

INVESTOR PRESENTATION

Banknote

December 2016

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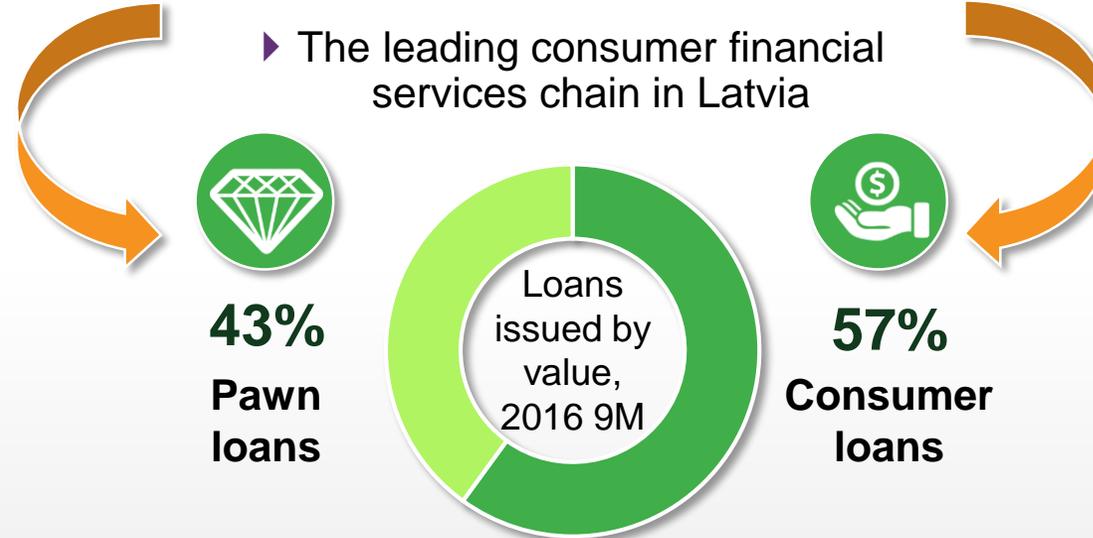
Who we are?

▶ Originally established in 2009 as a pawn broking chain

Banknote

▶ 2nd largest non-bank consumer lender in Latvia¹

▶ The leading consumer financial services chain in Latvia



 **300,000+**
Total unique registered customers

 **275**
Employees, 30.09.2016.

 **298,897**
Number of loans issued, 2016 9M

 **55%**
Growth in net loans y-o-y, 2016E

 **2,100,000+**
Total number of loans issued

 **91**
Branches, 30.09.2016.

 **EUR 24.5m**
Value of loans issued, 2016 9M

 **EUR 2.8m**
EBITDA, 2016E

What we believe in?



Mission

- ▶ Satisfy consumer needs for easily accessible financial services



Vision

- ▶ To create a new market segment in Latvia, one-stop shop for all consumer financial needs
- ▶ To be the unrivalled leader in this segment by providing excellent customer service and product quality and maintaining perfect reputation

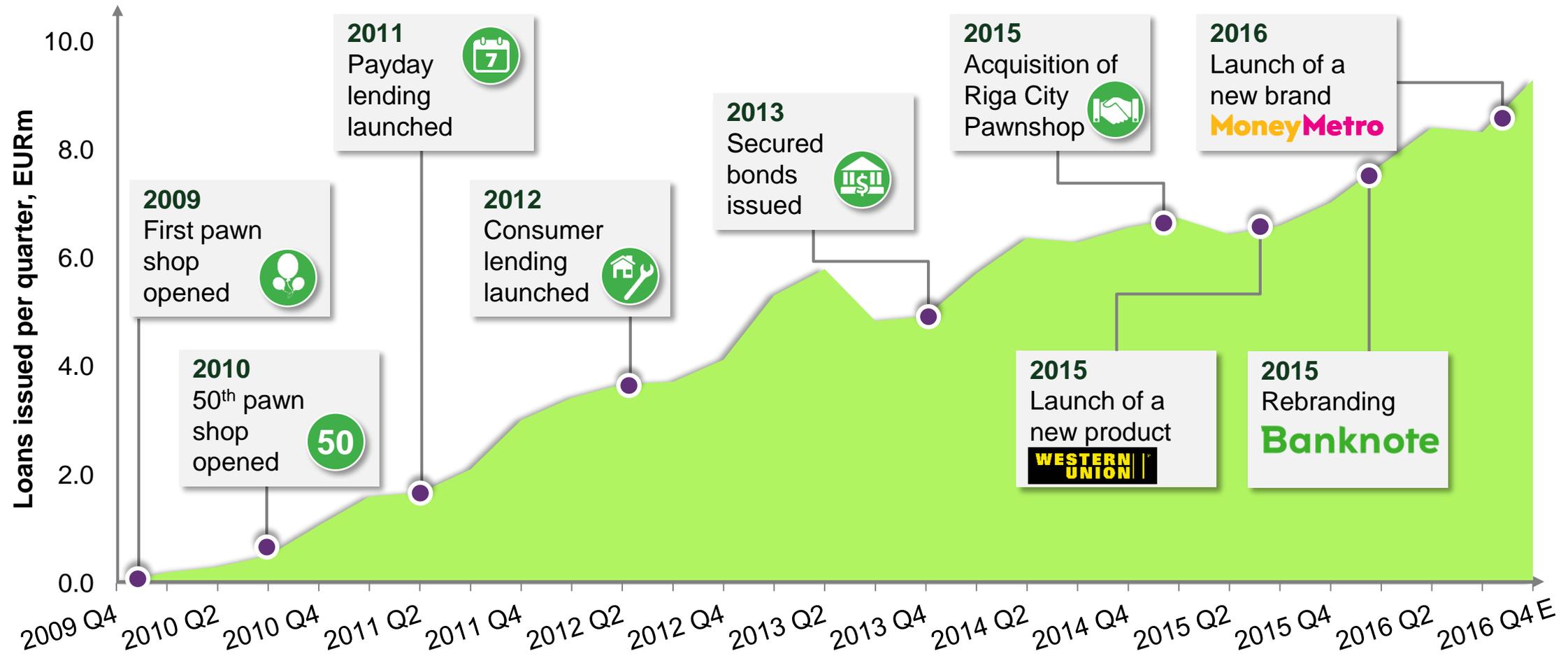


Values

- ▶ Simplicity, Accessibility, Dignity



What is our story?



