



iutecredit

Earnings Call Presentation H1 2020

July 2020

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Presenting

Experienced in Banking and Finance with strong self-made entrepreneurial track record



Tarmo Sild
Chief Executive Officer

- Co-founder of luteCredit
- Tarmo holds a Master's degree with distinction in Law from Vrije Universiteit Brussels
- Prior to his recent entrepreneurial engagements he was attorney at law and partner at the law firm LEXTAL in particular responsible for the implementation of EU Law, banking, project financing and securities
- Tarmo started his professional career as the only Estonian advocate in Brussels at HETA Law Offices, having good social connections with the Commission and knowledge about EU internal procedures



Kristel Kurvits
Chief Financial Officer

- Kristel has been with luteCredit since 2017
- Kristel holds a Master's degree in Financial Management from Estonian Business School
- Since 2000 and onwards she served as Chief Financial Officer for MTÜ Estonian Banking Association
- Prior to her recent engagements, Kristel was responsible amongst others for accounting of Ektornet Land Estonia OÜ (part of Swedbank Group) and financial reporting of the group companies
- Kristel started her professional career at Hansa Leasing Inkasso OÜ (part of Hansapanga Group)

IuteCredit Group Highlights

Bottom reached - growth continues under different rules

Number of customers

 **665,000+**
605,000+ (FY 2019)

Gross loan portfolio

 **€ 90.0m**
- 2% (FY 2019)

Total revenue

 **€ 28.9m**
+ 58% (H1 2019)

Adjusted EBITDA

 **9.9m**
+ 5% (H1 2019)

Customer Performance
Index (CPI 30)

 **82.9%**

NPL's in net portfolio

 **9.7%**

- Strongest impact on the performance in April with steady recovery in May and pleasing results in June
- Cut of operating expenses by 25% since the start of the pandemic with unchanged staff size
- Interest bearing liabilities down by EUR 9.0m during H1 2020
- Repayment behavior of performing customers as well as of the customers who fall into delay or even default exceeded internal expectations and lead to positive cash flow
- Conservative provisioning policy since the start of the epidemic providing risk buffer
- Cash and gold exceeding 12% of the balance sheet

Operational Footprint

Geographical diversification

Bosnia and Herzegovina

- Launch: May 2019
- Loans issued H1 2020: EUR 2.1m
- Net loan portfolio H1 2020: EUR 1.9m
- Total income H1 2020: EUR 0.7m
- EBITDA H1 2020: EUR -0.6 m
- Impairments H1 2020: EUR 0.5m



Moldova

- Launch: August 2008
- Loans issued H1 2020: EUR 22.3m
- Net loan portfolio H1 2020: EUR 35.9m
- Total income H1 2020: EUR 14.6m
- EBITDA H1 2020: EUR 4.3m
- Impairments H1 2020: EUR 6.0m



Albania

- Launch: April 2015
- Loans issued H1 2020: EUR 19.2m
- Net loan portfolio H1 2020: EUR 24.1m
- Total income H1 2020 : EUR 10.7m
- EBITDA H1 2020: EUR 5.0m
- Impairments H1 2020: EUR 3.1m



North Macedonia

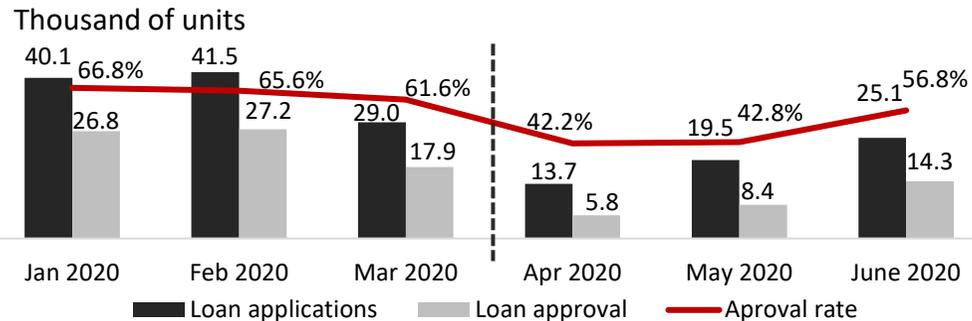
- Launch: September 2017
- Loans issued H1 2020: EUR 6.4m
- Net loan portfolio H1 2020: EUR 5.9m
- Total income H1 2020: EUR 2.9m
- EBITDA H1 2020: EUR -1.2m
- Impairments H1 2020: EUR 2.4m



Operating Highlights

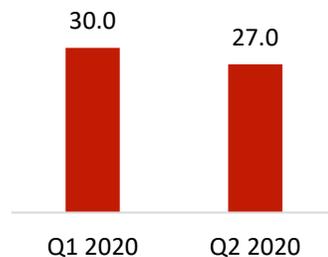
Measures to overcome Corona-crisis well on track

