

## **4FINANCE FY2017 UNAUDITED RESULTS CONFERENCE CALL**

**Moderator: Mark Ruddock**  
**01 March 2018**  
**4:00 p.m. GMT**

OPERATOR: This is Conference #8189877

Operator: Ladies and gentlemen, thank you for standing by and welcome to the 4Finance Unaudited Full Year 2017 Results Conference Call. At this time, all participants are in listen-only mode.

There will be a presentation followed by question and answer session. At which time, if you wish to ask a question, please star on your telephone and wait for your name to be announced.

I must advise you this conference is being recorded today, Thursday, 1st of March 2018. And I would now like to hand the conference over to you first speaker today, Mr. Mark Ruddock. Thank you. Please go ahead.

Mark Ruddock: Thank you very much. Welcome everybody to the 4finance fourth quarter results call. With me today are Paul Goldfinch, our CFO, Julija Lebedinska-Litvinova, our CRO, and James Etherington, our Head of Investor Relations.

Today, we're going to cover a number of important topics starting with an update on our operational progress including our progress on some of the key initiatives that we have highlighted for you on prior calls.

We'll then follow that with the review of the full year 2017 results before drilling down into the underlying performance of our portfolio and then we will open up the call to questions.

So if you could all please turn to page four.

I think that our top line performance has been quite encouraging from a number of perspectives.

First of all, our quarter-on-quarter growth is accelerating. Secondly, we have delivered about 14 percent year-over-year revenue growth despite a material 34 million euro reduction in those markets that were impacted by regulatory changes (here I'm referring primarily to Georgia and Lithuania).

And while our core markets remain sound, this baseline strength has increasingly being complemented by further product and market diversification, and we believe these are all important building blocks in laying a solid foundation for the future.

Interestingly, also, the use of mobile continues to rise materially: over 57 percent of all applications are now made on mobile devices and our shift to mobile-first thinking and the development of core mobile competency is coming along nicely.

This is important because we believe that the “any time/anywhere” availability of our products perfectly complements our overall product value proposition. We will also seek to build deeper and stickier customer relationships over time on mobile.

Our important strategy of portfolio diversification also continues, with significant growth in our installment loan business.

A substantial portfolio of IL loans is now building and it's providing growing visibility into future interest income. You might be interested to know that for the first time, our installment loan portfolio has actually eclipsed our single payment loan portfolio in size.

Market diversification also continues, with Latin American growth up 34 percent quarter-on-quarter. In fact, Latin America delivered more top-line revenue in Q4 than it had in all of 2016.

We continue to evidence robust response to regulatory changes. We've launched an installment lending product in Georgia, a near-prime offering in Lithuania, and we're evolving, in a number of our markets our SPL minimum-to-pay functionality and this evidences, we believe, signs of sustainable regulatory response.

Our TBI franchise is also delivering solid growth and profitability and we're starting to realize some of the operational synergies that were partly behind the acquisition. These include assistance in our payment processing and in our portfolio funding capabilities. I'll cover a couple of those later on in the call.

We do continue to retain a conservative bias, towards our new markets, our new products, and our new business lines. We're monitoring their overall performance pretty closely.

And I think as I've mentioned before on prior calls, we use a "test and learn" strategy and we will continue to throttle them up or down as necessary until we believe that our core underwriting strategies are sound and that the business is ready for scale.

We have also retained a conservative bias with respect to acquisitions.

We did have an opportunity in combination with a joint venture partner to pursue an acquisition that would have accelerated our near-prime offering in a key existing market. Now, one aspect of the value we could bring to this transaction was our ability to provide immediate upfront funding, and while this allowed us a seat at the table, so to speak, during subsequent negotiations and upon further review, we decided not to pursue the transaction.

We have, as a result, terminated the original investment agreements and our payment will be repaid in installments over Q1 and Q2.

We didn't disclose the process at the time for reasons of confidentiality as we believe was entirely appropriate.

We will continue this conservative bias as we look for those opportunities that either increase the fundamental operational efficacy of the business, or augment or provide us with new market opportunities.

We have a lot on our plate internally now as we execute our dual track strategy of driving both near-term performance and laying the foundation for the future and this is requiring a constant and careful prioritization of our internal projects and the commensurate resource allocation.

We're also trying to ensure that our balance sheet reflects our strategy and this has resulted in us carefully examining our yet to be depreciated IT assets, for example, and a number of other assets, including the goodwill from acquisitions. A number of which we have chosen to write down, as you will have noticed. I will cover that in the next few slides.

Speaking of acquisitions, we are well underway with our integration of Friendly Finance and are driving towards achieving more operational synergies and efficiencies from this.

