

INSTABANK ASA

INTERIM REPORT Q1 2019

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Key highlights & developments:

- Net loan growth of 123 MNOK/ 5 %. Finland performed well with a net loan growth of 148 MNOK, while net loans in Norway decreased by 50 MNOK and net loans in Sweden grew by 25 MNOK
- Q1 net profit of 4.4 MNOK, weakened by administrative cost related to strategic initiatives and a one-off increase in loan loss provisions
- Launched Instapay MasterCard credit card, initially targeted to POS finance customers
- New share issue to existing shareholders with gross proceeds of 42.8 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 Q1, 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 Q1, 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 Q1, 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

The bank soft-launched loan products in the Swedish market through a cross-border operation late in Q4 2018 and has fined-tuned the credit risk model and pricing on low paid-out volume during Q1 2019 to limit credit risk and optimise margins in a highly competitive market.

Deposits were launched in Sweden in Q1 19 at an attractive margin compared to the deposit rate offered in Norway.

The Finnish market is still developing very well for Instabank and contributed with a net loan growth of 148 MNOK in Q1 19. Finland is the most profitable market for Instabank, offering attractive margins compared to the Norwegian market, both when it comes to loan yield and funding cost. In Q1 19 deposits in Finland grew by 210 MNOK to 611 MNOK at a deposit rate more than 1 % point lower than in Norway.

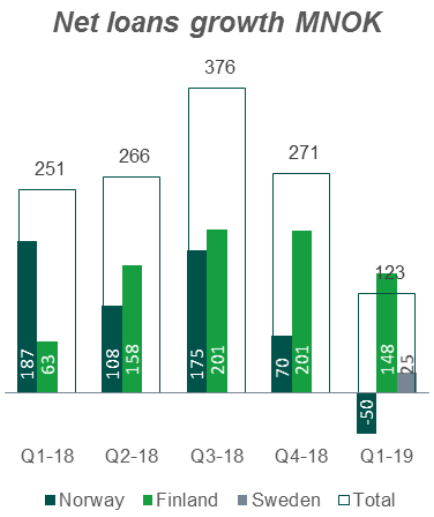
The bank has entered into a forward flow agreement with Axactor for the monthly sale of the bank's non-performing loans in Finland. The agreement came into effect from March 19.

In Norway the bank has experienced a decrease in loan balance growth over the past quarters and in Q1 19 the bank experienced a decrease in loan balance for the first time of - 50 MNOK. The decrease was a result of the bank focusing on volume growth outside of Norway, where more attractive margins are attainable. In Norway, the Point of Sales (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.

Instabank launched the Instapay MasterCard credit card as a payment instrument on top of the flexible loan product. Initially, Instapay is offered to POS finance customers at Skeidar as an option in the application process and will be offered to other customer segments as a standalone credit card during Q2 19.

Balance Sheet

Net loan balance increased by 123 MNOK/ 5 % to 2 605 MNOK by the end of Q1 19, down from a growth of 271 MNOK in the previous quarter mainly due to a decrease in net loan balance in Norway. Finland represented 31 % of total loan balance by the end of Q1 19, up from 26 % by the end of the previous quarter.



Deposits from customers decreased by 81 MNOK in Q1 19, down from a 285 MNOK increase in the previous quarter. The deposits/ net loans ratio decreased to 106 % from 114 % by the end of the previous quarter. The bank has succeeded in shifting deposit volume from a higher deposit rate in Norway at 1.93 % to a more attractive deposit rate in Finland at 0.80 %. By the end of Q1 19 the bank had 2.751 MNOK in deposits of which 22 % was in Finland, up from 14 % by the end of the previous quarter.

Total assets by the end of Q1 19 were 3 379 MNOK.

The total capital ratio for the bank was 23.7 % by the end of Q1 19 and common equity Tier 1 Capital ratio was 21.0 %.

