4FINANCE S.A. [ECPLUS]

Moderator: Kieran Donnelly
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OPERATOR: This is Conference #: 5188498

Operator: Ladies and gentlemen, thank you for standing by and welcome to the 4finance Q3 2020 Results Conference Call. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session. At which time, if you wish to ask a question, you will need to press "star," "1" on your telephone keypad and wait for the automated message stating your line is open. For your information, this conference is being recorded.

Now I would like to hand the conference over to your speaker today, Mr. Kieran Donnelly. Please go ahead, sir.

Kieran Donnelly: Thank you and thank you, everyone, for dialing in this afternoon or this morning depending on where you are. Yes. My name is Kieran Donnelly. I'm the CEO of 4finance and I'm joined today by our CFO, Paul, Martin, the Chief Risk Officer, and James who is our Head of Investor Relations. If you had the opportunity earlier today, we made an announcement James is actually going to now take over from Paul as the Chief Financial Officer going forward on that. So James will be participating and help answering questions on the finance side of things.

I hope you've received the presentation and had an opportunity to look at it. We're going to start on page four. Just a bit of an evolution of 4finance, where we've gone through and it's been a journey of adapting to different market environments, different opportunities, different challenges and

throughout this time now for 12 years, the company has found a way to adapt to a changing environment both in terms of competition, regulation and macroeconomic factors which particularly were here in 2020.

So adapting to the new reality which has both regulatory and of course COVID implications to that. So I think the important thing is that with the onslaught of COVID, we have adapted, we've changed. We have more to do in this regard, but it's something that I think is in our DNA as we press forward.

Going on to slide five, I think it's important that we look at, yes, many things have changed, regulation, as I mentioned, the economic environment, capital markets, the new success of the buy now, pay later model, for example, in Europe and in other locations, but I think it's also very important to recognize what hasn't changed. So the customers in the subprime market are still there, they still need loans, they're still underserved. Consumers still value convenience and service and something that has always been a competitive advantage for 4finance.

We have extensive experience in addressing this market. We have a massive database of customers. You don't put that on your balance sheet, but it is a true value that we have in our business. And we have a team of people that understand how to monetize that experience, and our brands are very well recognized, very well known. In fact, it's actually quite amazing to see the staying power of those brands even when we back off on the marketing spend to see how that continues to serve us well. So yes, we have adapted, we have to continue to adapt, but the fundamentals and the opportunity are still there.

So what are we focused on now at this point in time as we go forward? We need to optimize the core subprime business. I think there's been a lot of attention paid in the past, in the recent past to moving into the near-prime business which is still something we're focused on, but given the market environment and things changing, we have to also kind of pay attention to the – to the existing business, the subprime business.

And that means optimizing it as far as exiting some markets like in Argentina, Armenia, Finland and Slovakia, maximizing the growth opportunity in the remaining core markets, right-sizing our infrastructure and our cost base. The headquarters that we needed to manage a business, which at one point had as many as 18 countries, is much different than a country which essentially if you are looking at nine countries including the TBI two countries.

So a much smaller infrastructure and cost base is what we're driving towards and we've made a lot of progress on that. That started earlier in this year with the beginning of COVID, but it's accelerated and we still have more work to do there and we have plans to do that.

We also, in this process, are trying to streamline the decision processing so that we can move faster be more nimble. Again, as a smaller organization, we have to be more nimble and that's something that we're also focusing on, which I think kind of gets back to the heart of what 4finance – its origins and start is an entrepreneurial spirit that looks for opportunities and optimizes them.

So on the near-prime business that we have, what we're really working on is making sure that this business is powered by TBI Bank. TBI Bank is near-prime business, What we know and have learned from TBI, we make sure we incorporate that to the near-prime business we're doing outside of the TBI perimeter and also much more cooperation with TBI on just the whole approach to that business and importantly the funding of that business.

So the deposit funding that TBI has, it's low cost, sustainable and a lot of work has been done on the ability to have portfolios originated in the online segment of the business and then sold over to TBI Bank, making use of that balance sheet and that funding platform that we've worked a lot on is an important value that we have going forward.

So I mentioned subprime. I'm on slide seven. Sorry if I've lost you there. As we mentioned, we are well positioned in our core markets, but there's important things. In Poland, there has been an impact on revenue due to regulatory change, but what's also quite interesting is that our market share

has increased over this year and our market share is in the mid 40s at this point. We do have a profitable product as it is with the regulations where they are. There is potential upside there, but we're not counting on that in our projections and in our planning going forward.

