

UAB NEO Finance

Corporate report 2017 H2 Vilnius 2018-04-04

Essential corporate events

- Bank of Lithuania has confirmed that the **structure of Provision fund is appropriate** and complies with requirements of legal acts.
- Payment initiation service (PIS) has started to generate income: agreements with external clients have been signed.
- Bank of Lithuania has inspected the company as consumer credit provider and P2P platform operator. Inspection resulted in **no effective measures** taken from Bank of Lithuania.
- Chairman of the board **Evaldas Remeikis has been elected as Chairman** of Fintech Lithuania group in Infobalt association.
- Authorised capital was increased twice from EUR 1.590.675 to EUR 1.921.503. In the end of 2017, authorised capital together with share premium made up EUR 2.55 M.
- The first Lithuanian P2P platform to reach EUR 10 M loan turnover.
- The first Lithuanian P2P platform to issue **EUR 1 M worth of loans** during one month (November).



Main financial ratios

- Based on unaudited accounting data, income has grown significantly up to EUR 330 K: compared to 2016 H2, it increased more than 3 times.
- Growth of cost of sales has been successfully managed and amounted to? 164%.
- Number of signed up users has grown by **26,8%** to 42 thousand users.
- EUR 5.27 M of financed loans.

	2017 H2	2016 H2	Δ, %
Granted loans, EUR	5,265,396	1,922,778	174%
Income, EUR	329,862	74,207	345%
Cost of sales, EUR	(141,842)	(53,663)	164%
Gross profit, EUR	158,744	14,086	1027%
Operating costs, EUR	(465,212)	(433,997)	7%
EBITDA, EUR	(306,468)	(419,911)	-27%
Prie-tax profit, EUR	(382,597)	(448,004)	-15%



Management accounts

- Majority of the revenues from P2P lending activities are distributed throughout the loan period, and these revenues are received only when the borrower actually makes the installment. For management purposes, the future brokerage fee is presented in a month it was generated.
- In this report, as opposed to financial accountability, IT development costs are presented not as intangible assets, but as expenses.

	2017-07	2017-08	2017-09	2017-10	2017-11	2017-12
Granted loans, EUR	741,068	799,285	855,535	904,407	1,017,025	948,076
Brokerage fee income*	55,118	54,569	62,051	72,577	80,663	70,021
Other income	27,484	24,170	28,030	28,531	36,535	42,281
Costs of sales	(61,295)	(51,584)	(59,636)	(70,845)	(78,285)	(45,981)
Operating costs	(55,276)	(58,296)	(59,652)	(55,567)	(59,890)	(53,721)
EBITDA	(33,969)	(31,141)	(29,206)	(25,303)	(20,977)	12,600

• In end-2017, outstanding brokerage fee amounted to EUR 1.12 M.

In the table, brokerage fee income encompasses all future brokerage fee proceeds generated by the issue result of corresponding month.

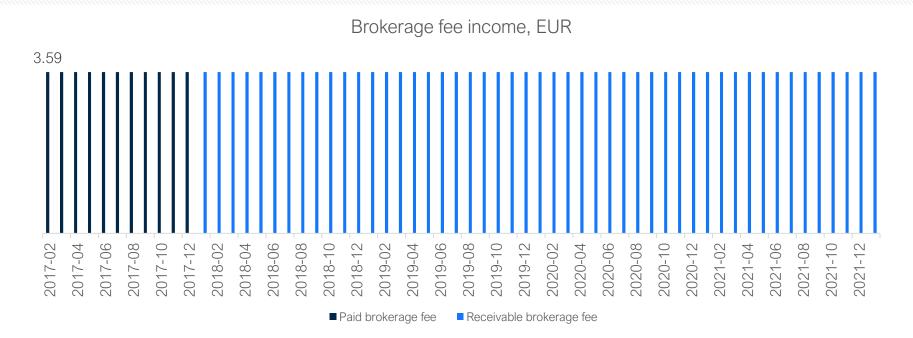


Brokerage fee income

Example on how the brokerage fee of a loan financed via "Paskolu klubas" is distributed throughout the loan period:

Amount – 2500 EUR Term – 48 months Rating – B Interest rate – 16% Brokerage fee – 5.9% or EUR 3.59 per month Issue date – January 2017

During 2017, income of UAB "NEO Finance" would constitute EUR 39.46, and EUR 175.76 would be allocated to future periods.