The bank had a new share issue of 42.8 MNOK in Q1 19. For information relating to capital requirements and liquidity coverage ratio, refer to the notes.

At the end of Q1 19, the bank had a total of 32 826 customers, of which 26 144 were loan customers and 6 682 were deposit customers with a balance.

Profit and loss

Interest income increased by 3.3 MNOK from the previous quarter to 73.5 MNOK in Q1 19 as a result of loan balance growth. Interest expenses came in at 13.5 MNOK, 1.0 MNOK lower than the previous quarter as a result of a shift in the deposit mix between the countries in favour of Finland, as well as a decrease in the total deposit volume. As a result of declined deposit rates and a decrease in surplus liquidity, the net interest margin increased by 0.11 % points to 9.35 %.

Total income increased by 4.0 MNOK to 58.3 MNOK, positively affected by a liquidity yield of 1.63 %, up from 0.62 % in the previous quarter and negatively affected by an increase in commission expenses.

Total operating expenses were 31.9 MNOK in Q1 19, up 5.5 MNOK from the previous quarter, but only 1.5 MNOK higher than in Q3 18. Administrative costs increased 3.0 MNOK from the previous quarter, partly related to adding operational costs for the Swedish operation and partly related to 1.5 MNOK in one-off advisory costs.

Losses on loans came in at 21.9 MNOK or 3.4 % of gross loan balance, up from 17.5 MNOK/ 2.9 % in the previous quarter. The bank entered into a forward flow agreement with Axactor for Finland in the quarter, leading to a reassessment of the loan loss provision ratio for non-performing loans in Finland, resulting in a one-off adjustment of 5 MNOK.

Net profit was 4.4 MNOK and net profit after tax was 3.3 MNOK, down from 8.3 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. The new consumer finance by-law was announced on the 12th of February this year and the banks must adopt the regulations no later than the 15th of May 2019.

The authorities have been working for five years to put in place a debt register in Norway, and by the end of June this year it will finally be operative. The debt register 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.

Presence in three countries gives Instabank the strategic opportunity to focus where resources and volumes can be optimised to achieve profitable growth. In Norway, Instabank expects competition to continue to increase, lately as a result of larger full-service banks scaling up their consumer loan sales efforts causing some pressure on interest margins. Consequently, the most important markets for Instabank going forward are expected to be Finland and Sweden.

In December 2018, Instabank announced that it will apply for a Swedish banking license. The bank also explores other alternatives for a Swedish domicile than applying for a license.

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. The Instabank 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 in the years to come to leverage the scalable platform.

The bank expects FSA (Finanstilsynet) will conclude the Pilar 2 requirement for the bank in Q2/19.

Other information

There has been a limited review of the accounts in accordance with ISRE 2410 as of 31.03.19 by the bank's auditors and the result after tax are added to retained earnings in full.

Oslo, April 25th, 2019
Board of Directors, Instabank ASA

INCOME STATEMENT

NOK 1000	Q1-2019	2019	2018	Q1-2018
Interest Income	73 351	73 351	222 546	42 323
Interest expenses	13 470	13 470	46 344	9 710
Net interest income	**59 881**	**59 881**	**176 202**	**32 614**
Income commissions and fees	8 768	8 768	35 238	7 817
Expenses commissions and fees	12 183	12 183	29 554	4 718
Net gains/loss on foreign exchange and securities classified as current assets	1 853	1 853	7 546	2 319
Net other income	**-1 563**	**-1 563**	**13 230**	**5 418**
Total income	**58 317**	**58 317**	**189 432**	**38 032**
Salary and other personnel expenses	10 069	10 069	30 871	7 629
Other administrative expenses, of which:	17 667	17 667	66 153	15 460
- direct marketing cost	6 303	6 303	38 330	9 401
Depreciation and amortisation	2 027	2 027	6 138	1 243
Other expenses	2 174	2 174	5 085	1 125
Total operating expenses	**31 937**	**31 937**	**108 246**	**25 457**
Losses on loans	21 972	21 972	47 189	7 218
Operating (loss)/profit before tax	**4 408**	**4 408**	**33 996**	**5 357**
Tax expenses	1 102	1 102	7 945	1 339
Profit/loss after tax	**3 306**	**3 306**	**26 051**	**4 018**