In Spain, we took a very conservative view on the onset of COVID to really curtail our lending activities. We did lose market share because of that conservative view. I don't think we regret that view, but now we're working hard to re-establish our market position, our market leadership and also to make sure our product is adjusted to the new realities of what customers are looking for on that side.

Denmark as well, we have a regulatory change, a new product. The new product so far is gaining momentum and we're happy with the unit economics and what we need to do now is regain scale and again, this is an example where the power of our brand is something that's really going to help us get back.

Czech Republic performs well and we have an opportunity to grow there, especially in the installment product. This is not a near-prime installment product. It's more of a subprime installment product that we're talking about.

Our original countries. Latvia and Lithuania, continue to work well as we go forward and the new product format, a minimum-to-pay product, is, again, serving us well and speaks to all of the ability that the team has to evolve and kind of roll with the punches of what the market is throwing with us.

In Sweden where we had a subprime product for a long time, we pulled back to just doing loans to returning customers. We're looking now at the opportunity – especially given the competitive landscape has changed and become much more open, the opportunity to redesign and to do new customer subprime lending in Sweden is something that we're looking to begin again over the next few months.

So we mentioned near-prime and I think the important thing here in near-prime is that we're growing it in line with the ability to fund it from TBI Bank. So we are priming the pump by making the loans on the 4finance part of the

balance sheet to get it started, but then looking to move those loans over to TBI through either the passport that they have or other secured transactions that we're looking at. So this is something that's growing, it's growing nicely, but I think we're doing it in a very controlled and very well paced manner.

Kind of a quick operational view. I don't want to dwell on too much so we have more time for your questions, but I'd like to ask Paul if he can go through the financial summary.

Paul Goldfinch: Thank you, Kieran, and good afternoon to everybody who's joined the call today. I will now present the financial results for the group for the third quarter of the year and if we move now to slide 10. We've seen our core business stabilize in the third quarter with volumes in all our major online markets continuing to improve with quarterly issuance being up 33 percent over the prior quarter.

TBI issuance across both consumer and SME has also increased by 30 percent in the quarter and also against the prior year comparative by some 10 percent. We've also seen corresponding increases in interest income in the majority of our core markets, but these have been somewhat mitigated by reductions in income and markets which we're in the process of exiting, such as Argentina, Armenia and Finland, or that have been impacted by regulation, such as Denmark. The net result, therefore, is a stable level of interest income at just over €70 million for the quarter.

We've also seen a further positive impact from the cost reduction measures we took in early Q2 for the further €3 million reduction in operating costs in Q3 despite a quarterly increase in marketing of €2.5 million. Now, our impairment charge for Q3 was also down a further 19 percent on the prior quarter and reflects the strength of our underlying credit scoring and processes and is a strong metric in the context of the ongoing pandemic.

Our adjusted EBITDA for the quarter totaled €19 million which is some €9 million up on the prior quarter and in the context of flat top line income, we're satisfied with this result. The group continued to generate strong operating cash flow in the quarter and we used the opportunity to further reduce our

leverage by purchasing just over $11 million notional of our U.S. dollar bonds across Q3 and October.

We continue to see an improvement in the overall risk performance of our loan book and the resumption of debt sales and improved pricing has contributed to a material reduction in our NPL ratio and Martin will cover this topic in his detailed section shortly.

If we turn now to slide 11, we've again included a slide in the presentation which shows the latest trends and loan issuance up to and including October, the last completed month. As we can see for our active markets, loan issuance is back at pre-COVID levels and trends in both new and returning customer acceptance rates are also positive and in terms of interest income, as I stated earlier, we're seeing a good recovery in many of our markets, but this is somewhat offset by the reducing income coming from products which are in the process of being wound down.

We turn now to slide 12 which gives the geographical breakdown of the group's interest income. TBI's continued strong performance in both its key markets of Bulgaria and Romania throughout the year have seen their share of interest income further increased to 29 percent, whereas the impact of COVID and regulation over the last two quarters in Poland and Spain have seen their combined share of income fall to around 40 percent and the contribution from the Nordics and Baltics continues to remain stable at just over 20 percent.

Turning to slide 13 which gives a quarterly breakdown and development of our operating cost base. The impact of the cost reduction measures within the online business can clearly be seen on the graph on the right-hand side of this slide with spend in this area of the group being down 12 percent in the quarter and 33 percent year-on-year and these quarterly reductions are net of severance costs during the period of slightly under €1 million and the quarterly increase in marketing spend in key markets of €2.5 million.

