

INSTABANK ASA

INTERIM REPORT Q4 2018

Instabank

INTERIM REPORT Q4-18

Key highlights & developments

- ✓ **Net loan growth of 271 MNOK / 12% in Q4. Finland represented 26% of total loan balance by the end of Q4 and 74% of quarterly loan balance growth**
- ✓ **Q4 net profit of 10.4 MNOK, net profit after tax of NOK 8.3, up 298% versus Q4/17**
- ✓ **Successful soft-launch in the Swedish market through a cross border operation late in the quarter**
- ✓ **New share issue to Kistefos AS through a private placement with gross proceeds of 65.9 MNOK**



We think like you.

INTERIM REPORT Q4 2018

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 Q4, Instabank had 30 full-time and 8 part-time employees.

Instabank operates in Norway, Finland and, from Q4/18, Sweden offering 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 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 Q4, the bank had distribution through 20 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 Q4, Kistefos AS was the bank's largest shareholder owning 22.6%. There were no other individual shareholders owning more than 10% of the bank.



Operational developments

The bank soft-launched loan products in Sweden through a cross border operation late in Q4, adding a third country to the company's operating activities. This launch follows the bank's original plan and further benefits the scalable operating platform.

The Finnish Market has continued to develop very well for Instabank, representing attractive margins compared to the Norwegian market, both when it comes to loan yield and funding cost. The bank launched deposits in Finland in Q3 and has experienced a high growth with Finland representing 14 % of total deposits by the end of Q4. The change in deposit mix between Norway and Finland has decreased the bank's funding cost as the deposit rate in Finland is approximately 1% point lower than in Norway.

The Point of Sales (POS) financing solutions continues to develop very well, attracting a large number of small-ticket customers representing a significant upsale potential.

Balance Sheet

Net loan balance increased by 271 MNOK/ 12 % to 2 482 MNOK by the end of Q4, down from a growth of 376 MNOK in the previous quarter. Finland represented 26 % of total loan balance, up from 21 % the previous quarter, and 74 % of the quarterly loan balance growth.

Deposits from customers increased by 285 MNOK in Q4, down from a 602 MNOK increase during the previous quarter. The bank lowered the interest rate in Norway during the quarter to slow Norwegian deposit growth, resulting in a 62 MNOK decrease in deposit volume. This shifted a higher percentage of the deposit mix to EUR deposits in Finland at an attractive margin compared to Norway. By the end of Q4 the bank had 2.832 MNOK in deposits of which 14% were in Finland.

Total assets at the end of Q4 were 3 415 MNOK.

The total capital ratio for the bank was 22.7% at the end of Q4 and common equity Tier Capital ratio was 19.8 %. The bank issued new shares through a private placement with gross proceeds of 65.9 MNOK in Q4. For information relating to capital requirements and liquidity coverage ratio, refer to the notes.

At the end of Q4, the bank had a total of 30 143 customers, split between 24 023 loan customers and 6 120 deposit customers with a balance.

Profit and loss

Interest income increased by 10 MNOK from the previous quarter to 70.2 MNOK in Q4 as a result of loan balance growth. The net interest income margin decreased slightly by 0.21 % points to 9.24 % as a result of a high liquidity volume at the beginning of the quarter, but was trending above that by the end of the quarter as a result of declined deposit rates.

Total income increased by 1.9 MNOK to 54.3 MNOK, negatively affected by a decrease in commission income, increase in booked agent commissions and low income from liquidity portfolio as a result of the capital markets movements in Q4.

Total operating expenses were 26.4 MNOK in Q4, down 4 MNOK from the previous quarter. The cost income ratio was below 50% for the first time at 48.6%. The decrease in operating costs were driven by less marketing expenses, as a result of less marketing activities in the holiday season at the end of the quarter and a decrease in customer acquisition cost. Losses on loans came in at 17.5 MNOK or 2.9%, up from 12.6 MNOK or 2.5% in the previous quarter, driven by an increased coverage ratio.

Net profit was 10.3 MNOK and net profit after tax was 8.3 MNOK, up from 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 proposed consumer finance by-law based on the guidelines is expected to be introduced soon, although the Justice department responded to the FSA that it was in conflict with Financial Agreement law.

The debt register, that will be operative by the end of Q2/19, is expected to reduce the number of fraudulent applications where loan applicants don't disclose all of their debt, and is expected to lead to more informed and accurate credit assessments of loan applicants.

Instabank welcomes both the new consumer loans by-law and the debt register. 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.

However, the most important markets for Instabank going forward will be the markets outside Norway. After entering the Swedish market late in Q4, the bank operates now in three countries. 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 bank announced in December that it will apply for a Swedish banking license and is also considering other strategic domicile alternatives in parallel.

