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iutecredit

Earnings Call Presentation 9M 2020

October 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
- After graduating high school with gold medal in 1994, tossed the coin, whether to study economics or law. Tarmo holds a Master's degree with distinction in Law from Vrije Universiteit Brussels
- Tarmo started his professional career as attorney in 1999 and was founding partner and manager of LEXTAL Law Firm until 2010
- Co-founded luteCredit with Allar Niinepuu in 2008, after a late-night discussion with an inspirational Estonian banker



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

Back on profitable growth path in Q3 2020 heading towards pre-crisis levels

Number of customers

 **687,000+**
+90,000 (FY 2019)


Net loan portfolio

 **€ 71.2m**
+ 5% (H1 2020)


Total income

 **€ 42.3m**
+ 26% (9M 2019)


Adjusted EBITDA

 **15.7m**
+ 11% (9M 2019)

Customer Performance
Index (CPI 30)

 **84.2%**
82.9% (H1 2020)

NPL's in **net** portfolio

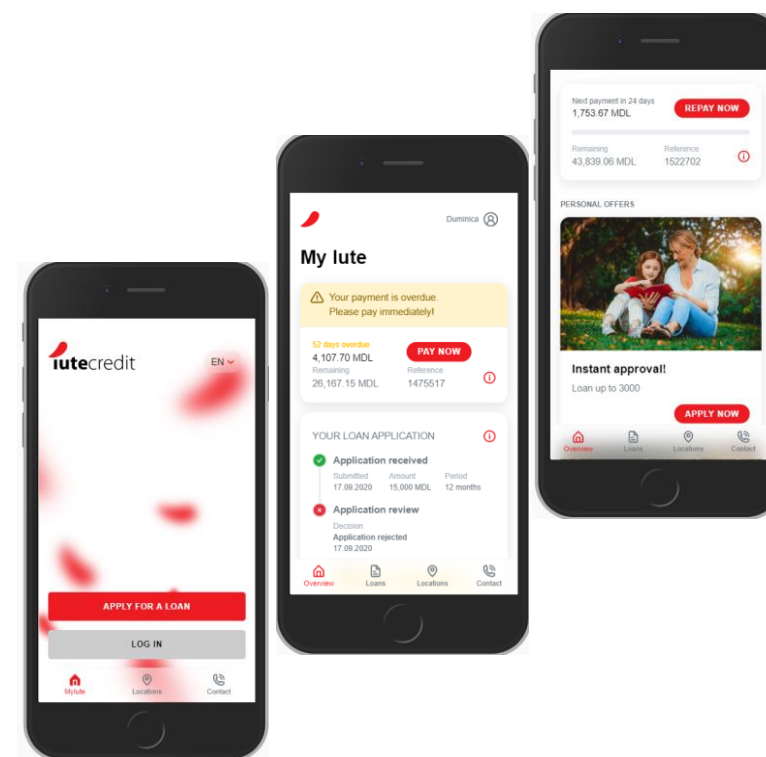
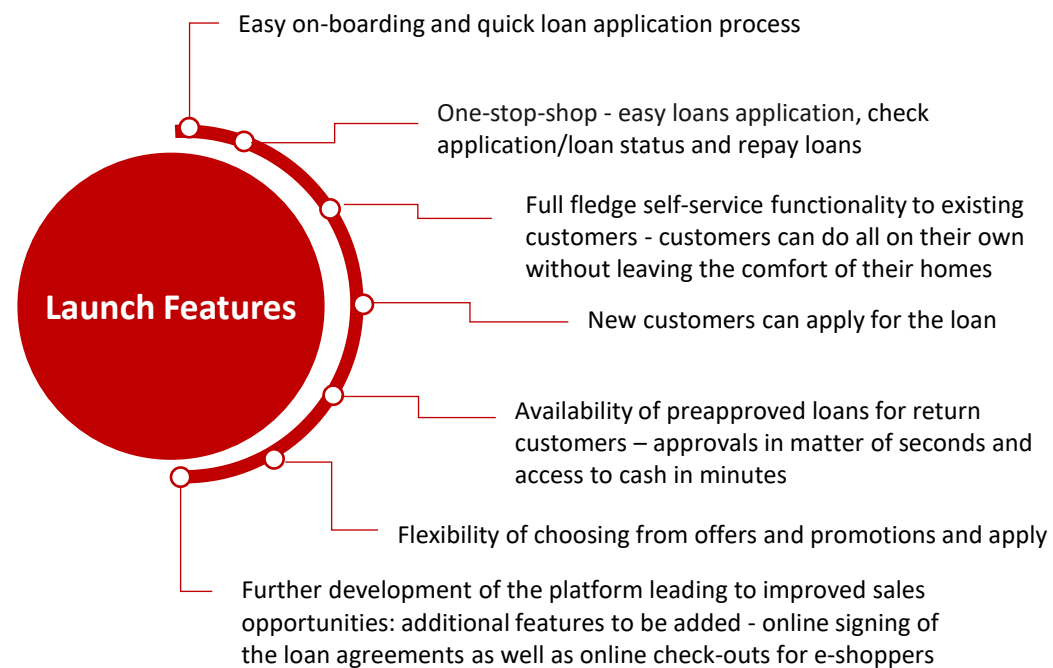
 **12.4%**
9.7% (H1 2020)