And reducing the size of our overall cost base remains a key priority for the group as we approach year-end and we'll further right-size our HQ and IT cost bases to the reduced number of markets going forward and we'll also be

continuing to ensure we implement the most cost efficient mechanism in the markets which we're in the process of exiting.

We flip now to slide 14 which lists our key performance indicators and while the profitability metrics continue to be impacted by the pandemic in the third quarter, we continue to maintain good headroom on the equities to receivables ratio which is a healthy 30 percent, stable with both the prior quarter and the prior year comparative.

Our adjusted interest coverage metric on a 12-month basis is, however, now below the covenant minimum of two times and as outlined in our quarterly report which we issued last Friday, the covenants are on an incurrence rather than a maintenance basis. So the ratio being below the minimum two times level only restricts certain actions, such as dividends.

Turn now to slide 15 and we look at the progress we've made in terms of funding. As I highlighted earlier, we continue to generate strong operating cash flow throughout the third quarter and even after further bond buybacks in recent months, we maintained around €90 million in cash within the online business as at the end of October and TBI has also successfully increased its deposit levels in the quarter and continues to maintain very strong liquidity ratios.

We remain fully ready to commence portfolio sales of installment loans from Lithuania to TBI bank, pending the approval of our passport application from the Bulgarian National Bank. We have maintained a healthy capital position in the group with the equity to net receivables ratio at 30 percent and TBI continues to be very well capitalized with its consolidated capital adequacy ratio rising to over 20 percent following the adoption of 2019 retained earnings into its capital base.

And if we go on to slide 16, our online loan issuance in the third quarter totaled €185 million, 33 percent up on the prior quarter with TBI loan issuance of €95 million also up 30 percent over the prior quarter. The overall level of net receivables has also increased by 8 percent in the quarter with the split in the portfolio between TBI and online remaining reasonably stable.

Now I ask Martin, the Chief Risk Officer, to take you through the remaining more detailed slides in terms of asset quality and the dynamic of our impairment charge.

Martin Muransky: Thank you, Paul. Good morning or good afternoon to everyone on the call. Let us look at risk performance for the third quarter of the year. We'll begin with slide 17 to comment first on the cost of risk in the period. The net impairment result for the third quarter of 2020 reached €21.1 million, showing a continued downward trend in impairment since the start of the year, being some 19 percent lower quarter-on-quarter and respectively 34 percent lower when compared to the same period in 2019.

The figure was composed of €27 million of gross impairment charges and other record low results influenced by both somewhat reduced new originations and commensurately lower portfolio levels as well as very stable risk and collections performance during the period, despite the ongoing uncertainty and raising growth of COVID transmissions towards the end of the quarter in most countries of our operations.

Impairment within the quarter developed according to our expectations, although the situation in Armenia was negatively impacted by the armed conflict there. We had also a net debt sale gain of €3.1 million, reflecting the debt sale activities in the quarter returning to business as usual levels.

During the quarter, we managed to successfully renegotiate our existing as well as new forward flow sales transactions and have executed a number of planned spot-debt sales, both of which reflect well the revived interest of our traditional partners in continued regular debt sales. And finally, we had €2.8 million in recoveries from written-off assets, a stable quarterly result.

The net impairments attributable to the COVID-19 pandemic for the first nine months of 2020 totaled around €10 million, representing an unchanged 12 percent of the total impairment for this period and respectively 13 percent of the impairment charge for the third quarter of 2020. The additional impairments during the third quarter booked in relation to the pandemic have been mostly influenced by Armenia and to a smaller degree TBI.

The net impairments to interest income ratio for the first nine months of 2020 grew to 33.2 percent versus 29 percent in the same period of 2019, influenced by the decrease in interest income versus the prior year despite the level of impairments maintaining a decreasing trend since the beginning of the year. The ratio has improved quarter-on-quarter, though.

The overall cost of risk improved quarter-on-quarter, in total 15.2 percent versus 17.3 percent in the prior year period. For the online business, the cost of risk was 26.6 percent compared to 27.6 percent a year ago, while in TBI Bank, it was at 5.2 percent for the period compared to 4.3 percent in the prior year. The positive development in the cost of risk is attributable to both the growing share of near-prime lending, inclusive of TBI Bank, in the overall portfolio as well as a very stable risk and collection performance during the period.

As mentioned before, the risk performance remained solid during the third quarter of 2020 and we continue to monitor the performance of our products across all countries very closely.

Towards the end of the quarter, another increase in COVID-related transmissions was occurring, signaling a second wave of the pandemic, which most countries started to react to by reverting to a number of restrictions to both economic and social life. We will thus maintain a close watch on both risk and collections performance and act proactively to any relevant developments.