- Impressive growth on the back of successful positioning, introduction of new products, and rebranding

Our customers¹

Key demand drivers

No emergency funding available

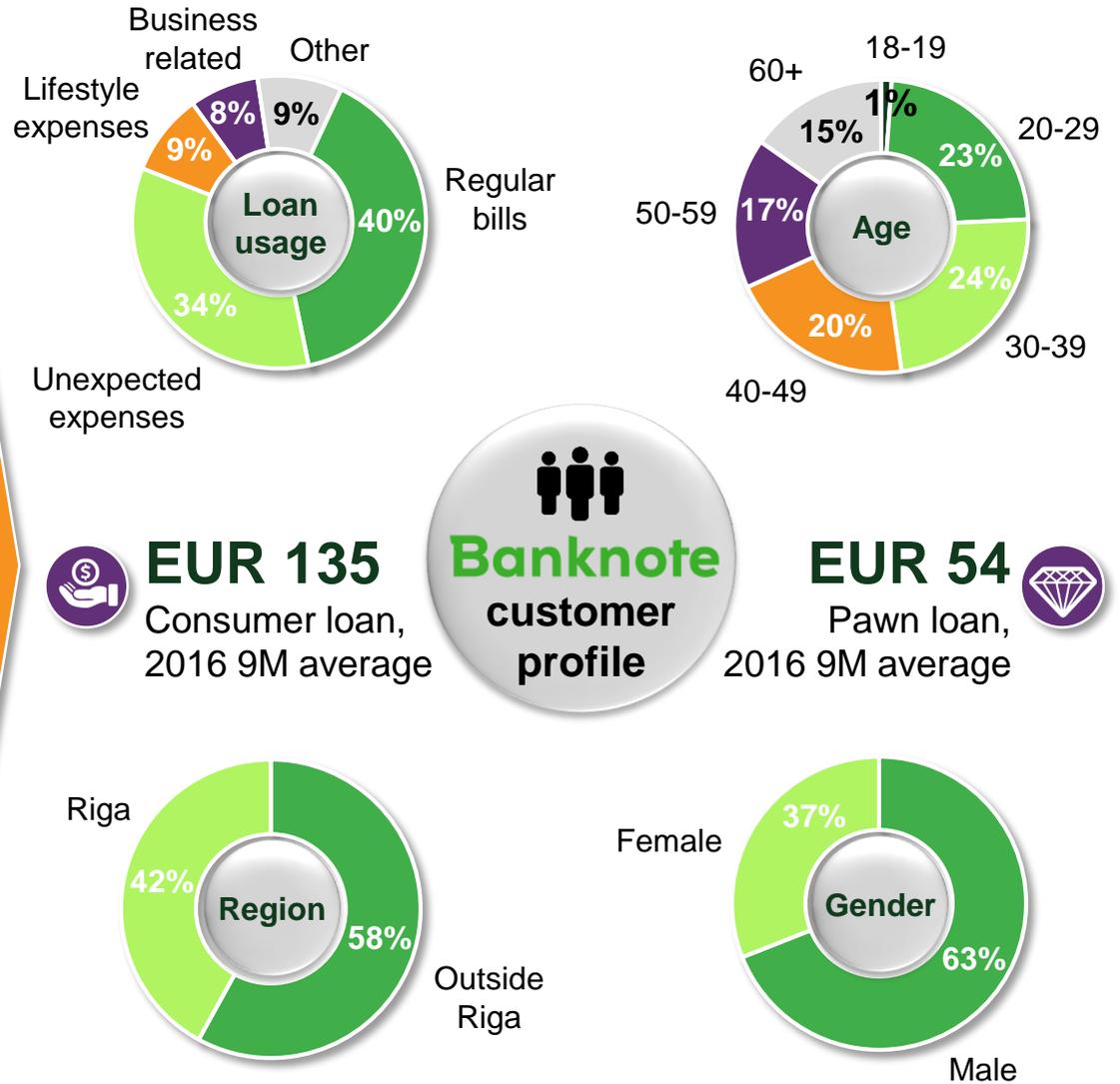
- ▶ Households savings rate **-2%** in Latvia vs. **10%** in the EU for 2015²

Low levels of income

- ▶ **54%** of working population have gross monthly salary < **EUR 700**

Reduced availability of financial services in the regions

- ▶ Number of bank customer service locations in Latvia down from **654** in 2008 to **275** now



Our customers

Sizable and growing customer base



- ▶ 15.3% of total population in Latvia, growing at c.2,400 per month¹
- ▶ Growth driven by rebranding, use of new marketing channels, and new product launch