- Q3 results close to Pre-Covid level:
 - Measures taken in March and April to overcome the pandemic have paid off, and provided expected benefits in Q2 and Q3
 - The previous trend has been reversed; IuteCredit is on the V-shape recovery trajectory
- Ending of cash accumulation – funds shifted back into loan origination
- Investments into digitalization:
 - Higher degree of technology-driven services
 - Laying the foundation for transition towards digital wallet company
- Repayment discipline recovered almost to Pre-Covid level
- Strong capitalization ratio and solid interest coverage ratio, well above Eurobond covenants requirements

Mylute App

Digitalization: Improving sales and service capabilities

Launched in Moldova in Mid-October



Cardless ATM Machines

investment into infrastructure to expand payout capabilities



- luteCredit is establishing its own ATM network by acquiring secondhand ATM's from the banks
- The service is available in Moldova since the end of October – roll out to other markets will follow
- By investing into cash-infrastructure, luteCredit is expanding its payout capabilities, and can offer better and quicker service to its customers
- Convenience; customers can withdraw money without going to the post office
- Withdrawal possible by using one-time password - no need of credit or debit cards

Operational Footprint

Geographical diversification

Bosnia and Herzegovina

- Launch: May 2019
- Loans issued 9M 2020: EUR 3.3m
- Net loan portfolio 9M 2020: EUR 2.1m
- Total income 9M 2020: EUR 1.3m
- EBITDA 9M 2020: EUR 0.1m
- Impairments 9M 2020: EUR 1.0m



Moldova

- Launch: August 2008
- Loans issued 9M 2020: EUR 34.5m
- Net loan portfolio 9M 2020: EUR 35.3m
- Total income 9M 2020: EUR 20.5m
- EBITDA 9M 2020: EUR 6.3m
- Impairments 9M 2020: EUR 8.9m



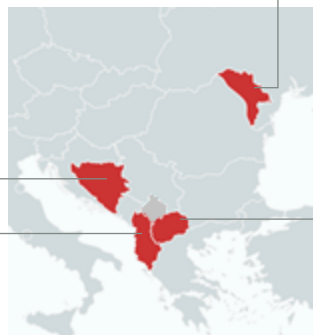
Albania

- Launch: April 2015
- Loans issued 9M 2020: EUR 31.1m
- Net loan portfolio 9M 2020: EUR 24.8m
- Total income 9M 2020 : EUR 13.5m
- EBITDA 9M 2020: EUR 5.3m
- Impairments 9M 2020: EUR 5.0m



North Macedonia

- Launch: September 2017
- Loans issued 9M 2020: EUR 11.5m
- Net loan portfolio 9M 2020: EUR 9.0m
- Total income 9M 2020: EUR 3.4m
- EBITDA 9M 2020: EUR 0.6m
- Impairments 9M 2020: EUR 1.6m

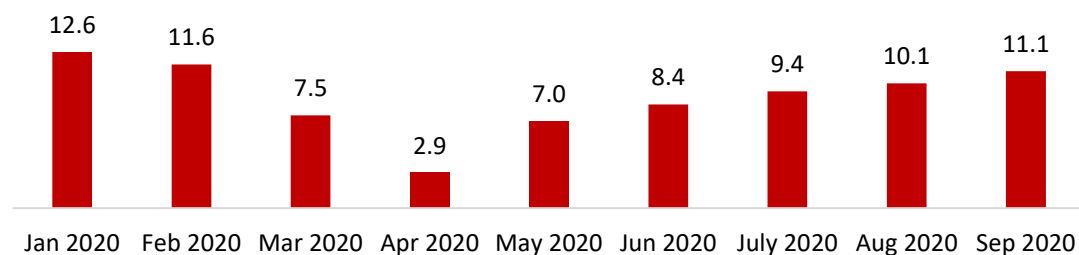


Operating Highlights

Contraction of loan book is over - growth of loan book in Q3

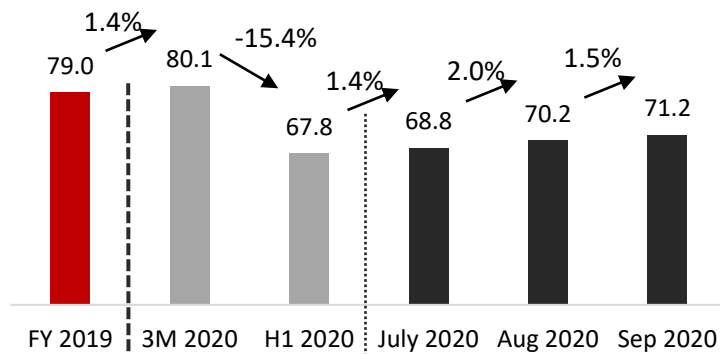
Pay out volumes – returning to pre-Covid level

