4FINANCE 9M 2019 UNAUDITED RESULTS CONFERENCE CALL

Moderator: Oyvind Oanes
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OPERATOR: This is Conference #3069748

Operator: Ladies and gentlemen, thank you for standing by and welcome to the 4finance Nine-Month 2019 Results Conference Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question and answer session.

To ask a question during this session, you will need to press star one on your telephone. Also, I must advice that the call is being recorded today, Thursday, the 14th of November 2019. And without any further delay, I will now like to hand over the call to your first speaker today, Oyvind Oanes. Thank you. Please go ahead.

Oyvind Oanes: Thank you, Ramon, and welcome everyone to the 4finance nine-month 2019 results call. This is Oyvind Oanes speaking, the CEO of 4finance Group. With me today are, as usual, our CFO, Paul Goldfinch; and our new CRO, Martin Muransky; and James Etherington, our Head of Investor Relations.

As usual, we would like to start the call today with a short operational update review some of the key business and financial highlights for the first nine months of the year, as well as giving you an update of the most relevant regulatory topics.

We would want to present a broader update on the progress of our strategic priorities at the full-year results call in early March and have therefore not included much detail on these topics for today's call. However, I can say that

I'm satisfied with the progress we are making on both near prime and on diversification of our funding.

If you could all please turn to page four of the presentation. You will see that we have delivered a solid performance across most key financial indicators in the reporting period.

We continue to see a stable overall performance in our larger online markets Denmark, Poland and Spain, as well as TBI Bank driven by strong underlying demand for our products. In those market we delivered a stable performance for the period year on year in terms of both volume and interest income.

As indicated on the previous call, we are in the process of reviewing the instalment loan value proposition in Poland, and hence have seen a somewhat lower contribution from this product than in the past. We are very encouraged by the continued strong performance of TBI Bank with increasing contribution from business lines such as small business loans and point-of-sale financing. The fourth quarter of the year is typically a very strong season for the bank, and we look forward to seeing some of the same dynamics also this year.

We continue to focus on cost and have managed to drive the cost income ratio further down in the quarter.

As discussed on previous calls, we are seeing our businesses in Latvia and in Finland impacted by recent regulatory changes. And the teams have worked hard on adjusting the products and the business models accordingly. The Latvian business had been stabilised and is performing well under the new regulatory regime, actually delivering an increase in interest income in Q3 compared to Q2. And the new product in Finland that was launched in early September is showing encouraging early results.

As mentioned, we will spend more time talking about the key strategic initiatives in the full-year results call, but I want to mention that we are making good progress with the various near prime projects and aim to launch further pilots in Latvia, Denmark and Poland next year. Paul will talk more about the

strategic funding initiatives in a few minutes, but it's worth to mention that we successfully executed the initial sale of Polish loans to TBI Bank.

The total year-on-year decline in interest income for the reporting period that you can see on this page is largely driven by the fact that we decided to exit three markets as part of our rationalisation efforts and also discontinue some products in certain markets due to regulatory changes in 2018.

However, pre-tax profit is stable year-on-year. The risk indicators are also broadly stable and we have seen a 13 percent reduction in operating cost versus last year.

If you now turn to the next page please, page five, I wanted to give you a brief status update on the ongoing regulatory changes that we are experiencing in some of our European markets. As already mentioned, we have successfully adjusted our products to the new regulations in both Latvia and in Finland. We remain in close dialogue with the regulators in those markets, but we are not expecting any further changes there.

As for Poland, the proposal of the previous government was reviewed by the European Commission as indicated on the previous call. But no specific feedback was given at the end of the three-month review period. However, the proposal was not advanced prior to the October elections in Poland. We continue to closely monitor the situation and will engage in consultations should the new government want to include the topic on their agenda.

In parallel, we continue to optimise our short-term Vivus product, and this is doing well currently. And as I already indicated, we are also reviewing our approach to instalment loans in that market. We remain positive on the overall Polish market opportunity and are confident of having a strong and profitable business in Poland going forward.

In Denmark, as previously announced, consumer credit organisations will be supervised by the Danish FSA from next year and we'll have to apply for a license by the end of this year. We have no concerns about this and are in an advanced stage of our license application process. The new government has

indicated that they want to introduce further regulations of the industry. We are actively contributing to the various discussions and political consultations directly or through the industry association. The current indication is that our first proposal will be published for consultation in February.