We are evaluating this asset on a market-by-market basis and where it makes sense for us to grow the Friendly Finance business we will, and where it makes sense to shrink it or suspend it, we will. For example, in markets really where we see little business value in retaining a dual presence or in markets where there's a significant overlap in the customer cohort, we will obviously react appropriately.

Now, efficiencies are clearly important for this business: our operating cost, and as a result of that our cost to income ratio, remains too high in my opinion.

This is partly as a result of us laying the foundation for the future, but we do remain focused on our cost optimization program, and we have visibility into this cost coming down quarter-by-quarter as the next wave of efficiencies kicks in. And we will continue to be diligent in this manner.

Finally, a key part of the sustainability of our business lies in the strength of our corporate governance, and we've made further progress on our governance

model, compliance, and oversight including a more robust supervisory board involvement which is designed to provide us with the appropriate checks and balances.

We are also continuing to focus on our AML, GDPR, and other strategic compliance priorities, and are also undertaking a significant improvement in our internal reporting and analytics.

Turning now to page five. I'd like to talk a bit about our progress on the second track, namely building a bridge for the future.

We've actually made some promising progress on our new IT platform. And as I mentioned in the past calls, this new platform which is a smart blend of both internal, i.e. unique IT and external, i.e. third party and/or commoditized components is actually capable of powering all of our products going forward including our single payment loans, installment loans, lines of credit, credit cards, and potentially even deposits.

The new platform will allow us to reduce our IT cost over time, while delivering what we believe will be a step change in our underwriting efficacy, not only improve scorecard capabilities, faster scorecard iteration, et cetera but also some very robust antifraud capabilities.

The new platform will enable us to deliver complementary products more quickly to our existing customers. Thereby, we believe, increasing our opportunities to improve customer lifetime value. It will significantly also reduce our time to market, and our ability to react to market changes.

Today, some of those changes require coding and that requires both personnel and time. In the future, because of the experience we have gained as a company, we're able to anticipate the sorts of changes we are likely to have to react to and those are now parameterized in the new product.

Now, as we highlighted last time, in light of this new platform project, we did undertake a pragmatic assessment of the existing IT platform and we have

been working hard to determine which of those IT assets is fit for purpose going forward.

We have made a decision that continued short-term development on the existing platform (while it is critical for us to both continue to meet regulatory and compliance objectives in addition to deliver business value) will not be capitalized unless the time horizon for use of those features is long enough.

So that will drive some near-term changes to IT expenses going forward on a quarterly basis.

Now, the next generation project we are about to unveil in Sweden is on track to launch in a closed beta in late Q1 2018. And will be available to a broader general public audience at late Q2 once it is gone through extensive both internal and closed beta QA.

We are working at the same time, very carefully, to streamline our brand strategy and we have made the decision to move away from our historic and somewhat cluttered product-by-product brand landscape to a more consolidated brand strategy that's driven by customer segments.

Now, as the result of this strategy, we will execute a gradual migration of our multiple brands to a single subprime brand under Vivus, allowing us, by the way, to leverage the significant brand equity that is present in that brand and to drive additional marketing efficiencies going forward.

But also, it will enable us over time to provide a one-stop shop for the underserved to access the broad range of financial products and services that they seek. So this customer-centric view will allow us to increase both customer lifetime value and build longer-term customer loyalty, but also reduce the cost of customer acquisition.

And we think that those two things will be powerful elements of our overall economics going forward.

In addition though, we are well underway in the development of a new brand for our more near-prime customers.

And our market research is highlighted that this customer segment will be better served by fresh new brands targeted at how they see themselves and not so much at an existing brand around which they might have potential preconceived notions.

Speaking of near-prime we've established an exciting joint venture with a significant retailer and banking partner for the roll out of the unique near-prime offering in Poland with a targeted launch date later in 2018.

We will unveil more about of this partnership in future calls but we believe that it establishes an interesting potential scaffolding for future initiatives of its kind. It gives us not only a unique way to access this market but it also gives us the lower cost to funds in order to help do so.

We've also been working hard to established partnerships in our emerging markets, we have completed one with the major utility in Mexico for the targeted roll out to their customers in 2018, this provides us with two key and critical aspects. One is additional scoring data and the other is pre-authenticated customers which is critically important in that market where we see a high incidence of fraud and fraud risk.

We have made progress as well in laying the foundation for diversifying our future sources of loan book funding. Our new securitization platform which is nearing completion will enable us to plug in multiple sources of funds on a portfolio-by-portfolio basis.

And this will allow us to offer risk-based price investment opportunities to future funding partners. Our objective here, obviously, is not only to increase our available funding pool but also to lower our overall cost of funds, in particular, as we seek to serve customers that are further up the credit curve.