EURm



Net loan portfolio back to growth

EURm



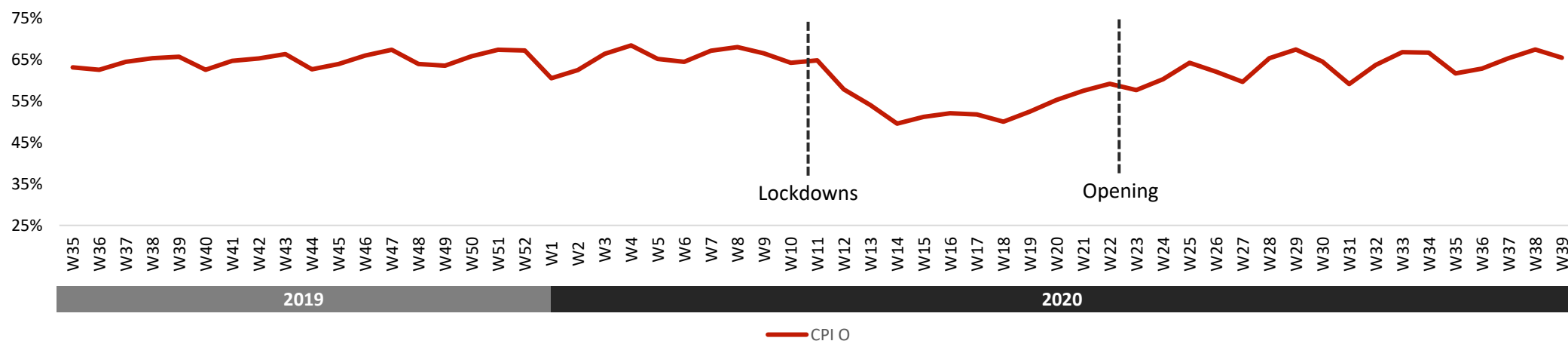
- Total income up by 26% to EUR 42.3m (9m 2019: EUR 33.6m)
- Installment loan business nearly fully recovered to pre-pandemic level: More than EUR 30m in issued loans in Q3 2020, albeit more cautiously and selectively on both lutes' and customers' side
- Number of loans signed in 9M 2020 up by 21% to 162.125 (9M 2019: 134.479)
- Resumption of active marketing campaigns and new hires, in line with expected business expansion
- Followed by short-term contraction during Q2, balance sheet growth back on track and reached EUR 97.5m at the end of 9M 2020 (H1 2020: EUR 96.7m)

COVID-19 challenges have been mastered

Customers repayment discipline of prime customers returned to Pre-COVID level

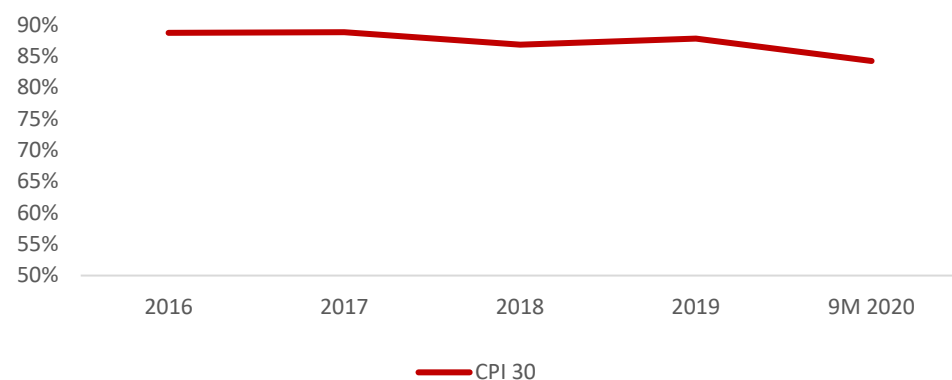
- CPI 0 measures customers' actual loan repayment behavior compared to expected repayment behavior, without a single day past due
- CPI 0 was in the range of 63% - 67% prior to COVID-19
- Since the outbreak of the COVID-19 pandemic in mid-March 2020 (Week 11), CPI 0 has been decreasing and reached the bottom at approximately 50% in Week 18
- Drop in the payment discipline was caused by lockdowns and payment holidays
- Steady and continues improvement from Week 19 onwards
- Pre COVID level reached; In Week 29 CPI 0 at 67.4%
- From Week 29 onwards, CPI 0 continued to vary in the pre-COVID range of 63% - 67%

CPI 0 development



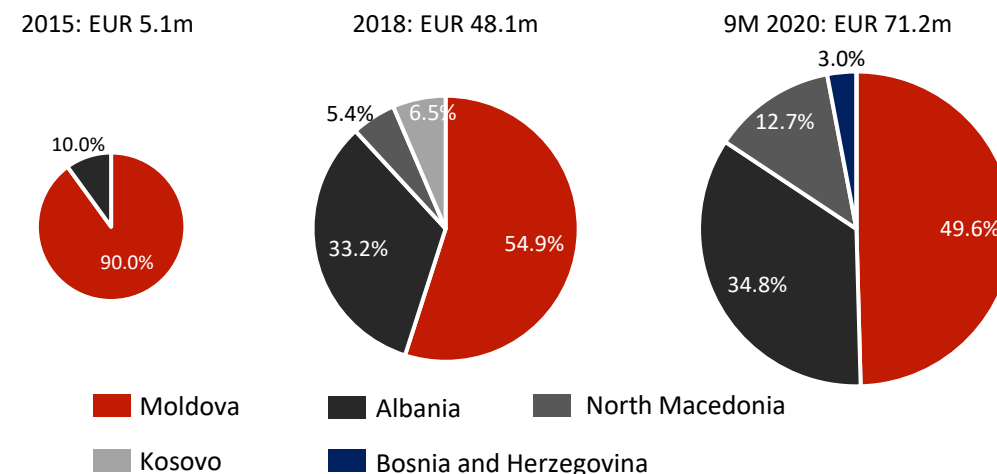
Net Loan Portfolio & Loan Repayment Behaviour