All in all, we keep following the situation closely in all relevant markets and continue to be confident, based on past experience, that we'll be able to adjust and adapt our products and business models when and if that will be required.

With that, I will now hand it over to Paul who will talk you through the next few pages, reviewing the financial performance for the period in more detail.

Paul Goldfinch: Thank you, Oyvind, and greetings to everyone on the call today. If we move now to slide number seven, I'm pleased to present the financial results for the group for the third quarter of 2019.

We generated €106 million in interest income in the quarter, a result very consistent with the prior two quarters of this year. And while this is down some 12 percent year-on-year, interest income, like a number of our year-on-year comparatives, are impacted by the product and market exits that took place last year.

The core online markets of Poland, Spain, Denmark and the Czech Republic continue to perform well, with results very much in line with that of the prior year, and this group of markets remain highly profitable for us.

We remain very pleased with the ongoing development of TBI, with the bank reporting another strong quarter in interest income, up 8 percent year-on-year and up 3 percent quarter-on-quarter. Profit before tax for the bank is also up by 50 percent year-on-year.

The operating cost base continues to trend downwards with the third quarter result being 4 percent lower than the second quarter and 6 percent below the third quarter last year. The overall risk performance of our various loan portfolios remains stable with seasonally lower levels of debt sales contributing to an increase in our overall net impairment charge.

This in turn contributed to a slight reduction in Adjusted EBITDA and net profitability results when compared to the prior quarter. But the overall trend in these metrics remains very stable and in line with our expectations.

Additionally, the group continues to generate strong operating cash flow. And after fully repaying the U.S. dollar bonds which matured in August, we finished the third quarter with over €75 million of cash in the online business.

Turning to slide eight which provides a geographical breakdown of the Group's interest income. Poland and Spain, our two largest markets, generate approximately 45 percent of the Group's income across our SPL and IL products.

Our presence in the Nordic and Baltic region remains strong, having now adapted to new regulations in three of these markets and we can expect to see solid growth in earnings from this region next year.

And TBI's presence in Bulgaria and Romania also ensures we remain very well diversified as a group.

Turning now to slide nine, which depicts the quarterly breakdown and development of our operating cost base. The trend and overall reduction in our group cost base continues in line with expectations.

Operating cost decreased by further €2 million in the third quarter to total of €48 million, the lowest quarterly result since the acquisition of TBI Bank over three years ago. Headcount remains a key focus and metric with a further quarterly reduction achieved. And our overall group headcount is now 10 percent less than the prior year comparative.

Our digital marketing team continues to do a great job in terms of improvements to the underlying efficiency in our marketing spend, utilising a variety of third party modeling tools to assist in the optimum channel mix.

As highlighted during the last quarterly call, we launched a number of new cost optimisation measures. While it will take a few more quarters to crystalise the benefits of these initiatives, we're very encouraged by the analysis and findings

to date. We will provide a more meaningful update in this regard with the full-year results.

Turning to slide 10, which lists six of our quarterly key performance indicators. We finished the third quarter of 2019 in a very solid position with good levels of both EBITDA and profit before tax.

The overall capitalisation of the group remained very stable, with the equity to receivables ratio at a healthy 31 percent. While our adjusted interest coverage metric remained at 2.1 times for the period, on a 12-month basis we're well above the covenant threshold at 2.5 times.

Turning now to slide 11, which highlights the progress we're making in terms of our funding strategy. As I stated earlier, we've fully repaid the U.S. dollar bonds which matured in August. We also completed a further $5 million repurchase of our 2022 bonds in October, bringing the total amount repurchased to $50 million.

The bond markets are and will remain a key source of funding for the group and we are making good progress in terms of agreeing our approach to refinancing of the 2021 Euro bonds. We expect to finalise our consolidated business plan and associated funding needs in January and I look forward to providing a further update on refinancing during our next quarterly call in early March.

As Oyvind highlighted, we completed a pilot portfolio sale of Polish instalment loans to TBI Bank in September and we'll complete a second tranche of over €2 million next week. We've also made good progress in terms of the development of the automated funding technology platform, which will underpin the scalability of these portfolio sales into next year. Our overall capital position is strong as we enter 2020.