There are several funding projects now underway on this platform and these projects represent both in-house funding, i.e. leveraging our TBI bank deposit business, and external, i.e. third-party, funding and these are two benchmark test cases that we will use to help define and scope the project going forward.

So if we turn to page six now, I'd like to tackle the work that we have done on addressing some core balance sheet items.

As we clarified our mission, vision and strategy, we thought it was a good time to take a step back and review our balance sheet. And in particular to sanity check our assets against their future relevancy. Now, we comprehensively reviewed a wide range of things, including our previously capitalized IT projects, the goodwill on our prior acquisitions and a number of other intangibles and this approach really was governed by a number of guidelines.

One, nothing was off the table. Two, everything was sanity checked to determine if it was core to our future mission, vision, and strategy. And if not, it would be adjusted. And three, our assets were checked to ensure that their current value matched our pragmatic and refreshed view of the value of the asset.

And the result of this exercise, we made the decision to write down 51.1 million euros in assets. We believe doing so actually helps us establish a clearer and more relevant financial foundation for the future.

Now, this write-off was made up of the reduction and the goodwill assigned to Friendly Finance of about 22 million. A write-down of the number of our IT assets related to IP that we no longer deemed relevant to the future of the business, that was about 15.8 million from the core business and 2 million from Friendly Finance, and the adjustment of some different tax asset of about 5 million plus additional recognition for some historic Polish tax.

We also took a charge on our previously deferred expenses for the bond offering. Beyond this, we have calibrated going forward our policies regarding IT capitalization in particular for those IT investments on our own platform that while they're still critical, obviously, would have a shorter useful lifespan given the transition to our new platform over the next two to three years.



Turning now to page seven. We'd like to update you a little bit on some of the initiatives that we're taking to bolster our commitment to responsible lending and in particular to delivering strong regulatory compliance.

In terms of actions related to putting customers first and to ensuring that we deliver good customer outcomes, we've established a draft customer charter which will set the standards both inside the firm, and also, be transparently visible externally for all aspects of our interface for the customer. So you can think of these in a way as a customer bill of rights or charter of rights.

We have established and rolled out a firm-wide Code of Conduct as well that is designed to establish clear standards that will govern the behavior both of our teams and our external business partners.

We're also in the process of refreshing our corporate values and aligning them with our renewed mission, vision, and strategy. And we have a firm-wide initiative underway right now to incorporate the input of all of our teams so that those values are internalized.

Our success is powered by our people. And as a result, we've established for the first time the ExCo role of the Chief People Officer and hired a superb executive who's going to be working with us to improve our human capital.

We've done a number of other things though. We've established the confidential whistleblower website and makes it possible for us to ensure that employees can privately raise concerns without fear of retribution, we think that's good corporate practice.

And we are continuing to tighten our credit policies and our customer-facing behavior in order to ensure that we only lend to people that could afford to pay us back.

We are doing this by broadening our use of risk-based lending limits, by leveraging additional predictive variables in our scorecards that allows us to better assess affordability and by working to ensure customer have safe landings when they signal difficulties.

We're also continuing to work on developing deep and meaningful relationships with regulators and on improving our governance and compliance internally.

We've on-boarded a new chief compliance officer who is helping us to ensure that we deliver best practice throughout the business in this regard. She will be overseeing and getting us ready for all of our critical compliance obligations such as those already well underway including GDPR.

Responsible lending really is a philosophy that guides our overall behavior at 4finance across the board. We ensure that our marketing is clear that it's transparent, and simple in the way it describes our products and our terms and conditions.

We seek to set our pricing at the lower end of the market so that we self-select more responsible borrowers of better financial strength.

In terms of underwriting, we performed thorough credit checks and we strive to deliver best in class underwriting for all of our loans including returning customers. And we're actually quite discerning and typically accept only about 30 percent of all new customers who apply.

We offer customer care in local languages via well staff, well trained and responsive teams. And we actually have very careful quality monitoring of all of our interactions with customers.

We are working hard to ensure that our extensions policies do not create situations of ballooning interest, i.e. interest on interest, and we enforce for example that interest must be paid for the prior month. And we're actively working to ensure that we reduced the conditions under which customers might enter a cycle of debt.

And finally, we offer customers the option to control their repayments, i.e. we do not force automatic withdrawals from their bank accounts at any time.

Turning to page eight. I just wanted to leave you with some sense of the daily scale and capability of this company.

Each day we issue about 23,000 risk decisions, it takes on average about three seconds for each of those decisions to be made. And from that (including our returning customers), we issue about 16,600 loans per day. About 92 percent of those loans are delivered into the banking system within 15 minutes, and in total our daily run-rate is approximately 3.5 million euros a day.

So when you look at these sorts of numbers, you get a sense of the scale and the complexity of the business but you also get a sense of how much IP, we develop in our risk interface in terms of being able to develop what we think are unique insights in both scoring and customer portfolio management.