Goals of the company

- UAB "NEO Finance" has been established on January 21, 2014, in Lithuania.
- In October 2015, a limited e-money institution license has been issued for the company.
- In April 2016, the company was the first platform to be included in the P2P lending platform list administered by the Bank of Lithuania.
- In January 2017, an unlimited e-money institution licence which allows operations in the European Union has been issued.
- Since the start of operations in December 2015, the company has been operating as a P2P lending platform that issues consumer credits in Lithuania, and an e-money institution: holding money in IBAN accounts, money transfers via CENTROlink SEPA payment system.
- A long-term goal set up by the shareholders is to become the largest P2P lending platform in Lithuania and operate profitably.

We are excited, that the goal of becoming the largest P2P lending platform in Lithuania has already been achieved in end-2017. The platform of "Paskolų klubas" is now the largest according to all possible indicators: amount of loans issued since the start of operations, amount of loans issued during the last year, and the amount of loan portfolio.

Currently, the Board, together with the team, are putting effort to make the company profitable.

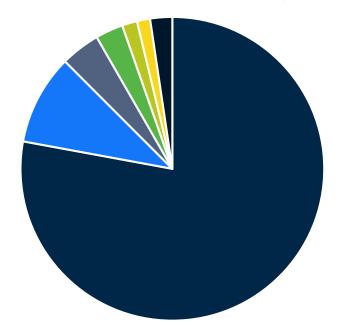
The strategic approach of the Board is based of ensuring long-term and sustainable operations, as opposed to maximizing short-term profits. Therefore, the company pays special attention to ensure compliance with the relevant laws as well as improving them by proposing the amendments to responsible institutions. In addition, a special attention is paid to loan risk management and debt recovery results, as it actually has a direct impact on investment return.



Company shareholders



In the end-2017, the capital of the company was comprised of **1.921.503** ordinary shares of 1 EUR nominal value. Evaldas Remeikis and Aiva Remeikiene each own 50% of "ERA CAPITAL" shares. UAB "VALUE CAPITAL" is 100% owned by board member Deividas Tumas. The Singaporean ASIAN PACIFIC GREEN ENERGY PTE.LTD is related to the Chairman of the Supervisory Board Antanas Danys. During the reporting period, the capital was increased by issuing new shares two times, and closing a share purchase deal, where 0,56% of shares were purchased by the CFO of "NEO Finance" Andrius Liukaitis.



Company shareholders

- UAB "Era Capital", 77.89%
- Grigorij Gurevich, 9.81%
- UAB "Value Capital", 4.19%
- Asian Pacific Green Energy PTE.LTD, 2.95%
- Lionginas Sinkevičius, 1.61%
- Marius Navickas, 1.39%
- Other shareholders 2.35%



Company board and governance

In compliance with legal requirements and in aspiration to make the governance modern and effective, a three-fold management system has been implemented: the management consists of **annual general meeting**, **board** and **CEO**. Also, a supervisory body is in place – **supervisory board**.

Board: Supervisory board: Chairman -Chairman – **Evaldas Remeikis** CEO: Antanas Danvs Members – Head of Administration -Members – Deividas Tumas, Aiva Remeikienė attorney Remigijus Bukenas: Marius Navickas. dr. Marius Laurinaitis. Aiva Remeikienė.

Evaldas Remeikis and Deividas Tumas are graduates of Baltic Institute of Corporate Governance board member programme, with a qualification of professional board member. Also, in aspiration of applying good corporate governance practices, Evaldas Remeikis has graduated from Chairman of the Board training in Stockholm, Sweden.

Most of the **decisions** in the company are **made by the board**, which has regular meetings once a month. When needed, special meetings are organised. The meetings are organised, held, and documented according to the good corporate governance principles.

During the reporting period, **5 Board meetings** took place.

In end-2017, an internal company audit has been launched, which significantly helps to identify and mitigate risks. In 2018, the board and managers are actively working to ensure compliance with relevant requirements and manage risks.



Capital

- Until 2017 H2, EUR 2.11 M has been invested in the company via capital increase and share premiums.
- During 2017 H2, additional EUR 440 K was invested by issuing new shares (paying the nominal share price and allocating the surplus to share premium).
- In end-2017, company's authorised capital plus share premiums comprised to EUR 2.55 M.

