4FINANCE Q1 UNAUDITED RESULTS CONFERENCE CALL

Moderator: Mark Ruddock
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OPERATOR: This is conference #6394807

Operator: Good afternoon, ladies and gentlemen. Thank you for standing by and welcome to today's 4finance Unaudited First Quarter 2018 Results conference call.

At this time, all participants are in a listen-only mode. There will be a presentation followed by question and answer session at which time if you wish to ask a question, you may need to press star and one on your telephone and wait for your name to be announced. I must advise you that this conference is being recorded today on Friday, the 25th of May 2018.

And I would now like to hand the conference over to your host today, Mark Ruddock, please go ahead sir.

Mark Ruddock: Thank you, (Valerie). And welcome everyone to the 4finance first quarter results call. With me today are Paul Goldfinch, CFO; Jūlija Lebedinska-Ļitvinova, CRO; and James Etherington, our Head of Investor Relations.

Today as usual, we're going to start with an update on our operational progress and then we will focus with an overview of our Q1 financial results before drilling into the underlying performance of our portfolios. At that point, we will open the call to questions.

If everyone could turn to page four, I think Q1 has been an encouraging quarter from a number of perspectives. Interest income is up 18 percent year

over year and we have seen significant demand for our installment loan products with issuance at the level of about 220 percent of that during the same period last year.

Pre-provision operating profit encouragingly is up 28 percent year over year, as we're starting to evidence some early gains in operational efficiencies. We have achieved an adjusted EBITDA of 32 million which is up around 13 percent quarter over quarter and while our cost to income ratio at 54 percent is still too high in my opinion, it has fallen 4 percent year over year from 58 percent and we do expect this trend to continue as our cost efficiency initiatives bear fruit.

We're comfortable with our gross NPL ratio which is also down by 7 percentage points from the end of 2017, though I would caution that a number of comparisons with last year are complicated by the introduction of IFRS 9 and the change in our write-off policy which we signaled in our last call.

Turning now to page five, complementing the encouraging baseline strength in the business, we are seeing our diversification efforts continue to gain momentum primarily evidenced by our accelerating instalment loan sales. We've weathered the transition to IFRS 9 I think pretty effectively and this is despite the growth in our installment loan portfolio, which we knew would put near term pressure on our loan loss provisions.

And there is promising momentum now occurring in a number of critical foundational areas and I will cover those over the next few minutes. We do continue as we have mentioned on prior calls to retain a pretty conservative bias towards our new markets. We are closely monitoring the portfolio and underwriting performance on a product by product and country by country basis.

And in cases where we're uncomfortable with the underlying performance, or where we project the need to respond to regulatory changes, we do have the ability to react quickly in order to be able to continue to deliver economically compelling returns across the business.

And I said on previous calls that we do exploit a "test, learn and iterate" strategy, particularly in our emerging markets, adjusting our risk appetite accordingly. Our near-prime launch in Sweden will follow this approach and we're going to scale that business very cautiously and quite pragmatically and it will be governed by a number of checkpoints along the way.

We are prepared to make tough decisions though when we have to and we have recently done so electing to discontinue our operations in the Dominican Republic. Although that market I think was making relatively good progress in the number of areas, we didn't believe that it would be able to reach the scale and the returns that we felt were sufficient to justify the capital and the resources that we foresaw that we would need to commit.

I think it's important that companies be prepared to make tough choices from time to time in order to drive success. And our philosophy at the moment is that we would rather choose to do fewer things but do them well than attempt to do too many things sub-optimally.

So with respect to Friendly Finance, I mentioned last time that we would be evaluating on a market by market basis where it made sense to maintain the Friendly Finance business lines & where it made sense to throttle them up and to throttle them down. We looked at the number of factors in making this determination and this include significant customer overlap, the projected returns, regulatory features, et-cetera.

And we have in this context selected to suspend Friendly Finance operations in some markets like Spain and Georgia, for example. And we will seek to maximize the return on the existing loan books in those markets as we wind down the businesses.