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 public lockdown caused by COVID-19
- CPI 30 has improved in Q3 2020 to 84.6% (H1 2020: 82.9%)
- Cumulatively CPI 30 for the period of 9M 2020 stood at 84.2% (9M 2019: 86.4%)
- Repayment behaviour of the customers remains at very high level

Net loan portfolio diversification

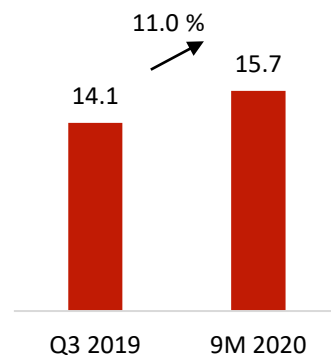


- Diversifying risk with more balanced geographical distribution
- Launched in 2017, the North Macedonian market continues to mature what resulted in a higher share of total net loan portfolio
- Despite the loan book growth in Q3 2020, net loan portfolio shrank by 9.8% to EUR 71.2m (FY 2019: EUR 79.0m) due to restricted pay outs in March, April and May 2020

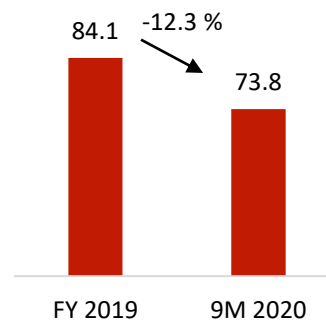
Financial Highlights

Pleasing result with improvement of key indicators

Adjusted EBITDA EURm



Reduction of interest bearing liabilities EURm

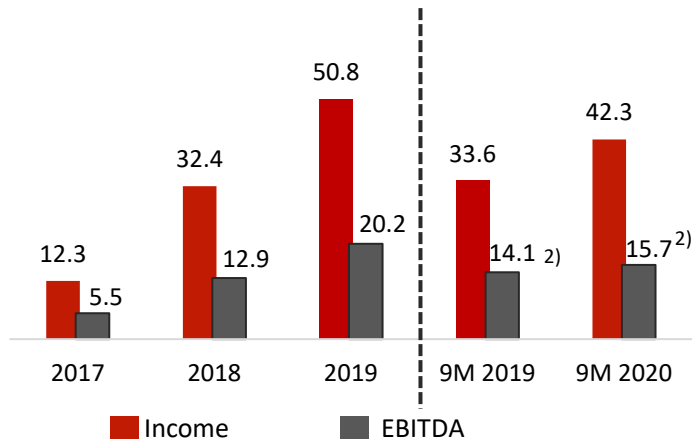


- Interest and similar income up by 1.3% to EUR 32.5m (9M 2019: EUR 32.1m). Total income grew to EUR 42.3m (9M 2019: EUR 33.6m)
- Adjusted EBITDA increased by 11.0% to EUR 15.7m (9M 2019: EUR 14.1m) despite higher impairment allowances and FX loss of EUR 1.2m for the period
- Rise in allowance for loan impairment by EUR 16.5m (9M 2019: EUR 6.9m) in line with more conservative provisioning approach as a response to the COVID-19 pandemic creating additional risk buffer
- Interest-bearing liabilities consequently fell to their lowest level since the issue of luteCredit bonds on the Frankfurt Stock Exchange in August 2019
- Net profit of EUR 3.8m (9M 2019: EUR 5.7m) effected by FX loss of EUR 1.2m

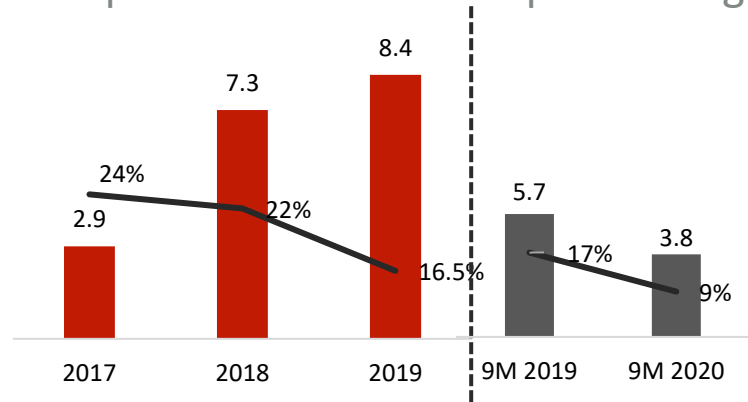
Note: Adjusted EBITDA is adjusted for the FX gains/losses