At this point, I'd like to pass it over to Paul to review the financial performance in more detail.

Paul Goldfinch: Thanks, Mark. And good afternoon, good morning to everybody on the call today. Please turn out to slide 10. As Mark has already highlighted in the earlier slides, we've made a number of one-off adjustments in the final quarter, so to ensure meaningful comparables, we've also provided normalized results through the next few slides. Group interest income in the fourth quarter reached to 121 million, six percent up on Q3, 14 percent up year-on-year and the third successive record quarter for the group.

The group generated 28.4 million in adjusted EBITDA for the quarter bringing the full-year total to a 135.5 million, slightly below that of the prior year.

Our pre-provision operating profit on a normalized basis for the year is 168 million, four percent below that of the prior year.

In terms of the key business highlights, we again saw quarterly increase in interest income in a large majority of our online markets, with remaining markets being essentially flat or only slightly down and we continue to be very encouraged by the growth in LatAm.

Loan issuance increased 40 percent over the third quarter and interest income increased by a similar margin. There's continued momentum in installment loans, with a further 20 percent increase in quarterly issuance to 54 million following the 35 percent increase in Q3.

This in turn has seen interest income from the product also increase 10 percent this quarter. TBI Bank, again, performed strongly in Q4 at almost 18 million in interest income, up nine percent on the prior quarter.

And it's full-year pre-tax profit of 23 million was almost 22 percent up on the prior year.

Cost efficiency and effectiveness remain a strategic priority for the group. And while the cost base did increase in Q4, this in part reflects the results of our review about IT capitalization approach and the resultant increase in both IT development and infrastructure expenses.

Our overall NPL ratio has continued to improve in Q4 and while the impairment to interest income metric did increase slightly in the final quarter, it remains very much in line with historical trends at 25 percent.

If we turn now to slide 11, which provides a market level breakdown of interest income. The diversity of our business is clearly evidenced here by the two graphs with our online product present in 16 markets as well as TBI, our EU license bank.

Poland and Spain clearly remain our two biggest markets but a further seven markets continue to contribute at least five percent of interest income. And we've highlighted throughout the 2017 quarterly calls about the significant reduction in SPL related interest income from Georgia and Lithuania.

But we're now in a very strong position in these countries to see material increases in installment loan business in 2018. And lastly, we continue to see the emergence of Argentina and look forward to seeing other growth markets creating our own slice of the pie chart in 2018.

We turn now to slide 12. Before we look at our cost base, I first wanted to discuss each of the year-end adjustments we've made.

First, in terms of Friendly Finance, as Mark has mentioned we thoroughly reviewed the business model in each market. Weak performance in some countries covered with a higher overlap of underlying customers and the associated cost of running two brands on separate IT infrastructure have meant that in some markets such as Spain and Georgia our growth in these markets will be solely focused on the 4finance brands.

The Friendly Finance brand, however, will remain a core part of our offering in other markets and the net result of the strategic review is that we'll write down a material portion of the goodwill, 22 million, and additionally impair the IT intangible assets by 2 million, which is just under half its current carrying value.

And the move away from our legacy, IT infrastructure to a platform on which will have the flexibility and the scalability to meet our growth ambitions is a core pillar of our strategy.

And with this in mind, we've conducted a detailed review of our current IT asset inventory as well as our approach to capitalization and reach the decision to write down 16 million in assets year-end.

These assets include development on some products which were ultimately not utilized in our current IT architecture. In conjunction with this, we have aligned the amortization of the remaining IT assets with the IT implementation roadmap which we intend to deliver over the next three years.

And we take a conservative approach to the recognition of any deferred tax assets and each quarter we conduct a thorough review of these. And as it's proving longer to reach operational breakeven in Mexico and Romania, we're deemed in prudent to de-recognize the deferred tax assets in these markets.

This doesn't however remove our ability to claim these deductions as in when these markets turn profitable. And the rule change in Latvia has also seen us de-recognize tax assets in this market.

And additionally, we opted to adjust downwards the opening equity balance by 2.5 million euros to reflect the potential tax liability on the small number of CDS transactions in Poland which we entered into in 2013.

And finally, the total capitalized amount of our bond deferred expenses was reduced by 6.3 million. This relates to the tender premium paid to the SEK bondholders and non-participating U.S. dollar bondholders.

Now, if we turn to slide 13, you'll see that — we've seen some growth in our overall cost-base in the final quarter of 2017, with total operating expenses excluding depreciation of 64 million. As I've highlighted earlier, the key drivers of this increase was the relatively higher level of IT operating cost in both personnel and IT expenses.

