 9 transitional rules allow for a gradual phase-in of the one-off IFRS 9 effect on the Bank's capital adequacy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

Profit development

Net profit before tax

MNOK



Key comments

- Net profit before tax 13.2 MNOK, up 6.1 MNOK from Q1-20
- Q2-20 profit negatively affected by a reduction in interest income as a result of the decrease in loan volume

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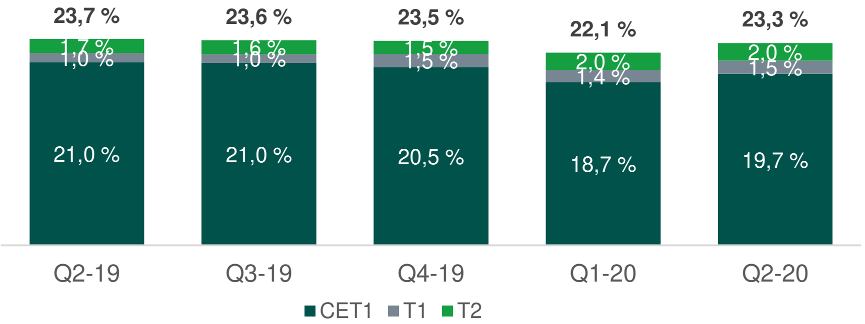
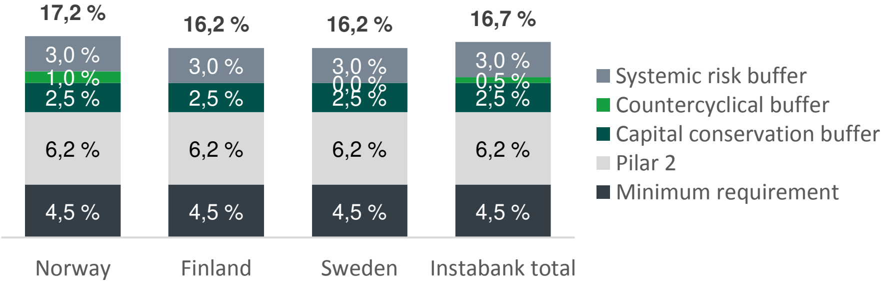
Capital adequacy

Developments in capital adequacy ratios



CET1 requirement per country and total



Key comments

- Instabank is well capitalised and has surplus capital of 83 MNOK above the minimum regulatory capital requirement
- At the end of Q2-20, Common Equity Tier 1 capital ratio (CET1) was 19.7 % and the total capital ratio was 23.3 % at the end of Q2-20, 3.1 % points above the regulatory total capital requirement of 20.2 %.
- The total capitol ratio increased by 1.2 % points form Q1-20 as a result of profit generation as well as a decrease in risk weighted assets

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Outlook 2020

- Growth in net loans expected to be 250-300 MNOK for the second half of 2020
- Covid-19 pandemic has increased uncertainty and risk, although recovery has been better than expected
- Alongside growth from the paytech partner strategy, Instabank expects the new easy-to-use mortgage loan product introduced in Q2-20 to contribute to profitable growth and lowered credit risk going forward
- Paytech partner strategy strengthened with new agreement with Coop
- Cost and availability of capital could affect growth potential long term

Financial summary

P&L (NOK '000)

Items	Q2-20	Q1-20	FY 2019	Q4-19	Q3-19	Q2-19
Operating income						
Interest Income using the effective interest method	79 854	83 102	305 752	79 957	77 950	74 466
Other interest income	37	330				
Interest expenses	13 164	12 531	53 158	12 952	13 360	13 376
Net interest income	**66 727**	**70 901**	**252 594**	**67 006**	**64 590**	**61 090**
Net commission fees and other income	-6 648	-3 900	-10 429	-5 269	-858	-2 742
Total income	**60 079**	**67 001**	**242 165**	**61 737**	**63 732**	**58 348**
Operating expenses						
Salary and other personnel expenses	9 507	8 164	39 355	8 788	10 251	10 248
Other administrative expenses, of which	11 466	13 925	62 384	12 438	17 542	14 719
- direct marketing cost	*1 105*	*3 136*	*18 231*	*1 664*	*5 751*	*4 513*
Depreciation and amortisation	3 106	2 980	8 719	2 306	2 229	2 157
Other expenses	1 144	1 674	5 302	1 458	-1 143	2 695
Total operating expenses	**25 223**	**26 743**	**115 761**	**24 989**	**28 879**	**29 818**
Losses on loans	21 704	33 131	71 429	16 483	17 203	15 772
Operating (loss)/profit before tax	**13 152**	**7 127**	**54 974**	**20 264**	**17 650**	**12 757**
Tax	3 288	1 782	13 735	5 133	4 378	3 121
Profit/loss after tax	**9 864**	**5 345**	**41 239**	**15 131**	**13 272**	**9 636**

Balance sheet (NOK '000)