Our drive for efficiency continues and we are looking now at our overall target operating model in order to drive greater efficiency and effectiveness really across the entire piece. One of current areas of our focus is on driving more decision making authority closer to the frontlines, potentially adjusting the role and structure of head office appropriately. It's my belief that HQ needs to provide the platforms and the governance including our credit

policies and so on of course and the best practices that can power scale and operating leverage. But the field needs to be given the flexibility to be more responsive to local markets, competitive dynamics, et-cetera and our new platform in particular will facilitate this.

The regulatory landscape as many as you know continue to evolve across Europe, with proposed or pending regulations in Romania, Georgia, Sweden and Finland. We do try as best as we can to anticipate and prepare for these changes and have been quite active in the consultation processes in these markets.

Beyond growing our capabilities and near-prime which naturally bears less regulatory risk over the long term, we are taking the necessary steps to adjust our product functionalities. So for example, you've seen a shift from single payment loans in some markets to more minimum-to-pay or line of credit type functionality. We're also updating underwriting policies including more robust DTI and LTI tests where they are needed and where we think they make sense, and also our loan pricing - in particular augmented by risk-based pricing functionality - where we need to meet and/or exceed regulatory requirements.

So a combination of good regulatory behavior but also great competitive advantage for us as a business. And I think the continued diversification though of our product and our market portfolio helps the firm as a whole mitigate the impact of individual regulatory challenges.

Speaking of regulations, over the last few quarters, we've actually been quite active in deploying a robust framework for both AML and GDPR compliance. And I'm quite pleased with our progress, and in particular with our readiness in this key area this year. We are laying a foundation for the future of the business with a) the imminent rollout of our new IT platform, which we will see increase not only the appeal of our products, but give us a step change in our underwriting capabilities. And most importantly reduce our overall IT costs over time.

b) we are narrowing the pilot launch of our near-prime initiative in Sweden, and this is actually complementing the learnings that we have already been gaining from our Spanish and Lithuanian near-prime efforts.

And finally c) we are about to launch a funding and securitization platform, which is really capable of unlocking funding for both external sources, for example private equity perhaps, or internal sources, such as TBI. And as we grow the loan book and in particular as we grow our instalment business and/or deliver lower APR products, this sort of flexibility is critically important for the sustainability of the business.

The good news is that all three of these fundamental initiatives are now in beta testing and are scheduled for gradual rollout over the next few weeks.

We're also working to streamline or brand strategy and as I mentioned last time, we're moving away from our historic somewhat cluttered product by product brand landscape to a more consolidated brand strategy driven by customer segmentation. And as a result of this strategy, we are executing the gradual migration of our multiple brands to a single sub-prime brand under Vivus in most markets.

And this allows us to leverage the significant brand equity that has built up over time under Vivus brand and the team additional marketing efficiencies going forward. And over time, under a single brand umbrella, we believe we can more effectively bring together our growing product offering to deliver more integrated suite of financial products for the underserved. Therefore unlocking access frankly for those customers to the financial products and services that they seek.

We will be launching our Swedish near-prime efforts under a fresh new brand called Friia, and more on this will be revealed in the coming weeks, once that product is available to the public. And this customer centric view will allow us, we believe, to improve customer lifetime value and to build longer-term customer loyalty.

Finally, we also are seeing encouraging results from our strategic partnerships, including the rollout of Volana, which is our partnership with a major utility in Mexico. And this partnership not only provides us with additional scoring data and pre-authenticated customers which is critically important in this market, but we believe it's an interesting model for emerging markets expansion. So while we are still at the very early stages of that partnership, we have seen some promising early results from it.

In Spain, where we have partnered with Fintonic to test access to a more near-prime audience, we've seen some encouraging demands for lower APR products and some excellent loan loss experience so far.