Breakdown of loan applications



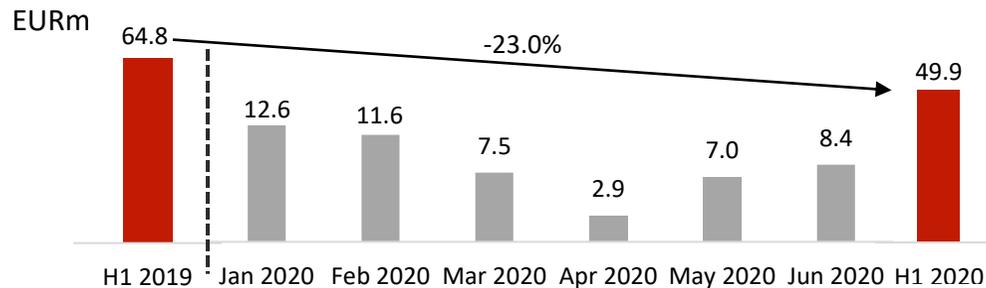
Robust Cash inflow

EURm



Resurrection of pay out volumes

EURm



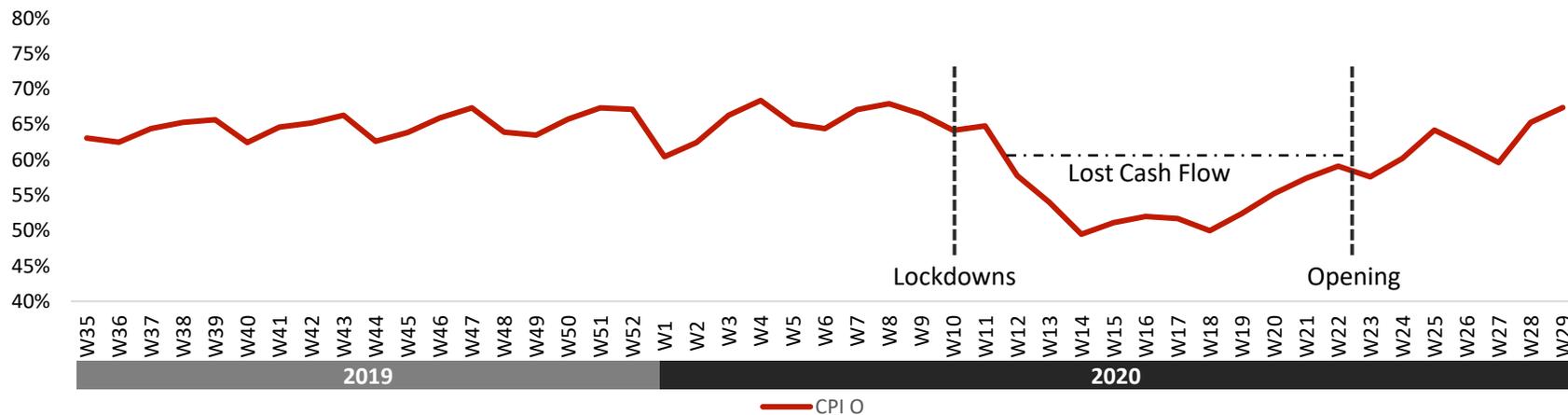
- Stricter approval process and weaker demand of loans in April and May: loans offered primarily to repeating customers and state workers
- Loans issued decreased by 23% to 49.9m (H1 2019: EUR 65.0m), acceleration of new loan payouts since May 2020
- Decrease of issuances and focus on debt collection has led to cash accumulation
- Sale of EUR 2.0m defaulted portfolio in Albania
- Net loan portfolio decreased by 14.1% to EUR 67.8m as of H1 2020 (Q1 2020: EUR 80.1m, FY 2019: EUR 79.0m)
- Growth operations in Bulgaria on hold until further notice

COVID-19 impact on luteCredit markets

Customers repayment discipline returning to Pre-COVID level

- CPI O measures customers actual loan repayment compared to expected repayment, without a single day past due
 - CPI O stable between 63% and 67% prior to COVID-19
 - From mid-March 2020 (Week 11) and the outbreak of the COVID-19 pandemic, CPI O started to decrease and has reached the bottom at approximately 50% in the week 18
 - Steady and continues improvement from the week 19 onwards
 - Pre COVID level reached; In week 29 CPI O at 67.4%
- Repayment difficulties caused by public lockdown have strongly effected customer repayment behaviour from Mid-March
 - Gradual easing of lockdowns as well as offered discounts on early payments have led to improvement of customer repayment discipline in May and June

