# 4FINANCE REPORTS RESULTS FOR THE SIX MONTHS ENDING 30 JUNE 2016

## *REVENUE UP 25%, NET PROFIT EUR 32.1 MILLION, DEMONSTRATING STEADY PROGRESS*

*Riga, Latvia, 26 August 2016.* 4finance Holding S.A. (the 'Group'), Europe's largest online and mobile consumer lending group, today announces unaudited consolidated results for the six months ending 30 June 2016 (the 'Period').

### *Financial Highlights*

- Revenue up 25% to EUR 182.8 million in the Period compared with EUR 146.1 million in the prior year period.
- Adjusted EBITDA was EUR 62.2 million for the Period, up 15%, leading to an adjusted interest coverage ratio of 4.0x.
- The Group's profit from continuing operations for the six months to 30 June 2016 was EUR 32.1 million, an increase of 8% from EUR 29.8 million in 2015.
- Average net loan portfolio for the Period, excluding acquisitions, of EUR 305.9 million, up 17% from a year ago.
- Cost to revenue ratio for the Period was 46%, vs. 39% for the six months to 30 June 2015, reflecting a 50% increase in staff numbers and investment across the platform for future growth and geographic / product diversification.
- Financial strength remains solid, with a capital-to-assets ratio of 34% as of 30 June 2016 (37% as of 30 June 2015).
- Credit discipline maintained, with non-performing loans to loan issuance ratio of 9.5% as of 30 June 2016 within expected range given growth of higher return markets with higher non-performing loan ratios.

### *Operational Highlights*

- The number of registered customers, pre acquisitions, reached 5.3 million as of 30 June 2016, up 32% from a year ago.
- EUR 100 million bond with 5 year maturity issued in May and now listed on the regulated market segment in Frankfurt.
- Continued progress in Instalment Loan rollout with Spain launched in May and Romania in August.
- Strong business performance in Poland and Latvia following implementation of regulatory changes in first quarter.
- Corporate governance enhancements, with roles of Chairman and CEO separated in May and new Supervisory Board established at 4finance Group S.A. level in July.
- Successful completion of TBI Bank acquisition in August following receipt of all regulatory approvals.
- Acquisition of 80% of Friendly Finance, a profitable online consumer lender in five European countries, at end of June to diversify brand portfolio and consolidate market position.

George Georgakopoulos, CEO of 4finance, commented:

*"These results for the first half of the year, with revenue up 25% and net profit of EUR 32.1 million, demonstrate steady progress for 4finance in line with our plans. Our diversified business continues to grow at the same time as investing for the future and adapting to market changes.*

*"We are pleased to have closed two acquisitions that both contribute towards building a long-term sustainable business. TBI Bank is a significant strategic addition to the Group and enhances our overall financial profile. The integration process will be gradual, but the bank gives us immediate scale in Bulgaria and Romania and we can deploy our cutting edge technology to enhance their customer experience and value proposition.*

*"The Friendly Finance acquisition adds strong brands to our portfolio and their database of over one million registered customers adds to our valuable proprietary data assets. It reinforces our position in core markets such as Poland, Czech Republic and Spain - and as the clear European market leader.*

*"We see a substantial growth opportunity in coming years as we diversify our portfolio of responsible lending products in Europe and develop in Latin America. The carefully planned investments we are making this year will allow 4finance to capture this opportunity fully."*

### *Key Financial Ratios*

| | Six Months Ended 30 June 2016 | Six Months Ended 30 June 2015 | Year Ended 31 December 2015 | Year Ended 31 December 2014 |
|---|---|---|---|---|
| | 2016 | 2015 | 2015 | 2014 |
| Net loan portfolio (in millions of EUR)[(1)] | 322.7 | 283.3 | 308.3 | 241.4 |
| Capital/assets ratio[(2)] | 34% | 37% | 40% | 35% |
| Capital/net loan portfolio[(3)] | 63% | 51% | 56% | 47% |
| Adjusted interest coverage[(4)] | 4.0x | 4.1x | 4.2x | 3.7x |
| Profit before tax margin[(5)] | 21% | 26% | 23% | 27% |
| Return on average equity[(6)] | 34% | 37% | 41% | 54% |
| Cost/revenue ratio[(7)] | 46% | 39% | 42% | 37% |
| Net impairment to revenue ratio[(8)] | 26% | 26% | 25% | 25% |
| Non-performing loans to loan issuance ratio[(9)] | 9.5% | 8.9% | 9.0% | 8.8% |