Exceptional customer loyalty

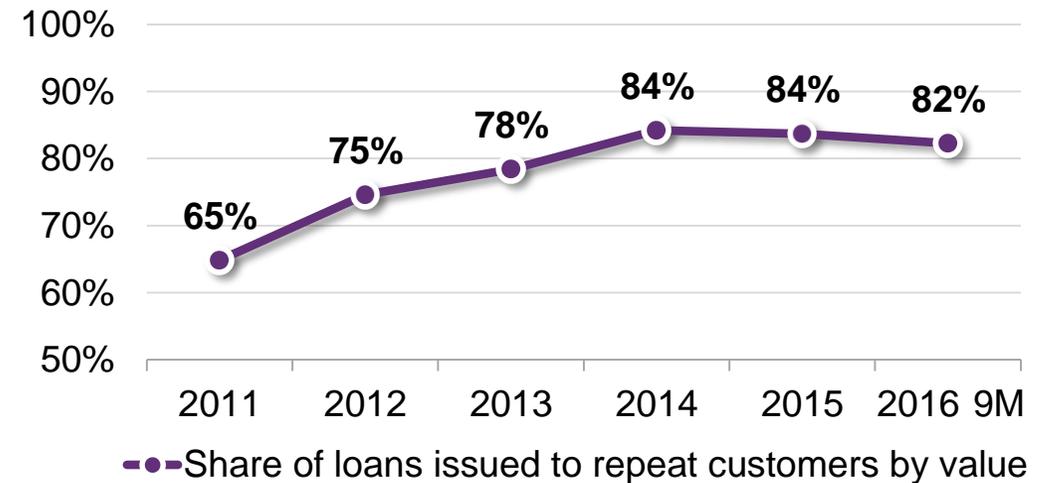
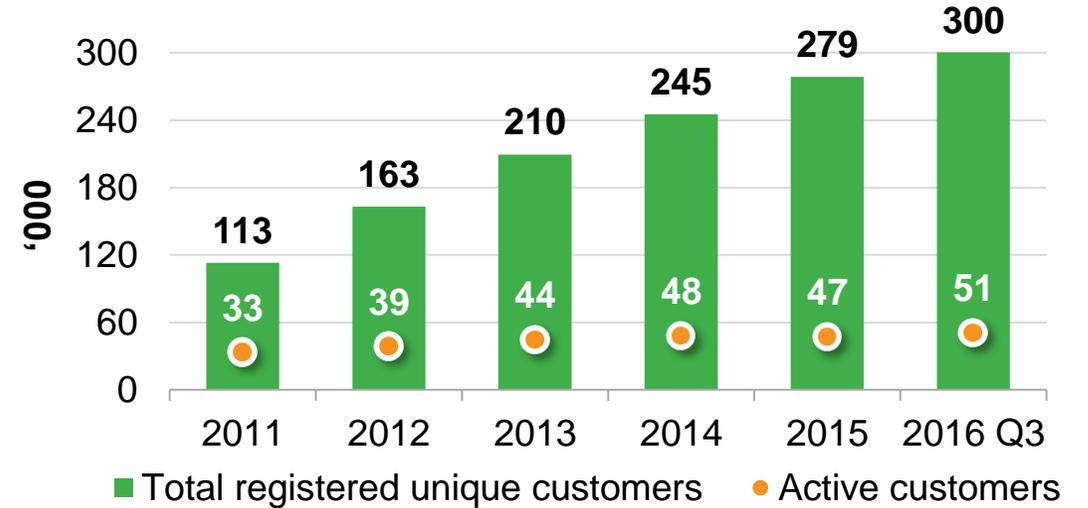


- ▶ More than 80% of loans (by value) issued to repeat customers
- ▶ Loyalty achieved by excellent customer service and attractive product structuring

Significant potential for cross-selling



- ▶ Only less than 25% of registered customers have used both types of loans
- ▶ Potential for cross-selling money transfers and loan products



Regulation of our industry

Consumer loans



Regulatory framework rapidly evolving following industry growth, stabilised in 2016:

- ▶ Minimum capital requirements and strict licensing
- ▶ Cap on total effective loan costs
- ▶ No advertising promoting irresponsible borrowing

Pawn loans



Already well developed and stable regulatory framework, effective since 2011:

- ▶ Minimum capital requirements and strict licensing
- ▶ Advanced security procedures at pawnshop premises
- ▶ Stringent control procedures over pawn item origin

✓ Adjustments to business strategy to **successfully adopt** to a regulatory change

✓ Active **cooperation with the regulator** through industry association

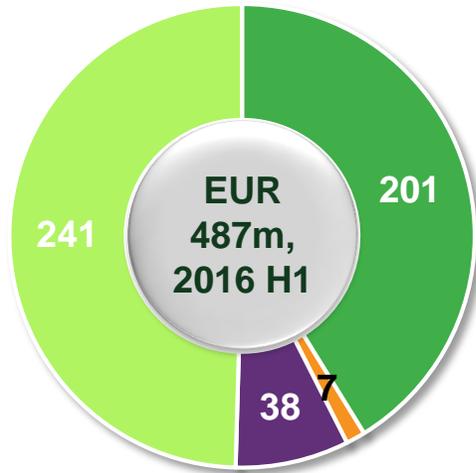
Banknote
welcomes appropriate
regulation

✓ **Stringent internal procedures** already in place before required by the regulation

✓ Acting as a **responsible lender** implementing **sustainable** and **transparent** business practices

Our market

Loan portfolio of Latvian non-bank lenders



- Consumer (incl. online)
- Pawn
- Mortgage
- Leasing, car title

Consumer loans



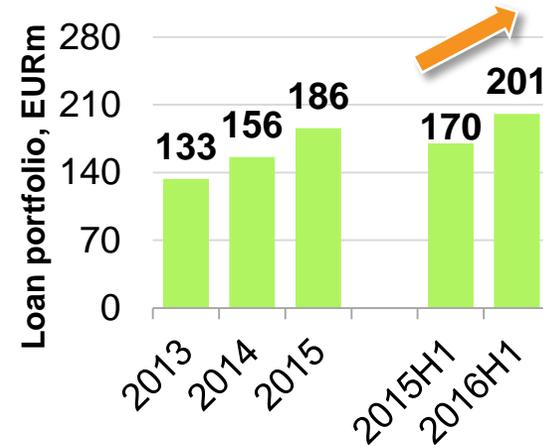
- ▶ Fast-growing segment
- ▶ Banknote grows even faster
- ▶ **3% market share¹**