Let us flip now to slide 18 and cover the non-performing loans in the quarter. The overall NPL ratio as of September 2020 totaled 19.9 percent versus 20.7 percent in December 2019, whereas the ratio in the online segment decreased slightly to 24.4 percent versus 24.9 percent at the end of 2019. Asset quality remained stable in the period, whereas the resumed debt sales process contributed positively to the development of the NPL ratio in the third quarter, visible in the graphs here and also through the reduction of the non-performing stock when compared to the balance seen in December 2019.

The NPL ratio in TBI Bank also remained very stable at 16.6 percent in September versus 16.2 percent at the end of the last year. The total provisioning coverage on group level remained solid at around 20 percent with a strong total non-performing loan coverage ratio of around 100 percent and respectively 121 percent for the online segment only. The NPL coverage for TBI remained at around 77 percent, a satisfactory figure given the business banking part of TBI Bank's portfolio being well collateralized with conservative loan to value levels.

I will be turning now to slide 19 to look at the repayment rate dynamics and collection performance. For the third time in a row now, we share on this slide an insight into our very recent debt collection performance in online lending, illustrated in the charts for both single payment loans as well as installment loans and later inclusive of near-prime lending and showing, thus, the cumulative month-to-day payment dynamics observed across both products.

Similarly to the previous quarter, also within the number of recent months, we have seen a very good development in payment dynamics across all our markets, including TBI Bank with the collection performance reaching levels similar or better than those a year ago or prior to the onset of the pandemic in the spring of this year.

The various payment holidays, including government moratoria, have been all ceased during the third quarter of 2020 or shortly afterwards. The support provided by us to customers whose plans have been disrupted by the pandemic with early and proactive measures have also been finished and momentarily there is next to no take-up of such instruments.

To-date, a vast majority of the customers who took up either our own proactive measures or the government-specific programs are already out of the deferral period and we are happy to see insofar no adverse effect in performance when compared to the rest of the portfolio, in particular in the markets like the Czech Republic for our online business or Bulgaria and Romania for TBI Bank where the share of the programs, both internal and governmental, have been the highest.

We stayed proactively in touch with all customers with deferral schemes during the payment holiday period and this has helped in a smooth transition process at the end of the moratoria and an orderly continuation of debt repayments.

The second wave of the pandemic has been so far not influenced detrimentally our customers' repayment capabilities, whereas, in many countries, existing as well as new government support and relief packages are in place to help consumers and businesses alike to cope with the negative effects of the growing COVID transmissions. On the other hand, there are momentarily no clear signs to reintroduce government deferral programs or a moratoria.

This covers the summary on the risk and collection performance for the first nine months of 2020 and now we'll hand it back over to Kieran again.

Kieran Donnelly: Thanks. Thanks, Martin. So just to wrap up before we open up for Q&A. So we've had a very proactive response to COVID-19 across the business with, as it says here in the slide, good results, I would say very good results. The team did a fantastic job of adapting the operations to homeworking. The focus on risk management, but at the same time keeping the door open I think was quite prudent and particularly served our returning customers well.

The strong repayment dynamics, I think the risk experience we've had on the back of the whole pandemic has been much better than any of us expected and the collections and the payment discipline of the customers has been very strong and we've seen a big bounce second quarter versus third quarter, as you can see in the results, and that's something that's very encouraging because it was very much still in the grips of the pandemic while that was going on.

We are taking necessary steps to adapt to the new reality. While you saw there has been a lot done on reducing costs and things, there's more to do, more we have planned to do on streamlining our footprint, focusing on key markets, right-sizing the cost base, optimizing the subprime business and I think there's some great opportunities we have there because, in many cases, smaller players in the market have stepped back from the market and that gives us opportunity to serve customers.

So even if the margins might be lower on a unit economics basis, on a economy of scale basis, it gives us opportunity to grow our revenues. We're definitely over time have become more and more – for those of you who remember, I was the CEO when TBI Bank was acquired and it's nice to see the alignment that has grown over time and we continue to push forward with that alignment with TBI Bank to power the growth of our near-prime business.

We do have a solid balance sheet. We have high liquidity levels, both in the bank and in the online part of the business. We have done significant bond buybacks, reducing our leverage. I'm very grateful for both the management team that managed the extension of the euro bonds, but also for the great support from the bondholders at the time of the pandemic to extend the maturity of the bond.

So now we have the rest of this rest of this year and then of course into 2021 to stabilize the business and perhaps see a more normalized world environment with these vaccines coming out and we've done, I think – with James's help and with all of your cooperation, I think we've had a very good working relationship with the bondholders and we hope to keep up this level of communication and cooperation as we go forward.