Notes:

(1) Gross loan portfolio less provisions for bad debts.
(2) Total equity/total assets (2014 assets adjusted for effect of bond defeasance).
(3) Total equity/net loan portfolio.
(4) Adjusted EBITDA/interest expense.
(5) Profit before tax/interest income.
(6) Profit from continuing operations/average equity (total equity as of the start and end of each period divided by two).
(7) General administrative expenses/interest income.
(8) Net impairment losses on loans and receivables/interest income.
(9) Non-performing loans with a delay of over 90 days/value of loans issued. The value of loans issued represents loans issued for the two-year period before commencement of the 90 day past-due period, eg for 30 June 2016: 1 April 2014 to 31 March 2016.

### *Contacts*


Email: investorrelations@4finance.com
HQ Address: Lielirbes iela 17a-8, Riga, LV-1046, Latvia
Website: www.4finance.com


### *Conference call*

A conference call with management to discuss these results is scheduled for **Wednesday, August 31 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 15 countries. Putting innovative data-driven analysis into all aspects of the business, 4finance has grown rapidly, issuing over EUR 3 billion in single payment and instalment loans to date.

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, Finland, Georgia, Latvia, Lithuania, Mexico, Poland, Romania, Spain, Slovakia and Sweden. To support its international expansion, 4finance continues to pursue a twin-track strategy of strong organic growth bolstered by targeted acquisition.

### *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 six months ending 30 June 2016 and 30 June 2015.

| | 6 months to 30 June | | |
|---|---|---|---|
| | 2016 (unaudited) | 2015 (unaudited) | % change |
| | *(in millions of EUR)* | | |
| Interest income | 182.8 | 146.1 | +25 % |
| Interest expense | (15.4) | (13.4) | +15 % |
| **Net interest income** | **167.4** | **132.7** | **+26 %** |
| Net impairment losses on loans and receivables | (46.8) | (37.5) | +25 % |
| General administrative expenses | (84.0) | (56.8) | +48 % |
| Other income/(expense) | 2.5 | (0.9) | n.m. |
| **Profit before tax** | **39.1** | **37.5** | **+4 %** |
| Corporate income tax for the reporting period | (7.0) | (7.7) | (9 )% |
| **Profit from continuing operations** | **32.1** | **29.8** | **+8 %** |
| Profit from discontinued operations, net of tax | — | 5.6 | (100 )% |
| **Profit for the period** | **32.1** | **35.4** | **(9)%** |

#### *Interest income*

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

| | 6 months to 30 June | | |
|---|---|---|---|
| | 2016 | 2015 | % change |
| | *(in millions of EUR)* | | |
| Total value of loans issued | 537.2 | 505.5 | +6% |
| Average net loan portfolio (excluding Friendly Finance) | 305.9 | 262.4 | +17% |
| Average annualized interest rate on loans to customers | 120% | 111% | |

Interest income, or revenue, for the Period was EUR 182.8 million, a 25% increase compared with EUR 146.1 million for the six months ending 30 June 2015. This reflects the 17% increase in the average balance of the net loan portfolio (excluding Friendly Finance) and the 9 percentage point increase in average interest rate. The value of loans issued increased across the majority of our markets, and higher growth continues to be seen in Poland and Spain, where interest rates are also typically higher. Volumes continue to be lower in Lithuania due to the more restrictive legislation and our reduced marketing during this period of regulatory adjustment.

#### *Interest expense*

Interest expense for the Period was EUR 15.4 million, a 15% increase compared with EUR 13.4 million for the six months ending 30 June 2015. This increase is mainly due to the SEK bonds issued in 2015 and the new EUR bond issued in May 2016. The average balance of the Group's indebtedness in the Period increased to EUR 279.1 million from EUR 223.2 million, with an average interest rate of 11.0%, an improvement from 12.0% in the prior year.

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

Net impairment losses for the Period were EUR 46.8 million, a 25% increase compared with EUR 37.5 million for the six months ending 30 June 2015. The increase in net impairment losses was in line with the increase in revenue, and primarily reflects the expansion and seasoning of the Group's portfolio in both existing and new jurisdictions, as well as its application of prudent, conservative impairment policies. Net impairment losses represented 26% of interest income, the same ratio as last year.