Turning now to slide 12, our online loan issuance in Q3 totaled €252 million, bringing year-to-date issuance to €775 million. While this is somewhat down against the prior year, this, like other year-on-year comparatives, is obviously impacted by last year's product and market exits.

TBI loan issuance of €87 million in the third quarter is almost 20 percent higher than the prior year and is also up 12 percent on the prior quarter. The overall mix of the portfolio continues to be well balanced between online and TBI. I will now ask Martin, our Chief Risk Officer of the Group, to take us through the following more detailed slides on our asset quality and the dynamics of our impairment charge. Thank you.

Martin Muransky: Thanks, Paul. Good morning or good afternoon to all on the call. It's a pleasure to join this results call, my first time presenting the figures at the group level within 4finance. Will walk you through the important points related to the risk performance as of Q3 2019.

Starting first with slide 13. The net impairment result for the quarter totaled €31.9 million and was composed of, firstly, €37.6 million of gross impairment charges, a figure down almost 12 percent year-on-year and very stable quarter-on-quarter. Additional gross impairments have been booked in the Spanish instalment loan portfolio driven by increased loan issuance during Q3, while on the other hand, the adverse trend in some metrics we observed in the Polish subprime instalment loan portfolio during the prior quarter have now normalised and we are happy with the quality we are seeing after implementing a new scorecard and related policy changes in May earlier this year.

Secondly, we have €2.3 million net debt sale gains, as anticipated seasonally lower quarter-on-quarter as well as year-on-year, since most of the debt sale performed during 2018 has been related to older portfolio cleanups.

Moreover, some 40 percent of those gains in Q3 came in TBI Bank, so we have sold relatively less from the online portfolio and have some more inventory here for the fourth quarter. And finally, €3.4 million in recoveries from written-off assets which is a figure very similar to previous quarters.

The net impairment result develops broadly according to our expectations and is reflective of the evolution of the net receivables mix where the online and the banking assets are now closely balanced.

Although interest income was stable quarter-on-quarter, given seasonally lower debt sales in Q3, the net impairment to interest income as a percentage ratio

increased despite the actual gross impairments being stable on a quarter-on-quarter basis.

The higher quarterly net impairment also impacted the overall cost of risk: the total was 18.1 percent for the quarter vs 15.9 percent previously, while, on the other hand, the year-to-date nine-month 2019 cost of risk result continued to show an improving trend, reaching 17.3 percent versus 18.1 percent for the same period of 2018.

Cost of risk for online was at 27.6 percent for the first nine months of 2019, higher versus a year ago, a combined result of both lower debt sales and somewhat reduced overall gross receivables amount year-on-year, the latter being attributable to products or markets that have been rationalised.

On the other hand, the cost of risk at TBI Bank developed very well reaching 4.3 percent versus 8.6 percent a year ago, reflecting the continued stabilisation of the portfolio quality with the normalisation of performance in Romania, as well as growing efficiency in collections, including now a regularised debt sale process. Given we are seeing higher growth in originations at the bank, we may expect this cost of risk in future to be somewhere in between the 2019 and 2018 levels.

Now, moving on to slide 14, the NPL ratio for Q3 remained in general quite stable from last year, although it did increase during Q3 in the online segment and this is due to the lower debt sales I have already mentioned before.

The NPL ratio at TBI Bank was stable quarter-on-quarter. Loan inception quality, as well as collections performance remained solid and within expectations.

The total reserve coverage on a group level reached almost 22 percent with a strong non-performing loan coverage ratio of 109 percent, being higher for the online NPL receivables standing at 128 percent, a ratio that's remained flat versus the level as of December 2018.

The same metric was respectively at the stable 76 percent for TBI Bank. The lower NPL coverage of TBI versus online is attributable to the near-prime

nature of the consumer loan book in TBI as well as to their roughly 22 percent share of small business lending which is well collateralised. This summarises the main risk performance metrics for the quarter and thus I hand over back to Oyvind.

Oyvind Oanes: Thank you, Martin. Before we open it up for questions, let me try and summarise the key takeaways from today's presentation. We continue to deliver a solid performance across most financial indicators with a stable quarterly interest income above €100 million and Adjusted EBITDA above €30 million.

We have demonstrated again that we are able to adapt to changes in the regulatory environment – recently by successfully changing our product propositions in both Latvia and in Finland.