So with that, I'd like to open up for questions and please don't hesitate and we'll see who's the best placed person on our team to answer the question for you.

Operator: Thank you. Ladies and gentlemen, we now begin the question-and-answer session. If you wish to ask a question, please press "star," "1" on your telephone keypad and wait for the automated message stating your line is open. Please state your first and last name before you ask your question. If you wish to cancel your request, please press "star," "2." Once again, please press "star," "1" if you wish to ask a question. We are now taking our first question. Please state your first and last name. Your line is now open.

Otto Dichtl: Hello. My name is Otto Dichtl from Stifel Nicolaus. I just wanted to ask about the covenant breach on the interest cover ratio. Maybe you could just

comment a little bit more what the outlook for that is going forward. I mean, what needs to happen to get that back into compliance and sort of what are the prospects for that? Thank you.

Kieran Donnelly: Thanks, Otto. I think James perhaps is best place to take a crack at that one.

James Etherington: Hi, Otto. Thanks for dialing in and thanks for the question. Yes. You're right that we're below the threshold level, I would call it, for that incurrence level. It's not sort of a breach of a covenant of any kind. There's no maintenance covenants in the bonds. It's more that if we want to do certain types of actions, Paul mentioned dividends, I think also incurring additional debt in certain ways, then we have to meet those tests.

And currently we're just a fraction below the interest coverage ratio, but it doesn't have any impact on the day-to-day running of the business. So it's only certain actions we're can't do. I would say that also if there's a transaction or something which improves those ratios as well, we're also allowed to do that. Obviously if it's something that's beneficial to a metric that's important to bondholders, we can do that.

Maybe on the outlook side, obviously it's something that we do want very much to get back towards being above that two level, but that's something that may take some time through next year. I hope that covers it.

Otto Dichtl: Yes. Thank you.

James Etherington: Great. Thanks, Otto.

Operator: Thank you. We are now taking our next question. Please state your first and last name. Your line is now open.

Samir Atassi, Level 88 Capital: Yes. Hi. Thank you for taking my question. I have a couple actually. First one is if you could discuss the origination and collection trends in October-November given that some European countries reimposed some restrictions and the second part of that question is how do you see the trends in Q4 interest income versus Q3? And also generally, when do you

think or when do you see origination and interest income returning to pre-COVID levels?

Kieran Donnelly: OK. I think Martin can take the first part of that question and then after that, we'll address the second part.

Martin Muransky: Yes. Thank you for the question. We have not really seen any change in the collection performance in October or November, as I said, despite the fact that we have seen an increase in COVID transmissions in many of our markets and somehow the performance of our customers seem not to have been impacted insofar.

Since we have had the same situation already in the spring, the development of the repayment rate dynamics has remained very stable and as also mentioned during the main part of the call, actually performance has been slightly better than the pre-pandemic period. Hope this answers your question.

Samir Atassi,
Level 88 Capital: And on the origination side, do you see the same similar trends to Q3?

Martin Muransky: On the side of the originations, we have seen a steady return of growth in most of our markets. Yes, there is still, in some of them, slower demand, but we have been outperforming also in certain markets and territories our competitors, and managed well to reach the results that we have been seeing already in the periods preceding the pandemic. So unless the second or the third wave that is now being anticipated gets combined and worse in performance insofar the level of originations have been quite good I would say.

Samir Atassi: Thanks. Sorry. And what about the sort of where do you see the trends going forward in terms of returning to the kind of origination level sort of pre-COVID and going forward just generally?

Kieran Donnelly: Well, I think that it's very difficult to project where things are going at this point in time. I think right now, a lot of countries are in lockdown or about to come out of lockdown. I think in the U.K., for example, they've mentioned that they'll come out of lockdown next week. Other countries are in various levels of lockdown.

On the other side, there's very good news coming out regarding vaccines. The Oxford vaccine, for example, the news came out yesterday. So I think there is a lot of reasons to be hopeful, but to put precise timing on when those things are going to come back, it's very difficult to do. I would say this – we're very prepared for the moment when those things come back and we're very much looking to make sure that, in the meantime, we control our costs as we remain prepared.

Samir Atassi, Level 88 Capital: Understood. I just have one quick one on the bond buybacks if you don't mind. So are you looking to continue to do the bond buybacks? Do you have any particular target amount that you're looking for?

