# 4FINANCE HOLDING S.A. REPORTS RESULTS FOR THE YEAR ENDING 31 DECEMBER 2018

## *INTEREST INCOME UP 6%, ADJUSTED EBITDA €147.6 MILLION, STRONG INTEREST COVERAGE RATIO*

*27 February 2019.* 4finance Holding S.A. (the 'Group' or '4finance'), one of Europe's largest digital consumer lending groups, today announces unaudited consolidated results for the twelve months ending 31 December 2018 (the 'Period').

### *Operational Highlights*

- Online loan issuance volume reached €1.21 billion (down 5.3% year-on-year) in the Period, compared with €1.28 billion in 2017.
- Instalment Loan issuance volume up 21% year-on-year to €196.6 million from €162.7 million in 2017.
- Single Payment Loan issuance volume down 12% year-on-year to €860.8 million, in line with expectations and reflecting greater focus on longer term products.
- Line of Credit issuance volume up 11% year-on-year to €151.8 million from €136.2 million in 2017.
- The number of online lending active customers(1) was 0.40 million as of 31 December 2018, compared with 0.54 million a year ago.
- TBI Bank loan issuance volume during the Period grew by 14% year-on-year to €281.7 million from €246.9 million in 2017.
- TBI Bank active borrowing customers reached 0.41 million, up 2% from a year ago, with 0.28 million current accounts as of 31 December 2018, up 42% from a year ago.

### *Financial Highlights*

- Interest income up 6% year-on-year to €475.6 million in 2018, compared with €448.0 million in the prior year.
- Operating income (revenue) up 6% year-on-year to €432.0 million in the Period from €405.7 million in 2017.
- Net receivables reached €552.9 million as of 31 December 2018, up 5% compared with 1 January 2018 opening balance. The equivalent increase in net loan principal was 4%.
- Foreign exchange movements resulted in a €12.7 million negative impact on profit before tax in the Period, following a gain in Q4 2018 of €5.1 million.
- Adjusted(2) EBITDA was €147.6 million for the Period, up 9% year-on-year, following another solid quarterly contribution in Q4 2018.
- Adjusted interest coverage ratio for the Period was 2.4x, compared with 2.2x in the prior year.
- Strong growth in post-provision operating profit, up 30% year-on-year to €83.0 million in the Period compared with €63.8 million in the prior year.
- Profit before tax for the Period was €51.4 million, compared to €10.7 million in 2017, reflecting strong cost control, management of the introduction of IFRS 9 accounting standard, and the significant one-off adjustments taken in 2017.
- Cost to income(3) ratio for the Period was 52%, vs. 58% for 2017, reflecting cost discipline and revenue growth.
- Improvement in asset quality following move to a 360 DPD write-off policy for the online business, with an overall gross NPL ratio of 19.5% as of 31 December 2018 (22.2% for online), compared with 26.7% as of 31 December 2017 (33.5% for online).
- The annualised cost of risk for the online business was 24.0% for the Period, compared to 20.8% in 2017, and in TBI Bank it was 8.0% for the Period, compared to 3.9% in 2017. The increases largely reflect the impact of IFRS 9 and removal of 360-730 DPD online receivables.
- Operating cash flow before movements in portfolio and deposits was €281.9 million in the Period up from €227.9 million in the prior year.

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Note: (1) Online lending customers with open loans that are up to 30 days past due
(2) See page 8 for details of adjustments
(3) Operating costs (excluding D&A) divided by operating income (revenue)

### *Strategic Highlights*

- Strong underlying customer demand for Instalment Loans, particularly in Poland, Spain and the Baltics. Continued conservative approach to instalment loan growth, with a focus on unit economics by market.
- Ongoing migration of single payment loan customers to longer-term instalment or line of credit products in various markets, with single payment loans now representing only 24% of the Group's net receivables.
- Continued focus on earlier debt collection and forward flow debt sales, underlining the robust value of the Group's loan portfolios and conservative nature of IFRS 9 provisioning.
- Markets and products rationalised during 2018, with Friendly Finance integration fully complete and exits of online business in Dominican Republic, Romania and Georgia.
- Adapting to regulation in the Nordics & Baltics region, with product and market performance to be closely monitored in coming quarters.
- Pilot launch of Friia near-prime loans on the new IT platform in Sweden in November 2018. However, overall progress on near-prime pilots and development of new IT platform slower than expected in 2018.
- Funding diversification projects also need more time to implement, with pilot securitisation project now on track to commence early in the second quarter.
- Strategic partnership with Fintonic in Spain progressing well and new partnership established in Mexico with a nationwide retailer to distribute loans in stores under a new brand.
- Strong end to the year from TBI Bank, returning to volume growth and with launch of fully online POS loans part of the digital lending strategy.

Oyvind Oanes, CEO of 4finance, commented:

*"These results show a solid overall financial performance in 2018, with revenue growth of 6% and Adjusted EBITDA up 9%. This was achieved despite challenging conditions in some markets that led us to rationalise our footprint. This has meant a lower rate of revenue growth, but improved our cost efficiency and helped deliver growth of 31% in post-provision operating profit.*

*"We are proud of our performance in many areas in 2018. Our largest online markets of Poland, Spain and Denmark all delivered revenue growth and stable profitability, and TBI Bank showed strong loan issuance in the second half of the year. We have successfully managed the transition to IFRS9, with a full revision of our provisioning methodology, and the introduction of GDPR, with significant investments in data protection and AML across several markets. Our marketing spend is now much more targeted by channel and efficient, based on econometric models.*

*"We did not make as much progress as we would have liked on our new IT platform, near-prime products and funding diversification. This reflects both the complexity of these projects and our decision to prioritise resources on adapting to regulatory change within our operating business. However, these strategic initiatives remain core to our success. We have learnt from our experience so far, and have a clear delivery plan for each project in 2019.*

*"With two of our supervisory board members stepping down last month, I'd like to thank both Bill and Mark for their support and guidance. Bill for his insight and longstanding experience of the business and Mark for his leadership at 4finance and help in ensuring a smooth transition as I joined.*

*"We know this coming year will be challenging. But we are optimistic that - with focus and persistence - we can build a multi-segment, multi-product, consumer credit specialist."*

### *Contacts*


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|---|---|
| Contact: | James Etherington, Head of Investor Relations |
| Email: | james.etherington@4finance.com / investorrelations@4finance.com |
| Website: | www.4finance.com |


### *Conference call*

A conference call with management to discuss these results is scheduled for **Thursday, 28 February at 15:00 UK time**. To register, please visit www.4finance.com/investors.

The conference call will be recorded for transcription and reference purposes. For those participating in the Q&A session, please note that name and institution details provided in the call registration process may appear in the transcript of the conference call that will be made available at www.4finance.com/investors.

### *About 4finance*

Established in 2008, 4finance is one of Europe's largest digital consumer lending groups with operations in 14 countries.

Leveraging a high degree of automation and data-driven insights across all aspects of the business, 4finance has grown rapidly, issuing over €6 billion since inception in single payment loans, instalment loans and lines of credit.

4finance operates a portfolio of market leading brands, through which, as a responsible lender, the firm offers simple, convenient and transparent products to millions of customers who are typically underserved by conventional providers.

4finance has group offices in Riga (Latvia), London, Luxembourg and Miami, and currently operates in 12 countries in Europe as well as in Argentina and Mexico. The Group also offers deposits, in addition to consumer and SME loans through its TBI Bank subsidiary, an EU licensed institution with operations in Bulgaria and Romania.

### *Forward looking statements*

Certain statements in this document are "forward-looking statements". These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from those included in these statements.

### *Inside information*

This announcement contains inside information as stipulated under the Market Abuse Regulation.

## *Key Financial Ratios*

| | Year Ended 31 December 2018 | Year Ended 31 December 2017 | Year Ended 31 December 2016 |
|---|---|---|---|
| **Capitalisation** | | | |
| Net receivables (€m), [(1)] of which: | 552.9 | 591.2 | 492.3 |
| - Principal | 521.8 | 556.7 | na |
| - Accrued interest | 31.1 | 34.5 | na |
| Total assets (€m) | 997.1 | 1,026.9 | 929.8 |
| Total equity (€m) | 159.9 | 189.4 | 226.1 |
| Equity / assets [(2)] | 16.0% | 18.4% | 24.3% |
| Equity / net receivables [(3)] | 28.9% | 32.0% | 45.9% |
| Adjusted interest coverage [(4)] | 2.4x | 2.2x | 3.6x |
| TBI Bank consolidated capital adequacy [(5)] | 22.3% | 23.2% | 24.0% |
| **Profitability** | | | |
| Net interest margin: [(6)] | | | |
| - Online | 88.6% | 66.1% | 74.7% |
| - TBI Bank | 27.3% | 26.7% | 23.6% |
| - Overall group | 63.6% | 54.1% | 65.0% |
| Cost / income ratio [(7)] | 52.2% | 57.8% | 51.2% |
| Post-provision operating profit margin [(8)] | 17.5% | 14.2% | 22.7% |
| Normalised Profit before tax margin [(9)] | 14.9% | 12.2% | 21.4% |
| Normalised Return on average equity [(10)] | 34.1% | 15.0% | 33.3% |
| Normalised Return on average assets [(11)] | 5.1% | 3.5% | 9.7% |
| **Asset quality** | | | |
| Cost of risk: [(12)] | | | |
| - Online | 24.0% | 20.8% | 19.6% |
| - TBI Bank | 8.0% | 3.9% | 3.1% |
| - Overall group | 17.7% | 15.6% | 17.3% |
| Net impairment / interest income [(13)] | 25.9% | 24.0% | 22.8% |
| Gross NPL ratio: [(14)] | | | |
| - Online | 22.2% | 33.5% | 42.0% |
| - TBI Bank | 15.9% | 12.7% | 10.9% |
| - Overall group | 19.5% | 26.7% | 33.1% |
| Overall group NPL coverage ratio[(15)] | 111.0% | 84.0% | 77.9% |

Definitions and Notes below. For further definitions please see the appendix. For quarterly asset quality ratios please see page 18.