We continue to have a tight focus on cost and have initiated a further range of cost reduction initiatives, some of which have contributed to a reduction of 13 percent of our operating cost base year-on-year. And as Martin explained, the overall asset quality is stable and cost of risk in line with expectations.

While we're working hard to optimise our existing business franchise, we believe we have a good set of strategic initiatives in place which focus on medium-term opportunities in the near prime segment, as well as on diversification of our funding channels. We will review these in more detail on the next call.

The new management team is now fully in place and are up to speed executing on the agenda around evolving and broadening our business model. Many thanks for your time and attention. We will now open the floor to questions.

Operator: Ladies and gentlemen, we will now begin the question and answer session. As a reminder, if you wish to ask a question, please press star one on your telephone keypad and wait your name to be announced.

And if you wish to cancel or withdraw your question, you may press the hash key. Once again, that is star one if you wish to ask a question. OK. Our first question is from the line of Otto Dichtl. Thank you. Please ask your question.

Otto Dichtl: Hello. Yes. I wanted to just get back to the point of the cost of risk in the online business. I'm not sure if I fully understood that. You were saying that you expect the average cost of risk going forward to be around, what, the levels of 2018, or was that the group cost of risk? Could you just talk about that a little bit more please? Thank you.

Martin Muransky: I am not so sure if I mentioned that the cost of risk is expected to develop in line with the past year. What I mentioned on the online segment is that we have seen a higher figure for the first nine months of 2019 which is above what we recorded a year ago. This is due to the result of lower debt sales in the quarter as well as change in the denominator for calculating this ratio which is the overall receivables amount which has reduced given some of the products or markets that have been rationalised.

If you are asking this question related to TBI, we confirm because this is a different type of an answer, but I understood that you were looking into the online business rather than the bank.

Otto Dichtl: Yes. It's the online. Because, I mean, it does look like a fairly significant jump and, sure –if you're shrinking the book, but all the non-performing loans stay with you, then, of course, that's not a great dynamic.

So, therefore, I was just wondering, basically how you expect that to evolve going forward? Are you taking some steps to tighten underwriting in that business or are you comfortable with the level of impairments that you have at the moment? Just some better view for that please.

Martin Muransky: Yes. Understood. We are confident with the result that we see and the development and the trend in the impairment also for online business as mentioned before, and I think it was also indicated on the call in the last quarter we have seen an adverse trend in one of our markets we have addressed earlier and we've already seen during Q3 an improvement in this segment. Since this was related to the subprime loans in Poland, which is a significant part of the online business, this had also a lagging effect in the result for Q3 which is the nature of IFRS 9-driven provisioning methodology, which is somewhat more conservative than the one used previously. Plus, of course, there is also a time

lag when a change, especially in the instalment loan product with a longer tenor, has an effect that is spoiling the result.

Otto Dichtl: OK. That's great. Thank you very much.

Operator: Thank you. The next question is from the line of Olegs Novikovs. Thank you. Please ask your question.

Olegs Novikovs: Yes. Hello. My name is Olegs Novikovs. I just have a question here regarding the bond prices. We have your bonds on our balance sheet for some of our clients. And the question is, I mean, the performance has been really bad over the last, I would say, two years. Do you have any plans for strategy to support the bond prices?

Paul Goldfinch: Hi, Olegs. Yes, I can take that question. It's Paul here. Yes, I think it's fair to say that the U.S. dollar bond price has been below par for quite a considerable period of time. We have taken steps to support the bond price by repurchasing some of these bonds. As I mentioned, we made a further $5 million repurchase in October so that the total amount we've repurchased to date is about $50 million. We constantly are in touch with our advisors in terms of the performance of both bonds. It's our view that the current bond price does not reflect the performance of the company. I think you can see in the results that the ongoing EBITDA and profitability metrics are very strong. That's something we hope will continue to improve over time.

Olegs Novikovs: And you've touched upon also refinancing options that you are considering. Can you please disclose more detail? What's your outlook, let's say, on the available funding options and do you have a preference between the euro tranches or USD tranches or maybe other currencies?

Paul Goldfinch: Sure. That's a good question. Obviously, we have our euro bond maturing in May 2021, so this is the first refinancing exercise we need to consider. But there are various refinancing options available to us.