Kieran Donnelly: We don't have a target amount that we're looking to do. We're obviously managing our liquidity as effectively as we can and looking for opportunities we have to make sure that there's the long-term or even medium-term investment in growth of the business that we need to ensure we're also looking after. So we don't have a specific plan. It's more opportunistic and looking as cash builds up, as people pay back, as things stabilize, that dictates the opportunity that we have that we look to do.

Samir Atassi, Level 88 Capital: OK. Great. Thank you for that.

Operator: Thank you. We are now taking our next question. Please state your first and last name. Your line is now open.

Nik Dimitrov: Hi. Good morning. Nik Dimitrov, Morgan Stanley Investment Management. I have three questions and the first one is more general. So if I remember

correctly, the old strategy was to reposition 4finance up in credit quality as a near-prime lender and now it seems like some of the focus is shifting back to the subprime segment.

So I was wondering whether – how we should think about 4finance going forward, whether you are planning on ramping up subprime lending and kind of backtracking a little bit on that kind of original vision of turning 4finance into a near-prime lender and if not, then what's the idea about ramping up subprime lending? So that's the first question and I'm going to have – I'm going to have two or three other questions.

Kieran Donnelly: OK. Well, why don't we take them – take them one at a time so we don't forget or lose track?

Nik Dimitrov: Sure.

Kieran Donnelly: So on your first question, I think it's just a question of attention and focus rather than any major shift in strategy and I kind of make the analogy to kind of new prime: the near-prime business is kind of the new baby that everyone was paying attention to and the older child is there still needing some attention.

So it's just a matter of saying that there is a real opportunity for us existing in the subprime business. There's no reason for us to ignore that opportunity. It's cash generative and it's sustainable and so we just want to make sure that our story is more balanced. I think there's actually no actual change in the focus on the near-prime business. We're just pointing out that there is still important opportunity in the subprime side.

Nik Dimitrov: OK. OK. Got it. Regarding revenues, so obviously you've increased origination as the economies are reopening. Now there's probably a bit of a backtrack as there's new rounds of lockdown measures, but I was looking at your revenues in Q3 versus Q2 and they've been fairly flat. I was wondering whether you can give us guidance for revenues in Q4. I think this is – this question is related to some of the questions that the other investors were asking.

Kieran Donnelly: I don't think it's possible to give precise guidance at this point …

Nik Dimitrov: OK. Yes. Of course.

Kieran Donnelly: … on the fourth quarter because, again, how is the rest of November, how is December going to play out? It's going to be very, very interesting to see how December is going to play out for all of us on that side of things, but I think if you can kind of get an idea a little bit of where things are going. As Martin had mentioned before, Martin has mentioned that the origination thus far in the first month is going on. We have good results in Poland and in Czech Republic despite wave two.

So I mean, we remain optimistic that the fourth quarter numbers on the revenue side should come in. They're growing month-on-month, but still we're going to want to wait and see.

Nik Dimitrov: OK. OK. Looking at TBI Bank, right? Do you have an idea what is the amount of capital that is currently trapped there, which, under normal circumstances, you would have upstream to the holding company?

Kieran Donnelly: James, would you like to answer that question?

James Etherington: Yes. Sure. Hey, Nik. Thanks for dialing in. So it's a topic we've touched on in the past. I guess I think in terms of – you used the word "trapped" there. Obviously we would normally have expected to have a dividend from TBI …

Nik Dimitrov: Yes.

James Etherington: … in this calendar year, 2020, right. The TBI business continues to perform very well and is very profitable and obviously we've been unable to make that dividend payment so far, but we do expect those to resume again next year in 2021 and that's an important contribution that TBI brings to the online business. I wouldn't say that capital is trapped there other than that dividend technicality, but it's clearly a valuable asset for the group which has nearly doubled in book value since we bought it a bit over four years ago. So we do think it's got important financial and strategic benefits for the group.

Nik Dimitrov: Right. But you don't quantify, let's say, the dividend capacity under normal circumstances is – I don't know – €30 million, right? Would you do that or …

James Etherington: I think if you look to next year, when you bear in mind that we weren't able to pay during this calendar year, we should be in a position, regulatory side and everything being willing, to pay something in the order of €10 million to €15 million probably in second quarter of next year. So we should see that cash come up assuming the regulations permit, and still be able to grow the business there.

Nik Dimitrov: OK. OK. That's important. Thank you. Since we were talking about TBI Bank, considering the still material amount of loans that are in forbearance programs, can you provide some information in terms of getting a better visibility how this book will perform when the deferral period is over? I mean, right now it seems like asset quality is a little bit understated because of the forbearance measures and I'm just trying to kind of get an idea which way things are going to develop once before deferral period starts expiring.