#### *General administrative expenses*

General administrative expenses reported for the Period were EUR 84.0 million, a 48% increase compared with EUR 56.8 million reported for the six months ending 30 June 2015. The Group continued its significant investment across the business to support future growth. The increase in personnel costs reflects the significant staff growth over the past year, mainly attributable to hiring in product development, IT, risk, legal & compliance and finance as well as in new markets. The Group has also continued its investment in IT platforms to ensure the appropriate infrastructure is in place to support the development of the business. Legal and consulting expense and other costs include certain one-off items related to the evaluation of potential acquisitions and funding opportunities.

Marketing expense has been reduced as a proportion of revenue as a result of media buying efficiencies, economies of scale and greater use of marketing technologies. This has contributed to a 2 percentage point improvement in the cost to revenue ratio this year from the first quarter (47%) to the second quarter (45%).

The table below sets out a breakdown of the Group's general administrative expenses.

| | **6 months to 30 June** | |
|---|---|---|
| | **2016** | **2015** |
| | *(in millions of EUR)* | |
| Personnel costs | 29.1 | 14.6 |
| Marketing and sponsorship | 27.0 | 23.4 |
| IT expenses | 6.1 | 5.4 |
| Debt collection costs | 4.1 | 3.2 |
| Legal and consulting | 5.1 | 1.9 |
| Application inspection costs | 2.3 | 1.6 |
| Rent and utilities | 1.9 | 1.2 |
| Depreciation and amortization | 1.7 | 0.5 |
| Other | 6.7 | 5.0 |
| **Total** | **84.0** | **56.8** |

For the second quarter of 2016 and 2015, marketing and sponsorship costs accounted for 32% and 41% respectively, and personnel costs accounted for 35% and 26%, respectively, of general administrative expenses.

Variable costs (*i.e.,* all marketing and sponsorship costs, personnel costs, application inspection costs, IT expenses, debt collection costs, communication expenses and bank services) accounted for 83% of total administrative costs in the six months ending 30 June 2016, down from 88% in the six months ending 30 June 2015. Such costs generally correlate to movements in loan sales over time.

### *Other income/(expense)*

Other income for the Period amounted to EUR 2.5 million. For the six months ending 30 June 2015, other expense was EUR 0.9 million. The increase in net other income was mainly due to gains on loan portfolio sales and interest income from other loans, mitigated by FX hedging impact.

### *Profit before tax*

For the reasons stated above, the Group's profit before tax for the Period was EUR 39.1 million, a 4% increase compared with EUR 37.5 million for the six months ending 30 June 2015. The profit before tax margin, *i.e.,* profit before tax as a percentage of interest income, was 21% for the Period and 26% for the six months ending 30 June 2015.

### *Corporate income tax*

The Group's corporate income tax expense decreased by 9% to EUR 7.0 million for the Period, compared with EUR 7.7 million for the six months ending 30 June 2015.

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

| | **6 months to 30 June** | |
|---|---|---|
| | **2016** | **2015** |
| | *(in millions of EUR)* | |
| Current tax | 16.1 | 10.4 |
| Deferred tax | (9.2) | (2.7) |
| **Total** | **7.0** | **7.7** |

### *Profit from continuing operations*

For the reasons stated above, the Group's profit from continuing operations for the Period was EUR 32.1 million, a 8% increase compared with EUR 29.8 million for the six months ending 30 June 2015.

### *Profit from discontinued operations, net of tax*

There were no operations classified as discontinued in the Period. For the prior year period, former operations in Estonia, Russia and United Kingdom were reflected separately as discontinued operations which recorded a profit of EUR 5.6 million for the six months ending 30 June 2015.

### *Profit for the period*

For the reasons stated above, profit for the Period was EUR 32.1 million, a 9% decrease compared with EUR 35.4 million for the six months ending 30 June 2015.

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

| | Six Months Ended 30 June 2016 | Six Months Ended 30 June 2015 | Year Ended 31 December 2015 | Year Ended 31 December, 2014 |
|---|---|---|---|---|
| | **2016** | **2015** | **2015** | **2014** |
| | *(in millions of EUR)* | | | |
| Profit for the period | 32.1 | 35.4 | 64.1 | 46.3 |
| Provision for corporate income tax | 7.0 | 7.7 | 15.7 | 11.6 |
| Interest expense | 15.4 | 13.4 | 28.7 | 23.8 |
| Depreciation and amortization | 1.7 | 0.5 | 1.6 | 0.9 |
| **EBITDA** | **56.2** | **57.0** | **110.1** | **82.6** |
| Adjustments | 6.0 | (2.7) | 9.6 | 5.6 |
| **Adjusted EBITDA** | **62.2** | **54.3** | **119.7** | **88.2** |