Normalised ratios are adjusted to remove the effect of non-recurring items, net FX and one-off adjustments to intangible assets, and for 2018 ratios only, adjusted to reflect the opening balance of 2018 balance sheet after IFRS 9 effects.

(1) Gross receivables (including accrued interest) less impairment provisions. Note that reduction in write-off period for online loans as of January 2018 reduces 2018 values in comparison with prior years.
(2) Total equity/total assets.
(3) Total equity/net customer receivables (including accrued interest).
(4) Adjusted EBITDA/interest expense.
(5) TBI Bank (Tier One Capital + Tier Two Capital) / Risk weighted assets (calculated according to the prevailing regulations of the Bulgarian National Bank).
(6) Annualised net interest income divided by average gross loan principal (for 2018 ratios) or receivables (for prior periods).
(7) Operating costs/operating income (revenue).
(8) Post-provision operating profit (which does not include non-recurring items, net FX and D&A)/interest income.
(9) Profit before tax/interest income.
(10) Annualised profit from continuing operations / average equity (total equity as of the start and end of each period divided by two).
(11) Annualised profit from continuing operations / average assets (total assets as of the start and end of each period divided by two).
(12) Annualised net impairment charges / average gross receivables (total gross receivables as of the start and end of each period divided by two). The TBI Bank figure for FY 2016 refers to Q4 2016 annualised.
(13) Net impairment charges on loans and receivables/interest income.
(14) Non-performing receivables (including accrued interest) with a delay of over 90 days/gross receivables (including accrued interest).
(15) Overall receivables allowance account/non-performing receivables

# FINANCIAL REVIEW

## Income Statement

The table below sets out the condensed consolidated statement of profit and loss for the twelve months ending 31 December 2018 and 31 December 2017. Additional reference information on the historic quarterly development of our income statement is shown in the appendix. Please note that non-recurring, net FX and D&A items have been moved lower down to better reflect operating results.

| | 12 months to 31 December | | |
|---|---|---|---|
| | 2018 (unaudited) | 2017 (unaudited) | % change |
| | *(in millions of €)* | | |
| Interest Income | 475.6 | 448.0 | +6 % |
| Interest Expense | (62.1) | (61.9) | 0 % |
| **Net Interest Income** | **413.5** | **386.0** | **+7 %** |
| Net F&C Income | 9.5 | 8.5 | +11 % |
| Other operating income | 9.1 | 11.2 | (19 )% |
| **Non-Interest Income** | **18.5** | **19.7** | **(6)%** |
| **Operating Income (Revenue)** | **432.0** | **405.7** | **+6 %** |
| **Total operating costs** | **(225.6)** | **(234.3)** | **(4)%** |
| **Pre-provision operating profit** | **206.4** | **171.4** | **+20 %** |
| Net impairment charges | (123.4) | (107.6) | +15 % |
| **Post-provision operating profit** | **83.0** | **63.8** | **+30 %** |
| Depreciation and amortisation | (12.0) | (9.0) | +33 % |
| Non-recurring income/(expense) | (0.3) | 3.2 | nm |
| Non-recurring finance cost | — | (6.3) | nm |
| Net FX gain/(loss) | (12.7) | (4.0) | nm |
| One-off adjustments to intangible assets | (6.7) | (37.0) | (82 )% |
| **Profit before tax** | **51.4** | **10.7** | **nm** |
| Income tax expense | (20.7) | (27.6) | (25 )% |
| **Net profit/(loss) after tax** | **30.7** | **(16.8)** | **nm** |

### *Interest income*

The table below shows key drivers of interest income, *i.e.* business volumes and interest rates.

| | 12 months to 31 December | | |
|---|---|---|---|
| | 2018 | 2017 | % change |
| **Online lending** | *(in millions of €, except percentages)* | | |
| Total value of loan principal issued | 1,209.1 | 1,277.4 | (5)% |
| Average net receivables, of which: | 299.1 | 342.5 | (13)% |
| - Principal | 276.2 | na | |
| - Accrued interest | 22.9 | na | |
| Annualised interest income yield on net portfolio (1) | 145% | 113% | |
| Interest income from online lending | 400.0 | 385.9 | +4 % |
| **Banking operations** | | | |
| Average net receivables, of which: | 241.8 | 200.9 | +20 % |
| - Principal | 236.0 | na | |
| - Accrued interest | 5.9 | na | |
| Annualised interest income yield on net portfolio (1) | 32% | 31% | |
| Interest income from banking operations (2) | 75.5 | 62.5 | +21 % |

Notes: (1) Current Period yields based on interest income divided by average net loan principal only. Prior period yields based on average net receivables (including accrued interest)

(2) See appendix for full TBI Bank income statement

Interest income for the Period was €475.6 million, a 6% increase compared with €448.0 million for the twelve months ending 31 December 2017. Growth in interest income from online lending was 4%, reflecting the 13% decrease in the average balance of net receivables and a higher average interest yield (both of which are largely caused by the introduction of IFRS 9 as of 1 January 2018).

TBI Bank's average interest rates increased slightly compared to the prior year period, with an increased proportion of consumer lending (cash lending, point-of-sale lending and credit cards) with average product APRs between 20% and 50% compared to SME loans with average interest rates of approximately 8-14% p.a.. TBI Bank also generates separate income, which is reported in either the 'net fee and commission' and 'other operating income' lines.

### *Interest expense*

Interest expense for the Period was €62.1 million, compared with €61.9 million for the twelve months ending 31 December 2017. Whilst the interest expense increased slightly in the Period following the US$ bond issue and refinancing in April 2017, this was offset by the repayment of various smaller local debt facilities.

### *Non-interest income*

Non-interest income for the period was €18.5 million, a 6% decrease compared with €19.7 million reported for the twelve months ending 31 December 2017. The net fee and commission income generated by TBI Bank, primarily fees from insurance sales to its customers, was stable year-on-year. Other operating income is mainly derived from related party loans.

### *Total operating costs*

Total operating costs reported for the Period were €225.6 million, a 4% decrease compared with €234.3 million reported for the twelve months ending 31 December 2017. The year-on-year decrease in costs reflects our focus on marketing efficiency, cost discipline and the results of strategic cost initiatives put in place during 2017 and 2018. Costs for the fourth quarter were €3.0 million higher than Q3, mainly due to a seasonal increase in marketing investment as well as additional personnel costs in relation to introduction of LTIP for senior executives.

The table below sets out a breakdown of the Group's total operating costs. Depreciation and amortisation amounts are shown as a separate line on the income statement so that operating costs better reflect actual cash costs.

| | **12 months to 31 December** | |
|---|---|---|
| | **2018** | **2017** |
| | *(in millions of €)* | |
| Personnel costs | 104.2 | 98.8 |
| Marketing and sponsorship | 43.2 | 56.1 |
| Legal and consulting | 11.2 | 9.3 |
| IT expenses (including R&D) | 21.8 | 19.0 |
| Debt collection costs | 6.4 | 8.3 |
| Rent and utilities | 7.5 | 7.5 |
| Application processing costs | 6.9 | 7.0 |
| Bank services | 4.0 | 4.3 |
| Communication expenses | 3.4 | 4.3 |
| Taxes | 4.0 | 3.8 |
| Travel | 1.9 | 2.3 |
| Other | 11.0 | 13.5 |
| **Total** | **225.6** | **234.3** |
| | | |
| Of which: | | |
| Friendly Finance | 10.1 | 18.8 |
| TBI Bank | 43.0 | 37.7 |
| 'Core' 4finance excluding acquisitions | 172.5 | 177.8 |

For the twelve months of 2018 and 2017, marketing and sponsorship costs accounted for 19% and 24% respectively, and personnel costs accounted for 46% and 42%, respectively, of total operating costs. The cost to income ratio for the Period was 52%, an encouraging improvement from 58% in 2017.

### *Pre-provision operating profit*

For the reasons stated above, the Group's pre-provision operating profit for the Period was €206.4 million, a 20% increase compared with €171.4 million for the twelve months ending 31 December 2017.