During the first stage of expansion, shareholders had EUR 2.4 M dedicated for investment. Therefore, in end-2017, they agreed on the second stage of investment, dedicating additional EUR 1 M. Currently, the company is in the second stage of investment. After that, cumulative shareholder investment will reach EUR 3.4 M. As a way of further expansion, the company does not reject the possibility of issuing an IPO and selling shares in Nasdaq First North alternative stock exchange, or attracting one large shareholder (venture capital fund) or several small institutional or private investors. If none of the latter scenarios is approved, current shareholders are ready to continue their investments until the company starts generating positive cash flow.

As an e-money institution, since 2017, UAB "NEO Finance" must comply with the requirement of minimum private capital of **EUR 350 K** and, if the capital decreases below that, shareholders must make certain decisions so that it is brought back to EUR 350 K. In end-2017, private capital in company's balance sheet was equal to **EUR 831 K**. However, according to the requirements approved by the ruling No. 240 of the Bank of Lithuania adopted on 24 December 2009 (version of 12 January 2012, ruling 03-5), the capital was equal to **EUR 508 K**. Based on this ruling, sufficiency of the capital of e-money institution is counted by subtracting intangible assets from the size of private capital.



The main indexes of the company

During 2017 H2, due to increasing customer trust and brand awareness, the **growth of number of registered users has reached 26.8%**. The growth of borrowers was 25.7%, lenders – 33.4%. The overall growth of users during 2017 H2 equaled to **9K**.

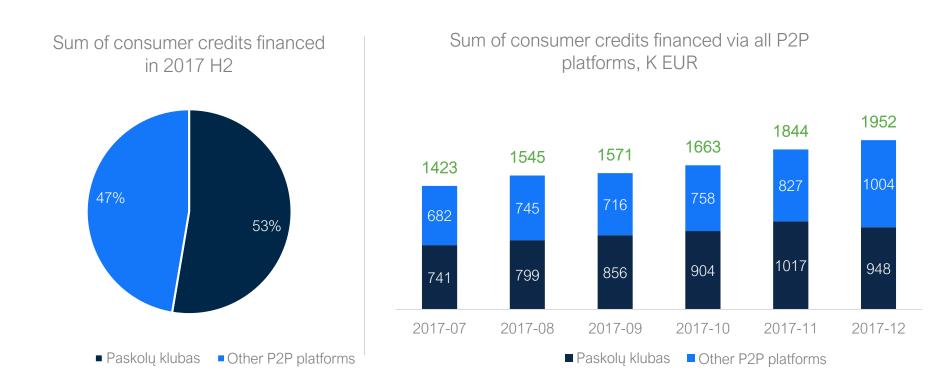


Number of total registered users, K, 2017 H2

The main indexes of the company

During H2, the company has mediated in issuing EUR 5.27 M worth of consumer credits, financed by 3080 investors.

In comparison, last year, lenders financed EUR 1.92 M worth of loans, which sums up to **annual growth of 174%** in 2017 this allowed the company to reach 53% of the P2P lending market. 1577 people got consumer credits during 2017 H2.





Marketing

In 2017, Marketing department had four main goals:

1. In the long term, **minimise the costs of attracting new borrowers** or the ratio between issued loans and allocated budget.

- 2. Increase the loan turnover.
- 3. Educate investors about P2P lending.
- 4. Increase the database of registered investors.

In October 2017, brand awareness and attribute survey was performed. The results showed that "Paskoly klubas" is in the second place among all P2P lending brands, with spontaneous awareness of 14%. Attribute survey has shown that the first three attributes to be linked to "Paskoly klubas" are: (1) well-known brand, (2) modern company, (3) interest rate lower than competitors. This means that the message of "Paskoly klubas" has been understood correctly.

In order to increase the database of investors, constant investments to advertising in Google, Bing, Yandex, and other search engines have been made. In October, collaboration with PINS loyalty programme has started (after achieving certain goals, new investors were offered PINS points).

In order to educate investors on P2P lending, more than 17 events and meetings have been organised. Also, company's representatives participated in Fintech Festival in Singapore – one of the largest Fintech conferenced in the world.

