

4FINANCE REPORTS RESULTS FOR THE NINE MONTHS ENDING 30 SEPTEMBER 2017

INTEREST INCOME UP 14%, PRE-TAX PROFIT €49.5 MILLION, STRONG QUARTERLY ORIGINATION

21 November 2017. 4finance Holding S.A. (the 'Group' or '4finance'), Europe's largest online and mobile consumer lending group, today announces unaudited consolidated results for the nine months ending 30 September 2017 (the 'Period').

Financial Highlights

- Interest income up 14% year-on-year to €327.2 million in the Period compared with €287.3 million in the prior year period.
- Operating income up 10% year-on-year to €296.1 million in the Period, reflecting higher interest expense.
- Online loan issuance during the Period grew by 11% year-on-year to €934.9 million from €840.7 million in 9M 2016.
- Net receivables reached €555.8 million as of 30 September 2017, up 13% year to date.
- Adjusted EBITDA was €107.1 million for the Period, up 5% year-on-year, with adjusted interest coverage of 2.4x.
- Profit before tax for the Period was €49.5 million, decreasing 21% year-on-year from €62.6 million in 9M 2016.
- Cost to income ratio for the Period, using the standard definition of operating income, was 58%, vs. 50% for 9M 2016, reflecting staff cost growth and increased investment during 2016 and acquisitions in the latter half of 2016. The quarterly cost to income ratio for Q3 2017 was 55%, improving from 60% in Q2 2017.
- Financial strength remains solid, with equity to assets ratio of 24% as of 30 September 2017 and equity / net receivables of 47% following the ordinary dividend payment of €10 million in July.
- Improvement in asset quality, with an overall gross NPL ratio of 28.5% as of 30 September 2017 (36.9% for online) compared with 33.1% as of 31 December 2017 (42.0% for online). The cost of risk for the online business was 18.9% for the Period, similar to 19.3% in the prior year period, following an increase in net impairments in Q3 2017.

Operational Highlights

- The number of registered online lending customers reached 7.4 million as of 30 September 2017, up 29% from a year ago. TBI Bank has 1.4 million registered banking customers.
- Strong instalment loan origination in the third quarter, with issuance up 35% on Q2, and launch in Georgia in October.
- A pilot transfer of Swedish instalment loans to TBI Bank completed, benefiting from lower funding cost.
- Latin American growth continues, with loan issuance up 47% quarter on quarter, and new distribution partnership established in Mexico.
- Growth in existing near-prime products such as in Lithuania with new product development and partnership projects underway in other markets including Sweden and Poland.
- Regional managers added to executive committee to bring operational country level experience and accountability closer to strategic decision making. Appointment of Mikah Martin-Cruz as Chief Marketing Officer and Andrew Zeller as VP of Business Development and Strategic Alliances.
- Lado Gurgenzidze appointed as Chairman of the Supervisory Board and new board committees established, further strengthening our corporate governance.

Mark Ruddock, CEO of 4finance, commented:

"These results evidence our focus on returning to profitable growth, with third quarter loan issuance up 7% from Q2, the highest organic quarterly growth in two years. With interest income growth of 14% year-on-year and profit before tax of €49.5 million for 9M 2017, our year to date performance remains solid. The significant quarterly reduction in the cost to income ratio demonstrates our drive to optimize performance.

"Within our existing products, the two key growth areas of instalment loans and the LatAm region had strong originations with quarter-on-quarter issuance up 35% and 47%, respectively. We have also made good progress in developing our near-prime offering in Scandinavia and on establishing partnerships to accelerate time to market in other countries.

"We have strengthened our executive committee, adding our regional and bank leaders, enabling us to leverage direct experience from the field and streamline our decision making. We also welcome Mikah Martin-Cruz as CMO to help optimize marketing execution and brand development, as we establish ourselves as the company that unlocks access to financial products and services for the underserved. Joining Mikah on EXCO will be Andrew Zeller, who will be heading up Business Development and Strategic Alliances."