So if we turn to page six, I just want to close off on responsible lending. You see the slide every quarter, because it's important and our commitment to responsible lending really remains core to what we believe is required to build a sustainable foundation for the business. And we are rolling out a range of initiatives that bolster our capabilities in this area.

Now in terms of the actions related to putting customers first and ensuring we deliver good customer outcomes, we have now rolled out our firmwide code of conduct. This is designed to establish clear standards that will govern not only the behavior of our teams internally, but also our external business partners.

We've also rolled out a confidential whistleblower platform that makes it possible for us to ensure that employees can privately raise concerns without fear of retribution. We have updated and rolled out a group-wide company values and these are a way for us to focus on who we are and how we will behave going forward and you can read about these values on our publicly available website.

Our teams have received a group-wide training in all of the new policies in addition to AML, GDPR, anti-bribery and other safeguards. So we are trying to drive down competency, knowledge and behavioral efficacy into the group.

We do continue to tighten our credit policies in order to ensure that we only lend to those people that can afford to pay us back. And we're doing this by broadening our use of risk space lending limits, leveraging additional predicted variables in our score cards, to better assess of affordability for example. And we're working to ensure customers have safe landings when they signal difficulties.

We do continuously monitor and tighten our policies regarding extensions and we are addressing any edge cases that we see. The objective here obviously is to ensure that no customers get into debt spirals.

And finally, we are continuing to work on deep and meaningful regulatory relationships and on improving our governance and compliance frameworks internally, and I think there's been very encouraging results across the board there.

So I'm now going to pass the call 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. If we now move to slide number 8, group interest income for the first quarter of 2018 reached almost €124 million, just 2 percent up on the prior quarter and 18 percent higher than the prior year comparative. And it is yet another record quarter for the group.

Our pre-provision operating profit for the quarter is €52 million, an encouraging 28 percent above the prior year. We generated €32 million in adjusted EBITDA for the quarter which was down 8 percent year on year and the group's Q1 profit before tax of €15 million was 10 percent below that from last year. Clearly both of these numbers were impacted by the introduction of IFRS 9 in January this year.

In terms of the key business highlights, we maintained a strong momentum in instalment loan issuance with a 14 percent increase in quarterly issuance to €63 million, following a 20 percent increase in Q4 last year. This in turn is seeing interest income from the product also rise a further 21 percent this

quarter to €26 million. And we again saw quarterly increases in interest income in the majority of our online markets and the remainder of these markets also produced stable results over the quarter.

TBI Bank produced again a solid set of quarterly results with €18 million in interest income, slightly up on the prior quarter and 35 percent up against Q1 2017.

Cost efficiency will be covered in more detailed in an upcoming slide, but the impact of both cost discipline and efficiency initiatives is evidenced by the on-going stability and an ungrowing cost base.

Our overall NPL ratios have continued to improved in Q1 following the implementation of IFRS 9 and the change in our underlying write-off period methodology.

If we turn now to slide nine, which provides a market label breakdown of interest income. The key strength of our franchises is the diversity of our revenue base and this is nicely evidenced by the two graphs on this slide. The strong quarterly performance in Poland has seen its share of the group's interest income increase to 27 percent. And together with Spain, they're clearly our two largest markets. But with the remaining 13 markets generating €70 million in income across the range of products, the group is always in a very strong position to expand profitably and also absorb the impact of specific future market volatility.

If we turn now to slide 10, we're seeing a 5 percent reduction in our overall cost base in the first quarter with operating expenses excluding depreciation totaling 61 million in Q1. And as highlighted on the last investor call, we're taking a stricter approach towards capitalization of our IT spend on a current platform. While in parallel, we work towards the implementation of our target state architecture.

The impact of this change in Q1 is an increase in personnel cost versus prior year comparatives in excess of a million euros, and there are also some one-off cost in the quarter which are reflected on this total. The cost base in

Friendly Finance decreased in the first quarter as we execute the planned wind downs in selected markets. And we'll see this cost fall significantly over the next two quarters.