### *Net impairment charges on loans and receivables*

Net impairment charges for the Period were €123.4 million, a 15% increase compared with €107.6 million for the twelve months ending 31 December 2017. The IFRS 9 expected loss methodology for provisioning, including the move to 360 DPD write-off (from 730 DPD), was adopted as of 1 January 2018 for the online business and significantly impacts the comparison compared to prior periods. Greater provisions are now made earlier in the lifecycle of a loan. This impact is particularly pronounced for growing portfolios, so the strong instalment loan origination during the first quarter resulted in higher gross provisions both on initial issuance and as those started to season in Q2 and Q3. TBI Bank saw elevated provisions in its Romanian consumer portfolio in the first two quarters of 2018, but these have largely normalised in the second half.

The fourth quarter net impairment charge of €29.6 million is slightly below the quarterly average for 2018, due to strong returns from debt sales in Q4, particularly in Poland, Spain and Romania.

| | 12 months to 31 December | |
|---|---|---|
| | **2018** | **2017** |
| | *(in millions of €)* | |
| Impairment charges on loans | 180.9 | 136.5 |
| Over provision on debt portfolio (portfolio sale net proceeds) | (38.1) | (18.9) |
| Recovery from written-off loans | (19.4) | (10.0) |
| **Net impairment charges** | **123.4** | **107.6** |

Overall net impairment charges represented 26% of interest income for the Period, an increase from 24% last year. The net impairment charges for the online business compared to average online gross receivables, i.e. cost of risk, also increased to 24% in the Period from 21% last year. This is impacted by the reduction in gross receivables due to the move to 360 DPD write-off in the online business.

### *Non-recurring income/(expense)*

Net non-recurring expense for the Period was €0.3 million, compared with a net non-recurring income of €3.2 million in 2017. The majority of the non-recurring income in the prior year period was from TBI Bank's rental business, which was sold in Q3 2017.

### *Net FX gain/(loss)*

After a gain in Q4 2018 of €5.1 million, mainly due to a recovery in the Argentinian Peso, the overall net foreign exchange loss for the Period was €12.7 million. The Group monitors its currency positions actively and hedges net exposures where practical.

### *One-off adjustments to intangible assets*

Adjustments to intangible assets of €6.7 million were made in Q4 2018. There was a write-off of €3.9 million of goodwill associated with the Friendly Finance acquisition in the Czech Republic and Poland, following the consolidation of operations in those markets under the 4finance brands. In addition, IT intangible assets of €2.8 million were written off or impaired, mainly relating to decisions to discontinue or de-emphasise certain products in Georgia and Latvia.

### *Profit before tax*

For the reasons stated above, the Group's profit before tax for the Period was €51.4 million, compared with €10.7 million for the twelve months ending 31 December 2017. The profit before tax margin was 11% for the Period, an increase from 2% in 2017 (which was affected by significant one-off adjustments).

### *Corporate income tax*

The Group's corporate income tax expense was €20.7 million for the Period, compared with €27.6 million for the twelve months ending 31 December 2017.

The following table sets out a breakdown of the Group's corporate income tax.

| | 12 months to 31 December | |
|---|---|---|
| | 2018 | 2017 |
| | *(in millions of €)* | |
| Current tax | 30.7 | 34.1 |
| Deferred tax | (10.0) | (6.5) |
| **Total** | **20.7** | **27.6** |

The effective tax rate for the Period was 40%, compared with 257% for 2017.

### *Profit/(loss) for the period*

For the reasons stated above, profit for the Period was €30.7 million, compared with a loss of €16.8 million for the twelve months ending 31 December 2017.

### *Other financial data – EBITDA and Adjusted EBITDA*

| | Year Ended 31 December 2018 | Year Ended 31 December 2017 | Year Ended 31 December 2016 |
|---|---|---|---|
| | | *(in millions of €)* | |
| Profit for the period | 30.7 | (16.8) | 63.2 |
| Provision for corporate income tax | 20.7 | 27.6 | 17.8 |
| Interest expense | 62.1 | 61.9 | 38.7 |
| Depreciation and amortisation | 12.0 | 9.0 | 5.1 |
| **EBITDA** | **125.4** | **81.7** | **124.9** |
| Adjustments | 22.2 | 53.7 | 12.5 |
| **Adjusted EBITDA** (1) | **147.6** | **135.4** | **137.4** |

| | Year Ended 31 December 2018 | Year Ended 31 December 2017 | Year Ended 31 December 2016 |
|---|---|---|---|
| | | *(in millions of €)* | |
| **Summary breakdown of Adjustments to EBITDA** | | | |
| Discontinued operations | (0.1) | — | — |
| Net FX impact | 12.7 | 4.0 | 7.3 |
| One-off costs and other prescribed adjustments | 2.8 | 3.6 | 5.2 |
| One-off write-down of intangible assets | 6.7 | 46.1 | — |
| **Total** | **22.2** | **53.7** | **12.5** |

Note: (1) Adjusted EBITDA is a non-IFRS measure that represents EBITDA (profit for the period plus tax, plus interest expense, plus depreciation and amortisation) as adjusted by income/loss from discontinued operations, non-cash gains and losses attributable to movement in the mark-to-market valuation of hedging obligations under IFRS, goodwill write-offs and certain other one-off or non-cash items. Adjusted EBITDA, as presented in this report, may not be comparable to similarly-titled measures that are reported by other companies due to differences in the way these measures are calculated.

## Balance Sheet

The table below sets out the Group's condensed consolidated statement of its financial position. Given the substantial adjustments due to IFRS 9 adoption at year-end 2017, a pro-forma balance sheet is shown to illustrate the effective 'opening balance' of various line items at the start of the Period.

| | 31 December 2018 (unaudited) | 1 January 2018 (post IFRS 9) | 31 December 2017 |
|---|---|---|---|
| | | *(in millions of €)* | |
| **Cash and cash equivalents, of which:** | **172.1** | **154.9** | **154.9** |
| - Online | 110.5 | 65.8 | 65.8 |
| - TBI bank | 61.6 | 89.2 | 89.2 |
| Placement with other banks | 8.8 | 7.0 | 7.0 |
| Gross receivables due from customers | 705.1 | 686.4 | 761.3 |
| Allowance for impairment | (152.2) | (157.5) | (170.1) |
| **Net receivables due from customers, of which:** | **552.9** | **529.0** | **591.2** |
| - Principal | 521.8 | 502.6 | 556.7 |
| - Accrued Interest | 31.1 | 26.4 | 34.5 |
| Net investments in finance leases | 7.4 | 10.5 | 10.5 |
| Net loans to related parties | 66.2 | 65.7 | 66.6 |
| Property and equipment | 8.8 | 10.1 | 10.1 |
| Financial assets available for sale | 37.3 | 18.4 | 18.4 |
| Prepaid expenses | 8.2 | 10.8 | 10.8 |
| Tax assets | 15.8 | 21.5 | 20.7 |
| Deferred tax assets | 40.9 | 33.3 | 29.4 |
| Intangible IT assets | 22.1 | 28.6 | 28.6 |
| Goodwill | 17.5 | 21.4 | 21.4 |
| Other assets | 39.2 | 57.3 | 57.3 |
| **Total assets** | **997.1** | **968.4** | **1,026.9** |
| | | | |
| Loans and borrowings | 459.5 | 465.0 | 470.2 |
| Deposits from customers | 285.0 | 271.0 | 271.0 |
| Deposits from banks | 2.6 | — | — |
| Corporate income tax payable | 18.1 | 19.8 | 19.8 |
| Other liabilities | 72.1 | 76.5 | 76.5 |
| **Total liabilities** | **837.2** | **832.3** | **837.5** |
| Share capital | 35.8 | 35.8 | 35.8 |
| Retained earnings | 153.7 | 135.0 | 188.3 |
| Reserves | (29.6) | (32.3) | (32.3) |
| **Total attributable equity** | **159.9** | **138.5** | **191.8** |
| Non-controlling interests | 0.1 | (2.4) | (2.4) |
| **Total equity** | **159.9** | **136.2** | **189.4** |
| **Total shareholders' equity and liabilities** | **997.1** | **968.4** | **1,026.9** |

### *Assets*

The Group had total assets of €997.1 million as of 31 December 2018, compared with €1,026.9 million as of 31 December 2017. The decrease mainly reflects the IFRS 9 adjustments to opening balances, followed by growth in net receivables and cash during the Period. The cash balance increased in the Period in the online business, whereas net receivables growth was concentrated in TBI Bank.

### *Loan portfolio*

As of 31 December 2018, the Group's net receivables equaled €552.9 million, compared with €591.2 million as of 31 December 2017, representing a decrease of €38.3 million, or 6%. Excluding the IFRS 9 opening balance adjustment, net receivables increased by €23.9 million or 5%. The increase was mainly from growth in online instalment loans, which has largely offset a reduction in shorter term online loans. Additionally, increased debt sales activity has reduced our online non-performing loan portfolio, with

€117.1 million of gross receivables (€43.8 million net) sold in the Period compared with €76.3 million of gross receivables (€22.6 million net) in 2017. The net receivables include €2.1 million from Friendly Finance (reflecting the withdrawal of those brands in most markets) and €261.3 million from TBI Bank (including fair value adjustments). Further information on the TBI Bank portfolio is available in the appendix, including its finance leases which are shown as a separate balance sheet line item.

