

A man with a beard and a woman are sitting at a table, smiling and looking at documents. The man is holding a large sheet of paper, and the woman is holding a pen. There are several documents on the table, and a plate of cookies is visible in the foreground.

# INSTABANK ASA

INTERIM REPORT Q1 2018

# INTERIM REPORT Q1-18

## Key highlights & developments

- ✓ Q1 profit of NOK 4.0 million
- ✓ Continued high loan growth with 250.7 MNOK during Q1
- ✓ Issued 65 MNOK in additional Tier 1 and Tier 2 bonds
- ✓ Launch of hybrid leasing/point of sales financing products
- ✓ Launch of Skeidar deferred payment option
- ✓ Improved credit control in Finland through a Finnish consumer debt registry
- ✓ Forward Flow agreement regarding sale of non-performing loans to Axactor





# We think like you.

## INTERIM REPORT Q1 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 Q1, Instabank had 22 full-time and 6 part-time employees.

Instabank offers 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 three 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 12 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, there were no individual shareholders owning more than 10% of the bank.



## Developments

The bank's marketing and operations teams have continued to function very well, with a strong focus on direct distribution combined with loan agents and distribution partners.

During the first quarter, the bank gained access to a Finnish consumer debt registry, which will further improve the risk exposure and enhance credit quality in Finland.

As part of strategy to widen its product portfolio, the bank launched hybrid leasing/point of sales financing solutions within the Consumer Electronics retail sector in cooperation with Finance Technology AS. Distribution have already been established with renowned electronics retailers such as Power International, Spaceworld/Soundgarden, Telehuset/Teleringen and Epelehuset.

On 18 December 2017, the bank entered into a forward flow agreement with Axactor, regarding the sale of part of the banks non-performing loan portfolio, on a monthly basis. This will result in increased predictability of the banks future loan losses as well as have a positive impact on capital adequacy ratios going forward.

In Q4 the bank launched its sales financing solutions in partnership with Skeidar. During Q1 the bank expanded its product offering at Skeidar with the introduction of a deferred payment option.

Both loan and savings volume have exceeded the bank's initial plans. At the end of Q1, the bank had 11 000 loan customers and 3 300 deposit customers.

## Income Statement

In Q1, the bank achieved a net interest income of 32.6 MNOK, other net income of 5.4 MNOK, operating expenses of 25.5 MNOK and a profit after tax of 4.0 MNOK.

In Q1, the bank wrote-off 7.2 MNOK in loan losses.

## Balance Sheet

Total assets at the end of Q1 were 2 228.7 MNOK. Loans to customers before write-offs amounted to 1 596 MNOK (1 568.6 MNOK after 27.4 MNOK in loss provisions).

Liquidity amounted to 575.9 MNOK. Customer deposits amounted to 1 843.9 MNOK. Total equity amounted to 287.7 MNOK.

## Future outlook

The Norwegian economy appears to be stable. The GDP for mainland Norway increased by 1.8% in 2017 compared to 1.0% in 2016. Growth is anticipated to rise to around 2% in 2018. The unemployment ratio has declined during Q1. The base rate from the Central Bank of Norway was unchanged during Q1. The Central Bank expects the rate most likely to be raised during autumn of 2018.

Competition in Norway is expected to cause some pressure on interest margins, particularly within the agent channel. There is still considerable focus on developments in Norwegian household borrowing and especially when it comes to consumer loans.

New guidelines and further regulation of the consumer loan sector have been introduced by the regulators.

Instabank believes that better regulation of the industry is positive. The bank is dedicated to remaining highly informed regarding current and future regulations, and to using available channels to ensure that regulations do not distort competition within the market. We still believe there will be room to grow sales volume and profitability according to our plans.

Our focus on distribution will still be the number one strategic, tactical and operational focus in the quarter. It is also expected that defaults and losses will increase in-line with the bank's increased loan volume and in line with expectations.

The banks guiding on net loans to customers remains unchanged at NOK 2.4 – 2.6 billion towards the end of 2018.

The bank's liquidity 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.

The total unaudited capital ratio for the bank was 21.1% at end of Q1 (including the quarterly result, the capital ratio was 21.4%). Common equity Tier 1 Capital ration was 17.6% at the end of Q1. The bank issued 65 MNOK in additional Tier 1 and Tier 2 bonds through a private placement during Q1. The bank has initiated an Equity Issue/Private Placement of new shares raising gross proceeds of NOK 50-120 million directed towards existing and new shareholders. Pareto Securities AS and SpareBank 1Markets AS act as Joint Lead Managers and JointBookrunners.

For information relating to capital requirements and liquidity coverage ratio, refer to the notes.

The accounting profit for Q1 is entirely pre-disposed against retained earnings.