CPI O development



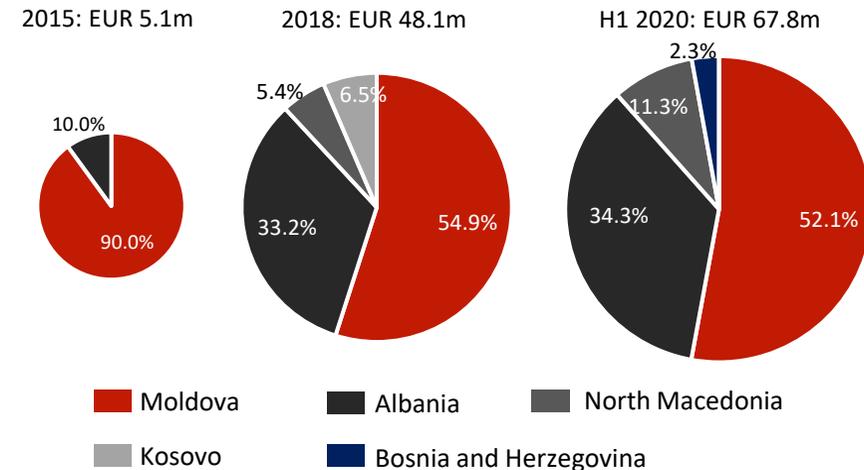
Net Loan Portfolio & Loan Repayment Behaviour

Evolution of Customer Performance Index (CPI 30)



- CPI 30 as indicator of customers' actual duly repayments against the expected payments, moderately effected since Mid-March 2020 due to the public lockdown and COVID-19 impact
- CPI 30 has slightly declined in H1 2020 to 82.9% (H1 2019: 84.4%)
- Repayment behaviour of the customers remaining very high

Net loan portfolio diversification



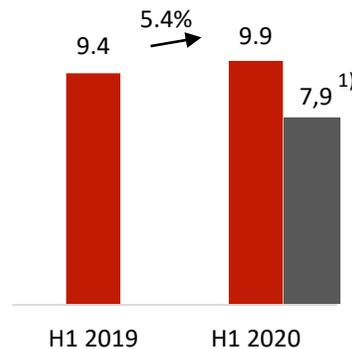
- Diversifying risk with sustainable growth through geographical expansion
- Share in portfolio of North Macedonia, launched in 2017 continues to increase as operations mature
- Net loan portfolio shrank by 14.1% to EUR 67.8m (FY 2019: EUR 79.0m) due to additional provisions and the restricted pay out since the start of the COVID-19 pandemic

Financial Highlights

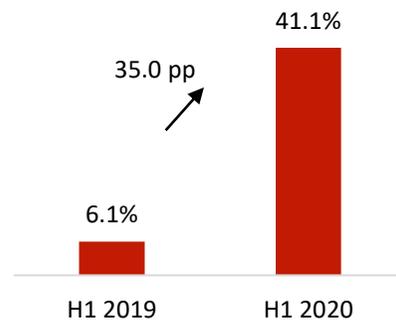
Financial results impacted - additional risk buffer created

Adjusted EBITDA

EURm



Strong rise of allowances for loan impairment as part of total revenue



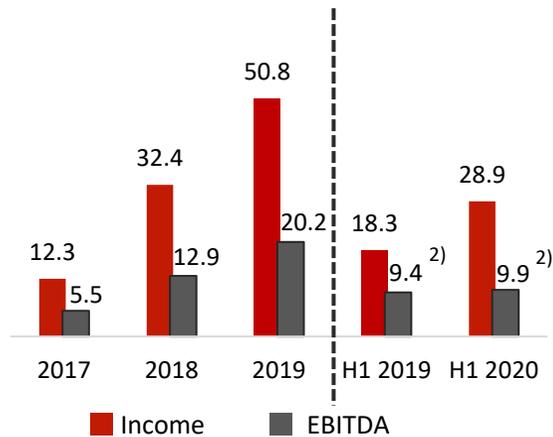
- Interest and similar income up by 27.5% to EUR 22.7m (H1 2019: EUR 17.8m). Total income grew to EUR 28.9m (H1 2019: EUR 18.3m)
- Adjusted EBITDA in absolute terms almost on the same level as in previous period at EUR 9.9m (H1 2019: EUR 9.4m) due to the high impairment allowances in H1 2020
- Rise in allowance for loan impairment to EUR 11.9m (H1 2019: EUR 1.1m) in line with more conservative provisioning approach as a response to the COVID-19 pandemic creating additional risk buffer
- Reduction of interest-bearing liabilities by EUR 9.0m down to EUR 75.1m (FY 2019: EUR 84.1m), while cash position (including tradeable gold) increased to EUR 11.8m and makes planned 12% of the total assets
- Depreciation of Moldavian Leu and Albanian Lek significantly reversed in second quarter, totalling FX loss of EUR 0.9m for the period
- Net profit of EUR 1.3m (H1 2019: EUR 3.8m) effected by conservative impairment policy