The following section includes a summary of our overall loan portfolio, both online (funded outside of TBI Bank) and banking (funded by TBI Bank), showing performing vs non-performing classification. This is shown on a loan principal basis (vs receivables in prior quarters) to better reflect amounts actually funded. Additional reference information on the historic quarterly development of our online portfolio on a receivables basis for comparability, split by product, is also shown in the appendix.

## *Overview of the Group's loan portfolio*

The following table sets out the classification of the Group's loan principal in terms of performing and non-performing loans (i.e. those more than 90 days past due). Note that the 31 December 2017 data is prior to the IFRS 9 opening balance adjustments.

| **Principal** | **31 December 2018** | | | | **31 December 2017** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Gross Amount** | **Impairment allowance** | **Net Amount** | **% of Gross Amount** | **Gross Amount** | **Impairment allowance** | **Net Amount** | **% of Gross Amount** |
| | *(in millions of €, except percentages)* | | | | *(in millions of €, except percentages)* | | | |
| **Online principal** | | | | | | | | |
| Performing | 292.4 | (44.9) | 247.5 | 79.6 % | 317.7 | (30.2) | 287.5 | 68.1 % |
| Non-performing (1) | 75.1 | (56.1) | 19.1 | 20.4 % | 148.8 | (98.3) | 50.5 | 31.9 % |
| **Online total** | **367.5** | **(101.0)** | **266.5** | **100.0%** | **466.5** | **(128.6)** | **337.9** | **100.0%** |
| **TBI Bank principal** | | | | | | | | |
| Performing | 246.2 | (12.7) | 233.5 | 84.1 % | 209.0 | (4.3) | 204.7 | 87.3 % |
| Non-performing (1) | 46.4 | (24.7) | 21.7 | 15.9 % | 30.3 | (16.2) | 14.1 | 12.7 % |
| **TBI Bank total** | **292.7** | **(37.4)** | **255.3** | **100.0%** | **239.3** | **(20.5)** | **218.8** | **100.0%** |
| **Overall principal** | | | | | | | | |
| Performing | 538.7 | (57.6) | 481.0 | 81.6 % | 526.7 | (34.5) | 492.2 | 74.6 % |
| Non-performing (1) | 121.6 | (80.8) | 40.8 | 18.4 % | 179.1 | (114.5) | 64.6 | 25.4 % |
| **Overall total** | **660.2** | **(138.4)** | **521.8** | **100.0%** | **705.8** | **(149.0)** | **556.7** | **100.0%** |

Note: (1) Non-performing amounts are over 90 days past due (and, for TBI Bank, shown on a customer level basis)

## *Online loan portfolio by product*

This section presents further detail on the online portfolio and classification by product. The following table shows the Group's performing online gross loan principal by product. As noted in the Q2 report, the Group's 'Vivus' brand portfolios in Denmark, Sweden and Armenia have been reclassified to Lines of Credit (from Single Payment Loans) to match the current product features in those markets.

| | **31 December 2018** | | **31 December 2017** | |
|---|---|---|---|---|
| | **Amount** | **% of Portfolio** | **Amount** | **% of Portfolio** |
| **Online performing gross principal by product:** | *(in millions of €, except percentages)* | | | |
| Single Payment Loans | 129.8 | 44.4 % | 172.5 | 54.3 % |
| Instalment Loans | 131.7 | 45.1 % | 112.8 | 35.5 % |
| Lines of Credit | 30.7 | 10.5 % | 31.6 | 9.9 % |
| Point of Sale Loans | 0.2 | 0.1 % | 0.8 | 0.2 % |
| **Total online gross performing principal** | **292.4** | **100.0%** | **317.7** | **100.0%** |

*Online non-performing loan portfolio*

As of 31 December 2018, the Group's non-performing online principal was €75.1 million, a decrease of €73.7 million, or 50%, since 31 December 2017. This is mainly due to the change to 360 DPD write-off period at the end of 2017. Excluding this effect and starting from 1 January 2018, there was a decrease of €8.9 million, or 11%, over the Period. Following this write-off period change, the Group now reports its NPL ratios in the standard balance sheet manner, rather than comparing NPLs to loans sold during the prior 2 year period. The gross NPL ratio was 22% for online receivables as of 31 December 2018, unchanged from 30 September 2018.

The Group accrues interest whilst it is probable it will be received (typically up to 90 DPD for instalment loans). Non-performing accrued interest was €14.9 million, or 20%, in addition to the non-performing loan principal. Penalties and delay fees are not accrued as receivables and are only recognised as income when payment is received.

The following table sets out an analysis of the Group's online NPL principal by product. Given the substantial impact of the change in write-off period at year-end 2017, opening balance figures are also shown.

| | 31 December 2018 | 1 January 2018 (post IFRS 9) | 31 December 2017 |
|---|---|---|---|
| | *(in millions of €, except percentages)* | | |
| Non-performing online principal by product: | | | |
| Single Payment Loans | 36.2 | 50.0 | 94.7 |
| Instalment Loans | 29.6 | 24.4 | 41.3 |
| Lines of Credit | 9.1 | 9.4 | 12.7 |
| Point of Sale Loans | 0.2 | 0.1 | 0.1 |
| **Total non-performing online principal** | **75.1** | **84.0** | **148.8** |
| Allowance for NPL principal | 56.1 | 66.5 | 98.3 |
| Allowance for NPL principal / non-performing principal | 75 % | 79 % | 66 % |
| Overall receivables allowance / NPL receivables coverage ratio | 127 % | 138 % | 86 % |
| Average Loss Given Default rate [(1)] | 74 % | 78 % | 54 % |

Note: (1) Average LGD rate for SPL was 77%; IL: 71%; LOC: 73%; POS: 73% as of 31/12/2018

***Other assets***

A breakdown of the Group's other assets is presented in the table below. In October 2017 the Group made a prepayment of US$25 million for a potential investment which it decided subsequently not to pursue. This was fully repaid during the first half of 2018. The increase in other non-customer receivables from suppliers during the Period is primarily due to debt sales in Poland close to the end of the Period.

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| | *(in millions of €)* | |
| Receivable relating to prepayment | — | 21.4 |
| FX hedging - funds on margin | 4.6 | 8.9 |
| Non-current assets held for sale | 5.3 | 7.6 |
| Receivables from suppliers | 14.5 | 6.2 |
| Security deposits | 1.3 | 1.7 |
| Investments in associates | 1.6 | 1.7 |
| Derivatives | 2.4 | 0.4 |
| Other non-customer receivables | 9.6 | 9.4 |
| **Total** | **39.2** | **57.3** |

***Liabilities***

The Group had total liabilities of €837.2 million as of 31 December 2018, compared with €837.5 million as of 31 December 2017, representing an decrease of €0.3 million.

*Loans and borrowings*

As of 31 December 2018, the Group had loans and borrowings of €459.5 million, compared with €470.2 million as of 31 December 2017. The Group's loans and borrowings accounted for 55% of total liabilities as of 31 December 2018 and 56% of total liabilities as of 31 December 2017. The following table sets out the loans and borrowings by type. The Group continues to optimise its funding by repaying debt at local subsidiary level and retains the flexibility to use excess liquidity to make limited repurchases of its bonds, with a further US$15 million of the 2022 Notes repurchased by 4finance S.A. in December 2018.

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| | *(in millions of €)* | |
| 4finance Notes | 459.0 | 465.4 |
| TBI Bank | 0.1 | 0.3 |
| Loans from bank | — | 0.2 |
| Other [(1)] | 0.4 | 4.3 |
| **Total loans and borrowings [(2)]** | **459.5** | **470.2** |

Notes: (1) In 2017, 'Other' consisted primarily of loans in Sweden
(2) Includes accrued but unpaid interest, net of capitalised issuance costs

In August 2014, 4finance S.A. issued US$200.0 million of 11.75% notes (the *'2019 Notes'*) which are listed on the Irish Stock Exchange and are senior to all of the Group's future subordinated debt. The 2019 Notes will mature in August 2019. Following the tender offer conducted in April, an amount of US$68 million remains outstanding.

In May 2016, 4finance S.A. issued €100.0 million of 11.25% notes (the *'2021 Notes'*) which are senior to all of the Group's future subordinated debt. The 2021 Notes are listed on the Prime Standard regulated market segment of the Frankfurt Stock Exchange. In November 2016, a further €50.0 million of 2021 Notes were issued at par. The 2021 Notes will mature in May 2021 and are currently callable at 104%.

In April 2017, 4finance S.A. issued US$325.0 million of 10.75% notes (the *'2022 Notes')* which are listed on the Irish Stock Exchange and will mature in May 2022. An IFRS 9 adjustment as of 1 January 2018 resulted in a €5.2 million decrease to the carrying value from the revaluation at the original effective interest rate of a proportion of US$ 2022 bond carried over from original US$ 2019 bond (to be amortised over remaining life of bond in 'interest expense'). The 2022 Notes are first callable at 105.4% from May 2019.