Kieran Donnelly: Yes. It's a good point. Martin, would you like to respond, please?

Martin Muransky: Yes. Absolutely. Thanks for the question. I said before both the proactive deferral programs as well as the government moratoria programs are over in both Bulgaria and Romania and actually the vast majority of customers are out of both the internal as well as the government programs and what we have seen so far – and most of them actually came out already in the period of September-October and what we have seen so far is performance very well comparable to the rest of the portfolio.

So as said prior to your question on the call, we did not see any negative trends, so therefore there is no expectation of worsening of the performance since the customers are already out of the moratoria programs.

Nik Dimitrov: OK. And you don't think that there is a bit of an adverse selection in the way that the guys that could afford to get out of the program and go back to their regular repayment schedule already did that and the guys that are still struggling are probably still in the program? Do you think that there's something like this going on or not necessarily?

Martin Muransky: Not necessarily, since, as said, only a smaller portion of the customers that entered the programs were entering the government moratoria, while more than two-thirds of the customer base have been offered proactive measures which were done on a selective basis. So looking both at past performance, credit history and experience with them and trying to also estimate the capability to repay after a period of break in their regular installments.

And this has helped, I would say, tremendously to ensure that the transition from the moratorium period to the post-moratorium and continuation of the debt repayment went very smoothly. Plus, of course, this was also covered by additional efforts and staying in touch continuously with all of the customers in the programs through collections.

Nik Dimitrov: Got it. One question on the covenant. Have you been in conversations with the rating agencies about any potential implications of what happened?

Kieran Donnelly: James, would you like to field that one, please?

James Etherington: Yes. Sure. Hey, Nik. Yes it's certainly something we've discussed with the agencies, but I think they understand well that it is not – again, just to sort of repeat, it's not a maintenance level of any kind, it's not actually a covenant requirement of any kind to be above that level. It's purely just if we want to do certain actions, again, like a dividend or incurring debt – additional debt, I should say - in certain ways that we have to meet those tests.

But we've discussed that with both of the agencies, we had our annual meetings with them recently and I think they understand that dynamic well as well.

Nik Dimitrov: OK. And my last question is going to be on your strategy to refinance the two euro bonds. I know we are talking about 2022 and the hope is that the operating performance is going to rebound and markets are going to reopen and it's going to be a much nicer world, but I was wondering whether you're already thinking about strategically playing or kind of how you think about refinancing those two bonds, right?

Considering the concentration that both of them are maturing within like a couple of months. I know you're nibbling away at the – at the dollar bond slowly. Hopefully that will continue, but I was wondering whether you're already thinking about 2022.

Kieran Donnelly: So of course we're thinking about 2022 and right now, I think the main thing for us to focus on in order to deal with 2022 is to focus on what we're doing today in order to be in a position to address the maturities in 2022 and I think part of that is that right-sizing and the cost control we're talking about. So we're not just hoping for the markets to rebound. Now, I think there is good reason and the way the world has changed, if you go back nine months, where we were, I don't think …

Nik Dimitrov: Yes.

Kieran Donnelly: … we'd be having a question about refinancing and given the developments and what's happening, it's very difficult to understand where the world's going to be in six months' time. As I said earlier, there's reason for hope, but we're focusing on what we can control and working hard on that in our day-to-day operations and we think that will put us in a position that we will be able to address those bond maturities in ample time.

Nik Dimitrov: OK. OK. Got it. Thank you. Thank you, gentlemen.

Operator: Thank you. We're now taking our next question. Please state your first and last name. Your line is now open.

Frank Oliver Lehmann: Yes. Good afternoon. It's Frank Lehmann here from Berlin, Germany. Just three quick questions. I saw that you did mention in the presentation that the tax situation in Poland is tough. What's the background to that question? If you could just help me out. I just picked that up.

Kieran Donnelly: Sure, Frank. Why don't I – James, you want to take that, please?

James Etherington: Hey, Frank Oliver.

Frank Oliver Lehmann: Hey, James.

James Etherington: Yes. Thanks for the question. Look, I think – and some people may be familiar that in the non-bank lending sector in Poland, this is a difficult area, because provisions typically are not tax deductible, right? So it just means that kind of structurally, the tax charge there in Poland is quite high. Then in addition, I think that it tends to be that with the Polish tax authorities - it tends to take quite a while, it can even be over several years, before things get kind of finalized and signed off. So I think it's nothing specific behind that, but just a general observation that structurally our tax rate is quite high in Poland and it's quite difficult to mitigate that effectively.