The cost income ratio fell from 58 to 54 percent despite the increase in IT OpEx and we remain firmly on track to see further improvements in this ratio over the remainder of the year. The overall group head count has fallen 2 percent in the quarter and remains at a similar level to that of 12 months ago.

The implementation of our new IT platform is key to unlocking material medium term cost savings and as Mark has said we're very encouraged of the progress we're making of this initiative. And as we state each quarter, cost discipline as well as the implementation of improvements and the efficiency of our business model is a core part of our strategy.

Turning to slide 11, which provides some of our key financial indicators. The quarterly results reflect the strong track record and top line growth in interest income. We enjoyed a solid start to 2018 in terms of both adjusted EBITDA and net profit before tax. Both of our equity based ratios were impacted by IFRS 9 in January, but the equity to net receivables metric remains comfortably above the bond covenant limits and has improved slightly over the course of Q1. And our adjusted interest coverage ratio of 2.2 times remains at levels similar to that since we issued the US dollar bonds in April 2017.

Now, turning to slide number 12, our online loan issuance in Q1 totalled €337 million, 3 percent down on a seasonally strong Q4 but 11 percent up on the prior year comparative. And within that, while SPL issuance remains at similar levels to the prior year, both line of credit and in particular instalment loan issuance have grown very strongly. TBI consumer loan issuance is also 20 percent higher than the prior year. And overall, our net receivables increased by 4 percent in the quarter, fueled by growth in our IL portfolio of 22 million. And the mix of the portfolio remains very well balanced between both online and TBI.

I'll now ask Jūlija, the Chief Risk Officer of the group to take you through the following more detailed slides in both asset quality and the dynamics of our impairment.

Jūlija Lebedinska-Ļitvinova: Thank you, Paul. Good morning, good afternoon, everybody. I now turn to the slide number 13, analysis of net impairment and cost of risk. So our first quarterly results after adoption of IFRS 9 are in line with anticipated trends. I even would say on that optimistic side of that. Q1 net impairment is at the level of 36.8 percent and it is only a 7 percent increase quarter on quarter compared to the last quarter of 2017.

The graph on the left hand side very well demonstrates the trends in each one of the components. So our gross impairment in this quarter is €49 million versus €35 to €39 million in each quarter of 2017. In this quarter, we pretty much experienced the same growth in instalment loans so that's why from this perspective, portfolios are comparable, but obviously in quarter one, we operate under IFRS 9 and provisioning methodology is completely different now compared to the last year.

TBI consumer portfolio continued to grow and this also impacts the increase of gross impairment.

When we look on net debt sale proceeds, then they are at the level €6.7 million and this is obviously record high level we had in the whole history of the company. The increase driven by two factors, so first of all IFRS 9 adoption, high provisioning and write-off policy at 360 DPD, but it's also very solid quarter in terms of debt sales. So around quarter of our portfolio is sold from portfolio with 730 days past due.

When we look on recovery on write-off assets, then it's doubled. So €5.5 million in Q1 2018 compared to on average €2.5 million in previous quarters of 2017. And this obviously is driven by write-off policy change in online operations.

As Mark said before, asset quality metrics are not easily comparable in Q1 versus prior quarters because of different provisioning methodologies. Our

net impairment to interest income is at the level of 30 percent in the first three months of 2018. It's increased from 23 percent for the same period last year but obviously net impairment increase is driven by IFRS 9 adoption very significantly.

Overall cost of risk is at the level of 21 percent and this is slight increase compared to the last year and again, shortening of write-off policy at 360 drives gross receivables reduction and as a result this impact increases the cost of risk. Equally, implementation and adoption of IFRS 9 principles increase provisioning and again this drive includes cost of risk.

As I said on the 7 percent increase of net impairment this quarter compared to prior quarter and this obviously is reflection of transformed risk policies across all stages of credit cycle. As Mark said, we continuously worked on improvement of underwriting strategies across all our instalment products and majority of our SPL products during the quarter. We also strengthened our collection strategies, pre-delinquency measures we strengthened and we accelerated our debt sale strategies.