Key Financial Ratios

	Nine Months Ended 30 September 2017 (unaudited)	Nine Months Ended 30 September 2016 (unaudited)	Year Ended 31 December 2016 (audited)	Year Ended 31 December 2015 (audited)
	2017	2016	2016	2015
Capitalisation				
Net receivables (€m) ⁽¹⁾	555.8	510.4	493.9	308.3
Total assets (€m)	1,086.5	846.5	931.4	438.2
Total equity (€m)	258.6	222.4	230.1	173.3
Equity / assets ratio ⁽²⁾	23.8%	26.0%	24.7%	39.5%
Equity / net receivables ⁽³⁾	46.5%	43.6%	46.6%	56.2%
Adjusted interest coverage ⁽⁴⁾	2.4x	3.9x	3.6x	4.1x
TBI Bank capital adequacy ratio ⁽⁵⁾	24.9%	24.8%	22.3%	19.5%
Profitability				
Net interest margin: ⁽⁶⁾				
- Online	66.2%	74.7%	74.7%	78.0%
- TBI Bank	26.3%	n/m	23.6%	—
- Overall group	54.2%	n/m	65.0%	78.0%
Cost / income ratio ⁽⁷⁾	58.5%	50.2%	52.2%	45.9%
Profit before tax margin ⁽⁸⁾	15.1%	21.8%	20.6%	23.2%
Return on average equity ⁽⁹⁾	19.5%	33.1%	31.3%	44.8%
Return on average assets ⁽¹⁰⁾	4.7%	10.2%	9.2%	14.4%
Asset quality				
Cost of risk: ⁽¹¹⁾				
- Online	18.9%	19.3%	19.6%	20.7%
- TBI Bank	5.3%	n/m	3.1%	—
- Overall group	14.8%	n/m	17.3%	20.7%
Gross NPL ratio: ⁽¹²⁾				
- Online	36.9%	43.8%	42.0%	37.0%
- TBI Bank	10.3%	10.4%	10.9%	—
- Overall group	28.5%	34.5%	33.1%	37.0%
Net impairment / interest income ⁽¹³⁾	23.6%	23.1%	22.8%	24.2%
Online NPLs to loan issuance ratio ⁽¹⁴⁾	7.8%	9.6%	9.3%	9.0%

Definitions and Notes below. For further definitions, please see the appendix

- (1) Gross receivables (including accrued interest) less impairment provisions.
- (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 receivables (total gross receivables as of the start and end of each period divided by two).
- (7) Operating costs/operating income.
- (8) Profit before tax/interest income.
- (9) Annualised profit from continuing operations / average equity (total equity as of the start and end of each period divided by two).
- (10) Annualised profit from continuing operations / average assets (total assets as of the start and end of each period divided by two).
- (11) Annualised net impairment loss / 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.
- (12) Non-performing receivables (including accrued interest) with a delay of over 90 days/gross receivables (including accrued interest).
- (13) Net impairment losses on loans and receivables/interest income.
- (14) Non-performing online receivables / value of online loans issued. The value of loans issued represents online loans issued for the two-year period before commencement of the 90 day past-due period, eg for 30 September 2017: 1 July 2015 to 30 June 2017.

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Conference call

A conference call with management to discuss these results is scheduled for **Wednesday 22 November at 15:00 UK time**. To register, please visit www.4finance.com/investors.

About 4finance

Established in 2008, 4finance is the largest and fastest growing online and mobile consumer lending group in Europe with operations in 16 countries. Putting innovative data-driven analysis into all aspects of the business, 4finance has grown rapidly, issuing over €5 billion to date in single payment loans, instalment loans and lines of credit.

4finance operates through a portfolio of market leading brands with strong regional presence including Vivus, SMSCredit and Zaplo. A responsible lender, offering simple, convenient and transparent products and service, 4finance is meeting growing customer demand from those under-served by conventional lending.

4finance has group offices in Riga (Latvia), London (UK) and Miami (USA), and currently operates in Argentina, Armenia, Bulgaria, the Czech Republic, Denmark, the Dominican Republic, Finland, Georgia, Latvia, Lithuania, Mexico, Poland, Romania, Spain, Slovakia and Sweden. The group also provides consumer and SME lending through TBI Bank, its EU licensed banking 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.

FINANCIAL REVIEW

Income Statement

The table below sets out the condensed consolidated statement of profit and loss for the nine months ending 30 September 2017 and 30 September 2016. The layout has been changed this quarter to reflect a more standard presentation for financial companies. Additional reference information on the historic quarterly development of our income statement is shown in the appendix to this report.

	9 months to 30 September		
	2017 (unaudited)	2016 (unaudited)	% change
	<i>(in millions of €)</i>		
Interest Income	327.2	287.3	+14 %
Interest Expense	(45.5)	(26.2)	+74 %
Net Interest Income	281.6	261.1	+8 %
Net F&C Income	7.7	2.1	n/m
Other operating income	6.8	4.9	+40 %
Non-Interest Income	14.5	7.0	+108 %
Operating Income	296.1	268.0	+10 %
Total operating costs	(173.1)	(134.6)	+29 %
Non-recurring income/(expense)	5.8	1.3	n/m
Net FX	(2.3)	(5.8)	(60)%
Pre-provision operating profit	126.5	128.9	(2)%
Net impairment losses	(77.1)	(66.3)	+16 %
Profit before tax	49.5	62.6	(21)%
Income tax expense	(13.7)	(13.4)	+2 %
Net profit after tax	35.8	49.2	(27)%

Interest income

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

	9 months to 30 September		
	2017	2016	% change
	<i>(in millions of €)</i>		
Online lending			
Total value of loans issued	934.9	840.7	+11%
Average net receivables	331.2	316.9	+5%
Annualized interest income / average net receivables	114%	118%	
Interest income from online lending	283.0	279.3	+1%
Banking operations			
Average net receivables	193.6	—	
Annualized interest income / average net receivables	30%	—	
Interest income from banking operations ⁽¹⁾	44.2	—	

Note (1) See appendix for full TBI Bank income statement.