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

Oslo, April 26th, 2018  
Instabank ASA, Board of Directors

# INCOME STATEMENT

Amounts in NOK 1 000	Q1-2018	2018	2017	Q1-2017
Interest income	42 323	42 323	97 536	11 107
Interest expenses	9 710	9 710	17 948	2 190
<b>Net interest income</b>	<b>32 614</b>	<b>32 614</b>	<b>79 587</b>	<b>8 917</b>
Income commissions and fees	7 817	7 817	28 379	7 199
Expenses commissions and fees	4 718	4 718	8 877	1 037
Net gains/loss on foreign exchange and securities classified as current assets	2 319	2 319	2 291	-58
<b>Net other income</b>	<b>5 418</b>	<b>5 418</b>	<b>21 793</b>	<b>6 104</b>
<b>Total income</b>	<b>38 092</b>	<b>38 092</b>	<b>101 380</b>	<b>15 020</b>
Salary and other personnel expenses	7 629	7 629	25 459	4 982
Other administrative expenses, of which:	15 460	15 460	43 917	9 622
- <i>direct marketing cost</i>	<i>9 401</i>	<i>9 401</i>	<i>31 705</i>	<i>6 024</i>
Depreciation and amortisation	1 243	1 243	2 784	577
Other expenses	1 125	1 125	3 044	763
<b>Total operating expenses</b>	<b>25 457</b>	<b>25 457</b>	<b>75 204</b>	<b>15 943</b>
Losses on loans	7 218	7 218	22 125	3 296
<b>Operating (loss)/profit before tax</b>	<b>5 357</b>	<b>5 357</b>	<b>4 051</b>	<b>-4 219</b>
Tax expenses	1 339	1 339	1 751	-1 055
<b>PROFIT/LOSS AFTER TAX</b>	<b>4 018</b>	<b>4 018</b>	<b>2 301</b>	<b>-3 165</b>

# BALANCE SHEET

Amounts in NOK 1 000	31.03.2018	31.12.2017	31.03.2017
Loans and deposits with credit institutions	127 704	40 929	39 133
Loans to customers	1 568 603	1 317 942	519 198
Certificates and bonds	448 195	682 091	249 758
Deferred tax assets	6 290	7 629	10 435
Other intangible assets	20 151	17 175	9 007
Fixed assets	1 137	1 228	1 217
Other receivables, of which:	56 637	44 007	16 623
- prepaid agent commission	42 698	36 706	14 703
<b>TOTAL ASSETS</b>	<b>2 228 717</b>	<b>2 111 002</b>	<b>845 371</b>
Deposit from and debt to customers	1 843 890	1 804 600	594 736
Other debts	21 470	12 313	10 257
Accrued expenses and liabilities	11 174	11 420	6 684
Subordinated loan	40 000	0	0
<b>Total liabilities</b>	<b>1 916 534</b>	<b>1 828 332</b>	<b>611 677</b>
Share capital	294 228	294 228	254 266
Tier 1 capital	25 000	0	0
Retained earnings	-7 045	-11 557	-20 571
<b>Total equity</b>	<b>312 182</b>	<b>282 670</b>	<b>233 695</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>2 228 717</b>	<b>2 111 002</b>	<b>845 371</b>

# 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	31.03.2018	31.12.2017	31.03.2016
<u>Gross and net lending</u>			
Revolving credit loans	423 304	356 801	165 683
Installment loans	1 172 703	986 893	360 664
<b>Gross lending</b>	<b>1 596 007</b>	<b>1 343 694</b>	<b>526 347</b>
Impairment of loans	-27 404	-25 752	-7 148
<b>Net loans to customers</b>	<b>1 568 603</b>	<b>1 317 942</b>	<b>519 199</b>
<u>Defaults and losses</u>			
Gross defaulted loans	94 225	73 301	12 853
Individual impairment of loans	-19 277	-19 991	-5 141
Other impairment of loans	-8 127	-5 751	-2 007
<b>Net defaulted loans</b>	<b>66 821</b>	<b>47 549</b>	<b>5 705</b>

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 banks non-performing loans.

### Note 3: Regulatory capital and LCR

Amounts in NOK 1 000	31.03.2018	31.12.2017	31.03.2017
Share capital	205 000	205 000	185 000
Share premium	89 228	89 228	69 266
Other equity	-11 557	-11 557	-20 571
Deferred tax asset / intangible assets / other deductions	-26 889	-25 487	-19 442
<b>Common equity tier 1 capital</b>	<b>255 781</b>	<b>257 184</b>	<b>214 253</b>
Hybrid capital	21 754	0	0
<b>Core capital</b>	<b>277 535</b>	<b>257 184</b>	<b>214 253</b>
Supplement capital	29 005	0	0
<b>Total capital</b>	<b>306 541</b>	<b>257 184</b>	<b>214 253</b>
<i>Calculation basis</i>			
Credit risk:			
Loans and deposits with credit institutions	25 541	8 186	7 827
Loans to customers	1 105 784	933 481	519 198
Certificates and bonds	66 154	98 875	36 061
Other assets	151 998	118 536	17 840
<b>Calculation basis credit risk</b>	<b>1 349 476</b>	<b>1 159 078</b>	<b>580 026</b>
Calculation basis operational risk	100 789	100 789	76 429
<b>Total calculation basis</b>	<b>1 450 265</b>	<b>1 259 866</b>	<b>657 355</b>
Common equity tier 1 capital ratio	17,6 %	20,4 %	33,0 %
Tier 1 capital ratio	19,1 %	20,4 %	33,0 %
Total capital ratio	21,1 %	20,4 %	33,0 %
LCR	238 %	389,4 %	633 %