Pawn loans

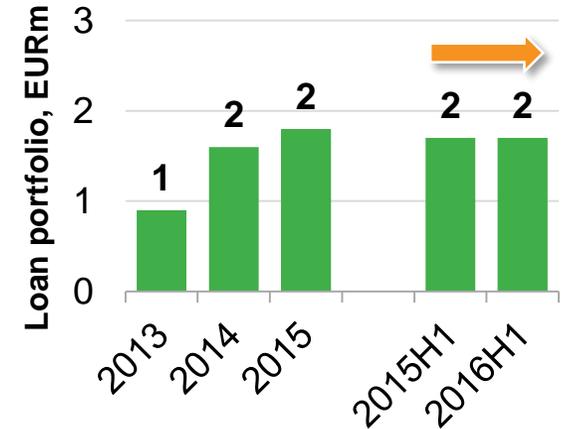
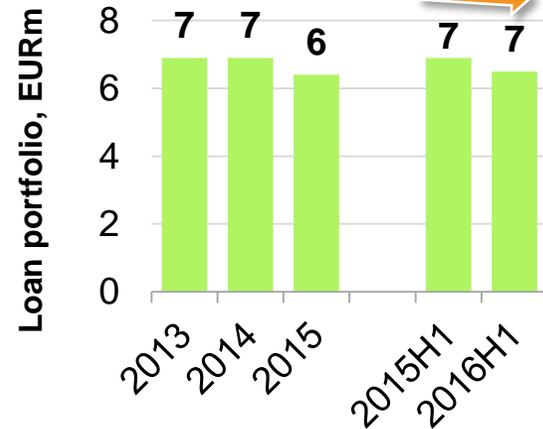
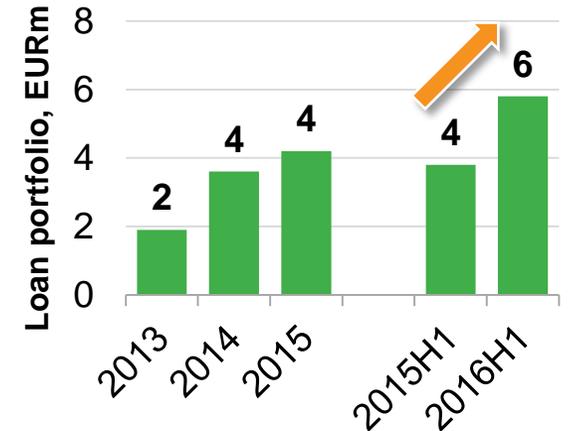


- ▶ Stable segment
- ▶ Banknote is the leading player
- ▶ **26% market share¹**

Industry



Banknote²



Banknote

Source: Consumer Rights Protection Centre

1) Based on loan portfolio as at the end of 2016 H1

2) Loan portfolio data based on SIA ExpressCredit standalone net consumer and pawn loan portfolio excl. accrued interest

Our product

	1 Consumer loans ¹ 	2 Pawn loans 
▶ Share from loans issued, 2016 9M	57%	43%
▶ Loan size	EUR 50-1,600, up to EUR 400 for new customers	Up to 95% of the pawn value (jewellery, mobile phones, other electronics etc.)
▶ Weighted average loan size, 2016 9M	EUR 135	EUR 54
▶ Term	Up to 30 days (single payment loan) 4-36 months (instalment loan)	Up to 30 days (single payment loan) 2-24 months (instalment loan)
▶ Weighted average term, 30.09.2016.	230 days	33 days
▶ Interest rate per month	6.0%-11.8%	9.9%-28.0%
▶ Process	Application and signing in the branch, online application possible	Application and signing in the branch
	3 Money transfers with 	

Operations: Process



- ▶ Extensive branch network as outdoor advertising
- ▶ Data-driven marketing strategy on the back of internal CRM system
- ▶ Targeted TV marketing campaigns



- ▶ Fast and effective application process on-spot in the branch
- ▶ Professional advice to find the best solution for the customer
-  Online application option available



-  Quick assessment of creditworthiness in headquarters using state-of-the-art scoring system
-  Quick pawn item valuation by branch employee using tailor-made ERP system

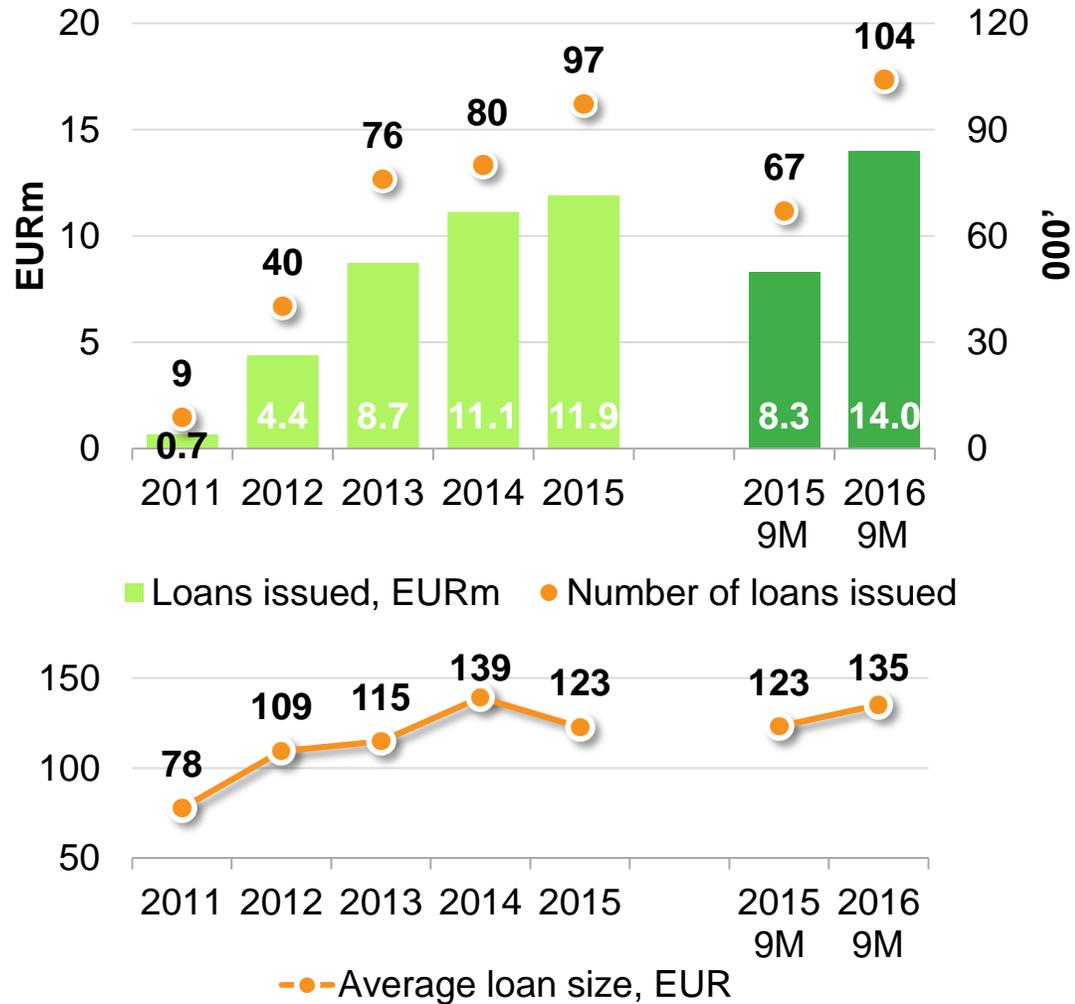


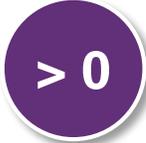
- ▶ Loan issued within 15 minutes after filling the application
-  Visual assessment of the customer serves as the final check
- ▶ Agreement signed on-spot in the branch
- ▶ Money transferred to bank account or disbursed in cash (client preferences)