I now turn to the next slide, number 14, asset quality and provisioning. Online gross NPL ratio improved to 22.1 percent, and it was at the level of 33.5 percent at the end of the last year. Again, I want to stress that change of write-off policy in online operations drives this improvement partially, but also quality improvement is reflected in this ratio.

Total NPL ratio for all operations is at the level of 19.5 percent. We remain very well provisioned. So overall coverage is at the level of 23 percent and it slightly increased compared to the end of the last year at 22.3 percent. Again, comparison should be made taking into account change in the provisioning methodology and change of write-off policy in online operation.

All in all, I would say that write-off policy change on the 1st of January this year in online operations made our portfolio structure much better and healthier and we are very happy with NPL ratios and trend what we observe at the moment. I now pass it back to Mark.

Mark Ruddock: Thank you, Jūlija. Let's turn to page 15 and just wrap up on a number of initiatives.

When I agreed a year ago to step off the supervisory board for a period of time and into the CEO role here, it really was to focus on a number of key initiatives for the firm. Number one was to deploy a new IT platform that could enhance not only our competitiveness and allow us to rollout new products that could delight and engage customers but really to do so with best in class economic efficiency.

This firm has grown quickly over the last few years and had built up a bit of a legacy IT platform I think that was constraining both stability to operate quickly but also driving some fairly significant costs. I think we have really turned the corner on that now with a platform that is the right blend of best in breed third party components, and those bespoke things that we believe really set this business apart, and that platform is now set for its beta launch.

The second thing was to really help the firm drive sort of accelerated diversification away from its historical SPL business lines. And in particular, to lay a foundation for broader market segments, near-prime and so on.

In particular, we have as you know from the last few minutes on this call announced that we are about ready to deploy our pilot near-prime project in Sweden, that project, while it will be quite throttled at the beginning, is a promising additional vector for this firm as we unlock new market segments over the long term.

Thirdly, in order to do this, of course, we need to be able to unlock both diverse future sources of funding, in addition to lower cost funding. And therefore the third key initiative was the creation of a funding and securitisation capability or platform really if you want to call it that. It could allow us to diversify the sources of our loan book funding and reduce the cost of funds needed to power our business going forward.

Fourth, as a business we are always under scrutiny and it is extremely important that we maintain a very public and very credible commitment to

responsible lending, regulatory compliance, and good governance. But I also thought that it was important to develop a number of strategic partnerships that could drive future market expansion, reduce our customer acquisition cost, for example by leveraging proprietary data and improve our overall portfolio performance. And we have some very interesting but still very early stage examples of that now in the mix.

And finally, given that in some markets as much as 70 percent of our customer base connects with us on mobile devices, it was critically important that we develop our mobile competencies and begin to move really towards a mobile app that could help us integrate our product offering and provide a more continuous and compelling relationship with our customers.

So I'm quite encouraged actually by what the team has been able to accomplish over the last year against these key initiatives. And I think this is clearly evidenced by the pending launch of the new platform, by the launch of our near-prime pilot in Sweden in the coming weeks and the securitisation platform.

We have optimised our mobile user experiences in most countries, we haven't yet delivered the mobile app but that is at some point something we will look at when we believe the time is right. And underlying all of this I think it has been a consistent focus on responsible lending, regulatory compliance and putting customer first.

So as I complete my agreed term and return to the supervisory board, I do so really knowing that we have identified and hired a CEO who I believe can take this business forward effectively and I look forward to working with my peers here on the supervisory board, the new CEO and our export management team in helping to realize the potential of 4finance. And I continue to believe that potential is quite significant.

4finance has a clear and transparent mission to help the world's aspirational but financially underserved meet their financial needs today and build stronger financial foundations for tomorrow. And we believe that there's an opportunity in so doing to build the sustainable and compelling business.