Additionally, we increased the marketing spend in selected markets in line with the seasonally strong quarter in loan sales. The overall group headcount continues to remain relatively stable with any increases primarily related to sales related staff in TBI.

And the cost-base and Friendly Finances also increased in Q4 due to accelerating the business integration, but these costs will firstly normalize and then further reduce over the course of the next two to three quarters.

Cost optimization is a core pillar of our strategy in a personal KPI of mine. We're satisfied with the progress we have made in 2017 and we embedded strong cost discipline in our 2018 budget process.

The key focus this year will be identifying and then mitigating structural inefficiencies in our business model and then investing where appropriate to unlock value. We turn now to slide 14 which contains some of our key indicators. The full-year results continue our strong track record and top-line growth in interest income.

Normalize profit before tax is 30 percent below that of the prior year with the significant increase in interest expense being a key driver.

We declared and paid a 16 million dividend in Q4, the majority of which was used to repay related party loans. This has resulted however in the two equity-based ratios decreasing compared to Q3, but the group remains well capitalized as we move into 2018.

Then lastly the key bond covenant ratio on the slide, the adjusted interest coverage ratio, the ratio did fall slightly in the final quarter to 2.2 times. And obviously, it's fallen against the prior year comparative following the successful bond issuance in Q2 and the corresponding increase in interest expense.

We turn now to slide 15. In line with the 11 percent growth in loan issuance, the overall portfolio has also grown 20 percent over the course of 2017 and is well balanced between our online and banking portfolios.

The portfolio is very granular in nature. It's very well diversified across countries and is increasingly diversified across our products.

Increasing the percentage of the group's portfolio which is funded by TBI bank's balance sheet as a key priority for the group in 2018. I'll now ask Julija, our Chief Risk Officer for the group, to take you through the more detail slides on both asset quality and the dynamics of our net impairment charge.

Julija Lebedinska-Litvinova: Thank you, Paul. Good morning, good afternoon, everyone. I now turn to the slide number 16, analysis of net impairments and cost of risk.

Year-on-year, 24 percent increase in impairments broadly in line with business growth plus assets of TBI Bank resulting in a biggest share of installment in online operations and bigger share of consumer book in TBI, 77 percent of receivables.

Net impairment to interest income: 25 percent in 2017 versus 23 percent in the prior year. Online cost of risk 20.6 percent and it's a slight worsening versus 19.6 percent in the last year.

TBI follows the same trend: 3.9 percent this year versus 3.1 percent prior year. Overall cost of risk slightly improved and this is the level of 15.6 percent versus 16.5 percent in 2016 and this is driven by a slightly better mix between online and banking operations.

Net impairment increased to 34.4 million in Q4 versus 30.1 million in Q3, due to a steady increase in gross impairments including growing and maturing installment loan portfolio.

There is a greater share of high velocity SPL books (LatAm) and long-term products becoming matured; as a result we have to provision longer. We also observed lower contribution from debt sale gains in the second half of the year.

Key strategic areas for risk management in Q4 were the following, focus on continuous improvement of credit underwriting through integration of additional data sources and faster iteration of risk models.

As well we have enhanced focus on portfolio management activities given increasing maturity of installment book. IFRS 9 was adopted at year-end.

As part of the IFRS 9 adoption, we made a change to our write-off policy to 360 days versus 730 days and this is a reflection of the shortened collection cycle and focus on early collections.

Risk-based price pilots and preparation for near-prime products are activities which are well aligned with IFRS 9 principles as well. These areas remain of high importance in 2018.

I now turn to the next slide: asset quality and provisioning. Our NPL ratio is at the level of 26.7 percent and this is significant improvement from 33.1 percent at the end of the last year.

Online operations improved the ratio to 33.4 percent from 42 percent at the end of the last year and this improvement is driven by extensive debt sale strategy throughout 2017. Current ratio impairment to gross receivables is at



the level of 22.3 percent and there's also improvement compared to the last year.

No changes were made to provisioning models and this improvement fully reflects better quality of our receivables. Nothing else to be mentioned on this slide and I turn to the next slide and I'm going to cover IFRS 9 standards and how it impacts our balance sheet and ratios.

Company adopted IFRS 9 standard from January 1st, 2018 and this is the major accounting standard and industry was well aware of that some time ago already.

All of the adjustments booked to assets, liabilities and equity is an opening balance adjustment. Consumer loan portfolio provisioning is the area with the biggest impact coming from IFRS 9.

We move from IAS 39 which was the previous standard, the incurred loss model to IFRS 9 and expected loss model. And these drive change of provisioning models that we use in the company.

This also drives earlier recognition of provisions in the loan life cycle. Discounting of cash flows for LGD calculation at effective interest rate drives significant increase in provisioning and this is responsible for the biggest increase in provisioning.