Financial Ratios

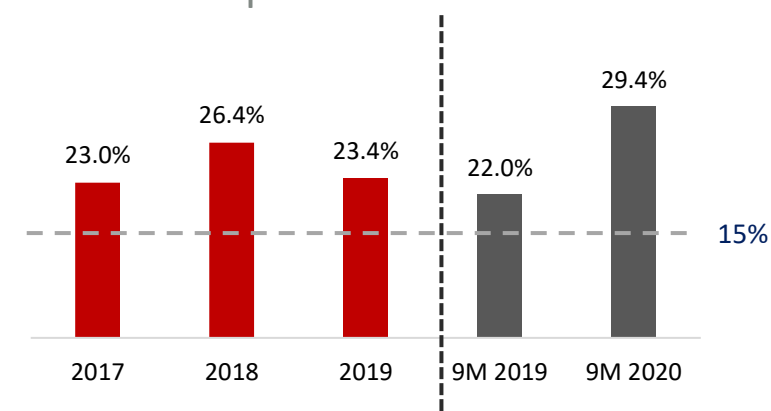
Income & EBITDA in EURm



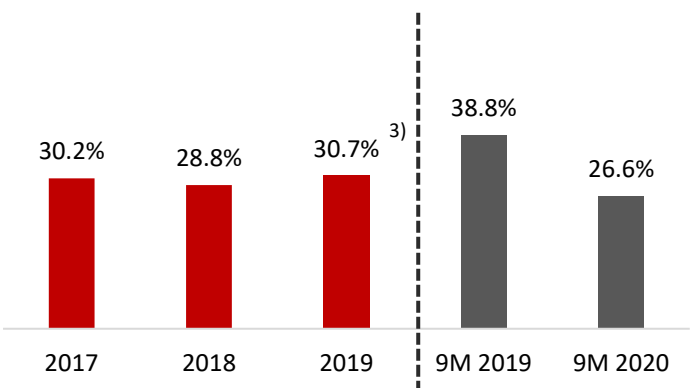
Net profit in EURm & Net profit margin



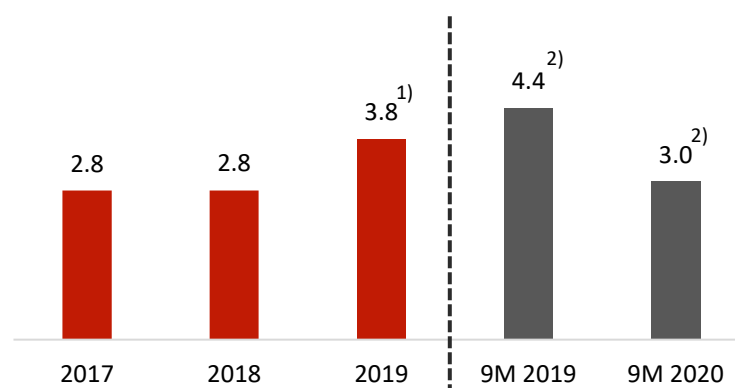
Capitalization ratio



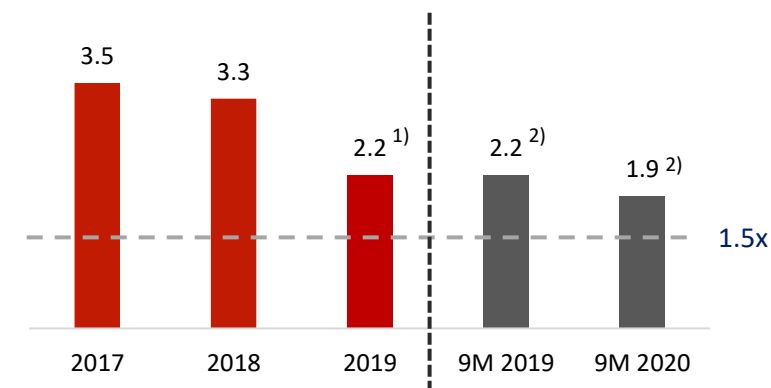
Cost to income ratio



Leverage ratio



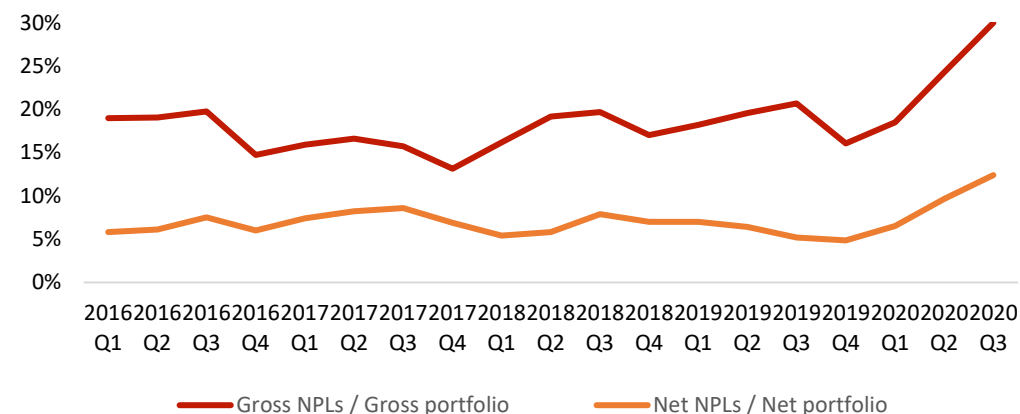
Interest coverage ratio



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

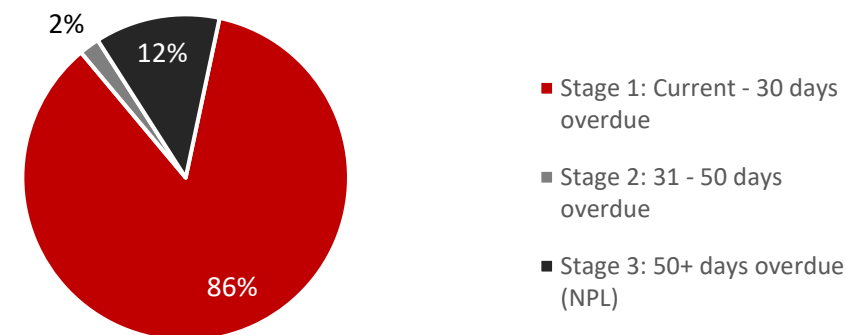
Non-performing loans

Gross and net NPL (50+ DPD) portfolio



- Rise in both Gross and Net NPLs due to the adverse impact of COVID-19 whereas consistent prudent underwriting standard
- Conservative provision policy, with provision coverage ratio (Total provisions/Gross NPL) of 86.9%
- Loan provisions increased to a total of EUR 25.1m (FY 2019: EUR 13.1m)

Net loan portfolio quality analysis, 9M 2020

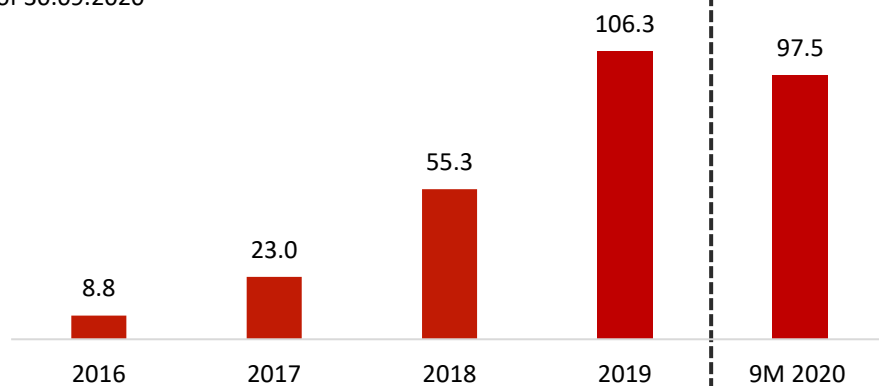


- Conservative internal NPL definition
- Loans 50+ DPD recognized as non-performing loans (NPLs); in 2016 and 2017 NPLs have been defined as 70+ DPD, in 2015 and earlier as 90+ DPD