Interest income for the Period was €327.2 million, a 14% increase compared with €287.3 million for the nine months ending 30 September 2016. Growth in interest income from online lending was 1%, reflecting the 5% increase in the average balance of net receivables and a lower average interest yield. The contribution from Georgia and Lithuania was lower by a total of approximately €29 million compared to 9M 2016 following regulatory changes in those markets. Updated product offerings have now been launched in both markets.

TBI Bank's average interest rates are a blend of consumer lending (cash lending, point-of-sale lending and credit cards) with rates that average 45-50% and SME loans with average interest rates of approximately 8-14%. TBI Bank also generates income which is reported separately in either the 'net fee and commission' and 'other operating income' lines.

Interest expense

Interest expense for the Period was €45.5 million, a 74% increase compared with €26.2 million for the nine months ending 30 September 2016. This increase is mainly due to the new EUR bonds issued in May and November 2016 and the US\$ bond issuance and refinancing in April 2017. The costs associated with that refinancing, including issuance costs, tender/redemption premium and unamortised costs of the refinanced bonds were capitalised and are being amortised as part of the interest expense for the US\$ 2022 bonds.

Non-interest income

Non-interest income for the period was €14.5 million, a 108% increase compared with €7.0 million reported for the nine months ending 30 September 2016. The increase was mainly due to the net fee and commission generated by TBI Bank, primarily fees from insurance sales to its customers.

Total operating costs

Total operating costs reported for the Period were €173.1 million, a 29% increase compared with €134.6 million reported for the nine months ending 30 September 2016. The increase reflects both the Group's investment in growth of existing businesses as well as the impact of including the cost base of Friendly Finance and TBI Bank. The increase in personnel costs reflects the significant staff growth last year, mainly attributable to hiring during 2016 in product development, IT, risk, legal & compliance and finance as well as in new markets.

Marketing expense has been reduced as a proportion of interest income as a result of media buying efficiencies, economies of scale and greater use of marketing technologies.

The table below sets out a breakdown of the Group's total operating costs.

	9 months to 30 September	
	2017	2016
	<i>(in millions of €)</i>	
Personnel costs	69.0	48.9
Marketing and sponsorship	40.0	39.8
Research and development	6.3	6.8
IT expenses	7.0	2.3
Debt collection costs	6.3	6.3
Legal and consulting	8.4	7.9
Application processing costs	5.1	3.3
Depreciation and amortization	6.4	3.2
Rent and utilities	5.4	3.1
Other	19.2	13.0
Total	173.1	134.6

For the nine months of 2017 and 2016, marketing and sponsorship costs accounted for 23% and 30% respectively, and personnel costs accounted for 40% and 36%, respectively, of total operating costs. The cost to income ratio for the Period was 58%. Whilst this increased compared to the prior year period, total costs were reduced in the third quarter compared to the second quarter, reflecting the cost efficiency programmes that were commenced during the first half of 2017.

Non-recurring income

Non-recurring income for the Period amounted to €5.8 million. For the nine months ending 30 September 2016, non-recurring income was €1.3 million. The majority of the non-recurring income in the Period was due to TBI Bank (mainly portfolio sale gains and rental income). The net impact of foreign exchange changes is shown in a separate line.

Pre-provision operating profit

For the reasons stated above, the Group's pre-provision operating profit for the Period was €126.5 million, a 2% decrease compared with €128.9 million for the nine months ending 30 September 2016.

Net impairment losses on loans and receivables

Net impairment losses for the Period were €77.1 million, a 16% increase compared with €66.3 million for the nine months ending 30 September 2016. The increase in net impairment losses was comparable to the increase in interest income, reflecting generally stable asset quality, lower interest income yields and a more active programme of portfolio debt sales. Increased loan origination during the third quarter contributed to an increase in impairment losses during the third quarter relative to the first two quarters of 2017. Together with the lower contribution from debt sales in Q3 this drove the increase in quarterly net impairment losses.

	9 months to 30 September	
	2017	2016
	<i>(in millions of €)</i>	
Impairment losses on loans	96.9	75.9
Over provision on debt portfolio (portfolio sale net proceeds)	(12.3)	(3.4)
Recovery from written-off loans	(7.5)	(6.2)
Net impairment losses	77.1	66.3

Overall net impairment losses represented 24% of interest income for the Period, a slight increase from 23% last year. However the net impairment losses for the online business compared to average online gross receivables, i.e. cost of risk, improved to 18.9% in the Period from 19.3% last year. This is calculated excluding TBI Bank given the bank was acquired near the end of the prior year period.

Profit before tax

For the reasons stated above, the Group's profit before tax for the Period was €49.5 million, a 21% decrease compared with €62.6 million for the nine months ending 30 September 2016. The profit before tax margin, i.e., profit before tax as a percentage of interest income, was 15% for the Period, a reduction from 22% for the nine months ending 30 September 2016.

Corporate income tax

The Group's corporate income tax expense increased by 2% to €13.7 million for the Period, compared with €13.4 million for the nine months ending 30 September 2016.