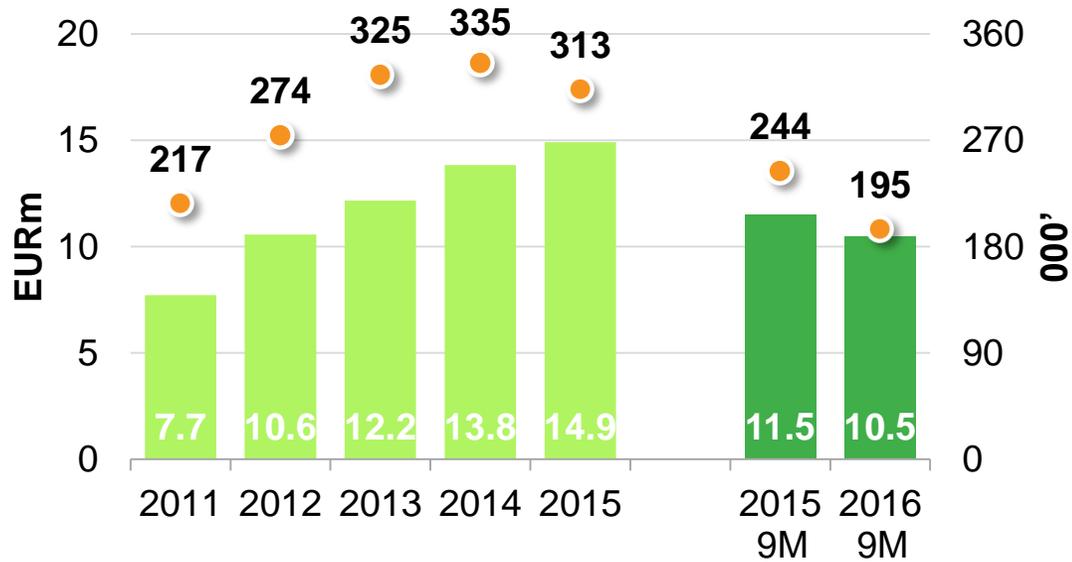
-  Highly automated collection process at initial stages
-  Strong collection rates in-house, transfer to external collectors only if not possible to reach the client
-  Well-developed procedures for profitable retail trade of foreclosed pawn items

Our product: Consumer loans

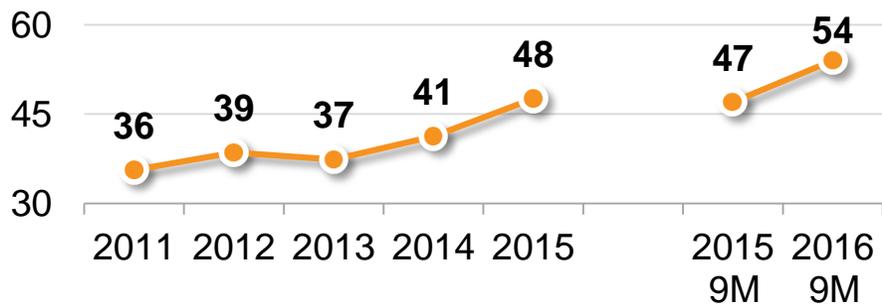


- 
State-of-the-art scoring system, with 67% rejection rate of applications from new customers in 2016 9M
- 
Outstanding payment discipline, with only 9.8% of loans issued over 2016 H1 having more than 90 days overdue payments¹
- 
Strong in-house debt collection competence, with more than 650,000 communication attempts made by Banknote in 2016 9M
- 
Price paid by external debt collectors exceeded net book value in all precedent cession transactions

Our product: Pawn loans



Loans issued, EURm (Green bars) Number of loans issued (Orange dots)



Average loan size, EUR (Orange line)



Expertise in dealing with a **wide range of pawn items**, with goods accounting for 53% of the pledge book as at the end of 2016 Q3



High pledge redemption rate, with 73% of pawn items being redeemed or extended within 3 months since issuance in 2016¹