As mentioned before, we reconsidered our write-off policy and now it is 360 days versus 730 days. And all-in-all reduction in net customer receivables is expected to be approximately 60 million.

It's around 10 percent of year-end net receivables and within the guidance provided in November on Q3 results call. We do not expect any impact on actual customer repayment cashflows.

Other impacts were covered earlier and they are less material than impact on provisioning. After adjustment, equity ratio remains strong and results of the full review will be published as a note in the 2017 audited results. That's it for me and I pass it back to Mark.

Mark Ruddock: Thanks, Julija. Wrapping up, we continue to be very excited here about the opportunity for 4Finance.

We have a clear and a transparent mission to help the world's aspirational but financially underserved, meet their financial needs today while they build a stronger financial foundation for tomorrow.

We believe that there is an opportunity, in so doing, to build a sustainable and a compelling business and that 4finance, in particular, is uniquely positioned to do this, given its scale and expertise.

Today, we operate in 16 countries, we have a diversified product portfolio that spans single payment loans, installment loans, credit cards, lines of credit, point of sale loans, and deposits (when we factor in our banking operations).

We understand how to offer simple and transparent products on our customers' terms and which are made available quickly and efficiently, anytime and anywhere.

We've developed critically important competencies in mobile automation, multi-country scale, and a high-degree of automation and we do all of these with the objective of delivering great customer outcomes backed by a clear code of conduct and strict adherence to local regulations.

Now, as we move forward, we are accelerating the development of key strategic partnerships which we believe can unlock access to new markets and provide us with exciting new capabilities and potential sources of funds at a lower cost going forward.

At the heart of all we do though is our scoring expertise which we believe is uniquely deep and broad. For example, since 2008, we have reviewed and score over 33 million online applications. And we now have around 8 million registered customers. We've also issued well in excess of €5 billion in loans.

At the current time, we are in the process of the simultaneously strengthening and optimizing our core heartbeat business while we lay the foundation for the future.

We are encouraged by the strong operational momentum within the business, in particular, our growth in installment loans and across our LatAm seed countries. Although, I stress that we maintain a pragmatic and cautious approach to expansion at this point.

We have not been afraid, I think, to take tough financial decisions in Q4 that objectively assess our core assets and we believe put us really in a more robust position for the future as we look to 2018.

We are also getting ready to make some fundamental improvements in the overall operational efficiency of the business as we move forward.

We are about ready to deploy a powerful new IT platform that we believe will enhance not only the competitiveness of our core products and allow us to roll out products that delight and engage customers, but will enable us to do so with best in class economic efficiency as well.

We're actually pretty excited to unveil pilots of our next generation products in the next few months and to introduce you to some critical go-to-market partnerships and additional funding capabilities that will propel our future growth.

And along the way, we will be leveraging greater supervisory board involvement in our strategic development and monitoring so that we continue to ensure that as we make these transitions we do so with the appropriate checks and balances in the business. But we're also leveraging the substantial skill sets and experience of our board members.

Many thanks for your time and attention today. We will now open the floor to questions.

Operator: Thank you. Once again, ladies and gentlemen, if anyone wished to ask a question, please press star and one on your telephone and wait for your name to be announced.

If you wish to cancel your request, please press the hash key. And our first question comes from the line John Sykes. Please ask your question.

John Sykes: Yes. Hi. Good afternoon. I just wanted to, you know, you talked a little bit in your conclusion about some of the different things going on. Can you put some numbers to them in terms of guidance for 2018?

Mark Ruddock: We do not provide forward guidance in any way, shape or form, so I'm not sure if I can really answer the question quantitatively.

I think what you should expect qualitatively is a continuation of some of the trends that you certainly seen develop in 2017, around the product mix enhancement in particular. What you should not expect in 2018, to be clear though, are things like material new country expansion or anything like that. We're going to retain a fairly conservative bias over that aspect of the business.

John Sykes: OK. Do you — do you anticipate any material regulatory changes, you know, especially take Poland for example? Is there anything going on there that you find a concern?

Mark Ruddock: We don't right now foresee any meaningful further regulatory change in Poland. We are aware of regulatory change elsewhere, in particular in the Nordics where we are positioning for an expected series of rate caps that will occur in Finland and possibly in Sweden.

But those are factored into our thinking and in particular, they're factored into the developments of the new products that we are bringing to the market.

We try to keep an eye out at all times for regulatory change, and to the best of our ability retain close contact with regulators and legislators so that we can anticipate (to some extent) how their thinking is evolving.

So, with respect to Poland I don't think we currently believe there's an issue and in other markets (where we can anticipate regulatory change), we have begun to prepare for that in advance.