Frank Oliver Lehmann: OK. If I may, question number two. Situations like those where we have a big crisis like the pandemic and competitors are all in the same situation, they kind of need to reduce costs, looking for unit economics, et cetera, et cetera, have you ever looked at any M&A solution to your current situation in any way?

Is there anything that you would actively pursue or is the solution going to be 4finance in the online and the regulated bank being the two businesses which I assume will be there in one or two years or is there anything we can creatively find here or hear from you where there are options for your current situation? Thank you.

Kieran Donnelly: Well, thanks for that. Sure. I think we would be open to such a thing, but honestly, I don't think such opportunity exists.

Frank Oliver Lehmann: OK.

Kieran Donnelly: There might be some tiny, small thing to do, but it's not game-changing and the reason for that is if you look on the subprime side of things in the markets where we are and we want to be active, we have huge market share and the client base actually would be duplicated. So you're actually not acquiring new customers, just the same customer …

Frank Oliver Lehmann: Right.

Kieran Donnelly: … that was served from two different locations. So there are better ways for us to do that, right? And that side. So I don't think that that opportunity

particularly exists. If something did come along, maybe, but I think that's not likely.

Frank Oliver Lehmann: Thank you, Kieran. My third question would be, and I discussed that previous quarters before, it is obviously the case that you do have valuable portfolios in the online business and you have access to interesting priced deposits in the TBI Bank. Have you made massive progress here or have there been any significant transfers where the regulated bank became an owner of a portfolio originated on the online side?

Kieran Donnelly: James, would you like to answer?

James Etherington: Yes. Sure. Frank, look, you know that's something that we we would have liked to have moved faster on. I guess …

Frank Oliver Lehmann: Yes.

James Etherington: … in recent years we were able to successfully do the first sales a bit over a year ago now from our Polish kind of more subprime installment product over to TBI. We got the passport in place there, we got the IT platform and systems working. So I think we demonstrated that we could do that quite successfully and also not just move the portfolio once, but kind of also move additional amounts and things those customers took. I think it is fair to say that we would have liked to have been up and running with the Lithuanian near-prime product earlier than we have been. The passport process there with the national bank in Bulgaria and then over to Lithuania, that's a process which I think is taking a bit longer in the current environment, but obviously we respect that process and we're working through some questions and things there.

But we do hope very much to unlock those sales early in the new year and I think, as Kieran mentioned, really it'll be that ability to fund via TBI which is what drives the rate at which we can …

Frank Oliver Lehmann: Right.

Kieran Donnelly: … scale up that side of the business.

Frank Oliver Lehmann: And in volume wise, I asked previously is that going to be ever €50 million or so or more? And then I was told that this is more like €20 million, €25 million, €30 million if it works out well. Has that changed in any sense or are you shooting for bigger numbers on this asset transfer or is that about right?

Kieran Donnelly: Over time or in – over time or in one transaction?

Frank Oliver Lehmann: Well, no, not in one transaction. I think that's – but over time. Yes.

Kieran Donnelly: Well, as I think James stated, we're waiting on the Lithuanian passport to come through and that certainly has been delayed due to COVID with people working from home and for security reasons. If you work at the national bank, you don't have the same access to your systems as you do if you're in the office. So things have certainly been slowed down for that, but just in Lithuania alone, we will be able to do a good amount. I mean, I think we'll do at least €25 million next year just in Lithuania alone with the passport and then we have opportunity for upside from there.

Frank Oliver Lehmann: Right. OK. That's more than I remembered from the last calls. And my very final question. What's the minimum cash you would accept as a normal operating level in the online business? Seeing that you hold €90 million in cash right now, but you have not been maybe lending us actively in the last couple of months like in previous months, but what would be about the number you would like to have to be comfortable?

Kieran Donnelly: 35, 40-ish …

Frank Oliver Lehmann: OK.

Kieran Donnelly: … but probably that's kind of minimal but you don't want to run into minimal, so you throw 10, 15 million on top of that, kind of ballpark level.

Frank Oliver Lehmann: OK. Thank you very much, gentlemen, and a good fourth quarter. Thanks for answering the questions. Bye-bye.

Kieran Donnelly: Thank you for your questions.

Operator: There are no more questions on the line. Please continue.

Kieran Donnelly: OK. Well, thank you very much for the questions. They're always helpful for us, the questions. They help us think about the business and what the bondholders are thinking and obviously you're very important stakeholders. So thank you for that, thank you for your time and for listening and thanks to the team, guys, for your support and help. Have a great day, everyone.

Paul Goldfinch: Thank you.

Operator: That concludes the conference for today. Thank you for participating. You may all disconnect.

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