- luteCredit has always followed the ECL methodology prescribed by IFRS 9
- luteCredit creates and accounts provisions simultaneously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

Assets & Liabilities

Assets in EURm

as of 30.09.2020

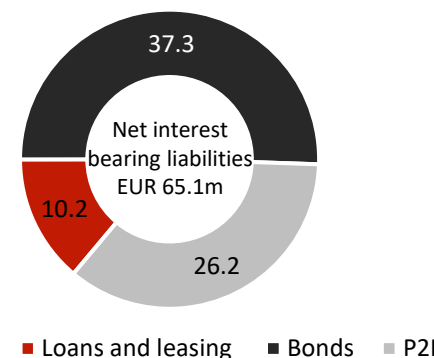


	2016	2017	2018	2019	9M 2020
Capitalization ratio	27.0%	23.0%	26.4%	23.4%	29.4%

- 82% of total assets consist of net loan portfolio as well as cash and liquid assets
- Simple and clearly-structured balance sheet
- Stable and healthy capitalization

Liabilities in EURm

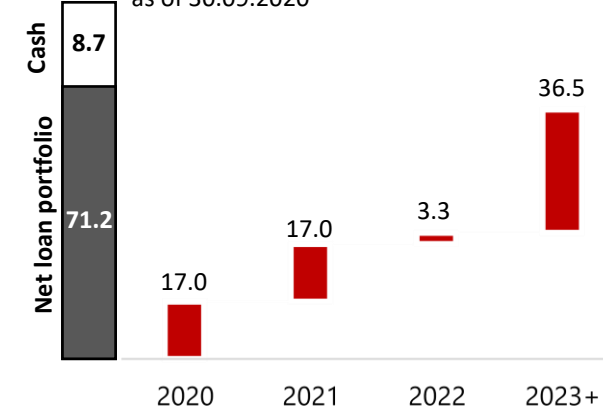
as of 30.09.2020



■ Loans and leasing ■ Bonds ■ P2P

Liability maturities in EURm

as of 30.09.2020



- Total liabilities decreased by EUR 11.2m to EUR 76.5m (FY 2019: EUR 87.7m)
- As of 30.09.2020, loans and borrowings amounted to EUR 73.8m (FY 2019: EUR 84.1m), accounting for 96.4% of all liabilities (FY 2019: 95.8%)
- Due to the high cash and liquid assets position of EUR 8.7m, net interest-bearing debt amounted to EUR 65.1m as of 30.09.2020