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.

| | 30 June 2016 (unaudited) | 31 December 2015 (audited) | 30 June 2015 (unaudited) |
|---|---|---|---|
| | *(in millions of EUR)* | | |
| Cash and cash equivalents | 116.4 | 56.9 | 51.1 |
| Loans and advances due from customers | 322.7 | 308.3 | 283.3 |
| Property and equipment | 4.9 | 4.3 | 2.9 |
| Intangible assets | 26.1 | 17.4 | 8.6 |
| Goodwill | 25.4 | 0.6 | 0.6 |
| Loans to related parties | 28.8 | 13.7 | — |
| Deferred tax asset | 21.5 | 12.9 | 13.6 |
| Current tax assets | 9.1 | 5.5 | 4.6 |
| Financial instruments at fair value through profit or loss | 7.7 | 10.6 | 10.2 |
| Prepaid expenses | 6.7 | 2.7 | — |
| Other assets | 21.2 | 5.2 | 15.6 |
| **Total assets** | **590.6** | **438.2** | **390.5** |
| Loans and borrowings | 328.7 | 229.5 | 214.7 |
| Corporate income tax payable | 15.0 | 7.4 | 6.6 |
| Provisions | 2.5 | 2.4 | 1.6 |
| Other liabilities | 41.8 | 25.7 | 22.2 |
| **Total liabilities** | **388.0** | **265.0** | **245.1** |
| Share capital | 35.8 | 35.8 | 35.8 |
| Retained earnings | 202.9 | 171.0 | 142.7 |
| Reorganization reserve | (31.1) | (31.1) | (32.6) |
| Currency translation reserve | (7.3) | (5.1) | (1.4) |
| Share based payment reserve | 2.4 | 1.4 | 0.1 |
| Obligatory reserve | 0.2 | 0.2 | 0.2 |
| Other reserves | (1.5) | — | — |
| **Total equity attributable to the Group's equity holders** | **201.4** | **172.2** | **144.7** |
| Non-controlling interests | 1.2 | 1.1 | 0.8 |
| **Total equity** | **202.6** | **173.3** | **145.4** |
| **Total shareholders' equity and liabilities** | **590.6** | **438.2** | **390.5** |

### *Assets*

The Group had total assets of EUR 590.6 million as of 30 June 2016, compared with EUR 438.2 million as of 31 December 2015, representing an increase of EUR 152.4 million, or 35%. The increase was mainly due to the EUR 100 million bond issue in May and correspondingly higher cash levels. The purchase of Friendly Finance resulted in EUR 24.7 million of goodwill as of 30 June 2016, and the reduction of most of the 'other assets' amounts that were allocations for potential acquisitions in the first quarter results report. Increases in funding for the UK joint venture, as well as for 4finance Group, were the main additional related party loans.

As of 30 June 2016 and 31 December 2015, 74% and 83% respectively of the Group's assets were self-liquidating (*i.e.,* loans and advances due from customers and cash as a percentage of total assets).

### *Loan Portfolio*

As of 30 June 2016, the Group's net loan portfolio equaled EUR 322.7 million, compared with EUR 308.3 million as of 31 December 2015, representing an increase of EUR 14.4 million, or 4.7%. The increase resulted from the addition of EUR 19.3 million in net loans from the Friendly Finance acquisition.

### *Classification of the Group's Loan Portfolio, excluding acquired portfolio*

The following table sets out the classification of the Group's loan portfolio in terms of performing and non-performing loan portfolios, including accrued interest. To facilitate comparison with prior periods, this excludes the Friendly Finance loan portfolio.

| Loan portfolio | 30 June 2016 | | | | 31 December 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Gross Amount | Allowance for doubtful debts | Net Amount | % of Net Portfolio | Gross Amount | Allowance for doubtful debts | Net Amount | % of Net Portfolio |
| | *(in millions of EUR, except percentages)* | | | | | | | |
| Performing | 253.1 | (26.7) | 226.4 | 74.6 % | 268.4 | (24.3) | 244.1 | 79.2 % |
| Non-performing | 186.4 | (109.5) | 77.0 | 25.4 % | 157.1 | (92.9) | 64.2 | 20.8 % |
| **Total** | **439.5** | **(136.1)** | **303.4** | **100.0%** | **425.5** | **(117.2)** | **308.3** | **100.0%** |

### *Performing Loan Portfolio*

The following table shows the Group's performing loan portfolio by product as of the dates indicated.