### *Customer deposits*

As of 31 December 2018, the Group had total customer deposits of €285.0 million. Banking operations contributed €271.0 million in deposits at an average all-in cost of approximately 1.4% with the balance from 4spar in Sweden at an average cost of 7.4%. Further details of TBI Bank's deposits are presented in the appendix.

### *Other liabilities*

A breakdown of the Group's other liabilities is presented in the table below.

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| | *(in millions of €, except percentages)* | |
| Accrued expenses | 23.5 | 19.3 |
| Accounts payable to suppliers | 12.7 | 14.5 |
| FX hedging liability | 4.5 | 13.8 |
| Taxes payable | 8.0 | 6.9 |
| Provisions for unused vacations | 2.0 | 2.0 |
| Other liabilities | 21.4 | 20.0 |
| **Total** | **72.1** | **76.5** |

### *Equity*

As of 31 December 2018, the Group's total equity amounted to €159.9 million, compared with €189.4 million as of 31 December 2017, representing a decrease of €29.5 million, or 16%. This represents the initial IFRS 9 opening balance adjustment of €53 million in total plus the impact of profit generation during the Period. The Group's equity to assets ratio as of 31 December 2018 was 16%.

The equity to net receivables ratio as of 31 December 2018 was 29%, reflecting the Group's strong capitalisation, even after the one-off intangible asset adjustments at the end of 2017 and the adoption of IFRS 9, still giving good headroom to bond covenants.

## Off-balance sheet arrangements

The Group's total off-balance sheet commitments as of 31 December 2018 were €21.7 million. This includes TBI Bank's undrawn lending commitments of €15.1 million and financial guarantees €0.5 million, plus €6.1 million in connection with the Group's online portfolio (LoC product). The Group also enters into currency hedging transactions which may result in additional off-balance sheet assets or liabilities, but these generally have limited net exposure and are designed to limit overall exposure to currency movements.

## Condensed Consolidated Statement of Cash Flows for the Period

| | 12 months to 31 December | |
|---|---|---|
| | 2018 | 2017 |
| **Cash flows from operating activities** | *(in millions of €)* | |
| **Profit before taxes** | **51.4** | **10.7** |
| Adjustments for: | | |
| Depreciation and amortisation | 12.0 | 8.3 |
| Impairment of goodwill and intangible assets | 5.7 | 25.9 |
| Net (gain) / loss on foreign exchange from borrowings and other monetary items | 19.0 | (30.1) |
| Impairment losses on loans | 180.9 | 136.5 |
| Reversal of provision on debt portfolio sales | (38.1) | (18.9) |
| Write-off and disposal of intangible and property and equipment assets | 3.0 | 11.4 |
| Interest income from non-customers loans | (8.2) | (9.2) |
| Interest expense on loans and borrowings and deposits from customers | 62.1 | 61.9 |
| Non-recurring finance cost | — | 6.3 |
| Other non-cash items | 2.4 | 0.4 |
| Profit before adjustments for the effect of changes to current assets and short-term liabilities | 290.2 | 203.3 |
| Adjustments for: | | |
| Change in financial instruments measured at fair value through profit or loss | (11.3) | 24.6 |
| (Increase)/decrease in other assets (including TBI statutory reserve, placements & leases) | (2.1) | (7.4) |
| Increase/(decrease) in accounts payable to suppliers, contractors and other creditors | 5.0 | 7.4 |
| **Operating cash flow before movements in portfolio and deposits** | **281.9** | **227.9** |
| Increase in loans due from customers | (255.1) | (267.2) |
| Proceeds from sale of portfolio | 81.9 | 54.2 |
| Increase in deposits from customers | 16.5 | 33.8 |
| Deposit interest payments | (4.0) | (4.5) |
| **Gross cash flows from operating activities** | **121.2** | **44.2** |
| Corporate income tax paid | (26.5) | (33.6) |
| **Net cash flows from operating activities** | **94.7** | **10.5** |
| **Cash flows used in investing activities** | | |
| Purchase of property and equipment and intangible assets | (8.4) | (13.1) |
| Purchase of financial instruments | (13.6) | — |
| Loans issued to related parties | (2.6) | (4.3) |
| Loans repaid from related parties | 7.4 | 10.9 |
| Interest received from related parties | 2.8 | 1.8 |
| Disposal of subsidiaries, net of cash disposed | (0.1) | — |
| Acquisition of equity investments | (5.9) | (4.4) |
| Acquisition of non-controlling interests | (3.4) | — |
| Prepayment for potential investment | 20.8 | (20.8) |
| **Net cash flows from investing activities** | **(2.7)** | **(30.0)** |
| **Cash flows from financing activities** | | |
| Loans received and notes issued | 0.5 | 163.7 |
| Repayment and repurchase of loans and notes | (27.2) | (58.0) |
| Interest payments | (52.7) | (51.6) |
| Costs of notes issuance and premium on repurchase of notes | (0.0) | (5.8) |
| FX hedging margin | 4.2 | (8.8) |
| Dividend payments | (0.1) | (26.0) |
| **Net cash flows used in financing activities** | **(75.3)** | **13.5** |
| **Net increase/(decrease) in cash and cash equivalents** | **16.7** | **(6.1)** |
| **Cash and cash equivalents at the beginning of the period** | **131.9** | **137.0** |
| Effect of exchange rate fluctuations on cash | 0.1 | 1.0 |
| **Cash and cash equivalents at the end of the period** | **148.8** | **131.9** |
| **TBI Bank minimum statutory reserve** | **23.4** | **23.0** |
| **Total cash on hand and cash at central banks** | **172.1** | **154.9** |

Net cash flows from operating activities in the Period were €94.7 million compared with €10.5 million in the same period last year, mainly due to greater loan portfolio income and greater proceeds from debt sales. Net cash used in investing activities was €2.7 million in the Period due to the return of the US$25 million prepayment made in Q4 2017 and early repayment of the Piressa related party loan in Q1 2018, offset by capital expenditure and TBI Bank's purchases of government bonds for liquidity management and its stake in Monobank. The Group's cash flows used in financing activities reflected the bond coupon payments and the repurchase of some of its 2022 Notes in H2 2018.

## TBI Bank Appendix: Income Statement, Balance Sheet and Key Ratios

The Group finalised the purchase of TBI Bank EAD ('TBI Bank'), via the acquisition of TBIF Financial Services B.V., in August 2016. Presented here for illustration and reference are TBI Bank's results for the twelve months ending 31 December 2018 and twelve months ending 31 December 2017.

### *Income statement*

The table below sets out the consolidated income statement for TBI Bank, presented on the same basis as the Group's income statement for ease of comparison.

| | **12 months to 31 December** | |
|---|---|---|
| | **2018 (unaudited)** | **2017 (unaudited)** |
| | ***(in millions of €)*** | |
| Interest Income | 74.2 | 62.3 |
| Interest Expense | (3.0) | (3.8) |
| **Net Interest Income** | **71.2** | **58.5** |
| Net F&C Income | 9.8 | 10.7 |
| Other operating income | 0.5 | 0.5 |
| **Non-Interest Income** | **10.3** | **11.2** |
| **Operating Income** | **81.6** | **69.7** |
| **Total operating costs** | **(41.8)** | **(38.0)** |
| **Pre-provision operating profit** | **39.8** | **31.7** |
| Net impairment charges | (21.7) | (12.4) |
| **Post-provision operating profit** | **18.1** | **19.3** |
| Depreciation and amortisation | (1.2) | (1.9) |
| Non-recurring income/(expense) | 0.9 | 6.6 |
| Net FX gain/(loss) | (1.2) | (1.1) |
| **Pre-tax profit** | **16.6** | **22.9** |
| Income tax expense | (2.4) | (3.4) |
| **Net profit after tax** | **14.2** | **19.5** |

### *Balance sheet*

The table below sets out the statement of financial position for TBI Bank. For the purpose of consolidation with the Group's balance sheet, the fair values assessed as part of the Group's updated goodwill calculation under IFRS are used, rather than the book values presented below.

| | 31 December 2018 (unaudited) | 31 December 2017 (unaudited) |
|---|---|---|
| | *(in millions of €)* | |
| Cash and cash equivalents | 61.6 | 89.0 |
| Placement with other banks | 8.8 | 7.0 |
| Gross receivables due from customers | 300.8 | 247.7 |
| Allowance for impairment | (38.3) | (21.0) |
| **Net receivables due from customers** | **262.5** | **226.7** |
| Net investments in finance leases | 8.6 | 12.1 |
| Property and equipment | 5.9 | 5.9 |
| Financial assets | 32.9 | 13.6 |
| Tax assets | 0.9 | 0.6 |
| Prepaid expenses | 1.1 | 0.5 |
| Intangible assets | 3.2 | 1.8 |
| Other assets | 10.1 | 9.3 |
| **Total assets** | **395.6** | **366.5** |
| Loans and borrowings | 0.1 | 0.3 |
| Deposits from customers | 271.0 | 257.1 |
| Deposits from banks | 2.6 | — |
| Other liabilities | 18.2 | 15.1 |
| **Total liabilities** | **291.8** | **272.5** |
| Share capital | 41.7 | 41.7 |
| Retained earnings | 59.6 | 48.2 |
| Reserves | 2.5 | 4.0 |
| **Total equity** | **103.8** | **93.9** |
| **Total shareholders' equity and liabilities** | **395.6** | **366.5** |

### *Loan portfolio*

Below are TBI Bank's receivables, including accrued interest, split by consumer and SME customers as of the dates indicated.

| | 31 December 2018 (unaudited) | 31 December 2017 (unaudited) | % Change |
|---|---|---|---|
| | *(in millions of €)* | | |
| Consumer | 248 | 201 | 23 % |
| SME (including financial leases) | 62 | 60 | 5 % |
| **Total gross receivables** | **310** | **260** | **19%** |
| Provisions | (39) | (22) | 80 % |
| **Total net receivables** | **271** | **239** | **13%** |

As of 31 December 2018, consumer loans made up 80% of TBI Bank's gross loans, up slightly from 77% as of 31 December 2017. The overall loan portfolio has a roughly equal contribution from both Bulgaria and Romania.