Note: Adjusted EBITDA is adjusted for the FX gains/losses

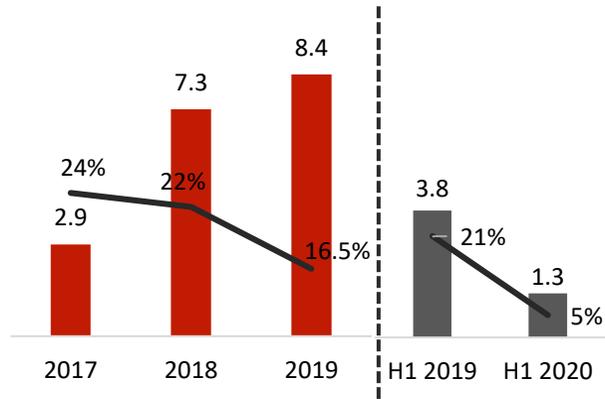
1) Adjusted for FX gains/losses and sale of defaulted portfolio in Albania

Financial Ratios

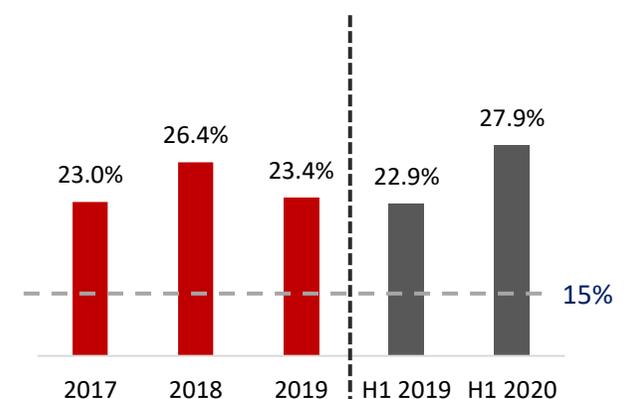
Income & EBITDA in EURm



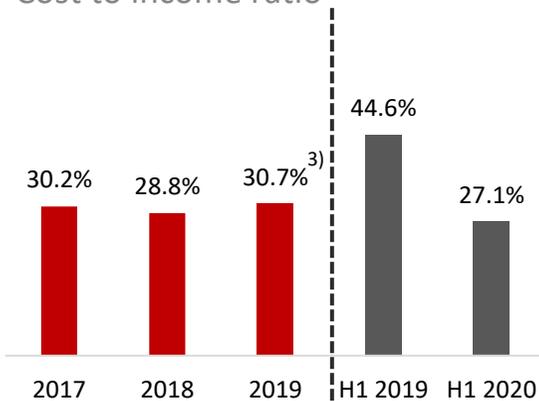
Net profit in EURm & Net profit margin



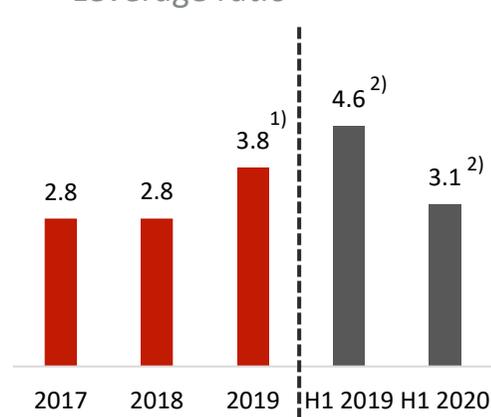
Capitalization ratio



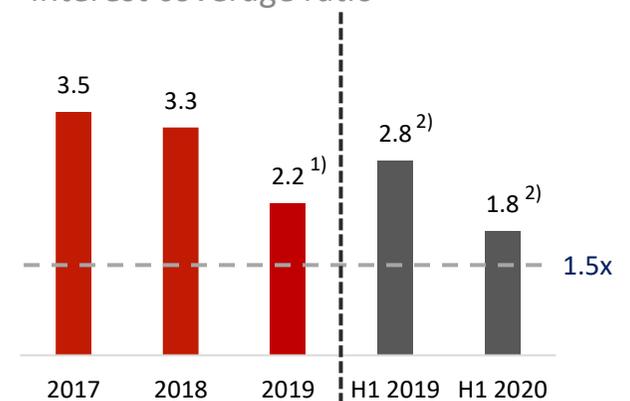
Cost to income ratio



Leverage ratio



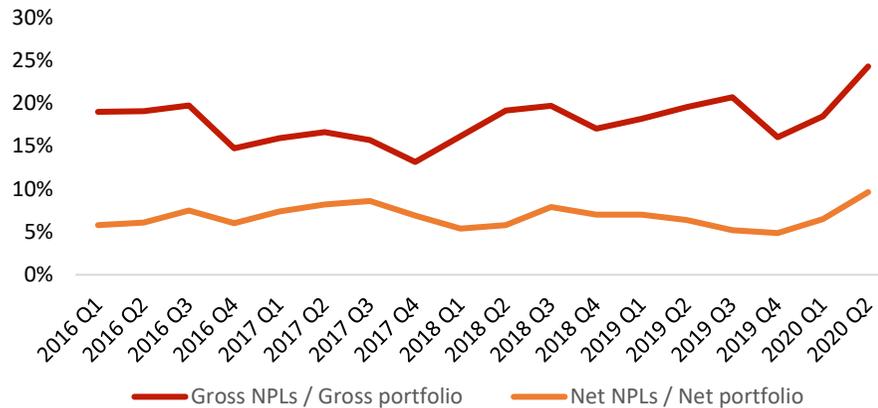
Interest coverage ratio



1) Adjusted for FX gains/losses and discontinued operations
 2) Adjusted for FX gains/losses
 3) Adjusted for one-time Kosovo expenses

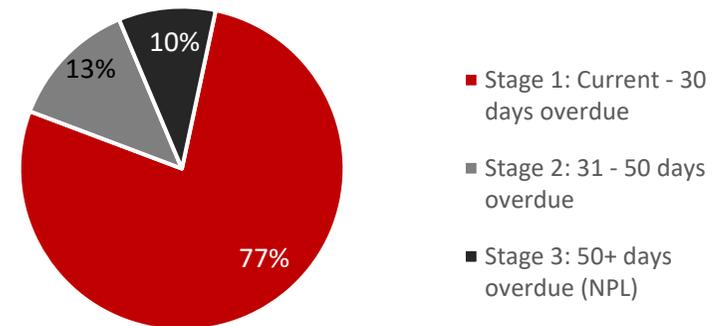
Non-Performing Loans

Gross and net NPL (50+ DPD) portfolio



- Rise in both Gross as well as Net NPLs due to the conservative provisioning approach as a response to the COVID-19 pandemic creating additional risk buffer
- Prudent impairment policy, with effective impairment rate of 24.6% from gross loan portfolio (as of 30.06.2020)