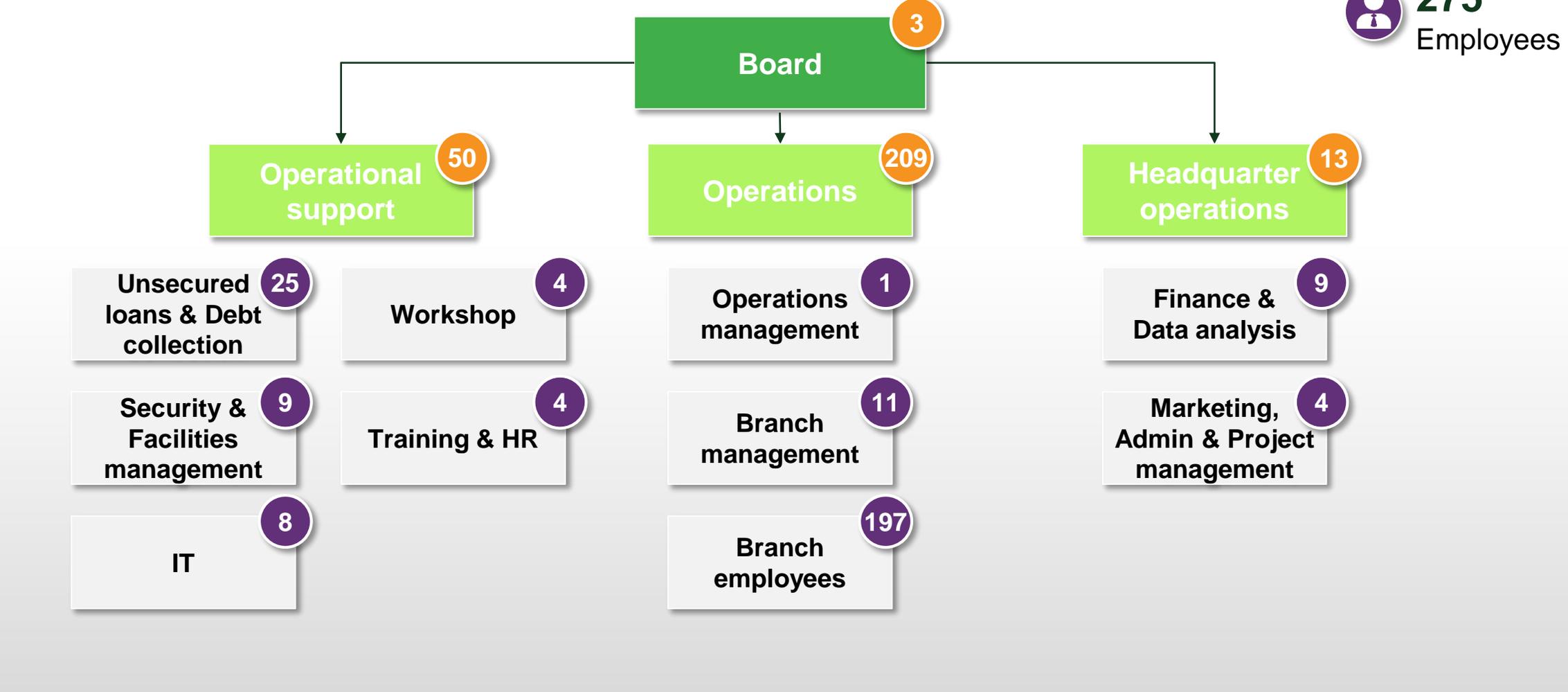
Banknote's policy is to sell inventory within **2 months**



Profitable retail trade of foreclosed pawn items, with average mark-up on goods of 51% in 2016 9M

Operations: Organisation

 **275**
Employees



Operations: Branch network



Branches in Latvia

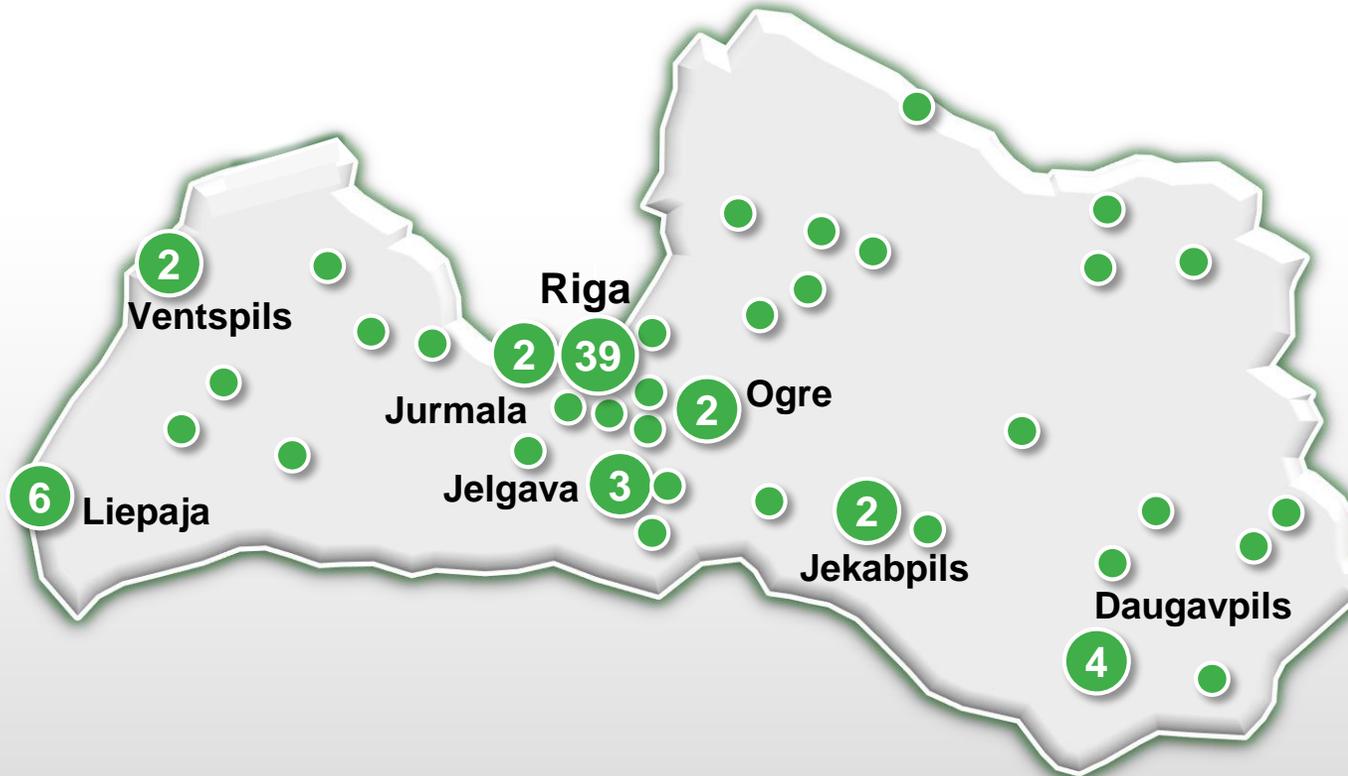
Largest branch network in Latvia among financial service providers



Cities and towns covered by the branch network



Total branch space



Branches merged with other branch in 2016



Average branch space



Branches profitable at EBITDA level

Operations: Branch network

High-quality locations

- ▶ Located in places with high customer flow intensity
- ▶ Easily visible and mostly based on the ground floor with direct entrance



Appealing interior

- ▶ Uniform branch layout
- ▶ Pleasant and attractive interior, ensuring customer-friendly environment