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

	9 months to 30 September	
	2017	2016
	<i>(in millions of €)</i>	
Current tax	25.0	25.9
Deferred tax	(11.3)	(12.5)
Total	13.7	13.4

The effective tax rate for the Period was 28%, an increase compared with 21% for the nine months ending 30 September 2016.

Profit for the period

For the reasons stated above, profit for the Period was €35.8 million, a 27% decrease compared with €49.2 million for the nine months ending 30 September 2016.

Other financial data – EBITDA and Adjusted EBITDA

	Nine Months Ended 30 September 2017	Nine Months Ended 30 September 2016	Year Ended 31 December 2016	Year Ended 31 December 2015
	2017	2016	2016	2015
	<i>(in millions of €)</i>			
Profit for the period	35.8	49.2	63.2	64.1
Provision for corporate income tax	13.7	13.4	17.8	15.7
Interest expense	45.5	26.2	38.7	28.7
Depreciation and amortization	6.4	3.2	5.1	1.6
EBITDA	101.4	92.0	124.9	110.0
Adjustments	5.7	9.8	12.5	8.6
Adjusted EBITDA ⁽¹⁾	107.1	101.8	137.4	118.6
	<i>(in millions of €)</i>			
	Nine Months Ended 30 September 2017	Nine Months Ended 30 September 2016	Year Ended 31 December 2016	Year Ended 31 December 2015
	2017	2016	2016	2015
Summary breakdown of Adjustments to EBITDA				
Discontinued operations	-	-	-	(5.9)
Net effect of FX hedging	2.3	5.8	7.3	7.0
One-off costs and other prescribed adjustments	3.3	4.0	5.2	7.5
Total	5.7	9.8	12.5	8.6

Note:

- (1) Adjusted EBITDA is a non-IFRS measure that represents EBITDA (profit for the period plus tax, plus interest expense, plus depreciation and amortization) 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. The layout has been changed this quarter to reflect a more standard presentation for financial companies.

	30 September 2017 (unaudited)	31 December 2016 (audited)
	<i>(in millions of €)</i>	
Cash and cash equivalents	227.1	157.6
Placement with other banks	2.2	4.8
Gross receivables due from customers	720.7	665.1
Allowance for impairment	(165.0)	(171.2)
Net receivables due from customers	555.8	493.9
Net investments in finance leases	10.8	13.1
Loans to related parties	70.0	67.2
Property and equipment	10.6	12.3
Financial assets	8.6	10.6
Prepaid expenses	8.1	5.6
Tax assets	52.8	39.7
Intangible assets	44.0	39.8
Goodwill	43.4	43.4
Other assets	53.2	43.4
Total assets	1,086.5	931.4
Loans and borrowings	481.7	397.2
Deposits from customers	258.9	237.1
Deposits from banks	5.1	—
Corporate income tax payable	18.5	14.6
Other liabilities	63.6	47.5
Liabilities held for sale	—	4.8
Total liabilities	827.9	701.2
Share capital	35.8	35.8
Retained earnings	263.0	233.9
Reserves	(39.1)	(40.2)
Total attributable equity	259.6	229.4
Non-controlling interests	(1.0)	0.7
Total equity	258.6	230.1
Total shareholders' equity and liabilities	1,086.5	931.4

Assets

The Group had total assets of €1,086.5 million as of 30 September 2017, a 17% increase compared with €931.4 million as of 31 December 2016. The increase in cash mainly reflects the net proceeds of the US\$ bond issue and refinancing exercise conducted in the second quarter.

Loan Portfolio

As of 30 September 2017, the Group's net receivables equaled €555.8 million, compared with €493.9 million as of 31 December 2016, representing an increase of €61.9 million, or 13%. The increase was from growth in both online and banking consumer loans. The net receivables include €24.6 million from Friendly Finance and €209.7 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 now includes a summary of our overall loan portfolio, both online (funded outside of TBI Bank) and banking (funded by TBI Bank), showing gross and net receivables and performing vs non-performing classification. Additional reference information on the historic quarterly development of our online portfolio, 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 receivables in terms of performing and non-performing loans (i.e. those more than 90 days past due), including accrued interest.

Receivables	30 September 2017				31 December 2016			
	Gross Amount	Impairment allowance	Net Amount	% of Gross Amount	Gross Amount	Impairment allowance	Net Amount	% of Gross Amount
	<i>(in millions of €, except percentages)</i>				<i>(in millions of €, except percentages)</i>			
Online receivables								
Performing	311.1	(29.5)	281.6	63.1 %	274.7	(27.7)	247.0	58.0 %
Non-performing ⁽¹⁾	182.3	(117.9)	64.4	36.9 %	199.3	(129.9)	69.4	42.0 %
Online total	493.4	(147.4)	346.0	100.0%	474.0	(157.6)	316.4	100.0%
TBI Bank receivables								
Performing	204.0	(3.9)	200.1	89.7 %	170.3	(1.4)	168.9	89.1 %
Non-performing ⁽¹⁾	23.3	(13.7)	9.6	10.3 %	20.8	(12.2)	8.6	10.9 %
TBI Bank total	227.3	(17.6)	209.7	100.0%	191.1	(13.6)	177.5	100.0%
Overall receivables								
Performing	515.1	(33.4)	481.7	71.5 %	445.0	(29.1)	415.9	66.9 %
Non-performing ⁽¹⁾	205.6	(131.6)	74.0	28.5 %	220.1	(142.1)	78.0	33.1 %
Overall total	720.7	(165.0)	555.8	100.0%	665.1	(171.2)	493.9	100.0%

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 receivables by product.