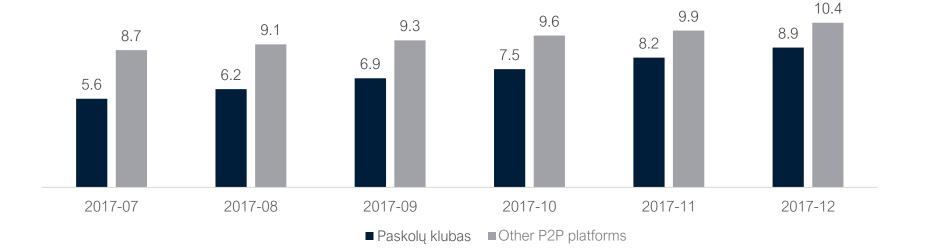
The ratio of costs of attracting new borrowers and one financed loan has diminished by 54% during 2017 H2.



Consumer credit portfolio and customers' cost of borrowing

Due to increased trust of both - borrowers and lenders, as well as increased loan turnover in 2017 H2, lenders of UAB "NEO Finance" held the largest loan portfolio among all Lithuanian P2P platforms.

In 2017 Q4, average effective annual interest rate was 23,25%, as compared to other Lithuanian platforms' average of 35,55%.



Portfolio (principal), M EUR



Income

Based on different activities of the company, income is split into 3 parts:

- P2P lending related income
- E-money issuance and management related income
- Investment activity income

The fact worth mentioning is that the majority of P2P lending related income is distributed throughout the loan period, and these revenues are received only when the borrower actually makes the monthly payment. The company has chosen such income collection method due to requirements of Law on Consumer Credit, as well as aspiration to be as much motivated to mediate and return the necessary interest to investors as possible.

As the company collects its brokerage fee the way described above, company's income is moved towards future periods, therefore, the method of counting company's income is very different from that of competitors, and is not comparable. During the inspection process, the Bank of Lithuania has noted that this payment collection method is the only one that complies to the relevant laws.

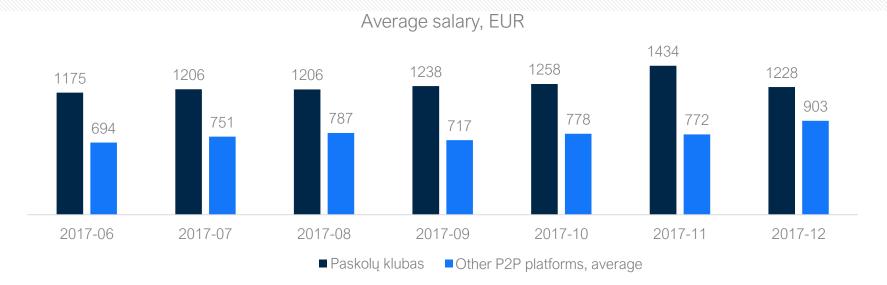
	2017 H2	2016 H2	Δ, %
Income	329,862	74,207	345%
P2P lending related income	243,248	73,922	229%
E-money issuance and management related income	4,778	1,142	318%
Investment activity income	81,835	(857)	(9649)%



Costs

The company is further developing its IT platform, based on customer needs, everchanging regulations, and P2P lending trends. During 2017 H2, EUR 115 K has been allocated to research of new functions, programming, deployment and testing. Every guarter, according to the costs incurred while creating the new version of the platform, the company creates the intangible assets card, and the costs incurred are moved to intangible assets, which is depreciated throughout 4 years. In 2017 H2, this sum amounted to EUR 100 K.

The company employs professional specialists and managers. In 2017 H2, the company had 18 employees on average. The company pays competitive salaries. In addition, bonuses and stock options comprise an effective motivation system. During 2017 H2, EUR 159 K was allocated for salaries. According to SoDra (State Social Insurance Fund Board), the average gross salary was the highest, compared to other Lithuanian P2P lending platforms.