Operations: Branch network

Approach to branch operations management

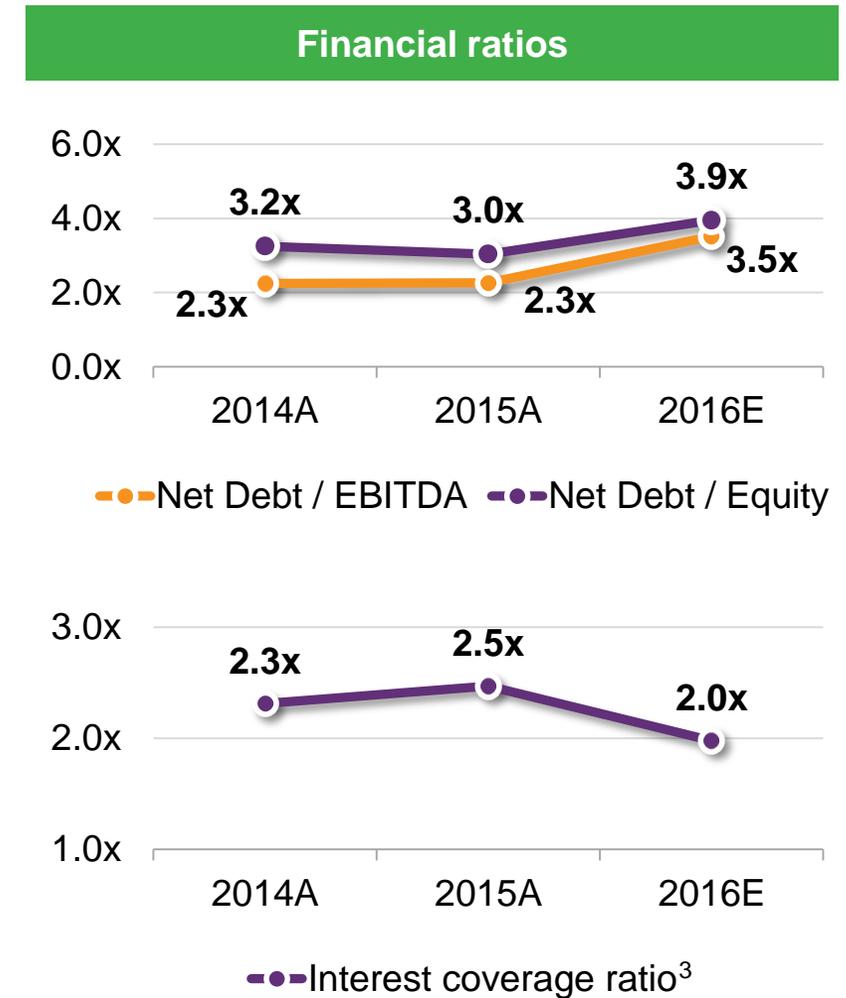
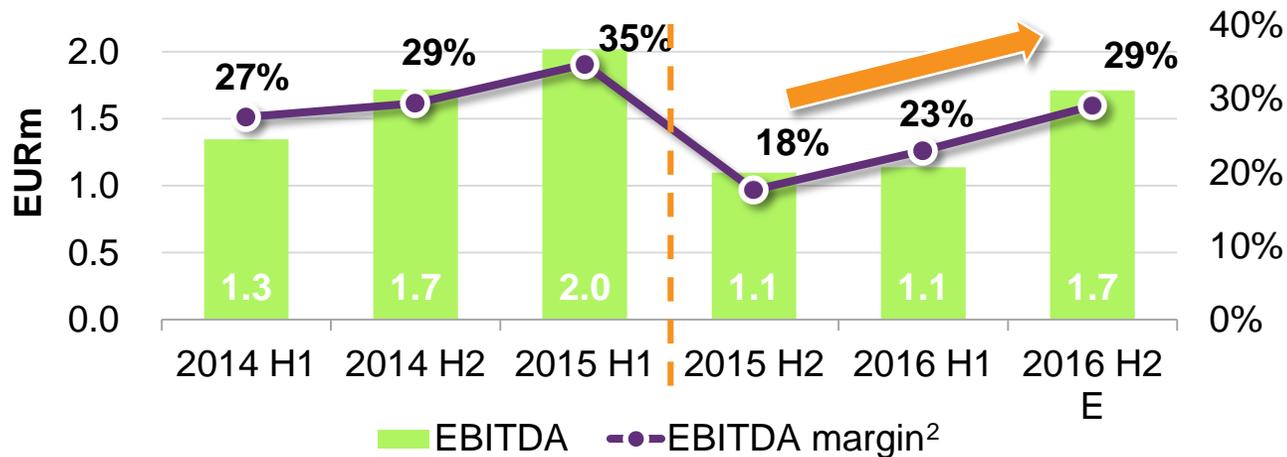
- Effective knowledge transfer in the company**
 - ▶ Standardized operations governed by internal procedures
 - ▶ Rigorous ongoing employee training program
- Established quality control system**
 - ▶ Organizing regular tests for branch employees and middle management
 - ▶ Controlling customer service quality
- Strong employee motivation system**
 - ▶ Competitive remuneration package with fixed hourly rate and KPI-based variable component
 - ▶ Organisational culture relying on co-operation, loyalty, and innovation



Financial highlights¹

Key financials, EURm	2014A	2015A	2016E
Interest income	8.6	10.0	8.9
Gross profit from sale of foreclosed items	2.1	2.0	1.9
EBITDA	3.0	3.1	2.8
Net profit	1.4	1.5	1.0
Equity	2.1	2.3	2.5
Net Debt	6.9	7.0	10.0
Net loan portfolio	6.3	7.0	10.8
Total assets	11.0	10.7	14.5

Strong growth following rebranding and regulatory change



1) Based on consolidated financial statements

2) Calculated as EBITDA / (Interest income + Gross profit from sale of foreclosed items)

3) Calculated as EBIT / Interest expense

What we are proud of?