	30 September 2017		31 December 2016	
	Amount	% of Portfolio	Amount	% of Portfolio
	<i>(in millions of €, except percentages)</i>			
Online performing receivables by product:				
Single Payment Loans	204.4	65.7 %	190.8	69.5 %
Instalment Loans	101.1	32.5 %	81.0	29.5 %
Line of Credit	4.7	1.5 %	2.9	1.1 %
Point of Sale Loans	0.9	0.3 %	—	—%
Total online performing receivables	311.1	100.0%	274.7	100.0%

Online non-performing receivables

As of 30 September 2017, the Group's non-performing⁽¹⁾ online receivables were €182.3 million, a decrease of €17.0 million, or 9%, since 31 December 2016. Given the mostly short-term nature of the Group's online lending, the majority of loans issued during a reporting period are repaid prior to the period end, while non-performing receivables are generally accumulated for 730 days. For this reason, the Group calculates a NPL/loans issued ratio for the online business, as shown in the table, alongside the standard gross NPL ratio, which was 37% for the online portfolio as of 30 September 2017.

The Group's policy is to write off any online receivables which have been overdue for more than 730 days, reflecting the length of its collections cycle. The Group accrues interest whilst it is probable it will be received (typically up to 90 DPD for instalment loans). Non-performing accrued interest represented €12.9 million, or 8.4%, of the online NPLs. Penalties and delay fees are not accrued as receivables and are only recognised as income when payment is received.

(1) Non-performing receivables (NPLs) – Receivables that are over 90 days past due.

The following table sets out an analysis of the Group's online NPL receivables by product.

	<u>30 September 2017</u>	<u>31 December 2016</u>
	<i>(in millions of €, except percentages)</i>	
Non-performing online receivables by product:		
Single Payment Loans	130.5	149.6
Instalment Loans	49.6	48.8
Line of Credit	2.1	0.9
Total non-performing online receivables	182.3	199.3
Allowance for NPL receivables	117.9	129.9
Allowance for NPL receivables / non-performing receivables	65 %	65 %
Overall allowance / NPL coverage ratio	81 %	79 %
Value of online loans issued ⁽¹⁾	2,324	2,133
Ratio of online NPLs to value of online loans issued	7.8%	9.3%
Average Loss Given Default rate	55 %	57 %

Notes:

(1) The value of loans issued as of a particular date represent loans issued for the two-year period before commencement of the 90 day past-due period. For example, the applicable period for the 30 September 2017 reporting date is 1 July 2015 to 30 June 2017.

Other assets

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

	<u>30 September 2017</u>	<u>31 December 2016</u>
	<i>(in millions of €, except percentages)</i>	
FX hedging - funds on margin	14.0	—
Investments in associates	11.7	2.1
Non-current assets held for sale	7.5	8.6
Receivables from suppliers	6.4	5.5
Security deposits	1.7	1.7
Derivatives	0.2	11.2
Other non-customer receivables	11.7	14.4
Total	53.2	43.4

Liabilities

The Group had total liabilities of €827.9 million as of 30 September 2017, compared with €701.2 million as of 31 December 2016, representing an increase of €126.6 million. Liabilities increased mainly due to the US\$ bond issue and refinancing as well as increased customer deposits at TBI Bank.

Loans and borrowings

As of 30 September 2017, the Group had loans and borrowings of €481.7 million, compared with €397.2 million as of 31 December 2016. The Group's loans and borrowings accounted for 58% of total liabilities as of 30 September 2017 and 57% of total liabilities as of 31 December 2016. The following table sets out the loans and borrowings by type as of the dates indicated.

	<u>30 September 2017</u>	<u>31 December 2016</u>
	<i>(in millions of €)</i>	
4finance Notes	472.5	376.3
TBI Bank	2.7	3.5
FF Notes	0.0	2.8
Loans from bank	0.2	0.2
Other ⁽¹⁾	6.3	14.4
Total loans and borrowings⁽²⁾	481.7	397.2

Notes:

(1) 'Other' consists primarily of loans to Friendly Finance.

(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.

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.

In November 2015, Friendly Finance Poland issued PLN 15.0 million of 10% Notes due in May 2018. These were fully repaid in August 2017.

Customer deposits

As of 30 September 2017, the Group had total customer deposits of €258.9 million. Banking operations contributed €244.1 million in deposits at an average cost of approximately 2% with the balance from 4spar in Sweden at an average cost of 8%. 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.