The non-performing receivables ratios by loan type are shown below.

| | Consumer | SME (incl. leases) | Overall |
|---|---|---|---|
| Non-performing receivables to gross receivables ratio | 14.5% | 17.1% | 15.0% |
| Provision coverage[1] | 99.0% | 30.6% | 83.7% |

Note: (1) In addition to provisions, the SME receivables are backed by collateral with average loan-to-value of c.50%.

### *Customer deposits*

TBI Bank's customer deposits and current accounts by client and type are shown below.

| | 31 December 2018 (unaudited) | 31 December 2017 (unaudited) | % Change |
|---|---|---|---|
| | *(in millions of €)* | | |
| Customer accounts of consumers | 224 | 203 | 10 % |
| - Current accounts | 21 | 18 | 15 % |
| - Term deposits | 203 | 185 | 10 % |
| | | | |
| Customer accounts of SMEs | 47 | 54 | (13)% |
| - Current accounts | 18 | 20 | (9)% |
| - Term deposits | 29 | 34 | (16)% |

The average interest rate paid on term deposits varies by type and currency, ranging from 0.1% to 3.3%. Deposit costs were 1.0% in 2018, representing lower rates in Bulgaria. The average remaining maturity of consumer term deposits is approximately 6 months, with strong roll-over rates.

### *Capital and liquidity ratios*

TBI Bank continues to have a very strong capital and liquidity position. The table below shows TBI Bank's statutory capital and liquidity ratios as of 31 December 2018.  The capital ratios have reduced slightly since the end of 2017 as the adoption of the 2017 audited profit as retained earnings was more than offset by growth in the loan portfolio during the Period.

| | Standalone | Consolidated |
|---|---|---|
| Common equity Tier 1 ratio | 20.7% | 22.3% |
| Capital adequacy | 20.7% | 22.3% |
| Liquidity ratio | 31.1% | — |

## HISTORIC QUARTERLY RESULTS

For ease of reference, a summary income statement by quarter from Q4 2016 is presented below.

### *Income statement*

| *(in millions of €)* | Q4 2016 | Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 | Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 |
|---|---|---|---|---|---|---|---|---|---|
| **Interest Income** | **105.9** | **104.7** | **108.9** | **113.5** | **120.8** | **123.2** | **122.3** | **116.1** | **114.1** |
| Interest Expense | (12.5) | (13.3) | (15.9) | (16.3) | (16.4) | (14.9) | (15.5) | (16.0) | (15.7) |
| **Net Interest Income** | **93.4** | **91.4** | **93.0** | **97.2** | **104.4** | **108.2** | **106.8** | **100.1** | **98.3** |
| Net F&C Income | 1.1 | 2.0 | 2.4 | 3.2 | 3.0 | 2.3 | 2.3 | 2.7 | 2.1 |
| Other operating income | 1.8 | 2.2 | 2.3 | 2.4 | 2.3 | 2.1 | 2.3 | 2.2 | 2.5 |
| **Non-Interest Income** | **2.9** | **4.2** | **4.7** | **5.6** | **5.4** | **4.4** | **4.6** | **4.9** | **4.6** |
| **Operating Income** | **96.3** | **95.6** | **97.7** | **102.8** | **109.8** | **112.6** | **111.4** | **105.0** | **102.9** |
| **Total operating costs** | **(53.7)** | **(55.7)** | **(56.9)** | **(54.2)** | **(64.0)** | **(61.0)** | **(59.0)** | **(51.0)** | **(54.5)** |
| **Pre-provision operating profit** | **42.6** | **39.9** | **40.9** | **48.7** | **45.8** | **51.6** | **52.4** | **54.0** | **48.4** |
| Net impairment charges | (23.5) | (23.7) | (23.3) | (30.1) | (34.4) | (36.4) | (26.9) | (30.5) | (29.6) |
| **Post-provision operating profit** | **19.1** | **16.2** | **17.6** | **18.5** | **11.4** | **15.2** | **25.6** | **23.4** | **18.8** |
| Depreciation and amortisation | (1.9) | (2.0) | (2.2) | (2.2) | (2.4) | (2.5) | (2.5) | (3.5) | (3.5) |
| Non-recurring income/(expense) | 2.8 | 4.4 | 2.0 | (0.6) | 0.3 | 0.1 | 0.9 | 0.2 | (1.5) |
| Net FX | (1.5) | (1.6) | 0.9 | (1.6) | (1.7) | 2.4 | (14.7) | (5.6) | 5.1 |
| One-off adj. of intangible assets | — | — | — | — | (46.1) | — | — | — | (6.7) |
| **Pre-tax profit** | **18.4** | **17.0** | **18.3** | **14.2** | **(38.5)** | **15.2** | **9.3** | **14.6** | **12.3** |
| Income tax expense | (4.4) | (4.6) | (4.6) | (4.5) | (12.5) | (4.6) | (3.1) | (6.2) | (6.7) |
| **Net profit after tax** | **14.0** | **12.4** | **13.7** | **9.7** | **(51.0)** | **10.6** | **6.1** | **8.3** | **5.6** |
| | | | | | | | | | |
| **EBITDA** | **32.8** | **32.3** | **36.4** | **32.7** | **(19.7)** | **32.6** | **27.2** | **34.0** | **31.6** |
| **Adjusted EBITDA** | **35.6** | **34.9** | **35.8** | **36.3** | **28.4** | **32.1** | **42.1** | **39.9** | **33.5** |

### *Loan issuance*

| *(in millions of €)* | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Total value of online loans issued** | **315.3** | **302.7** | **301.6** | **323.6** | **349.5** | **337.3** | **305.7** | **289.4** | **276.7** |
| Single Payment Loans (1) | 273.1 | 240.8 | 236.8 | 243.9 | 256.9 | 237.2 | 222.1 | 206.4 | 195.1 |
| Instalment Loans | 29.5 | 28.8 | 33.5 | 45.2 | 55.2 | 63.0 | 45.4 | 44.0 | 44.1 |
| Lines of Credit (2) | 12.6 | 33.0 | 31.3 | 34.5 | 37.5 | 37.0 | 38.2 | 39.0 | 37.5 |
| | | | | | | | | | |
| **Total value of TBI Bank loans issued** | **57.5** | **50.6** | **58.3** | **67.0** | **71.0** | **60.8** | **60.8** | **73.3** | **86.9** |
| SME | 6.0 | 5.9 | 8.3 | 6.6 | 7.3 | 7.3 | 9.4 | 8.6 | 9.9 |
| Consumer | 51.4 | 44.8 | 50.0 | 60.4 | 63.8 | 53.5 | 51.4 | 64.6 | 77.0 |

Notes: (1) Reflects reclassification of 'Vivus' brand products in Denmark, Sweden and Armenia to Lines of Credit