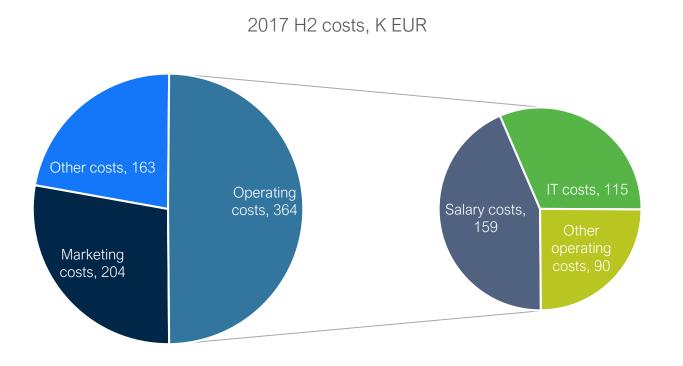


Costs

In 2017 H2, total costs of the company, including sales and marketing expenses, constituted to EUR 710 K.

Other costs include expenses for databases, messages for consumer credit receivers and investors, debt recovery and provision costs.

Other operating costs include all other expenses related to the company and personnel. This includes: rent, utilities, transportation, mobile and fixed data, internal and external audit, stationery, parcel delivery.





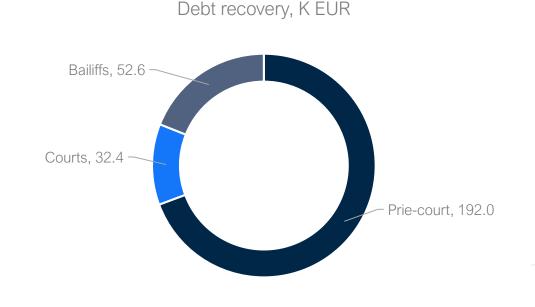
Debt recovery

When the borrower is late to pay at least 1 payment, they are notified via e-mai and SMS messges. After 32 days of being late, the debt is registered in UAB "Creditinfo Lietuva" database, and on the 41st day, recovery is transferred to debt recovery agency.

During 2017 H2, recovered amount summed up to EUR 277 K. 69% of the money has been recovered via prie-court method.

Debt recovery is performed by UAB "Legal Balance". We are satisfied with cooperation results, and hope that further on, we will considerably exceed the Lithuanian rates of recovering delinquent consumer credits, and two years after terminating the agreement will recover 65-68% of the debt. The company therefore offers buy-back service, where the investor has an option to receive 50-80% of face value of the investment without waiting for the recovery process.

During 2018 H2, amount paid to investors for claim rights was equal to EUR 44 K. During the same period last year, the company paid EUR 8 K to investors for claim rights.



Risk management process is a set of actions systematically implemented by UAB "NEO Finance" management and employees in order to identify potential negative consequences for activities of the company as an e-money institution and P2P lending platform operator, and to manage risks in order to avoid their negative consequences for company's operations. This process is an integral part of the company's management and decision-making process, where all responsible employees are involved. The aim of UAB "NEO Finance" risk management system is to identify potential risks, control them, and take actions for their elimination and prevention.

The risk management process identifies, assesses, monitors, restricts and controls all risks actually and / or potentially incurred by the company.

The risk management system of UAB "NEO Finance" consists of the following components:

1. Risk identification and definition

At this stage, efforts are put to identify all possible risks associated with the activities of the company as an e-money institution and a P2P lending platform operator. Potential risks are determined based on internal company experience, as well as monitoring competitors' activities and the problems they face. Risks are also identified based on statistical information, past data, practical knowledge, problematic cases inside the company that had not been foreseen, attempts to anticipate potential risks based on good practices in the financial sector, reports published by supervisory institutions, and other information.



2. Risk evaluation and measurement

Once the preliminary risk assessment reports are prepared, responsible staff and management perform a more detailed assessment and measurement of specific risks. Such assessment involves objectively anticipating the features of specific risk, assessing the negative effects that risks might have on an company's operations, how it can affect company's performance and its ability to fulfil its obligations, the likelihood for the risk to occur. Every type of the risk and the probability of occurrence of potential negative effects are assessed by providing certain qualitative assessment scores for each risk type (low, medium, high risk). Separately, the impact of each type of risk on the company's activities is defined and described. After risk assessment and measurement is completed, it is possible to accurately predict the effect of the risk and to estimate costs related to the risk, which creates the conditions for choosing the best risk management solution.