- 1 The leading market position**
 - ▶ The leading consumer financial services chain in Latvia with a unique value proposition
 - ▶ Rapidly gaining market share in the fast-growing consumer loan segment
 - ▶ #1 player in pawn loans
- 2 Sizeable and recurring client base**
 - ▶ 300,000+ unique registered clients, growing by c. 2,400 per month
 - ▶ Outstanding customer loyalty, with more than 80% of loans issued to repeat customers
 - ▶ Significant potential for cross-selling
- 3 Excellent sales platform**
 - ▶ 91 branches country-wide in high-quality locations
 - ▶ Largest branch network in Latvia among financial service providers
 - ▶ All branches are profitable at EBITDA level
- 4 Exceptional customer service**
 - ▶ Rigorous employee training programs and effective quality control system
 - ▶ Customer-friendly branch environment, fast and effective application process
 - ▶ Branch employees acting as full-profile financial experts
- 5 Solid financial performance**
 - ▶ Continuous y-o-y increase in the amount of loans issued since the company's foundation
 - ▶ Adjusted business strategy to successfully adopt to a regulatory change
 - ▶ Stable EBITDA level at around EUR 3m

Current financing structure

Liabilities	30.11.2016, EUR'000	Interest rate, %	Maturity
▶ Secured bonds	2,000	14.0%	11.2018
▶ Unsecured bonds	3,250	15.0%	12.2020
▶ Newly issued unsecured notes (up to EUR 5m)	674	14.0%	10.2021
▶ Peer-to-peer lending platform	3,069	11.0%-13.5%	Mimicking term structure of underlying loans
▶ Private loans, loans from legal entities	2,348	12.9%-15.0%	Up to 09.2018
▶ Leases	173	3.5% + EURIBOR	Up to 3 years
TOTAL	11,515		

Newly issued unsecured notes

Issue overview	
Type	▶ Unsecured notes
Issue size	▶ EUR 5,000,000
Date of issue	▶ 7 October 2016
Price	▶ Issued at par
Face value	▶ EUR 1,000, 5,000 securities
Coupon	▶ 14% per annum, paid monthly
Amortization	▶ Lump sum at maturity
Maturity	▶ 25 October 2021
Call option of the Issuer	▶ Call option to repay principal prior to maturity on 25 October 2017, 2018, 2019, 2020 with 1% premium, fully or partially (at least EUR 100 per one note with next step of EUR 100)
Put option of the Note holders	▶ Put option to demand early repayment of the principal on 25 October 2019
Collateral	▶ Same priority of claims as for other unsecured creditors
Registration	▶ Latvian Central Depository
Use of funds	▶ Ordinary business operations

Covenants	
1	No change of business areas (consumer lending, sale of goods and debt collection)
2	No loans to shareholders
3	Any borrowings from shareholders shall be unsecured and payments made after Notes maturity date
4	No transactions with related parties which are not arm's length
5	No investment in minority shareholdings (below 51%)
6	Consolidated Net Debt / Equity less than 4.0x
7	Loans to related parties less than EUR 1.4m
8	Payout ratio less than 40% of the last audited net profit
9	Dividends above 40% of net profit transferred for repayment of loans to related parties
10	No new borrowings at a higher rate than the Coupon rate
11	No sale or lease of registered brand names
12	No reorganization, liquidation or decrease in share capital

Appendices

Financial statements¹

Income statement, EUR'000	2014A	2015A	2016E
Interest and similar income	8,640	9,975	8,919
Revenue from sale of goods ²	7,988	8,125	8,001
Cost of goods sold ²	(5,882)	(6,041)	(6,063)
Gross profit	10,746	12,059	10,856
Selling expense	(4,631)	(5,081)	(5,199)
Administrative expense	(1,883)	(2,738)	(2,149)
Net other operating expense	(1,170)	(1,125)	(660)
EBITDA	3,062	3,114	2,848
Depreciation	(249)	(245)	(214)
Interest and similar expense	(1,216)	(1,162)	(1,330)
Taxes	(195)	(194)	(350)
NET PROFIT	1,402	1,512	953

2015 H1	2016 H1	%, y-o-y	2015 H2	2016E H2	%, y-o-y
4,868	4,035	(17.1%)	5,107	4,884	(4.4%)
4,065	4,693	15.5%	4,060	3,307	(18.5%)
(3,109)	(3,774)	21.4%	(2,932)	(2,289)	(21.9%)
5,824	4,954	(14.9%)	6,235	5,902	(5.3%)
(2,682)	(2,231)	(16.8%)	(2,399)	(2,968)	23.7%
(1,071)	(1,039)	(2.9%)	(1,667)	(1,110)	(33.4%)
(52)	(547)	950.6%	(1,073)	(114)	(89.4%)
2,019	1,137	(43.7%)	1,096	1,711	56.2%
(121)	(118)	(3.2%)	(124)	(97)	(21.9%)
(599)	(601)	0.3%	(563)	(730)	29.7%
(286)	(84)	(70.6%)	91	(266)	(391.0%)
1,012	335	(66.9%)	500	618	23.6%

Financial statements¹

Balance sheet, EUR'000	2014A	2015A	2016E
Fixed and intangible assets	394	644	525
Loans to related parties	1,504	981	984
Net loan portfolio	6,292	7,001	10,842
Inventory and scrap	1,345	1,138	869
Other assets	228	476	334
Cash	1,198	494	964
TOTAL ASSETS	10,961	10,734	14,517
Share capital and reserves	427	427	427
Retained earnings	296	388	1,152
Profit/loss for the current year	1,402	1,512	953
Equity	2,124	2,327	2,532
Interest-bearing debt	8,091	7,558	10,964
Trade payables and other liabilities	746	850	1,021
Liabilities	8,837	8,407	11,986
TOTAL EQUITY AND LIABILITIES	10,961	10,734	14,517

Cash flow statement, EUR'000	2014A	2015A	2016E
EBITDA	3,062	3,114	2,848
Taxes	(195)	(194)	(350)
Interest payments	(1,216)	(1,162)	(1,330)
Change in Net loan portfolio	(1,392)	(709)	(3,841)
Change in NWC	231	62	583
Cash flow from operations	490	1,111	(2,090)
CAPEX	(193)	(495)	(95)
Change in Loans to related parties	951	523	(2)
Cash flow from investing	758	27	(98)
Bond repayments / issues	3,371	(958)	(1,025)
Change in other borrowings	(1,020)	425	4,431
Dividends	(1,100)	(1,310)	(748)
Change in loans from related parties	(2,091)	0	0
Cash flow from financing	(841)	(1,843)	2,659
TOTAL CASH FLOW	407	(704)	471