We also believe that 4finance is uniquely positioned to do this given its scale and expertise. Today, we operate in 15 countries, we have a diversified product portfolio that spans single payment loans, instalment loans, credit card, lines of credit, point of sale loans, and deposits. We understand how to deliver simple and transparent products on our customer's terms and which are available quickly and efficiently anytime and anywhere.

And we're building on critically important additional competencies now in mobile and user experience design, and next generation risk underwriting, real-time payments, multi-country scale and so on, all backed by a growing focus on automation. We think these are key pillars of being able to scale this company efficiently and effectively going forward.

And we're doing all of this with the objective of delivering great customer outcomes that's backed by a code of conduct and strict adherence to local regulations. As we move forward we're going to continue the development of our key strategic relationships, we think they are their foundational for us in unlocking new markets and providing us with new capabilities and we will hope to announce more of those in coming quarters.

I think the basics of the first quarter are that we have seen some encouraging renewed momentum in the business. Not only in the encouraging growth we see in our instalment loans and the appetite for those products and there are overriding performance, remember these are products that are going to provide a stream of revenue for us over many, many quarters in the future. But our core business actually has been particularly strong.

And I think we will continue to focus on this dual track strategy that I've talked about in the last few calls of working simultaneously to both strengthen and optimise the core heartbeat business while we lay a solid and sustainable foundation for the future.

Many thanks for your time and attention today, I'm going to open the floor now to questions.

Operator: Thank you very much, sir. Ladies and gentlemen, if you wish to ask a question please press star and one on your telephone keypad and wait for your name to be announced. You can cancel your request at any time by using the hash key. Once again, it is star followed by one should you wish to ask a question.

And your first question comes from the line of Otto Dichtl of Stifel Nicolaus, please go ahead.

Otto Dichtl: Hello, I was wondering if you could comment a little bit more on the asset quality situation, the loan loss provision charge, I mean does – it has gone up fairly noticeably? I mean I take it like you said much of that is IFRS 9, but is there something that can show a little bit how much of the increase is actually due to IFRS 9 and how much is due to the underlying portfolio development and also maybe a clue to how that is going to develop going forward. Thank you.

Jūlija Lebedinska-Ļitvinova: Thank you so much for your question, Otto. So it's quite complicated question I should say. So let me start with some underlying trends and figures. If you look on last quarter results then our blended LGD across all consumer products was at the level of 53 percent. Now we operate at the level of 78 percent, so basically obviously IFRS 9 affects LGD as it states that all recovered cash flow should be discounted at the effective interest rate at recognition.

And this is a huge difference. But of course we also made a change in online operations moving from 360 write-off policy, apologies, from 730 to 360. And this also affects LGD because now we have shorter window to recognise recoveries.

But we did a bit of reverse engineering and comparing similar portfolio and structured portfolios what can be easily done then we come up with the estimation that this quarter results under the IFRS 9 would be in the range of €31 to €32 million which is significantly lower than …

Jūlija Lebedinska-Ļitvinova: Yes, so basically we come up with the estimation that this quarter results under the old regime IAS 39 would be in the range between €31 and €32 million. We were quite conservative on our debt sale assumptions because they obvious would benefit from some movements. But the answer is between €31 and €32 million, which is lower than previous year last quarter.

Mark Ruddock: Does that answer your question, Otto?

Otto Dichtl: Yes, thank you. That helps. Maybe a little bit on the outlook for how you expect to develop because of the growing instalment loan product, and you said that those require somewhat higher initial provisions. Thanks.

Jūlija Lebedinska-Ļitvinova: Yes. This is absolutely a fair comment. Instalment loan under IFRS 9, the requirements for provisioning is much higher. So basically we make very simple calculation, for all instalments which are non-delinquent which have a zero delinquency days, we need at least one interest payment to cover provisioning which is required at a very early stage.