Firstly, we could choose to refinance just the euro bonds, and we have a larger U.S. dollar bond maturing 12 months after that, so we could look at doing a

much larger bond and repackaging the two of them together. We also need to consider the timing, the currency and, obviously, the scale of the refinancing.

Secondly, we have finally started to utilise TBI's balance sheet in terms of helping us with some portfolio loan sales. As we move more into the near prime segment, clearly TBI will play an important role in the overall financing of that portfolio growth.

So, what we're doing now is, as we go through our business plans at a country and a product level, together with the bank, through December and January, that's when we'll get a much better idea in terms of our overall refinancing need from the bond markets and then we'll be able to talk more about what our current strategy is in the next call in early March.

Olegs Novikovs: Do you expect to continue to sell loans to TBI Bank in the future and/or do you have maybe other securitisation options somewhere in the pipeline?

Paul Goldfinch: We definitely plan to sell more loans to TBI in the future. This is a key strategic objective for us as we go in to 2020. We do have other funding options available as well. We established a securitisation facility midway through this year in Luxembourg and we're exploring with potential investors to securitise some of our more mature portfolios in some of our European markets.

That's more on a smaller scale. I think that will only complement what we want to do. We will be continuing to use bonds as a pillar of our financing strategy. But as we move more into the near prime segment, TBI will play a much more important role.

Olegs Novikovs: All right. And just maybe one last question. Actually, in the past, you disclosed that some affiliated persons have purchased your bonds in the open market. Can you disclose more if that's still happening? Have they sold since then or are they buying more maybe?

Paul Goldfinch: The bonds are traded OTC. So, we're not aware of who holds our bonds, or who's trading our bonds. What we typically do on calls is announce our holding of the bolds that we have bought through the quarter and in total. So, I can't comment further on any affiliates.

Olegs Novikovs: Alright. Thank you.

Operator: Thank you. The next question is from the line of Angus Rogers. Thank you. Please ask your question.

Angus Rogers: Yes. Hi. Some of my questions were answered in the last call there. But just vis-à-vis dealing with the euro maturity, it goes current in next May, I believe. You know, your ability to access the bond market at rates that are in any way, shape or form helpful to your equity is, at this stage, highly unlikely.

So, it feels to me that you guys should have a little more of a game plan in short order as to how to roll this financing. I'm not saying the bond market is closed per se, but to get any kind of rate that is helpful to your business, you're going to have to do a number of things – and it seems like – there should be more of a sense of urgency in my opinion. Do you have any comments?

Paul Goldfinch: Sure. Look, we have spoken to many advisors about our refinancing strategy for the next year. And we believe strongly we have a range of options available.

We are making much stronger use of the bank. We have other options as well in terms of funding. You can see how the euro bond price is performing, it's above par. That was more of a retail issue. We believe those markets are still very much open to us. But again, we are looking to go to the bond markets in around 12 months or less. That's the time period we are targeting.

And as and when we finalise our business plans for next year, I think we can share some more views in early March in terms of what we want to do. But we feel pretty confident in terms of our ability to refinance those bonds.

Angus Rogers: Are there any business lines, in particular, that would be easily saleable and/or where you can release working capital and pay down debt naturally?

Oyvind Oanes: Yes, maybe I can answer that. I think that it's obviously always a possibility and an option that we will look at. But as we're standing right now and just to build on what Paul said earlier, we don't think that we would necessarily need to sell business lines to be able to fulfill our obligations around repaying bonds

or rolling bonds. So, I think the markets will be open for us. But, obviously, as we crystallise our plans a bit more, looking at a potential sale of some portfolios would be part of that mix as well. But at this stage I wouldn't be able to comment at more detail than that.

Angus Rogers: What coupon on unsecured debt is prohibitive to you?

Oyvind Oanes: I don't think we have a clear view on what is prohibitive to us. We'll see how the markets react when we start to engage with the markets next year. But it's difficult for us to kind of say what is prohibitive at this stage.

Angus Rogers: Alright. Well, thank you very much.

Oyvind Oanes: Thank you.

Operator: There are no further questions at this moment, sir. Please continue.

Oyvind Oanes: Alright. So, if there are no further questions, we would like to thank you once again for calling in today and we look forward to catching up again in the new year. Thank you and goodbye.

Operator: So, this concludes our conference for today. Thank you all for participating. You may all disconnect.

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