	<u>30 September 2017</u>	<u>31 December 2016</u>
	<i>(in millions of €, except percentages)</i>	
FX forward hedging liability	11.4	-
Accrued expenses	14.5	12.4
Accounts payable to suppliers	11.5	11.8
Taxes payable	5.4	5.7
Provisions for unused vacations	1.8	2.2
Other liabilities	19.0	15.3
Total	63.6	47.5

Equity

As of 30 September 2017, the Group's total equity amounted to €258.6 million, compared with €230.1 million as of 31 December 2016, representing an increase of €28.5 million, or 12.4%, which was mainly attributable to profits generated, less the dividend paid in July. The Group's equity to assets ratio as of 30 September 2017 was 24%. This reflects the significant increase in assets of the Group (for illustration, the equity to assets ratio excluding TBI Bank as of 30 September 2017 was 35%, comparable with prior periods). The equity to net receivables ratio as of 30 September 2017 was 47%, reflecting the Group's strong capitalization which gives significant headroom to bond covenants.

Off-Balance Sheet Arrangements

The Group's total off-balance sheet commitments as of 30 September 2017 were €14.9 million. This includes TBI Bank's undrawn lending commitments of €10.8 million and financial guarantees €0.7 million as well as €3.4 million in connection with the Group's online portfolio (line of credit 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

The table below sets out the Group's condensed consolidated statement of cash flows.

	9 months to 30 September	
	2017	2016
	<i>(in millions of €)</i>	
Cash flows from operating activities		
Profit before taxes	49.5	62.6
Adjustments for:		
Depreciation and amortization	6.4	3.2
Net gains on FX	(24.8)	(3.4)
Impairment losses on loans	96.9	75.9
Write-off and disposal of intangible and property and equipment assets	1.5	0.8
Provisions	(0.4)	(0.2)
Interest income	(6.8)	(4.9)
Interest expenses	45.5	26.2
Equity-settled share-based payment transactions	—	1.5
Profit or loss before adjustments for the effect of changes to current assets and short-term liabilities	167.8	161.7
Adjustments for:		
Increase in loans due from customers	(158.9)	(80.2)
Proceeds from sale of portfolio	33.3	15.7
Net increase in deposits from customers	26.5	11.2
Deposit interest payments	(3.1)	(0.9)
Increase in other assets (including TBI statutory reserve, placements & finance leases)	(43.1)	(49.1)
Increase in accounts payable to suppliers, contractors and other creditors	9.0	12.3
Acquisition of non-controlling interest	—	(2.0)
Gross cash flows from operating activities	31.6	68.7
Corporate income tax paid	(22.0)	(20.1)
Net cash flows from operating activities	9.6	48.6
Cash flows used in investing activities		
Purchase of property and equipment and intangible assets	(12.8)	(17.8)
Loans issued to related parties	(0.6)	(42.6)
Loans repaid from related parties	2.3	11.0
Interest received	1.0	1.1
Allocation for potential acquisition	—	(6.6)
Acquisition of subsidiaries, net of cash acquired	—	(61.4)
Net cash flows used in investing activities	(10.0)	(116.3)
Cash flows from financing activities		
Loans received and notes issued	299.9	118.2
Repayment and repurchase of loans and notes	(173.7)	(9.2)
Interest payments	(30.6)	(26.2)
Costs of notes issuance and premium on repurchase of notes	(19.2)	(2.3)
Dividend payments	(10.0)	(0.7)
Net cash flows from financing activities	66.5	79.8
Net increase in cash and cash equivalents	66.0	12.1
Cash and cash equivalents at the beginning of the period	137.0	56.9
Effect of exchange rate fluctuations on cash	1.0	0.2
Cash and cash equivalents at the end of the period	204.0	69.2
Minimum statutory reserve	23.0	17.0
Total cash on hand and cash at central banks	227.1	86.2

Net cash flows generated in operating activities in the Period was €9.6 million compared with €48.6 million in the same period last year, mainly due to greater loan portfolio growth. Net cash used in investing activities was €10.0 million in the Period, significantly lower than the prior year period. The Group's cash flows from financing activities reflect the proceeds from the new US\$ 2022 bond issue and the refinancing of all of its SEK 2018 bonds and part of its US\$ 2019 bonds.

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 nine months ending 30 September 2017 and the year ended 31 December 2016.

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

	30 September 2017	31 December 2016
	<i>(unaudited, in millions of €)</i>	<i>(unaudited, in millions of €)</i>
Interest Income	44.5	46.9
Interest Expense	(3.0)	(3.3)
Net Interest Income	41.6	43.6
Net F&C Income	7.7	4.8
Other operating income	0.4	0.0
Non-Interest Income	8.1	4.9
Operating Income	49.6	48.4
Total operating costs	(28.8)	(31.9)
Non-recurring income/(expense)	6.1	6.6
Net FX	(0.4)	1.6
Pre-provision operating profit	26.6	24.7
Net impairment losses	(8.4)	(5.9)
Pre-tax profit	18.2	18.8
Income tax expense	(2.6)	(2.1)
Net profit after tax	15.6	16.6

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, shown on page 8 of the report, the fair values assessed as part of the Group's updated goodwill calculation under IFRS are used, rather than the book values presented below.