| | 30 June 2016 | | 31 December 2015 | |
|---|---|---|---|---|
| | Amount | % of Portfolio | Amount | % of Portfolio |
| **Performing loan portfolio by product:** (1) | *(in millions of EUR, except percentages)* | | | |
| Single Payment Loans | 171.2 | 67.6 % | 177.3 | 66.1 % |
| Instalment Loans | 80.3 | 31.7 % | 90.6 | 33.8 % |
| Line of Credit | 1.6 | 0.6 % | 0.5 | 0.2 % |
| **Total performing loan portfolio** | **253.1** | **100.0%** | **268.4** | **100.0%** |

Note:
(1) Loan amounts include accrued interest.

### *Non-performing Loan Portfolio*

The Group has written off any loans which have been overdue for more than 730 days. As of 30 June 2016, the Group's non-performing loan portfolio, excluding Friendly Finance, was EUR 186.4 million, representing 9.5% of the value of loans issued between 1 April 2014 and 31 March 2016. Given the mostly short-term nature of the Group's lending, the majority of loans issued during a reporting period are repaid prior to the period end, while non-performing loans are accumulated for 730 days. The Group's non-performing loan (NPL) portfolio as of 30 June 2016 represented 42% of total gross loans outstanding as of that date. EUR 17.7 million, or 9.5%, of this was non-performing interest. The Group's total gross non-performing loan portfolio increased by 29.3 million, or 19%, during the Period. The trend in non-performing loans is in line with expectations given the growth of the portfolio in higher return markets such as Spain that also have higher NPL/gross portfolio ratios. The Instalment Loan portfolio also had lower new originations in Finland (product discontinued) and Lithuania (as noted earlier).

The following table sets out an analysis of the Group's NPL portfolio (excluding Friendly Finance) by product.

| | 30 June 2016 | 31 December 2015 | 30 June 2015 |
|---|---|---|---|
| | *(in millions of EUR, except percentages)* | | |
| Non-performing loan portfolio by product: | | | |
| Single Payment Loans | 134.6 | 118.7 | 104.0 |
| Instalment Loans | 51.6 | 38.4 | 28.1 |
| Line of Credit | 0.3 | 0.0 | 0.0 |
| **Total non-performing loan portfolio** | **186.4** | **157.1** | **132.1** |
| Allowance for doubtful NPL debts | 109.5 | 92.9 | 75.8 |
| Allowance for doubtful NPL debts / non-performing loans | 59 % | 59 % | 57 % |
| Overall allowance / NPL coverage ratio | 73 % | 75 % | 74 % |
| Value of loans issued(1) | 1,964 | 1,739 | 1,490.4 |
| **Ratio of NPLs to value of loans issued** | **9.5%** | **9.0%** | **8.9%** |
| Average Loss Given Default rate | 52 % | 53 % | 47 % |

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 June 2016 reporting date is 1 April 2014 to 31 March 2016.

### *Liabilities*

The Group had total liabilities of EUR 388.0 million as of 30 June 2016, compared with EUR 265.0 million as of 31 December 2015, representing an increase of EUR 123.0 million. Liabilities mainly consist of loans and borrowings, which increased due to the EUR bond issuance in May 2016.

*Loans and borrowings*

As of 30 June 2016, the Group had loans and borrowings of EUR 328.7 million, compared with EUR 229.5 million as of 31 December 2015. The Group's loans and borrowings accounted for 85% of total liabilities as of 30 June 2016 and 87% of total liabilities as of 31 December 2015. The table below sets out the loans and borrowings by type as of the dates indicated.

| | 30 June 2016 | 31 December 2015 |
|---|---|---|
| **Long term** | *(in millions of EUR)* | |
| AS Trasta Komercbanka | — | 4.7 |
| 4finance Notes | 296.6 | 208.0 |
| Friendly Finance Notes | 2.8 | — |
| Other(1) | 5.5 | 0.7 |
| **Total long term** | **304.9** | **213.4** |
| **Short term(2)** | | |
| AS Trasta Komercbanka | 5.3 | 1.2 |
| 4finance Notes | 9.8 | 9.0 |
| Other(1) | 8.6 | 5.8 |
| **Total short term** | **23.7** | **16.0** |
| **Total loans and borrowings** | **328.7** | **229.5** |

Note:
(1) 'Other' consists primarily of loans with related parties.
(2) Includes accrued but unpaid interest.