Summary & Outlook

Strong Q3 results - optimistically looking ahead to Q4 and beyond

Summary

- Back to profitable growth path. End of controlled balance sheet contraction and cash accumulation
- September results close to Pre-Covid level
- Strong cash flow results in the period are result of lutes' customers' payment performance as well as lutes' own operational efficiency and successful selection of customers
- Expansion of Fintech services - luteCredit is well on track with the irreversible trend of digitization in the credit and payment industry





Outlook

- Mylute App and ATM's will be roll-out to all countries
- The Balkan countries in which luteCredit is active have chosen a path forward where society must learn to live with the coronavirus, without limiting society's activities into further isolation. luteCredit does not expect serious lockdowns, although the number of positive tests are increasing again
- luteCredit expects total assets at the end of the year 2020 to exceed the 2019 level of EUR 106m. The 2020 total income and net profit should reach, despite challenging market conditions, almost the 2019 levels, respectively EUR 50m and EUR 7m
- luteCredit expects the EUR 25m buffer of loan provisions to largely reverse through profits in 2021 and 2022, subject to actual loan repayments by customers
- luteCredit is strong enough and structurally set to make attractive acquisitions as part of their long-term strategy to become both lending and payment services provider

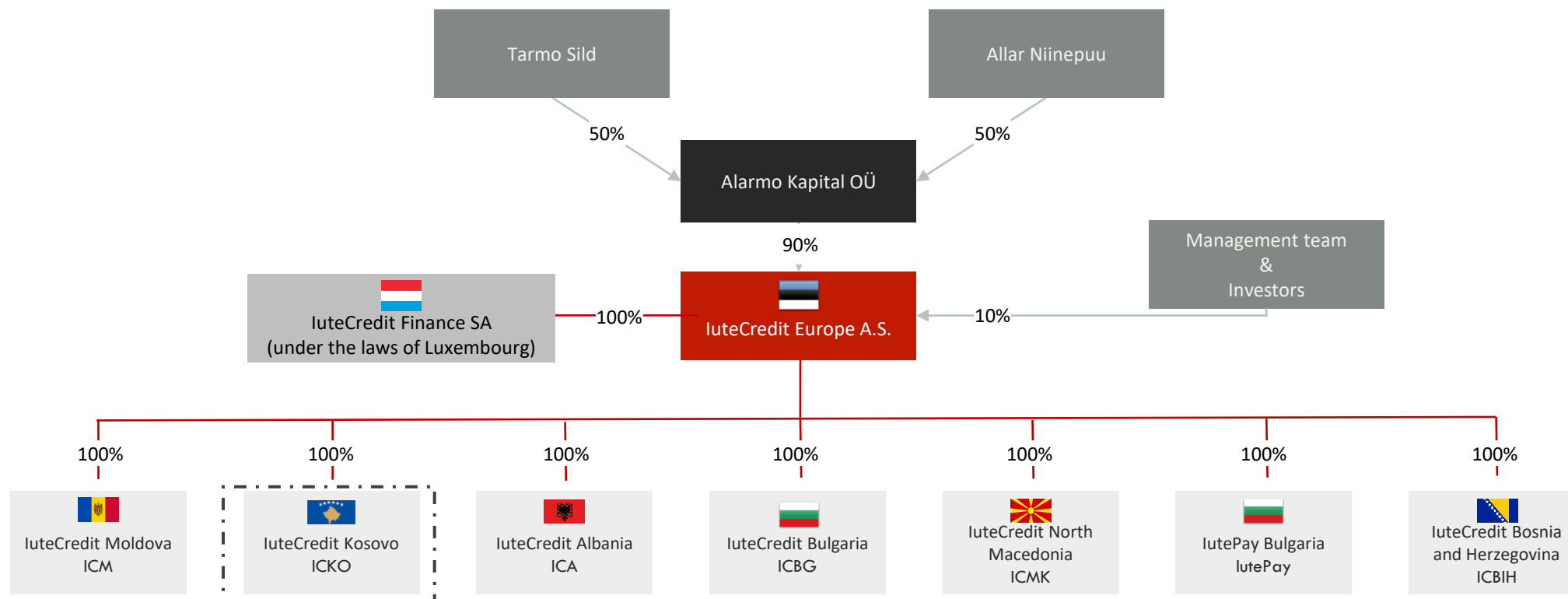
Appendix

COVID-19 impact on luteCredit markets

Current restrictions imposed by authorities

North Macedonia	Moldova	Albania	Bosnia and Herzegovina
			
Lockdown restrictions	Lockdown restrictions	Lockdown restrictions	No lockdown restrictions
<ul style="list-style-type: none"> Currently no restrictions 	<ul style="list-style-type: none"> Some age-related restrictions kept Prohibition of public gatherings with 50+ participants 	<ul style="list-style-type: none"> Currently no restrictions 	<ul style="list-style-type: none"> Currently no restrictions
Moratorium Imposed	Moratorium Imposed	Moratorium Imposed	New moratorium Imposed as of September 2020
<ul style="list-style-type: none"> No moratoriums imposed 	<ul style="list-style-type: none"> No moratoriums imposed 	<ul style="list-style-type: none"> No moratoriums imposed 	<ul style="list-style-type: none"> Possibility to apply until Dec 31, 2020 Several grace solutions 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	9M 2019	9M 2020
Interest and commission fee income	22.6 (69.8%)	47.0 (92.5%)	32.1 (95.6%)	32.5 (76.8%)
Loan administration fees and penalties	9.4 (29.1%)	3.0 (6.0%)	1.5 (4.4%)	5.8 (13.6%)
Other income	0.3 (1.1%)	0.7 (1.5%)	0.0 (0.0%)	4.0 (10.0%)
Total Income	33.4 (100.0%)	50.8 (100.0%)	33.6 (100.0%)	42.3 (100.0%)
Interest expense	(3.9) (11.9%)	(9.0) (17.7%)	(6.5) (19.4%)	(8.1) (19.1%)
Allowances for loan impairment	(10.4) (32.0%)	(11.0) (21.5%)	(6.9) (20.6%)	(16.5) (39.0%)
Net operating income	18.2 (56.1%)	30.9 (60.8%)	20.1 (60.0%)	17.7 (41.8%)
Salaries and other personnel expenses	(3.9) (12.0%)	(6.3) (12.4%)	(4.6) (13.5%)	(5.6) (13.2%)
Other operating expenses	(5.2) (16.1%)	(14.2) (28.0%)	(7.8) (23.3%)	(4.5) (10.6%)
Depreciation/amortization charge	(0.2) (0.7%)	(1.2) (2.4%)	(0.6) (1.9%)	(1.1) (2.6%)