BALANCE SHEET

NOK 1000	31.03.2019	31.12.2018	31.03.2018
Loans and deposits with credit institutions	150 497	142 298	127 704
Loans to customers	2 604 823	2 481 880	1 568 603
Certificates and bonds	488 971	647 128	448 195
Deferred tax assets	0	89	6 290
Other intangible assets	29 438	27 339	20 151
Fixed assets	912	1 035	1 137
Other assets	1 033	0	0
Other receivables, of which:	103 704	115 692	56 637
- prepaid agent commission	*92 027*	*86 381*	*46 745*
Total assets	**3 379 379**	**3 415 461**	**2 228 717**
Deposit from and debt to customers	2 751 149	2 832 361	1 843 890
Other debts	19 941	22 284	21 470
Accrued expenses and liabilities	14 070	12 084	11 174
Subordinated loan and Tier 1 capital	65 000	65 000	65 000
Total liabilities	**2 850 160**	**2 931 729**	**1 941 534**
Share capital	510 834	468 651	294 228
Retained earnings	18 385	15 081	-7 045
Total equity	**529 219**	**483 732**	**287 182**
Total liabilities and equity	**3 379 379**	**3 415 461**	**2 228 717**

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	31.03.2019	31.12.2018	31.03.2018
Revolving credit loans	666 600	635 095	423 304
Installment loans	2 007 244	1 900 112	1 172 703
Gross lending	**2 673 844**	**2 535 207**	**1 596 007**
Impairment of loans	-69 021	-53 327	-27 404
Net loans to customers	**2 604 823**	**2 481 880**	**1 568 603**

Defaults and losses

NOK 1000	31.03.2019	31.12.2018	31.03.2018
Gross defaulted loans	205 189	172 550	94 225
Individual impairment of loans	-57 234	-42 226	-19 277
Other impairment of loans	-11 788	-11 102	-8 127
Net defaulted loans	**136 168**	**119 223**	**66 821**

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	Q1-2019	2018	Q1-2018
Realised losses in the period	-6 278	-19 549	-5 566
The period's change in individual impairment of loans	-15 008	-25 013	714
The period's change in other impairment of loans	-686	-2 627	-2 366
Losses on loans in the period	**-21 972**	**-47 189**	**-7 218**

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	31.03.2019	31.12.2018	31.03.2018
Share capital	332 642	305 000	205 000
Share premium	178 192	163 651	89 228
Other equity	18 385	15 081	-11 557
Deferred tax asset/intangible assets/other deductions	-29 927	-28 075	-26 889
Common equity tier 1 capital	**499 292**	**455 657**	**255 781**
Additional tier 1 capital	25 000	25 000	21 754
Core capital	**524 292**	**480 657**	**277 535**
Subordinated loan	40 000	40 000	29 005
Total capital	**564 292**	**520 657**	**306 541**
Calculation basis - NOK 1000			
Credit risk:			
Loans and deposits with credit institutions	30 187	28 511	25 541
Loans to customers	1 842 650	1 763 667	1 105 784
Certificates and bonds	67 987	72 479	66 154
Other assets	253 605	247 051	151 998
Calculation basis credit risk	**2 194 429**	**2 111 708**	**1 349 476**
Calculation basis operational risk	185 587	185 587	100 789
Total calculation basis	**2 380 016**	**2 297 295**	**1 450 265**
Common equity Tier 1 Capital ratio	21,0 %	19,8 %	17,6 %
Tier 1 capital ratio	22,0 %	20,9 %	19,1 %
Total capital ratio	23,7 %	22,7 %	21,1 %
LCR	227,1 %	419,3 %	238,0 %