- Loan provisions increased to EUR 22.1m (FY 2019: EUR 13.1m), representing 22.9% of total assets (FY 2019: 12.3%)
- Provision coverage (Total provisions/Gross NPL) ratio 101.3%

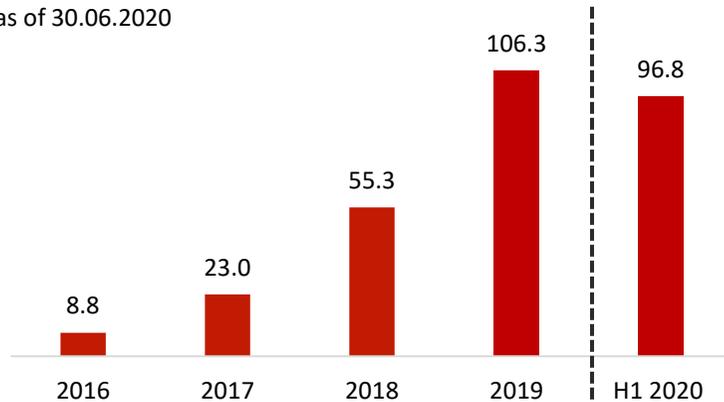
Net loan portfolio quality analysis, H1 2020



- Conservative internal NPL definition
- Loans 50+ DPD recognized as non-performing loans (NPLs); in 2016 and 2017 NPLs have been defined as 70+ DPD, in 2015 and earlier as 90+ DPD
- luteCredit has always followed the ECL method prescribed by IFRS 9
- luteCredit creates and accounts provisions “online” when loans issued

Assets & Liabilities

Assets in EURm
as of 30.06.2020

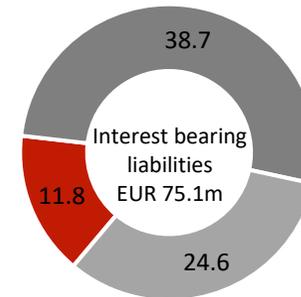


	2016	2017	2018	2019	H1 2020
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Capitalization ratio	27.0%	23.0%	26.4%	23.4%	27.9%
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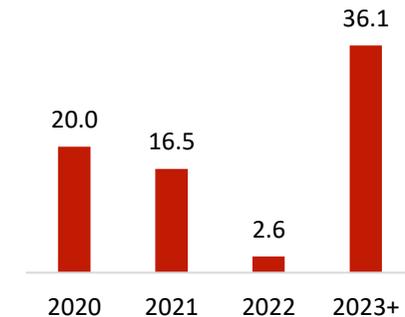
- 82% of assets consist of net loan portfolio as well as cash and gold
- High cash and gold position of EUR 11.8m (FY 2019: EUR 6.7m)
- Simple and clearly-structured balance sheet
- Stable and healthy capitalization