Items	Q2-20	Q1-20	Q4-19	Q3-19	Q2-19
Assets					
Loans and deposits with credit institutions	165 812	229 380	183 014	155 611	185 466
Loans to customers, of which	2 644 120	2 859 294	2 696 724	2 718 861	2 617 991
- prepaid agent commissions	*79 006*	*90 339*			
Certificates and bonds	863 415	328 138	516 194	534 400	640 642
Deferred tax assets	16 527	-	-		-
Other intangible assets	29 434	28 703	29 804	29 790	28 962
Fixed assets	9 740	10 414	563	657	777
Other receivables, of which:	50 504	101 827	114 520	116 060	101 665
- prepaid agent commissions			*93 216*	*96 141*	*94 379*
Total assets	**3 779 552**	**3 557 756**	**3 540 819**	**3 555 379**	**3 575 503**
Liabilities					
Deposits from and debt to customers	3 129 285	2 887 298	2 848 737	2 891 435	2 934 575
Other debts	9 973	38 565	22 378	31 311	23 171
Accrued expenses and liabilities	26 279	26 780	21 177	15 065	13 631
Subordinated loans	56 000	56 000	80 900	65 000	65 000
Total liabilities	**3 221 537**	**3 008 644**	**2 973 193**	**3 002 810**	**3 036 377**
Equity					
Share capital	510 834	510 834	510 834	510 834	510 834
Retained earnings	6 280	-2 622	56 792	41 734	28 291
Tier 1 capital	40 900	40 900			
Total equity	**558 014**	**549 113**	**567 626**	**552 568**	**539 125**
Total liabilities and equity	**3 779 552**	**3 557 756**	**3 540 819**	**3 555 379**	**3 575 503**

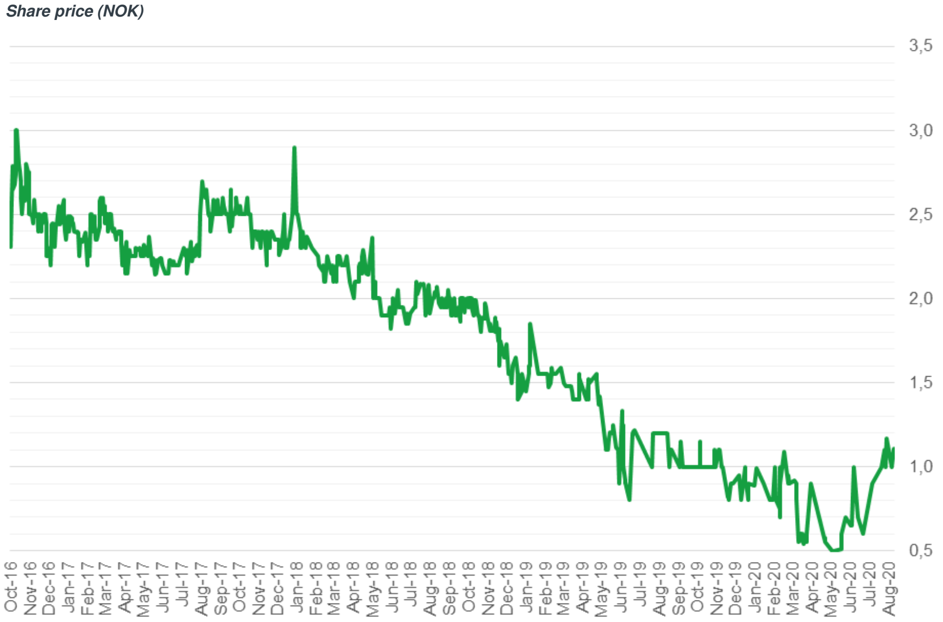
Share price and ownership

Top 20 shareholders as of 11.08.2020

#	Shareholders	# of shares	%
1	KISTEFOS AS	83 126 568	24,99%
2	HODNE INVEST AS	29 588 311	8,89%
3	VELDE HOLDING AS	23 775 000	7,15%
4	BIRKELUNDEN INVESTERINGSSELSKAP AS	18 305 911	5,50%
5	KAKB 2 AS	12 612 021	3,79%
6	HJELLEGJERDE INVEST AS	9 161 000	2,75%
7	KRISTIAN FALNES AS	9 000 000	2,71%
7	LEIKVOLLBAKKEN AS	8 500 000	2,56%
9	MOROAND AS	8 500 000	2,56%
10	APOLLO ASSET LIMITED	6 562 741	1,97%
11	ALTO HOLDING AS	5 770 000	1,73%
12	SONSINVEST AS	5 108 195	1,54%
13	ENZIAN AS	5 000 000	1,50%
14	LEIRIN HOLDING AS	4 333 333	1,30%
15	CAHE FINANS AS	3 500 000	1,05%
16	MAGDALENA HOLDING AS	3 203 241	0,96%
17	DOLPHIN MANAGEMENT AS	3 138 000	0,94%
18	TVEDT INVESTERING AS	3 138 000	0,94%
19	VELDE EIENDOM INVEST AS	3 050 000	0,92%
20	GRUNNFJELLET AS	3 010 000	0,90%
	Sum Top20	**248 382 321**	**74,67%**
	Other shareholders	84 259 718	25,33%
	Total	**332 642 039**	**100,00%**

Position	Name	# of shares	% of total
CEO	Robert Berg (Sonsinvest AS)	5 217 195	1,57 %
CCO	Eivind Sverdrup (Leirin Holding AS)	4 403 833	1,32 %
CTO	Farzad Jalily	742 417	0,22 %
CFO	Per Kristian Haug	95 000	0,03 %
CRO	Kjetil Andre Welde Knudsen	70 000	0,02 %
COO	Anne Jørgensen	35 000	0,01 %
CMO	Jørgen Rui	34 110	0,01 %
	Sum management	**10 597 555**	**3,19 %**
	Other employees	1 435 934	0,43 %
	Board members	2 150 000	0,65 %
	Total	**14 183 489**	**4,26 %**

Share price development since OTC listing in October 2016



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