In May 2011, AS 4finance entered into a credit line agreement with AS Trasta Komercbanka ('TKB'), which allows borrowings of up to EUR 7.7 million (the 'TKB Credit Line'). As of 30 June 2016, the amount outstanding under the TKB Credit Line was EUR 5.3 million at an interest rate of 7%.

In August 2014, 4finance S.A. issued USD 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. As of 30 June 2016, the amount outstanding and accumulated interest under the *2019 Notes* was EUR 169.4 million. The *2019 Notes* will mature in August 2019.

In March 2015, 4finance S.A. issued SEK 225.0 million of 11.75% notes (the '*2018 Notes*') which are senior to all of the Group's future subordinated debt. The *2018 Notes* were listed on the corporate bond list of Nasdaq Stockholm in August 2015. In September 2015, a further SEK 150.0 million of *2018 Notes* were issued at par, bringing the total amount outstanding to SEK 375.0 million out of a total programme size of SEK 600.0 million. As of 30 June 2016, the amount outstanding and accumulated interest under the *2018 Notes* was EUR 39.9 million. The *2018 Notes* will mature in March 2018.

In May 2016, 4finance S.A. issued EUR 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 were listed on the Prime Standard regulated market segment of the Frankfurt Stock Exchange in August 2016. As of 30 June 2016, the amount outstanding and accumulated interest under the 2021 Notes was EUR 97.0 million. The 2021 Notes will mature in May 2021.

In November 2015, Friendly Finance Poland issued PLN 15.0 million of 10% Notes due in May 2018.

### *Equity*

As of 30 June 2016, the Group's total equity amounted to EUR 202.6 million, compared with EUR 173.3 million as of 31 December 2015, representing an increase of EUR 29.3 million, or 17%, which was mainly attributable to profits generated. The Group has not paid any dividends to its shareholders within the Period and its capital to assets ratio as of 30 June 2016 was 34%. The capital to net loan portfolio ratio as of 30 June 2016 was 63%, reflecting the Group's strong capitalisation.

## Off-Balance Sheet Arrangements

In connection with the Group's line of credit product, it had contractual obligations for undrawn credit facilities totalling EUR 0.2 million as of 30 June 2016. The Group has no other off-balance sheet commitments or obligations outstanding.

## Condensed Consolidated Statement of Cash Flows for the Period

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

| | 6 months to 30 June | |
|---|---|---|
| | **2016** | **2015** |
| **Cash flows from operating activities** | *(in millions of EUR)* | |
| **Profit before taxes** | **39.1** | **43.1** |
| Adjustments for: | | |
| Depreciation and amortization | 2.0 | 0.5 |
| Net losses on foreign exchange from borrowings | (5.6) | 9.0 |
| Increase in impairment allowance | 50.6 | 37.6 |
| Write-off and disposal of intangible and property and equipment assets | 0.1 | 0.1 |
| Provisions | 0.1 | 1.5 |
| Interest income | (3.4) | (1.2) |
| Interest expenses | 15.4 | 13.4 |
| Gain on sale of discontinued operations, net of tax | — | (6.1) |
| Equity-settled share-based payment transactions | 1.0 | 0.0 |
| Profit or loss before adjustments for the effect of changes to current assets and short-term liabilities | 99.3 | 97.7 |
| Adjustments for: | | |
| Increase in loans due from customers | (45.7) | (78.3) |
| Change in financial instruments measured at fair value through profit or loss | 1.1 | 8.4 |
| Increase in other assets | (12.3) | 1.0 |
| Gains from sale of portfolio | 1.4 | 0.1 |
| Increase in accounts payable to suppliers, contractors and other creditors | 11.1 | 3.7 |
| Gross cash flows from operating activities | 54.9 | 32.6 |
| Corporate income tax paid | (11.9) | (10.1) |
| **Net cash flows from operating activities** | **43.0** | **22.5** |
| **Cash flows used in investing activities** | | |
| Purchase of property and equipment and intangible assets | (10.9) | (7.1) |
| Loans issued to related parties | (21.2) | (1.8) |
| Loans repaid from related parties | — | 5.7 |
| Interest received | 1.1 | 1.3 |
| Allocation for potential acquisition | (6.6) | — |
| Acquisition of subsidiaries, net of cash acquired | (32.1) | (1.4) |
| **Net cash flows used in investing activities** | **(69.8)** | **(3.4)** |
| **Cash flows from financing activities** | | |
| Loans received and notes issued | 110.2 | 37.5 |
| Repayment and repurchase of loans and notes | (7.1) | (26.2) |
| Interest payments | (16.2) | (12.9) |
| Dividend payments | (0.7) | (0.6) |
| **Net cash flows from financing activities** | **86.2** | **(2.2)** |
| **Net (decrease) / increase in cash and cash equivalents** | **59.4** | **16.8** |
| **Cash and cash equivalents at the beginning of the period** | **56.9** | **34.4** |
| Effect of exchange rate fluctuations on cash | 0.1 | (0.2) |
| **Cash and cash equivalents at the end of the period** | **116.4** | **51.1** |