	30 September 2017	31 December 2016
	<i>(unaudited, in millions of €)</i>	<i>(unaudited, in millions of €)</i>
Cash and cash equivalents	96.2	84.1
Placement with other banks	2.2	4.7
Gross receivables due from customers	229.7	192.4
Allowance for impairment	(17.6)	(13.6)
Net receivables due from customers	212.1	178.8
Net investments in finance leases	12.7	15.5
Property and equipment	6.0	6.5
Financial assets	11.9	9.6
Tax assets	1.0	—
Prepaid expenses	0.8	—
Intangible assets	1.3	0.8
Other assets	11.4	18.8
Total assets	355.5	318.9
Loans and borrowings	2.7	3.5
Deposits from customers	244.1	224.4
Deposits from banks	5.1	—
Corporate income tax payable	—	0.1
Other liabilities	13.5	11.5
Liabilities held for sale	—	4.7
Total liabilities	265.4	244.3
Share capital	41.7	41.7
Retained earnings	44.7	29.3
Reserves	3.7	3.6
Total equity	90.1	74.7
Total shareholders' equity and liabilities	355.5	318.9

Loan portfolio

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

	30 September 2017	31 December 2016	% Change
	<i>(unaudited, in millions of €)</i>	<i>(unaudited, in millions of €)</i>	
Consumer	180	144	25 %
SME (including financial leases)	63	65	(4)%
Total gross receivables	243	209	16 %
Provisions	(18)	(15)	21 %
Total net receivables	225	194	16 %

As of 30 September 2017, consumer receivables made up 74% of TBI Bank's gross receivables, up from 69% as of 31 December 2016. The overall receivables 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	8.7%	18.7%	11.3%
Provision coverage ⁽¹⁾	101.0%	21.7%	66.6%

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.

	30 September 2017	31 December 2016	% Change
	<i>(unaudited, in millions of €)</i>	<i>(unaudited, in millions of €)</i>	
Customer accounts of consumers	202	176	14 %
- Current accounts	17	13	33 %
- Term deposits	184	163	13 %
Customer accounts of SMEs	43	48	(12)%
- Current accounts	23	26	(14)%
- Term deposits	20	22	(9)%

The average interest rate paid on term deposits varies by type and currency, ranging from 0.6% to 2.5%. Customer deposits reduced slightly during the third quarter as deposit rates were lowered. The average remaining maturity of consumer term deposits is approximately 6 months.

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 30 September 2017. The capital ratios have improved since the year end following adoption of the 2016 audited profit as retained earnings. The decrease in capital and liquidity ratios during the third quarter reflects the increase in loan portfolio.

	Standalone	Consolidated
Common equity Tier 1 ratio	24.9%	24.1%
Capital adequacy	24.9%	24.1%
Liquidity ratio	40.8%	

HISTORIC QUARTERLY RESULTS

For ease of reference, a summary income statement and online loan portfolio, by quarter, since the start of 2016 is presented below.

Income Statement

<i>(in millions of €)</i>	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017
Interest Income	90.3	92.5	104.5	105.9	104.7	108.9	113.5
Interest Expense	(7.5)	(8.2)	(10.5)	(12.5)	(13.3)	(15.9)	(16.3)
Net Interest Income	82.8	84.3	94.0	93.4	91.4	93.0	97.2
Net F&C Income	—	—	2.1	1.1	2.0	2.4	3.2
Other operating income	1.4	2.1	1.5	1.8	2.2	2.3	2.4
Non-Interest Income	1.4	2.1	3.5	2.9	4.2	4.7	5.6
Operating Income	84.1	86.4	97.5	96.3	95.6	97.7	102.8
Total operating costs	(42.0)	(42.1)	(50.6)	(55.6)	(57.7)	(59.1)	(56.3)
Non-recurring income/(expense)	(0.2)	0.6	0.9	2.8	4.4	2.0	(0.6)
Net FX	0.9	(3.5)	(3.2)	(1.5)	(1.6)	0.9	(1.6)
Pre-provision operating profit	42.8	41.4	44.7	42.0	40.7	41.5	44.3
Net impairment losses	(22.9)	(22.7)	(20.7)	(23.5)	(23.7)	(23.3)	(30.1)
Pre-tax profit	20.0	18.7	24.0	18.4	17.0	18.3	14.2
Income tax expense	(3.2)	(4.3)	(5.9)	(4.4)	(4.6)	(4.6)	(4.5)
Net profit after tax	16.7	14.4	18.1	14.0	12.4	13.7	9.7
EBITDA	28.3	27.8	36.0	32.8	32.3	36.4	32.7
Adjusted EBITDA	29.8	32.3	39.7	35.6	34.9	35.8	36.3

Online loan portfolio (receivables, including accrued interest)