(2) Includes Point of Sale Loans

## *Loan portfolio (receivables, including accrued interest)*

| *(in millions of €)* | Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 | 1 Jan 2018 post IFRS | Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 |
|---|---|---|---|---|---|---|---|---|---|
| **Single payment loans** [(1)] | | | | | | | | | |
| - Performing | 175.4 | 174.5 | 179.3 | 188.2 | 188.2 | 180.2 | 163.7 | 153.4 | 142.0 |
| - NPL | 135.6 | 132.6 | 118.8 | 105.6 | 57.5 | 55.8 | 53.4 | 39.7 | 40.8 |
| **- Total gross receivables** | **311.0** | **307.1** | **298.2** | **293.8** | **245.7** | **236.0** | **217.0** | **193.1** | **182.8** |
| - Provisions | (110.2) | (107.9) | (98.8) | (95.1) | (74.2) | (72.1) | (69.9) | (53.1) | (51.2) |
| **- Net receivables** | **200.8** | **199.2** | **199.3** | **198.7** | **171.5** | **163.9** | **147.1** | **140.0** | **131.6** |
| - Provisions to gross receivables | 35.4% | 35.1% | 33.2% | 32.4% | 30.2% | 30.5% | 32.2% | 27.5% | 28.0% |
| - Gross NPL ratio | 43.6% | 43.2% | 39.9% | 35.9% | 23.4% | 23.6% | 24.6% | 20.6% | 22.3% |
| **Instalment loans** | | | | | | | | | |
| - Performing | 82.6 | 87.9 | 101.1 | 120.6 | 120.6 | 143.9 | 146.9 | 145.0 | 140.1 |
| - NPL | 48.3 | 49.7 | 49.6 | 52.8 | 29.4 | 34.8 | 33.3 | 43.8 | 39.1 |
| **- Total gross receivables** | **131.0** | **137.7** | **150.8** | **173.3** | **150.0** | **178.7** | **180.1** | **188.8** | **179.2** |
| - Provisions | (36.5) | (37.9) | (38.9) | (43.3) | (45.3) | (53.5) | (49.4) | (56.9) | (48.8) |
| **- Net receivables** | **94.4** | **99.8** | **111.8** | **130.1** | **104.7** | **125.2** | **130.7** | **131.9** | **130.4** |
| - Provisions to gross receivables | 27.9% | 27.5% | 25.8% | 25.0% | 30.2% | 29.9% | 27.4% | 30.2% | 27.2% |
| - Gross NPL ratio | 36.9% | 36.1% | 32.9% | 30.4% | 19.6% | 19.5% | 18.5% | 23.2% | 21.8% |
| **Lines of Credit** [(2)] | | | | | | | | | |
| - Performing | 28.2 | 27.7 | 30.7 | 34.4 | 34.4 | 35.1 | 34.6 | 34.5 | 33.4 |
| - NPL | 13.9 | 11.5 | 13.8 | 14.2 | 10.7 | 11.3 | 10.5 | 11.6 | 10.2 |
| **- Total gross receivables** | **42.1** | **39.2** | **44.5** | **48.6** | **45.1** | **46.4** | **45.1** | **46.2** | **43.6** |
| - Provisions | (9.6) | (8.0) | (9.6) | (10.7) | (14.8) | (13.1) | (13.1) | (14.9) | (14.0) |
| **- Net receivables** | **32.6** | **31.2** | **34.9** | **37.9** | **30.3** | **33.3** | **32.0** | **31.2** | **29.6** |
| - Provisions to gross receivables | 22.7% | 20.5% | 21.6% | 22.0% | 32.9% | 28.3% | 29.1% | 32.4% | 32.1% |
| - Gross NPL ratio | 33.0% | 29.5% | 31.1% | 29.2% | 23.8% | 24.3% | 23.3% | 25.2% | 23.4% |
| **Total Online receivables** | | | | | | | | | |
| - Performing | 286.2 | 290.1 | 311.1 | 343.2 | 343.2 | 359.2 | 345.1 | 332.9 | 315.5 |
| - NPL | 197.9 | 193.9 | 182.3 | 172.5 | 97.7 | 101.9 | 97.1 | 95.1 | 90.0 |
| **- Total gross receivables** | **484.1** | **484.0** | **493.4** | **515.7** | **440.8** | **461.1** | **442.3** | **428.1** | **405.5** |
| - Provisions | (156.3) | (153.9) | (147.4) | (149.1) | (134.3) | (138.7) | (132.5) | (125.0) | (113.9) |
| **- Net receivables** | **327.8** | **330.1** | **346.0** | **366.6** | **306.5** | **322.4** | **309.8** | **303.1** | **291.6** |
| - Provisions to gross receivables | 32.3% | 31.8% | 29.9% | 28.9% | 30.5% | 30.1% | 30.0% | 29.2% | 28.1% |
| - Gross NPL ratio | 40.9% | 40.1% | 36.9% | 33.5% | 22.2% | 22.1% | 22.0% | 22.2% | 22.2% |
| **TBI Bank** | | | | | | | | | |
| - Performing | 171.0 | 180.9 | 204.0 | 214.5 | 214.5 | 217.2 | 218.2 | 229.3 | 252.0 |
| - NPL | 24.8 | 23.6 | 23.3 | 31.1 | 31.1 | 37.3 | 43.6 | 41.7 | 47.5 |
| **- Total gross receivables** | **195.8** | **204.6** | **227.3** | **245.6** | **245.6** | **254.5** | **261.8** | **271.0** | **299.6** |
| - Provisions | (15.1) | (14.9) | (17.6) | (21.0) | (23.2) | (27.8) | (34.4) | (33.2) | (38.3) |
| **- Net receivables** | **180.7** | **189.7** | **209.7** | **224.6** | **222.4** | **226.7** | **227.4** | **237.8** | **261.3** |
| - Provisions to gross receivables | 7.7% | 7.3% | 7.7% | 8.6% | 9.4% | 10.9% | 13.1% | 12.2% | 12.8% |
| - Gross NPL ratio | 12.7% | 11.6% | 10.2% | 12.7% | 12.7% | 14.7% | 16.6% | 15.4% | 15.9% |

Notes: (1) Single Payment Loan portfolio shown in this table reflects the reclassification of 'Vivus' products in Sweden, Denmark and Armenia to Lines of Credit

(2) Includes Point of Sale Loans

## *Additional Key Performance Indicators*

| | 12 months to 31 December | |
|---|---|---|
| **Profitability** | **2018** | **2017** |
| ROAA, % * (1) | 5.1% | 3.5% |
| ROAE, % * (2) | 34.1% | 15.0% |
| ROATE, % * | 76.3% | 30.4% |
| Interest Income/Average Interest Earning Assets, % (3) | 67.6% | 62.3% |
| Interest Income/Average Gross Loan Portfolio, % ** | 68.4% | 62.8% |
| Interest Income/Average Net Loan Portfolio, % ** | 87.9% | 82.6% |
| Interest Expense/Interest Income, % | 13.1% | 13.8% |
| Cost Of Funds, % (4) | 7.4% | 8.0% |
| Cost Of Interest Bearing Liabilities, % (5) | 8.4% | 9.0% |
| Net Spread, % (6) | 59.2% | 53.3% |
| Net interest margin, %: ** (7) | | |
| - Online | 88.6% | 66.1% |
| - TBI Bank | 27.3% | 26.7% |
| - Overall group | 63.6% | 54.1% |
| Net effective annualised yield (8) | 88.0% | 82.0% |
| Net Fee & Commission Income/Total Operating Income, % | 2.2% | 2.1% |
| Net Fee & Commission Income/Average Total Assets, % * | 1.0% | 0.9% |
| Net Non-Interest Income/Total Operating Income, % | 4.3% | 4.8% |
| Net Non-Interest Income/Average Total Assets, % * | 1.9% | 2.0% |
| Recurring Earning Power, % * (9) | 22.7% | 16.9% |
| Earnings Before Taxes/Average Total Assets, % * | 5.7% | 5.4% |
| **Efficiency** | | |
| Total Assets/Employee, (in thousands of €) * | 337 | 303 |
| Total Operating Income/Employee, (in thousands of €) | 146 | 114 |
| Cost/Income Ratio, % (10) | 52.2% | 57.8% |
| Total Recurring Operating Costs/Average Total Assets, % * | 23.0% | 23.3% |
| Total Operating Income/ Average Total Assets, % * | 44.0% | 40.4% |
| Total Recurring Cash Costs/Average Total Assets, % * (11) | 23.0% | 23.3% |
| Net Income (Loss)/Employee, (in thousands of €) * | 10 | 10 |
| Personnel Costs/Average Total Assets, % * | 10.6% | 9.8% |
| Personnel Costs/Total Recurring Operating Costs, % | 46.2% | 42.2% |
| Personnel Costs/Total Operating Income, % | 24.1% | 24.4% |
| Net Operating Income/Total Operating Income, % * | 49.3% | 40.5% |
| Net Income (Loss)/Total Operating Income, % * | 8.7% | 8.4% |
| Profit before tax (Loss)/Interest income, % * | 14.9% | 12.2% |
| **Liquidity** | | |
| Net Loan Receivables/Total Assets, % * | 55.1% | 54.8% |
| Average Net Loan Receivables/Average Total Assets, % * | 55.0% | 54.0% |
| Average Net Loan Receivables/Average Client Balances & Deposits, % | 194.6% | 213.5% |
| Net Loan Receivables/Total Deposits, % | 194.0% | 218.1% |
| Net Loan Receivables/Total Liabilities, % | 66.0% | 70.6% |
| Interest Earning Assets/Total Assets, % * | 71.1% | 71.3% |
| Average Interest Earning Assets/Average Total Assets, % * | 71.6% | 71.6% |
| Liquid Assets/Total Assets, % * (12) | 18.0% | 15.0% |
| Liquid Assets/Total Liabilities,% | 21.6% | 19.3% |
| Total Deposits/Total Assets, % * | 28.4% | 25.1% |
| Total Deposits/Total Liabilities, % | 34.0% | 32.4% |
| Total Deposits/Shareholders' Equity, Times * | 1.7x | 1.1x |

| | | |
|---|---|---|
| Leverage (Total Liabilities/Equity), Times * | 5.0x | 3.5x |
| Tangible Common Equity/Tangible Assets * (13) | 8.7% | 11.6% |
| Tangible Common Equity/Net Receivables | 14.4% | 18.6% |
| Net Loan Receivables/Equity, Times * | 3.3x | 2.5x |