Liabilities in EURm
as of 30.06.2020



■ Loans and leasing ■ Bonds ■ P2P

Liability maturities in EURm
as of 30.06.2020



- Total liabilities decreased by EUR 9.9m to EUR 77.8m (FY 2019: EUR 87.7m)
- As of 30.06.2020, loans and borrowings amounted to EUR 75.1m (FY 2019: EUR 84.1m), accounting for 96.5% of all liabilities (FY 2019: 95.8%)
- Due to the high cash and gold position of EUR 11.8m, net interest-bearing debt amounts to EUR 63.3m as of 30.06.2020

Summary & Outlook

First half-year a ray of hope for 2020

Summary

- luteCredit's home markets have proven to be remarkably resilient. Following the setbacks caused by Corona in April and May, loan demand and customer repayment have already picked up significantly in June
- Cut of operating expenses, less loans being issued, cash inflows primarily used to repay liabilities and to accumulate cash
- In parallel to the cash buffer in treasury additional buffer for loan impairments has been created - focusing on returning to growth

Outlook

- Return to performance of majority of 21,148 customers from 90-day grace period expected in Q3 and Q4 2020
- First signs of improved repayment discipline indicate reversal of provisions in H2 2020 and in a longer future
- Economic impact of the pandemic still not reliably determinable and quantifiable; results expected to be below previous year
- Only limited adjustments of operational activities to meet current challenges; further optimizations possible, if necessary
- Confident to be profitable in 2020 and to increase the stock of performing assets beyond the 2019 level in case of a positive development in coping with the pandemic