If accounts go into delinquency, quite low delinquency, let's say five days then we need already 10 interest payments to cover this provisioning. And obviously, this is very severe trend and that's why asset quality for us especially in an instalment book is significantly important.

And as I mentioned earlier on this call, we strengthened our pre-collections measures so we start to call customers earlier, we remind and we try to cure everyone. And also debt sale strategies have been accelerated. On top of that, revisited underwriting policy for instalments. So these are our kind of achievements so far but this definitely will be continued going forward.

Mark Ruddock: Yes. And, Otto, while we don't provide any forward looking guidance obviously on this call, I would remind you that we watch these portfolios very closely. And as we feel that the performance of any specific product in any specific country isn't at the level we would like to see, we do have the ability and the willingness to temporarily throttle sales back.

So you will see us do that from time to time if we detect behavior in the customer base that is not aligned with what our expectations are. That's just prudent portfolio management we believe.

Otto Dichtl: OK, thank you.

Operator: Thank you. And your next question comes from the line of John Sykes of Nomura. Please ask your question.

John Sykes: Yes. Hi, it builds on your last comment, but what is the replenishment rate? In other words, to sort of just maintain the current level of revenues, how much portfolio investment do you have to make? Or do you not think of it that way?

Mark Ruddock: It's a complicated question to answer in some respect across so many products in so many countries and so many types of portfolios. I think that the one thing I would remind everybody though is that when you're looking at installment products in particular on the revenue side, the products that we sell and we have sold for example in the first quarter, many of those portfolios will continue to develop over a period of the next one to two in some cases three years. So they will provide future revenue and as we continue to sell installment loans quarter by quarter we will see a revenue on revenue type of capability.

So they're inherently – assuming that nothing goes wrong with the portfolio of quality, they're inherently building, so I think that's sort of probably the easiest way I can answer your question.

John Sykes: Yes. I guess I'm really just trying to get a sense for free cash flow potential, if you have to pull back. This quarter, you had operating cash flows of around 61 million. But you invested 70 million plus and so I'm just trying to get an idea, could you pull back to 20 in a quarter and generate 50 million of free cash flow. It's something, I'm just trying to get a sense as to how much free cash flow you could generate without compromising the business if you pull back?

Mark Ruddock: I think today, where there is still a fairly significant mix of shorter term loans in the mix, it gives us quite a bit of flexibility should we want to reclaim cash into the business. As the instalment loan portfolio grows overtime and as the portfolio size grows, many more of those loan start to come due and so therefore the natural even month by month repayments and not only do they provide us with revenue on a month by month basis, but they provide us in effect with great cash flow on a month by month basis as well.

So when you throttle back sales at that point, in other words outgoing cash, you have an increasing potential for cash regeneration. So even, I think today we've got lots of flexibility in our kind of SPL heavy mix that we can move things up and down quickly. But going forward, we're going to continue to have that flexibilities as the IL products makes increases as month by month repayment cash flows exist in the portfolio across all of our products and countries.

We do carefully look at our cash utilization obviously and one of the reasons why we feel it is important to build a funding and securitisation capability into the company at this stage is we realise as our instalment loan appetite grows, that there is a consumptive cash nature of those products. And what we want to be able to do is to match different sources of funding at different price points with different portfolios that have different levels of risk.

And I think by giving us this flexibility to complement our bonds with sources of additional funding both internal, aka from TBI, or external, from one or more partners, I think that we've given ourselves the right mix to in effect not constrain the growth of the business by being cash poor, if it makes any sense.

John Sykes: Yes. No, that explains it perfectly. Just one housekeeping item, what are the charge offs or percentage of the book is charge offs?

Jūlija Lebedinska-Ļitvinova: On a monthly basis you mean right?

John Sykes: Yes, that's fine.

Jūlija Lebedinska-Ļitvinova: We do not operate with this number, so it's difficult for me to tell on the slide. But in absolute terms, it's around about €7 to €8 million per month.