Financial assets measured at fair value	-	1.0 (1.9%)	-	-
Foreign exchange gains/losses	0.7 (2.0%)	0.4 (0.7%)	(0.3) (0.8%)	(1.2) (2.9%)
Profit or loss before taxes	9.5 (29.3%)	10.5 (20.6%)	7.4 (22.0%)	5.3 (12.5%)
Income tax	(2.2) (6.9%)	(2.1) (4.1%)	(1.7) (5.0%)	(1.4) (3.4%)
Net profit for the year/period	7.3 (22.4%)	8.4 (16.5%)	5.7 (17.0%)	3.8 (9.1%)
Other comprehensive income	0.5 (1.6%)	(0.3) (0.6%)	(0.2) (0.5%)	(0.8) (1.8%)
Total comprehensive income for the year/period	7.8 (24.0%)	8.1 (15.9%)	5.5 (16.5%)	3.1 (7.3%)

Balance Sheet

in EURm	2018	2019	9M 2020
<i>Assets</i>			
Cash and bank accounts	2.6	6.7	6.7
Loans to customers	48.1	79.0	71.2
Prepayments	0.3	0.9	0.5
Other assets	1.7	2.5	2.1
Other financial investments	1.5	9.9	9.7
Property, plant and equipment	0.5	1.0	1.0
Right-of-use assets	-	2.9	2.4
Intangible assets	0.7	3.3	4.0
Total assets	55.3	106.3	97.5
<i>Liabilities and equity</i>			
Liabilities			
Loans and borrowings	39.2	84.1	73.8
All other liabilities	3.4	3.7	2.8
Total liabilities	42.6	87.7	76.5
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	-0.7
Share premium reserve	0.0	0.0	0.0
Retained earnings	2.3	8.0	11.1
Profit of reporting period	-	-	-
Total equity	12.7	18.5	20.9
Total equity and liabilities	55.3	106.3	97.5

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 aquisition 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
Dividens 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)	9M 2019	9M 2020
Operating activities			
Paid prepayments		(3.1)	(6.2)
Received pre- and overpayments		2.4	0.1
Paid deposits		(5.6)	(1.6)
Received deposits		6.2	27.8
Paid trade payables outside the Group		(8.8)	(8.0)
Received debts from buyers and received other claims		0.4	0.8
Received from collection companies		9.2	17.4
Paid net salaries		(3.3)	(4.0)
Paid tax liabilities, exc. CIT		(2.1)	(2.1)
Corporate income tax paid		(2.7)	(1.4)
Change in MasterCard settlement account		0.0	(5.3)
Loan principal repayments from customers related to MasterCard		0.0	2.5
Paid out to customers outside the Group		(55.5)	(31.2)
Principal repayments from customers		30.8	22.3
Interest, commission and other fees received		13.3	10.6
NET CASH FLOWS FROM OPERATING ACTIVITIES		(18.7)	21.6

	(in EURm)	9M 2019	9M 2020
Investing activities			
Purchase of fixed assets, inc. prepayments		(0.6)	(0.2)
Payments for other financial investments		0.0	(2.5)
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		(0.4)	(2.2)
Financing activities			
Loans received from investors outside the Group		66.8	25.6
Repaid loans to investors outside the Group		(37.1)	(31.3)
Change in overdraft (+/-)		4.6	(5.2)
Change in Mastercard settlement account		(0.4)	0.0
Paid out loans to customers related to Mastercard		(0.1)	0.0
Loan principal repayment from customers related to mastercard		0.0	0.0
Principal payments of financial lease contracts		(0.5)	(0.6)
Interests paid outside the Group		(4.0)	(7.1)
Dividends paid outside the Group		(1.6)	(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		27.8	(19.2)
Change in cash and cash equivalents		8.7	0.2
Cash and cash equivalents at the beginning of the period		2.6	6.7
Change in cash and cash equivalents		8.7	0.2
Net foreign exchange difference		0.0	(0.3)
Cash and cash equivalents at the end of the period		11.3	6.7

Thank you for your attention!

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