I think you see evidence of this strategy in the way the company has generally reacted quite quickly and quite effectively to regulatory changes ... and because we remain well diversified as a business, we tend to absorb regulatory shocks relatively effectively.

John Sykes: And just from a historical perspective, it looked like interest expenses going up, the margin, it looked like it was coming down a little bit and it seemed as though your bank deposits were kind of leveling off in terms of growth.

They're still growing but not at the same rate. Is that going to occur in 2018 or is that kind of a continuing trend or something different happening?

Mark Ruddock: Paul, do you want to cover the interest expense and I'll cover the bank deposits?

Paul Goldfinch: Sure. Look, I mean in the sense of interest expense, the interest expense clearly has gone up and some 60 percent year-on-year and that's been through the issuance of the U.S. dollar bond in May 2017. And so that's clearly the primary driver of why interest expense has increased year-on-year.

John Sykes: OK.

Mark Ruddock: When you refer to the bank deposits so you're referring to the TBI deposits?

John Sykes : Yes.

Mark Ruddock: So that's a deliberate decision actually. Until we are in a position to leverage the excess liquidity in TBI, we obviously don't want to be growing the deposit book too quickly, it's an expense obviously.

So we have allowed that deposit growth to slow temporarily. Moving forward as we seek to leverage TBI more effectively to fund our loan books, we will allow their deposit business to thereby increase. Otherwise, it's just a cost to the business.

John Sykes : OK. And credit quality, you mentioned just in terms of mechanizing the things even more, would you expect credit quality to continue to improve with those initiatives or do you have to dip down even further just kind of to offset the higher interest, that type of thing?

Mark Ruddock: So, actually it's a good question. I think we obviously worked very hard to improve our credit quality over 2017 and I think if you've taken a look at it kind of a relentless approach that Julija and her team take, credit quality - or at least our ability to define which customers we want to serve, and as a result deliver strong portfolio quality, continues to improve.

I think what we're doing in 2018 is providing some new tools to the business to allow (through the deployment of things like risk based pricing and other sorts of risk-based limits) capabilities that permit us potentially to attract better cohort qualities at the top of the funnel.

And we hope and believe that this will translate into overall better portfolio quality as well. And we think that just makes a smart business sense.

So as we carefully calibrate the performance of each cohort, we have also given ourselves the tools to attract more customers of that type and remain profitable as we move up the credit curve. If we do this, our overall credit quality will improve.

John Sykes : OK. Great. Thanks.

Operator: Thank you. And our next question comes from the line of Otto Dichtl. Please ask your question.

Otto Dichtl : Hello. Yes. Two questions please if I may. The first one on write-offs and the changes, the IFRS 9 driven changes. Just a clarification, I mean you're writing off all the gross receivables that are nonperforming for more than a year.

I would have thought that those would be provisioned to a very high-degree, so, first of all, I mean why do you write all of them off if all of them have been provisioned previously, so why the discrepancy?

And then the fact that the allowance account only declined 15 million, is that also IFRS 9 driven and is that basically higher provisioning that's required for all the other portfolios?

And then the second question I would have is related to the cash balances that you run in relation to the loan growth, I mean basically I just noticed, for example, quarter-on-quarter that your cash balance has declined, basically, about 70 million but your loan book only grew by about 20 million.

And I was wondering what explains that difference because I mean I would have thought, if you grow loans profitably then cash in a way should decline by less than the loan growth, but maybe there are some other things going on there. Thank you.

Julija Lebedinska-Litvinova: Thank you for your question. And let me respond on the first one about write-off policy change. So prior to IFRS 9, our policy was to fully write-off gross receivables at 730 days past due and the reason why it took us so long to write-off was that we had a very long collection cycle.

So basically 21 months after the account reached default status and we observed quite significant recoveries over the course of these 21 months.

The specificity of that was related to a lot of short-term products, small tickets, and so on. Now, in the framework of IFRS 9, there is both stronger requirement to discount all cash flows with effective interest rate.

And given this very long period of 21 months and quite high discount rates that we have to apply, the cash flow from 360 to 730 becomes quite low.

And it's not feasible anymore to incorporate this one into our loss given default. Already over the course of 2017, we started to apply debt sale strategy and we started to sell also portfolios prior to write-off.

And we pretty much execute the same sort of strategy this year and the adoption of IFRS 9 and change of the policy is helping us to bring our receivables to a better shape and to remove from the book those receivables which are almost fully provisioned already.

Paul Goldfinch: OK. And just covering off the point on the cash balances, in Q4, we had interest coupon payments on our bonds that was around €23 million, and we also made the pre-payment on this potential acquisition we were looking at of €21 million, so these are the two big Q4 cash outflows that you're seeing.

Otto Dichtl : OK. Thank you.

Mark Ruddock: All right.