John Sykes: OK. And has that trend been relatively stable? In other words, you're not seeing any significant jump in charge offs over like the last year, correct or?

Jūlija Lebedinska-Ļitvinova: Again, write-off policy in online operations changed as of 1st of January this year, so then obviously we see now higher charge-off than before because in the same book it was 730. But for us, I guess your question comes from the perspective whether the quality of assets is worsening, right?

So from this perspective let me reassure you that no, we don't see worsening, we do see improvement. And as I said over the course of the first quarter, we made series of changes and we see great improvement in early indicators. So obviously, eventually it will impact charge-offs in one year, but overall from quality perspective, the portfolio quality is at a different level.

John Sykes: OK. I guess the only thing I'd say it looked like the bank, the quality there I think in the most recent quarter, it looked like it deteriorated a little bit. Is there anything different going on or is that just tied to the accounting change?

Jūlija Lebedinska-Ļitvinova: Yes. We indeed noticed worsening in one specific portfolio in our consumer book in the bank, and we also took measures. Unfortunately, we will see effects of this worsening over the course of the next few months because the worsening is related to portfolio acquired in the middle of the last year. And now under IFRS 9 regime obviously this hit is quite, not significant, but I would say visible. So yes, but this one is under control at the moment.

John Sykes: OK, all right, great. Thank you.

Operator: Thank you and your next question comes from the line of Frank Lehmann of Thelo Capital, please go ahead.

Frank Lehmann: Yes, hi. First of all, congratulations, so sales are better than I had expected. A question to IFRS 9, have you amended your tactics or your strategy about

selling off portfolios to the collection companies that have been growing a lot over the last couple of years and that are eager to get the hands on some of your receivables I guess? Has there been a change in that, do you want to now sell them earlier like after 360 days or is it purely an accounting element IFRS 9 or does it have any effect to how you conduct your business?

I have a second question I saw that you're also getting access to deposits out of Germany via the bank. Will you do that via those platforms that we see coming up all over Europe, some of them are called Raisin or Revolut, or whatever, is that the way you're going to go after these deposits and is it effectively based on the 100,000 euro support that's provided by the euro zone or by the EU as a protection level? If you can just outline that a little bit, it will be interesting to hear. Thanks.

Mark Ruddock: All right, so two questions, do you want to take the first one, Jūlija?

Jūlija Lebedinska-Ļitvinova: Yes, let me answer the first question about debt sale strategy. Yes, indeed, we changed our debt sale strategy, we accelerated. So we currently sell earlier than we sold before. I should put it a bit differently, we sell more at earlier stages than we did before.

We also in the last year, we started to execute debt sales starting 90 days past due and we continue this one but we sell bigger portfolios in several countries. And I should say that yes, appetite for our receivables is quite high on the market. We get good prices and we are pleased that we have good contribution from debt sale deals to our P&L. So we will keep executing the same strategy.

Frank Lehmann: OK.

Mark Ruddock: And to answer to your second question, yes, that's very perceptive. We will be leveraging deposit brokering capabilities in Germany to drive deposit business into our bank. We will throttle that though I think fairly carefully and it will be driven by the demand we have for those deposits inside the core business. But we felt that it was important to unlock new sources of

customers and in Germany in particular, there is a growing I think attractive and mature capability for that at firms like Raisin, yes.

Frank Lehmann: Very good, very good. Thank you very much.

Operator: Thank you. There are no further questions at this time.

Mark Ruddock: All right, if there are no other questions, I'd just like to thank everyone again for your time and for the questions. We are going to be taking time in the next few weeks to meet with investors in both New York and in London. Please contact James if you would like to setup a face to face meeting and we would be very happy to sit down with you one on one.

Thank you everybody once again and look forward to seeing you face to face in the next little while.

Operator: Thank you. So ladies and gentlemen, that does conclude your conference for today. Thank you for participating and you may now disconnect. Speakers, please standby.

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