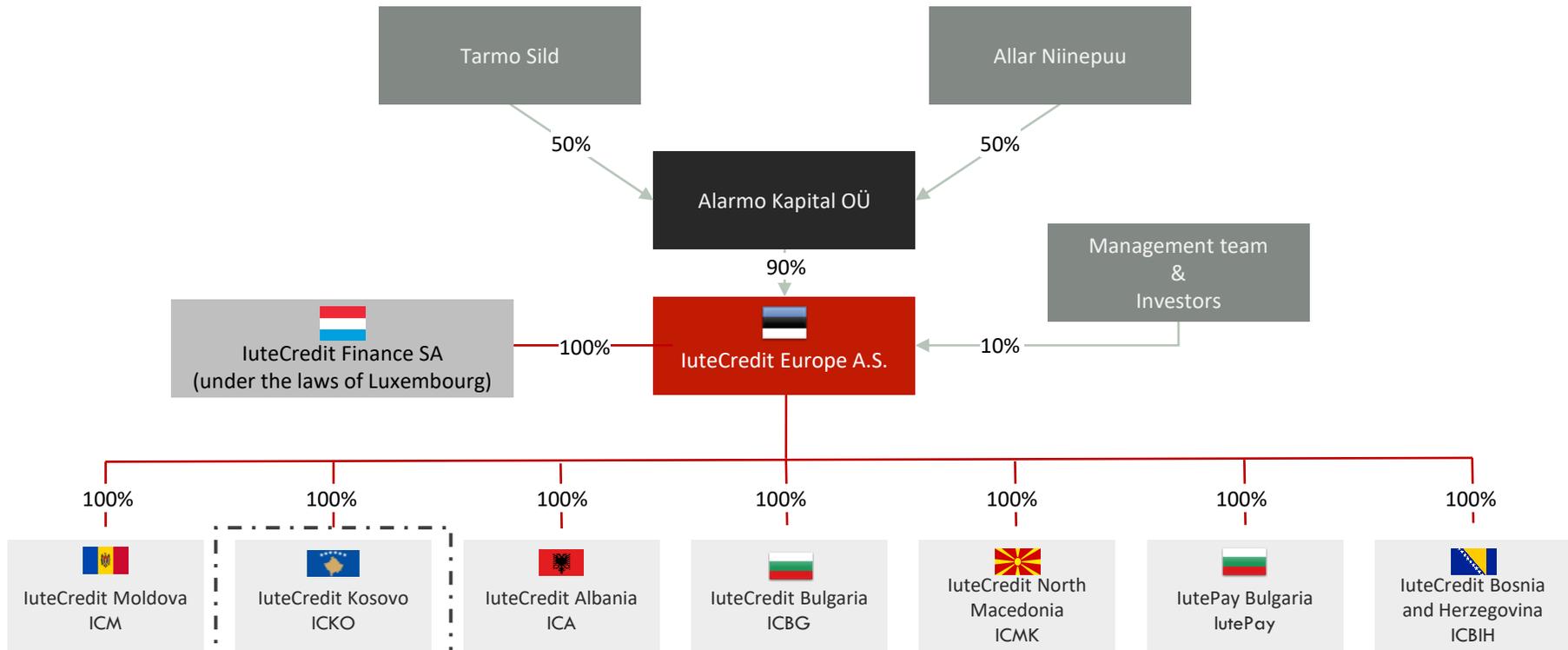
Appendix

COVID-19 impact on luteCredit markets

Restrictions imposed by authorities

North Macedonia	Moldova	Albania	Bosnia and Herzegovina
			
<p>Lockdown restrictions</p> <ul style="list-style-type: none"> ▪ Curfew limiting movements ▪ Additional age-related restrictions 	<p>Lockdown restrictions</p> <ul style="list-style-type: none"> ▪ 60-day state of emergency closing except for essential needs ▪ Additional age-related restrictions 	<p>Lockdown restrictions</p> <ul style="list-style-type: none"> ▪ Curfew limiting movements ▪ Permit required for fulfillment of essential needs 	<p>Lockdown restrictions</p> <ul style="list-style-type: none"> ▪ Curfew limiting movements ▪ Additional age-related restrictions
<p>Moratorium Imposed</p> <ul style="list-style-type: none"> ▪ Partial repayments ▪ Regulation changed: DPD+90 to DPD+150 ▪ No penalties/additional interest/costs for delayed payments ▪ Loan restructuring recommended ▪ 3 months grace period ▪ Lower APRs for new loans 	<p>Moratorium Imposed</p> <ul style="list-style-type: none"> ▪ No penalties for delayed payments recommended ▪ Loan restructuring recommended. ▪ No dividend payments recommended 	<p>Moratorium Imposed</p> <ul style="list-style-type: none"> ▪ 3 months deferral of payments (proof of financial difficulty) ▪ No penalties for delayed payments. ▪ For financial institutions, no provision expenses for delayed payments 	<p>Moratorium Imposed</p> <ul style="list-style-type: none"> ▪ 3 months grace period ▪ No penalties for delayed payments. ▪ For financial institutions, no provision expenses for delayed payments

Legal Structure



Note: Kosovo is currently not part of the consolidation

Income Statement

in EURm	2018	2019	H1 2019	H1 2020
Interest and commission fee income	22.6 (69.8%)	47.0 (92.5%)	17.8 (97.2%)	22.7 (78.7%)
Loan administration fees and penalties	9.4 (29.1%)	3.0 (6.0%)	0.5 (2.7%)	3.3 (11.3%)
Other income	0.3 (1.1%)	0.7 (1.5%)	0.0 (0.0%)	2.9 (10.0%)
Total Income	33.4 (100.0%)	50.8 (100.0%)	18.3 (100.0%)	28.9 (100.0%)
Interest expense	(3.9) (11.9%)	(9.0) (17.7%)	(3.3) (18.3%)	(5.6) (19.3%)
Allowances for loan impairment	(10.4) (32.0%)	(11.0) (21.5%)	(1.1) (6.1%)	(11.9) (41.1%)
Net operating income	18.2 (56.1%)	30.9 (60.8%)	13.9 (75.6%)	11.4 (39.6%)
Salaries and other personnel expenses	(3.9) (12.0%)	(6.3) (12.4%)	(2.8) (15.4%)	(3.9) (13.5%)
Other operating expenses	(5.2) (16.1%)	(14.2) (28.0%)	(5.0) (27.0%)	(3.2) (11.0%)
Depreciation/amortization charge	(0.2) (0.7%)	(1.2) (2.4%)	(0.4) (2.2%)	(0.8) (2.6%)
Financial assets measured at fair value	-	1.0 (1.9%)	-	-
Foreign exchange gains/losses	0.7 (2.0%)	0.4 (0.7%)	(0.8) (4.4%)	(0.9) (3.0%)
Profit or loss before taxes	9.5 (29.3%)	10.5 (20.6%)	4.9 (26.6%)	2.7 (9.5%)
Income tax	(2.2) (6.9%)	(2.1) (4.1%)	(1.1) (6.1%)	(1.4) (5.0%)
Net profit for the year	7.3 (22.4%)	8.4 (16.5%)	3.8 (20.5%)	1.3 (4.5%)
Other comprehensive income	0.5 (1.6%)	(0.3) (0.6%)	(0.4) (2.3%)	(0.2) (0.8%)
Total comprehensive income for the year	7.8 (24.0%)	8.1 (15.9%)	3.3 (18.2%)	1.1 (3.7%)

Balance Sheet

in EURm	2018	2019	H1 2020
<i>Assets</i>			
Cash and bank accounts	2.6	6.7	10.8
Loans to customers	48.1	79.0	67.8
Prepayments	0.3	0.9	0.4
Other assets	1.7	2.5	1.5
Other financial investments	1.5	9.9	9.0
Property, plant and equipment	0.5	1.0	1.0
Right-of-use assets	-	2.9	2.6
Intangible assets	0.7	3.3	3.6
Total assets	55.3	106.3	96.8
<i>Liabilities and equity</i>			
Liabilities			
Loans and borrowings	39.2	84.1	75.1
All other liabilities	3.4	3.7	2.7
Total liabilities	42.6	87.7	77.8
Equity			
Share capital	10.0	10.0	10.0
Legal reserve	0.0	0.4	0.5
Unrealized foreign exchange differences	0.4	0.1	-0.1
Share premium reserve	0.0	0.0	0.0
Retained earnings	2.3	8.0	8.6
Profit of reporting period	-	-	-
Total equity	12.7	18.5	18.9
Total equity and liabilities	55.3	106.3	96.8