3. Creation and development of risk management tools

For each risk type management / elimination, specific tools are created and adapted to ensure effective protection against potential risks or to manage risks as they occur. Risk management tools, i.e. specific actions that minimise / eliminate specific risks, are created based on risk assessment reports and report-based risk assessments and measurements. Parenkant rizikos valdymo priemones, pasirenkamos tokios priemonės, kurių įgyvendinimo ir palaikymo sąnaudos būtų mažesnės nei pačios rizikos sukelti nuostoliai, kurios būtų patikimos, efektyvios, nesukeltų kitų rizikų, jų administravimo našta būtų kuo mažesnė, jei įmanoma, priemonės būtų automatizuotos. When choosing risk management tools, the chosen tools are the ones that would have lower implementation and maintenance costs than the risks themselves, that would be reliable, effective, do not cause other risks, their administration would be as low as possible, and, if possible, automated.

The developed and / or selected risk management tools are regularly reviewed and refined. Employees responsible for management of the specific risk provide the company CEO with information on the shortcomings of the specific risk management tool (if any), and suggest ways to make the tool more effective.



4. Usage and prioritisation of risk management tools

The following tools are used in the risk management process:

- a) avoidance / prevention of risks (employing measures to eliminate or prevent risks, or the decision not to engage in certain activities that pose risks);
- b) risk mitigation / limitation (optimisation of risk management tools);
- c) risk transfer / sharing (both within the company, and through external partners);
- d) taking risks (deliberate action to take on the inevitable risks and employ measures to mitigate them).

Eliminating risk is always a priority. If the risk is impossible to objectively eliminate, then an attempt to manage it to an acceptable level of risk is made.

Company's risk management tools are guided by the principle of priority, i.e. the risks that can have the greatest negative impact and likelihood of their occurrence are high, are managed first. Correspondingly, the lower risks are more focused on after the highest risks are managed.

5. Control of application of appropriate risk management tools

The goal of this point is to assess whether the selected and applied risk management measures are effective and can effectively limit or entirely eliminate the possibility of risk occurrence. As the company's operations are dynamic, the actual processes often differ from the ones agreed on and regulated within the company, therefore, it is important to continuously monitor the risk management tools and make appropriate adjustments so that the deviations do not distort the risk management process. The control of the application of specific tools is ensured by the regularly written reports on the risks and the effectiveness of risk management tools.



6. Constant observation of company's operational and identified risks

In order for the risk management system to succeed and for the goals for which such a system is being developed in a company to be achieved, one of the most important elements of the risk management system is continuous monitoring of the company's activities and identified risks, that would identify the factors that could negatively affect the company's operations, business continuity, compliance with financial obligations, protection of clients' interests and would help select the appropriate risk management measures as early as possible. At this stage, various data on the company's activities and on the already identified risks is gathered, and the evaluation of the collected data and the impact on the risk management system is performed.

7. Writing up and presenting reports to management

Periodically, at least quarterly, responsible employees prepare reports on the implemented risk management tools, their effectiveness, implementation and usage problems, newly identified operational risks. Reports help identify the negative effects of existing and potential risks, identify new risks, assess the extent of risks and their influence company's activities and, accordingly, help seek solutions to reduce or avoid risks.

CEO is responsible for proper implementation of risk management process. The CEO may entrust all or a portion of the functions to the company employees.

8. Periodic development of risk management system

Regular assessment, review and update of the risk management system is an integral part of the risk management system, which helps and obliges the company to have a risk management system in line with the actual company situation, including tools and procedures used for risk management. The periodic update of the risk management system is performed at least once a year, and helps ensure that the risk management system is in line with the changes in the scope and / or direction of the company's activities.



The main risks

Risks described below are the ones that are most likely to occur.

Credit risk – the risk that the counterparty will not fulfil one's obligations and will therefore cause negative consequences for company's value. This risk occurs due to company's investment in consumer credits, as well as reimbursable suretyship service. Company's internal evaluations are used for its management, which provides the basis for determining the appropriate risk-return ratio. The maximum threshold for assumed risk is also set. Credit risk assessment relies on the company's internally developed credit rating system this system is constantly developed and is fundamentally renewed once a year.

Operational risk – the risk that company's internal processes, staff, IT systems or external actions of the company will cause losses that will negatively affect the company's value. Operational risk also includes compliance risk. This risk is significant for the company, as it operates in an area where the importance of IT systems is very high, and in the financial sector the supervisory standards are particularly high. To manage this risk, the company uses scenario-based risk evaluation methods, as well as continuous improvement of company's internal processes and IT system.