Instabank expects that margins will increase slightly short term as share of EUR funding at an attractive margin is increasing. Instabank successfully launched deposits in Finland in Q3/18 and plans to launch deposits in Sweden late in Q1/19.

The bank's liquidity situation 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 FSA (Finanstilsynet) to conclude the pilar 2 requirement for the bank in Q2/19.

Oher information

The accounting profit for Q4 is entirely predisposed against retained earnings.

The presented figures are not audited by the bank's external auditor.

Oslo, February 7th, 2019
Board of Directors, Instabank ASA



INCOME STATEMENT

Amounts in NOK 1 000	Q4 2018	2018	Q4 2017	2017
Interest income	70 207	222 546	36 416	97 536
Interest expenses	14 472	46 344	7 930	17 948
Net interest income	**55 735**	**176 202**	**28 486**	**79 587**
Income commissions and fees	8 791	35 238	5 958	28 379
Expenses commissions and fees	10 955	29 544	3 559	8 877
Net gains/loss on foreign exchange and securities classified as current assets	689	7 546	1 209	2 291
Net other income	**- 1 475**	**13 230**	**3 608**	**21 793**
Total income	**54 261**	**189 432**	**32 094**	**101 380**
Salary and other personnel expenses	8 304	30 871	7 767	25 459
Other administrative expenses, of which:	14 584	66 153	10 919	43 917
- direct marketing cost	*6 695*	*38 330*	*7 977*	*31 705*
Depreciation and amortisation	1 923	6 138	919	2 784
Other expenses	1 548	5 085	845	3 044
Total operating expenses	**26 358**	**108 246**	**20 450**	**75 204**
Losses on loans	17 540	47 189	7 873	22 125
Operating (loss)/profit before tax	**10 363**	**33 996**	**3 770**	**4 051**
Tax expenses	2 038	7 945	1 680	1 751
PROFIT/LOSS AFTER TAX	**8 326**	**26 051**	**2 090**	**2 301**

BALANCE SHEET

Amounts in NOK 1 000	31.12.2018	31.12.2017
Loans and deposits with credit institutions	142 298	40 929
Loans to customers	2 481 880	1 317 942
Certificates and bonds	647 128	682 091
Deferred tax assets	89	7 629
Other intangible assets	27 339	17 175
Fixed assets	1 035	1 228
Other receivables, of which:	115 692	44 007
- prepaid agent commission	*86 381*	*36 706*
TOTAL ASSETS	**3 415 461**	**2 111 002**
Deposit from and debt to customers	2 832 361	1 804 600
Other debts	14 313	12 313
Accrued expenses and liabilities	20 056	11 420
Subordinated loan	40 000	0
Tier 1 Capital	25 000	
Total liabilities	**2 931 729**	**1 828 332**
Share capital	468 651	294 228
Retained earnings	15 081	-11 557
Total equity	**483 732**	**282 670**
TOTAL LIABILITIES AND EQUITY	**3 415 461**	**2 111 002**

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	31.12.2018	31.12.2017
Gross and net lending		
Revolving credit loans	635 095	356 801
Installment loans	1 900 112	986 893
Gross lending	**2 535 207**	**1 343 694**
Impairment of loans	-53 327	-25 752
Net loans to customers	**2 481 880**	**1 317 942**
Defaults and losses		
Gross defaulted loans	172 550	73 301
Individual impairment of loans	-42 226	-19 991
Other impairment of loans	-11 102	-5 761
Net defaulted loans	**119 223**	**47 549**

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	31.12.2018	31.12.2017
Share capital	305 000	205 000
Share premium	163 651	89 228
Other equity	15 081	-11 557
Deferred tax asset / intangible assets / other deductions	-27 986	-25 487
Common equity tier 1 capital	**456 394**	**257 184**
Hybrid capital	25 000	0
Core capital	**481 394**	**257 184**
Supplement capital	40 000	0
Total capital	**521 394**	**257 184**
Calculation basis		
Credit risk:		
Loans and deposits with credit institutions	28 511	8 186
Loans to customers	1 763 667	933 481
Certificates and bonds	72 479	98 875
Other assets	247 051	118 536
Calculation basis credit risk	**2 111 708**	**1 159 078**
Calculation basis operational risk	185 587	100 789
Total calculation basis	**2 297 295**	**1 259 866**
Common equity tier 1 capital ratio	19.8%	20.4%
Tier 1 capital ratio	20.9%	20.4%
Total capital ratio	22.7%	20.4%
LCR	419%	389%