Statement of Cash Flow (1/2)

	in EURm	2018	2019
Operating activities			
Paid prepayments		(6.3)	(11.3)
Received pre- and overpayments		9.3	12.8
Paid trade payables		(5.9)	(10.7)
Received debts from buyers and received other claims		0.0	0.7
Received from collection companies		7.4	13.0
Paid net salaries		(2.3)	(4.5)
Paid tax liabilities, exc. CIT		(1.5)	(2.9)
Corporate income tax paid (CIT)		(1.4)	(3.3)
Paid out to customers		(39.3)	(76.2)
Principal repayments from customers		20.4	40.3
Interest, commission and other fees		8.8	17.4
Net cash flows from operating activities		(10.7)	(24.8)
Investing activities			
Purchase of fixed assets		(0.8)	(0.8)
Net cash flow from acquisition of subsidiaries		(1.1)	(2.6)
Received from the sale of subsidiaries		0	0.2
Payments for other financial investments		(1.5)	0.0
Receipts from other financial investments		0.0	0.0
Net cash flows from investing activities		(3.3)	(3.3)

	in EURm	2018	2019
Financing activities			
Loans received from investors		26.1	85.0
Repaid loans to investors		(10.8)	(47.8)
Change in overdraft		2.0	4.2
Change in MasterCard settlement account		0.0	(1.4)
Paid out loans to customers related to MasterCard		0.0	(0.1)
Loan principal repayments from customers related to MasterCard		0.0	0.5
Principal payments of financial lease contracts		0.0	(0.9)
Interests paid		(3.7)	(5.2)
Capital increase		3.2	0.0
Dividends paid		(2.0)	(2.2)
Grants received		0.0	0.0
Net cash flows from financing activities		14.9	32.1
Change in cash and cash equivalents		0.9	4.0
Cash and cash equivalents at the beginning of the period		1.8	2.6
Change in cash and cash equivalents		0.9	4.0
Net foreign exchange difference		(0.0)	0.0
Cash and cash equivalents at the end of the period		2.6	6.7

Statement of Cash Flow (2/2)

(in EURm)	H1 2019	H1 2020
Operating activities		
Paid prepayments	(2.2)	(2.8)
Received pre- and overpayments	0.2	0.1
Paid deposits	(2.7)	(1.3)
Received deposits	3.4	22.1
Paid trade payables outside the Group	(5.4)	(5.6)
Received debts from buyers and received other claims	0.4	0.1
Received from collection companies	5.7	11.6
Paid net salaries	(2.1)	(2.9)
Paid tax liabilities, exc. CIT	(1.4)	(1.4)
Corporate income tax paid	(2.2)	(0.8)
Change in MasterCard settlement account	0.0	(2.2)
Paid out loans to customers related to MasterCard	0.0	0.0
Loan principal repayments from customers related to MasterCard	0.0	1.3
Paid out to customers outside the Group	(37.6)	(20.5)
Principal repayments from customers	22.3	15.7
Interest, commission and other fees received	9.8	6.9
NET CASH FLOWS FROM OPERATING ACTIVITIES	(11.7)	20.2

(in EURm)	H1 2019	H1 2020
Investing activities		
Purchase of fixed assets, inc. prepayments	(0.4)	(0.2)
Payments for other financial investments	0.0	(1.5)
Received from the sale of affiliates	0.2	0.0
Receipts from other financial investments	0.0	0.5
NET CASH FLOWS FROM INVESTING ACTIVITIES	(0.3)	(1.2)
Financing activities		
Loans received from investors outside the Group	32.4	18.4
Repaid loans to investors outside the Group	(16.2)	(22.9)
Change in overdraft (+/-)	2.5	(5.2)
Principal payments of financial lease contracts	(0.2)	(0.4)
Interests paid outside the Group	(2.5)	(4.1)
Dividends paid outside the Group	(1.2)	(0.5)
Payments for other financing activities	0.0	0.0
Receipts from other financing activities	0.0	0.0
NET CASH FLOWS FROM FINANCING ACTIVITIES	14.7	(14.8)
Change in cash and cash equivalents	2.7	4.3
Cash and cash equivalents at the beginning of the period	2.6	6.7
Change in cash and cash equivalents	2.7	4.3
Net foreign exchange difference	0.0	(0.2)
Cash and cash equivalents at the end of the period	5.3	10.8

Thank you for your attention!

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