<i>(in millions of €)</i>	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017
Single payment loans							
- Performing	175.7	187.4	187.4	190.8	199.9	197.2	204.4
- NPL	129.0	145.0	157.7	149.6	148.3	143.1	130.5
- Total gross receivables	304.7	332.4	345.1	340.4	348.2	340.3	334.9
- Provisions	(94.0)	(104.4)	(115.5)	(119.7)	(118.0)	(113.9)	(105.4)
- Net receivables	210.7	228.1	229.6	220.7	230.2	226.4	229.5
- Provisions to gross receivables	30.9%	31.4%	33.5%	35.2%	33.9%	33.5%	31.5%
- Gross NPL ratio	42.3%	43.6%	45.7%	43.9%	42.6%	42.0%	39.0%
Instalment loans							
- Performing	87.7	80.3	80.3	81.0	82.6	87.9	101.1
- NPL	46.8	51.5	51.8	48.8	48.3	49.7	49.6
- Total gross receivables	134.4	131.8	132.1	129.8	131.0	137.7	150.8
- Provisions	(36.5)	(38.6)	(37.9)	(36.6)	(36.5)	(37.9)	(38.9)
- Net receivables	97.9	93.2	94.1	93.3	94.4	99.8	111.8
- Provisions to gross receivables	27.2%	29.3%	28.7%	28.2%	27.9%	27.5%	25.8%
- Gross NPL ratio	34.8%	39.1%	39.2%	37.6%	36.9%	36.1%	32.9%
Online receivables⁽¹⁾							
- Performing	264.2	269.4	269.7	274.7	286.2	290.1	311.1
- NPL	175.9	196.8	210.1	199.3	197.9	193.9	182.3
- Total gross receivables	440.0	466.2	479.8	474.0	484.1	484.0	493.4
- Provisions	(131.0)	(143.7)	(154.3)	(157.6)	(156.3)	(153.9)	(147.4)
- Net receivables	309.1	322.5	325.4	316.4	327.8	330.1	346.0
- Provisions to gross receivables	29.8%	30.8%	32.2%	33.3%	32.3%	31.8%	29.9%
- Gross NPL ratio	40.0%	42.2%	43.8%	42.0%	40.9%	40.1%	36.9%

(1) Includes Line of Credit and Point of Sale portfolios.

DEFINITIONS

Adjusted EBITDA – a non-IFRS measure that represents EBITDA (profit for the period plus tax, plus interest expense, plus depreciation and amortization) 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.

Adjusted interest coverage – Adjusted EBITDA / interest expense

Cost of risk – Annualised net impairment loss / 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

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 on 21/36 month window for single payment/instalment loans, reduced by costs of collection, discounted at weighted average cost of capital

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

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

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

Non-performing receivables (NPLs) – Receivables that are over 90 days past due

Non-performing receivables to loan issuance ratio – Non-performing online receivables / value of online loans issued. The value of loans issued represents online loans issued for the two-year period before commencement of the 90 day past-due period, eg for 30 September 2017: 1 July 2015 to 30 June 2017

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)

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 29 August 2017.

Changes in management

Mikah Martin-Cruz joined the Group as Chief Marketing Officer in September 2017. Mikah has over 20 years of senior marketing leadership experience across a wide range of industries. He has been CMO and Commercial Officer at Lebara Group and CMO at Microsoft. Mikah has worked also at Samsung, Sony, BT Retail and Warner Brothers.

Julija Lebedinska-Litvinova has joined the Executive Committee of the Group and taken on a broader role of Chief Risk Officer. Prior to this, Julija was Chief Credit Officer of the Group. Julija has extensive experience in risk management and analytics. She has worked at Home Credit and Finance Bank in Russia, Home Credit Bank Belarus, Klarna AB and GE Money. Stephen Buechner resigned for personal reasons in September 2017.

Andrew Zeller joined the Group as VP Business Development and Strategic Alliances in November 2017. Andrew has over 20 years of experience at the crossroads of banking, business transformation, investment planning, strategy, and technology management. He was most recently Senior Vice President Corporate Development at TeamBank AG.

Petr Baron, Managing Director of TBIF Financial Services, Loukas Notopoulos, Regional Manager for Europe and the South, and Daniel Stenberg, Regional Manager for Scandinavia and Baltics, joined the Executive Committee of the Group in September 2017. Petr Baron has over 15 years of experience in executing banking strategic initiatives, digital transformation and business evolution and he has held CEO roles and multiple board positions in financial markets across Europe. Loukas Notopoulos has over 10 years of managerial experience in the finance sector. Before joining the Group in 2012, he worked at Polbank EFG and KPMG. Daniel Stenberg started his career at 4finance back in 2009 as founding Country Manager for Sweden. He has worked as an Asset Manager at various leading firms in Scandinavia.

As previously announced, Lado Gurgenidze was appointed as Chairman of Supervisory Board of 4finance Group S.A. on 1 October 2017. Following these changes, the membership of the Supervisory Board is as follows: Lado Gurgenidze (Chairman), William Horwitz, Nick Jordan and David Geovanis.

The Group has also changed its Luxembourg-based provider of corporate and board services to Centralis. Accordingly, their representatives Fabrice Hablot and Simon Bouaksa have replaced the previous Category A directors on the 4finance Holding SA board and the previous Category A management board members on the 4finance SA board. These changes are effective as of 20 November 2017.

Regulatory Changes

There have been no significant developments in regulation since the previous report.

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