| | 12 months to 31 December | |
|---|---|---|
| **Asset quality** | **2018** | **2017** |
| Loan Loss Reserve/Gross Receivables from Clients, % | 21.6% | 22.3% |
| Average Loan Loss Reserve/Average Gross Receivables from Clients, % | 22.3% | 23.9% |
| Cost of risk, %: (14) | | |
| - Online | 24.0% | 20.8% |
| - TBI Bank | 8.0% | 3.9% |
| - Overall Group | 17.7% | 15.6% |
| Gross NPL ratio, %: (15) | | |
| - Online | 22.2% | 33.5% |
| - TBI Bank | 15.9% | 12.7% |
| - Overall group | 19.5% | 26.7% |
| Net impairment / interest income, % (16) | 25.9% | 24.0% |
| **Credit Metrics** | | |
| Total Equity/Total Assets, % * | 16.0% | 22.3% |
| Total Equity/Net Loan Receivables, % * | 28.9% | 40.7% |
| Interest Coverage ('basic' EBITDA), Times | 2.0x | 1.3x |
| Adjusted Interest Coverage for the Period, Times (17) | 2.4x | 2.2x |
| TBI Bank consolidated capital adequacy, % | 22.3% | 23.2% |

| **Selected Operating Data** | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Total Employees | 2,960 | 3,557 |

*Normalised ratios are adjusted to remove the effect of the one-off adjustments to intangible assets in Q4 2017 (for 2017 ratios) and adjusted to reflect the opening balance of 2018 balance sheet after IFRS 9 effects (for 2018 ratios).
**Current Period calculation is based on loan principal only. Prior period calculation is based on receivables (including accrued interest)
All ratios are annualised where appropriate.
(1) Return On Average Total Assets (ROAA) equals Net Income of the period divided by average Total Assets for the same period
(2) Return On Average Total Equity (ROAE) equals Net Income of the period divided by average Total Equity for the same period
(3) Interest Earning Assets include: Placement with other banks and Gross Loan Receivables
(4) Cost Of Funds equals Interest Expense of the period divided by average Total Liabilities for the same period
(5) Cost Of Interest-Bearing Liabilities equals Interest Expense of the period divided by average Interest Bearing Liabilities for the same period; Interest bearing Liabilities include Loans and borrowings and Deposits from customers and banks
(6) Net Spread equals Interest Income of the period divided by Average Interest Earning Assets for the same period less Cost of Interest Bearing Liabilities
(7) Net interest margin equals Net interest income divided by average gross loan principal (total gross loan principal as of the start and end of each period divided by two)
(8) Annualised interest income (excluding penalties) / average net loan principal
(9) Recurring Earning Power equals Profit (Pre-discretionary bonus) Before Net impairment losses of the period divided by average Total Assets for the same period
(10) Operating costs divided by operating income (revenue)
(11) Cash Costs/Average Total Assets equals Total Recurring Operating Costs plus Discretionary Bonus Pool less Depreciation & Amortisation of the period divided by Average Total Assets for the same period
(12) Liquid Assets divided by Total Assets; Liquid assets include Cash and cash equivalents and Placements with other banks
(13) Tangible Common Equity/Tangible Assets. Tangible equity is Total Equity less Intangible Assets. Tangible Assets are Total Assets less Intangible Assets
(14) Cost Of Risk (Receivables only) equals Net impairment charges divided by Average Gross Receivables for the same period
(15) Gross NPL ratio equals Non-performing receivables (including accrued interest) with a delay of over 90 days divided by gross receivables (including accrued interest)
(16) Net impairment charges on loans and receivables divided by interest income
(17) Adjusted Interest Coverage for the Period equals Adjusted EBITDA divided by Interest expense

## DEFINITIONS

**Active customers** – Online lending customers with open loans that are up to 30 days past due

**Adjusted EBITDA** – a non-IFRS measure that represents EBITDA (profit for the period plus tax, plus interest expense, plus depreciation and amortisation) as adjusted by income/loss from discontinued operations, non-cash gains and losses attributable to movement in the mark-to-market valuation of hedging obligations under IFRS, goodwill write-offs and certain other one-off or non-cash items. Adjusted EBITDA, as presented here, may not be comparable to similarly-titled measures that are reported by other companies due to differences in the way these measures are calculated. Further details of covenant adjustments can be found in the relevant bond prospectuses, available on our website www.4finance.com

**Adjusted interest coverage** – Adjusted EBITDA / interest expense

**Cost of risk** – Annualised net impairment charges / average gross receivables (total gross receivables as of the start and end of each period divided by two)

**Cost/income ratio** – Operating costs / operating income

**Equity/assets ratio** – Total equity / total assets

**Equity/net receivables** – Total equity / net customer receivables (including accrued interest)

**Gross NPL ratio** – Non-performing receivables (including accrued interest) with a delay of over 90 days / gross receivables (including accrued interest)

**Gross receivables** – Total amount receivable from customers, including principal and accrued interest, after deduction of deferred income

**Intangible assets** – consists of deferred tax assets, intangible IT assets and goodwill

**Interest income** – Interest and similar income generated from our customer loan portfolio

**Loss given default** – Loss on non-performing receivables (i.e. 1 - recovery rate) based on recoveries during the appropriate time window for the specific product, reduced by costs of collection, discounted at the weighted average effective interest rate

**Net effective annualised yield** – annualised interest income (excluding penalties) / average net loan principal

**Net impairment to interest income ratio** – Net impairment charges on loans and receivables / interest income

**Net interest margin** – Annualised net interest income / average gross loan principal (total gross loan principal as of the start and end of each period divided by two)

**Net receivables** – Gross receivables (including accrued interest) less impairment provisions

**Non-performing loans (NPLs)** – Loan principal or receivables (as applicable) that are over 90 days past due

**Normalised** – Adjusted to remove the effect of the one-off adjustments to intangible assets in Q4 2017 (for 2017 ratios) and adjusted to reflect the opening balance of 2018 balance sheet after IFRS 9 effects (for 2018 ratios)

**Overall provision coverage** – Allowance account for provisions / non-performing receivables

**Profit before tax margin** – Profit before tax / interest income

**Return on average assets** – Annualised profit from continuing operations / average assets (total assets as of the start and end of each period divided by two)

**Return on average equity** – Annualised profit from continuing operations / average equity (total equity as of the start and end of each period divided by two)

**Tangible equity -** Total equity minus intangible assets

**TBI Bank capital adequacy ratio** – (Tier One Capital + Tier Two Capital) / risk weighted assets (calculated according to the prevailing regulations of the Bulgarian National Bank)

## RECENT DEVELOPMENTS

Recent developments include significant and material information about the Group's development and any changes since its last quarterly report that was published on 14 November 2018.

### *Acquisitions and disposals*

The sale of the Group's Romanian online loan portfolio was completed in December 2018.

### *Changes in management*

Chief Compliance Officer, Elaine McKinney, left the Group in December 2018. This will no longer be a separate position on the executive committee. The various Compliance functions are now handled within the Risk, Internal Audit, Legal and Corporate Management divisions.

Two changes have been made within the Supervisory Board, with William Horwitz and former Group CEO Mark Ruddock stepping down from the Supervisory Board of 4finance Group SA in January 2019.

### *Regulatory changes*

In Latvia: as described in the previous report, changes to loan size limits and extensions came into force on 1 January 2019. The Group has already adapted its relevant products to minimum-to-pay lines of credit. The reduced APR cap of 25% and marketing restrictions come into force on 1 July 2019.

In Finland: as described in the previous report, the draft bill to amend online lending legislation that extends the APR cap at 30% to loans of over €2,000, and specifies limits for various other fees, was submitted to Parliament in November 2018. The regulation is expected to be finalised in March 2019, with implementation in September 2019.

In Poland: a new proposal from the Ministry of Justice was published in February 2019 to bring non-bank lending institutions under the supervision of the Polish FSA, add requirements to check credit registers and reduce the existing caps on non-interest costs. The current caps are 25% fixed cost plus 30% annual cost with a 100% total limit and the proposed caps are 20% fixed cost plus 25% annual cost with a 75% total limit. Consultation on this proposal is currently ongoing, and the timing for any implementation is currently unclear.

In Romania: the parliament voted in December 2018 to introduce new APR caps for consumer lending at 50% for loans under €3,000 and 18% for loans over €3,000. The law is expected to come into force in summer 2019. The majority of TBI Bank's consumer lending in Romania is already priced within these caps.

### *Change in auditor*

As announced earlier in February 2019, the Group has appointed PKF Audit & Conseil, a member of the PKF International network, as its auditor. This follows a tender process to replace KPMG, who had audited the group (and its predecessor Latvian holding company) since the business started 10 years ago.

### *Financing*

In December 2018, the Group repurchased a further US$15 million of the 2022 Notes by way of market purchases at prices below par.

**Corporate website: www.4finance.com**

**4finance Holding S.A.**

Address: 8-10 Avenue de la Gare, L-1610, Grand Duchy of Luxembourg