Operator: Thank you. And our next question comes from the line of Nik Dimitrov. Please ask your question.

Nik Dimitrov: Hi, there. Just to let you know by the way, I applaud the fact that you decided to shorten the write-off period from two years to one year. Obviously this is the more conservative way of looking at things and I obviously welcome this. Going back to IFRS 9, you provided us in terms of guidance, what the hit on capital is going to be, can you give us some guidance in terms of your cost of risk on an ongoing basis by how much you think it's going to increase as a result of this?

Julija Lebedinska-Litvinova: So at the end of the last year, we did thorough simulations and we ran our provision model based on IAS 39 and based on IFRS 9.

When we compared IAS 39 versus IFRS 9, then the impact was very much dependent on the strategy that we execute, including debt sale strategy. It's kind of difficult to give very precise figures at the moment. I can only provide a range which would indicate between 10 and 20 percent more net impairment on a monthly basis for IFRS 9 versus IAS 39.

Nik Dimitrov: OK. I just want to make sure that I got the number correctly. Between 10 and 20 percent, right?



Julija Lebedinska-Litvinova: Yes.

Nik Dimitrov: OK. And just to make sure, so you're going to remove about like 60 million worth of, you know, bad loans. You said that those loans have been more or less almost fully provisioned, right. So Q1 2018 incomes, we're not going to see a spike in provision then as a result of the removal of those loans, right?

Julija Lebedinska-Litvinova: Yes so let me provide more detail. So basically IFRS 9, even without change or write-off policy, result in a high provisioning because it has very clear standards which are quite harsh including discounting of expected cash flows.

So basically, the increase 60 million which we referred to earlier in this presentation is not only driven by change of write-off policy, it also covers full IFRS 9 impact and high provisioning in line with IFRS 9 standard. And yes, we do not expect any spikes over the course of 2018.

Nik Dimitrov: OK. Excellent. One more question on capital. So I know that you look at capital using the ratio equity to assets. Normally one adjusts for intangibles, so if I adjust for intangibles, after the write down that you did earlier I get tangible equity to tangible assets of 8.5 percent which is significantly lower than the 18.7 percent equity to assets.

And we've seen that ratio erode over the last three years, but if I take the extra step and adjust for IFRS 9 or the hit that you're going to get to equity as the result of the reduction of IFRS 9, tangible equity to tangible assets falls to, you know, a precariously low number. How do you think about capital in light of what I just mentioned?

Paul Goldfinch: Well, we obviously look at this very carefully and we reviewed that very closely when we made the decision. I think when we look at our tangible equity at least to total assets and also total equity as well, and we're obviously very cognizant of the capitalization ratios that we have in place as well. Yes, we acknowledge that the tangible equity is lower, but we think it's as low as it will be now going forward. IFRS 9 is what Julija and I hope is a once in a lifetime adjustment to how collectability works and how we need to provide

against our loans and we feel comfortable at the levels we're at now and we believe they're only going to increase over time.

Nik Dimitrov: Have you talked to the credit rating agencies? Because they focus on the tangible equity ratio as well. I was wondering whether you have any feedback from them.

Mark Ruddock: Not at this stage but we do follow up with them in detail each and every quarter and we're about to do that, so we will cover that off. But, I think we are comfortable where the ratio is now. We obviously thought long and hard about the write-offs that we wanted to take at the end 2017 including the write-offs of goodwill and other things. We wanted to establish a new baseline for the business and we believe that that equity will grow as we move forward.

So we're not particularly worried about the level today, we think it's within a reasonable area for the moment. But we do think that (as a result of the changes that we have made and the impact of IFRS 9 and the review of our assets), we have established a fair and accurate reflection of where the business is today and I think that that's the spirit we're going to follow as we move forward.

Nik Dimitrov : Right. And I agree I mean certainly you've taken some more conservative steps and again I applaud that. But maybe you can give me some kind of colour in terms of where do you want to see the tangible equity to tangible assets ratio go, just as guidance.

Mark Ruddock: I don't really want to get into future looking targets, but I think the guidance we give ourselves, is to carefully watch all of our covenants and to incorporate the perspectives of our stakeholders. We have a sense of where we need to be as a business and we will watch the ratio (and others) very carefully. And as we look forward as a business, we try to model and monitor things that might impair it. Given this view, at this stage, we feel comfortable with the level that we're at.

Nik Dimitrov: OK. Got it. Thank you.

Operator: Thank you. And there are no further questions at this time. Please continue.

Mark Ruddock: Alright, so if there are no other questions. I would like to thank all of you for joining the call today. Please reach out to James and we can arrange follow up discussions one-on-one to address any further questions. Many thanks, everybody.

Operator: Thank you. That does conclude our conference for today. Thank you all for participating. You may all disconnect.

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