Net cash flows used in operating activities are calculated as profit before taxes, adjusted for non-cash and other items and the effect of changes to current assets and short-term liabilities, less corporate income tax paid. Net cash flows generated in operating activities in the Period increased to EUR 43.0 million from EUR 22.5 million in the same period last year.

The Group's cash flows used in investing activities mainly include the purchase and disposal of property, equipment and intangible assets, loans issued and loans repaid. Net cash used in investing activities was EUR 69.8 million in the Period. The largest component was consideration for the acquisitions made at the end of June.

The Group's cash flows from financing activities mainly reflect proceeds that were received from borrowings (including the EUR bond issuance), the repayment of principal and interest on indebtedness, and the payment of dividends.

## Proforma Income Statement and Balance Sheet for combination of 4finance and TBI Bank

The Group finalised the purchase of TBI Bank EAD (the "Bank"), via the acquisition of TBIF Financial Services BV, in August 2016. Accordingly, the Bank will only be consolidated within the Group's financial results from the next quarter onwards, the results for the first nine months of 2016.

Presented here for illustration are the condensed proforma results for the six months ending 30 June 2016 for the combination of 4finance and TBI Bank, as if the Bank had been acquired on 1 January 2016.

### *Income statement*

The table below sets out the condensed consolidated proforma statement of financial position for the combination of 4finance and TBI Bank.

| | Six months ended 30 June 2016 *(unaudited, in millions of EUR)* | | |
|---|---|---|---|
| | *TBI Bank* | *4finance* | *Proforma* |
| Interest income | 24.6 | 182.8 | 207.4 |
| Interest expense | (1.7) | (15.4) | (17.1) |
| **Net interest income** | **22.9** | **167.4** | **190.3** |
| Net impairment losses on loans and receivables | (4.1) | (46.8) | (50.9) |
| General administrative expenses | (14.5) | (84.0) | (98.5) |
| Other income/(expense) | 3.3 | 2.5 | 5.8 |
| **Profit before tax** | **7.7** | **39.1** | **46.8** |
| Corporate income tax for the reporting period | (0.8) | (7.0) | (7.8) |
| **Profit for the period** | **6.9** | **32.1** | **39.0** |

### *Key Financial Ratios*

The table below sets out the key financial ratios for TBI Bank, 4finance and the combined business, based on this illustrative proforma. This highlights the positive effect of the combination of TBI on most of these ratios, and that the combined business remains well capitalised and within its financial covenants.

| | Six months ended 30 June 2016 | | |
|---|---|---|---|
| | *TBI Bank* | *4finance* | *Proforma* |
| Capital/assets ratio(1) | 24% | 34% | 26% |
| Capital/net loan portfolio(2) | 37% | 63% | 42% |
| Adjusted interest coverage(3) | 6.5x | 4.0x | 4.3x |
| Profit before tax margin(4) | 31% | 21% | 23% |
| Return on average equity(5) | 23% | 34% | 31% |
| Cost/revenue ratio(6) | 59% | 46% | 47% |
| Net impairment to revenue ratio(7) | 17% | 26% | 25% |

Notes:

(1) Total equity/total assets.
(2) Total equity/net loan portfolio.
(3) Adjusted EBITDA/interest expense.
(4) Profit before tax/interest income.
(5) Profit from continuing operations/average equity (total equity as of the start and end of each period divided by two).
(6) General administrative expenses/interest income.
(7) Net impairment losses on loans and receivables/interest income.

## *Balance Sheet*

The table below sets out the condensed consolidated proforma statement of financial position for the combination of 4finance and TBI Bank. The purchase price and goodwill adjustments are illustrative as if the acquisition had closed on 1 January 2016[1].

| | 30 June 2016 (unaudited) *(in millions of EUR)* | | | |
|---|---|---|---|---|
| | ***TBI Bank*** | ***4finance*** | ***Adjustments*** | ***Proforma total*** |
| Cash and cash equivalents | 45.1 | 116.4 | (68.8) | 92.7 |
| Loans and advances due from customers | 175.1 | 322.7 | | 497.8 |
| Property and equipment | 14.3 | 4.9 | | 19.2 |
| Intangible assets and goodwill | 0.7 | 26.1 | | 26.8 |
| Goodwill | 0.2 | 25.4 | 10.6 | 36.2 |
| Loans to related parties | — | 28.8 | | 28.8 |
| Other assets | 36.5 | 66.3 | — | 102.8 |
| **Total assets** | **272.0** | **590.6** | **(58.2)** | **804.3** |
| | | | | — |
| Customer deposits | 185.9 | 10.9 | | 196.8 |
| Loans and borrowings | 6.1 | 328.7 | | 334.8 |
| Other liabilities | 14.8 | 48.4 | | 63.2 |
| **Total liabilities** | **206.8** | **388.0** | **—** | **594.7** |
| **Total equity attributable to the Group's equity holders** | **65.2** | **201.4** | **(58.2)** | **208.4** |
| Non-controlling interests | — | 1.2 | | 1.2 |
| **Total equity** | **65.2** | **202.6** | **(58.2)** | **209.6** |
| **Total shareholders' equity and liabilities** | **272.0** | **590.6** | **(58.2)** | **804.3** |

Notes:

(1) As of 1 January 2016, TBI Bank EAD had consolidated equity of EUR 56.7 million. During the first quarter of 2016, TBI Leasing SA (Romania) was transferred from TBIF Financial Services BV to TBI Bank EAD. Therefore the net book value of the Romanian leasing business of EUR 1.5 million has been added, bringing the Bank's illustrative equity value on acquisition to EUR 58.2 million.

The adjustment to cash and cash equivalents represents the base purchase price of approximately EUR 69 million, and the difference between book value of acquired assets and purchase price is allocated to goodwill.

The final purchase price will have an additional payment of 1.25x the net profit of TBI Bank from 1 January 2016 to the closing date (11 August 2016), so the final acquisition details and goodwill amount will differ from the above.

## 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 31 May 2016.

### *New licenses and establishments*

In June 2016 the Group established a subsidiary in Guatemala to facilitate pre-opening activities in that market.

The Group expects to commence operations in the Dominican Republic by the end of the quarter.

### *Acquisitions and disposals*

The Group completed the purchase of Bulgarian bank TBI Bank EAD in August 2016 through the acquisition of 100% of TBIF Financial Services B.V. from its parent company, Kardan Financial Services, following receipt of all regulatory approvals. The total consideration comprised a sum of approximately EUR 69 million, which was paid on closing, plus an adjustment to be paid based on the reviewed results of the acquired assets since 1 January 2016.

At the end of June 2016, the Group acquired 80% of Friendly Finance OU, an online consumer lender active in the Czech Republic, Poland, Spain, Slovakia and Georgia, from Tirona for a sum of EUR 28.8 million.

The Group also acquired 9.9% of Spotcap Global SARL, an online SME lender, at the end of June 2016 from Tirona for the sum of EUR 4.9 million.

### *Litigations and contingent liabilities*

No member of the Group is engaged in new legal or arbitration proceedings which may have a material effect on the Group's financial position or profitability.

### *Changes in management*

In July 2016 a Supervisory Board was established at 4finance Group S.A. level. The three members are Nicholas Jordan (chairman), William Horwitz and Dr Cornelius Boersch, bringing a considerable range and depth of expertise to the Group in this important oversight role. Mr Jordan has 20 years of experience in senior positions with banks including Goldman Sachs and is CEO of private equity firm Finstar Financial Group. Mr Horwitz is an independent FinTech advisor with over 20 years of experience in financial services, including with Barclays and Capital One, and is the former president of WDFC SA (Wonga). Dr Boersch is the founder of venture capital firm Mountain Partners and has been a passionate entrepreneur, investor and founder of numerous technology companies for the past 25 years.

### *Changes in the regulatory framework*

Czech Republic: New regulations on consumer credit were published on 5 August 2016, including requirement for a minimum capital base and registration with Czech National Bank for lenders, internal controls, treatment of sales intermediaries, affordability criteria and delinquency fee caps. These regulations will be valid from 1 December 2016, with the licensing process running from February 2017 to June 2018.

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

**4finance Holding S.A.**

Address: 6, rue Guillaume Schneider, L-2522, Luxembourg