Liquidity risk – the risk that the company's current liabilities will exceed liquid assets and that the company will be forced to realize other assets under unfavorable conditions. This risk is not as significant, because financing of company's main activities is driven by additional contributions of the shareholders, which is in line with the strategy determined in the shareholder agreement.

Market risk – this includes potential losses due to changes in the market price of financial instruments. This risk is not significant, because the company does not engage in trading activities at its own expense.



The main risks

The largest portion of risks is comprised of operational risks and their management, therefore, the largest portion of attention is dedicated to them.

UAB "NEO Finance" operations and e-money system can be influenced by the following risks:

- Safety of e-money system and servers;
- Failures of e-money system;
- Employee mistakes;
- Risk related to buying services additional to UAB "NEO Finance" services;
- Illegal usage of e-money account, data theft;
- Illegal opening of e-money account and usage of other persons' funds;
- Effect of external events;
- Regulatory environment and compliance requirements;
- Business continuity / bankruptcy risk;
- Sudden expansion.

Occurrence of all these risks is identified in the company. The company constantly observes them, so that any of the risks exceeds the set risk tolerance degree.

In end-2017 – beginning-2018 internal audit has been performed. The audit did not identify any infringements to compliance requirements, however, gave recommendations for improvement. This helps identify and mitigate occurrence of operational risks. Every year, the company performs external audit which thoroughly inspects not only the correct reflection of financial accounting in the reports, but also implementation of compliance requirements: whether client funds are properly separated from corporate funds (as required by the Law on Electronic Money and Electronic Money Institutions), whether the balance in accounting is equal to the client funds balance in the system, etc.



Business continuity plan

As an operator of P2P lending platform, the company has prepared the Business continuity plan, and has coordinated it with the Bank of Lithuania. The plan is published in company's website <u>www.paskoluklubas.lt</u>. The plan has last been updated on **4 April, 2018**.

The updated plan simulated the impact of the economic downturn on the company's activities. The assumptions have evaluated that:

- 1) The shareholders do not agree to or cannot increase company's capital, and the main shareholder does not agree to give company a loan.
- 2) Investors in natural persons' loans cut their investments two times.
- 3) The costs shrink to EUR 20 K per month due to reduced issues.
- 4) Cost optimisation gradually reduces staff and employee-related costs, reduces costs for IT development.
- 5) NEO Finance, as a consumer credit issuer, discontinues investment in loans; companies related to shareholders do not require repayment of loans granted to the company.

	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1
Granted loans, EUR	1,922,425	1,692,294	1,411,750	1,588,573	1,439,171	1,449,802	1,249,676	1,467,773
Portfolio	11,639,292	12,492,909	13,087,722	13,799,491	14,362,450	14,911,383	15,279,223	15,804,367
Income	126,682	135,975	144,148	150,511	157,659	163,408	168,585	173,327
Cost of sales*	(59,681)	(60,578)	(59,760)	(59,980)	(63,146)	(61,944)	(59,995)	(61,951)
Operating costs**	(92,754)	(83,574)	(85,514)	(80,514)	(80,514)	(80,514)	(85,514)	(80,514)
Investment activity	30,192	26,882	24,511	21,109	18,833	15,008	11,627	6,586
Cashflow	4,439	18,704	23,385	31,125	32,831	35,957	34,703	37,448

Due to the commission fee deduction for future periods, even if the volume of issues decreases two times, NEO Finance will have sufficient cash flow for economic downturn. On 31 March 2017, receivable brokerage fee was EUR 1.5 M. Additionally, Provision fund might be used (on 31 March 2017, the fund had EUR 178 K).

* Cost of sales includes marketing, database scanning, identification, sms sending and recovery costs.

** Operating costs consist of wages, IT development, rental and utilities, accounting, auditing, mobile communications and internet costs.



Possibilities for expansion

In 2018, the company hopes to issue EUR 14 M worth of consumer credits for borrowers, and to start cooperation with institutional investors as soon as the law does not restrict investment in consumer loans to legal entities. Also, the board focuses more on actions and solutions to achieve positive cash flow on a monthly basis. The Board and Supervisory Board are currently holding the position not to publish more detailed forecasts of their activities or planned strategic changes, therefore, more detailed forecasts will not be reported. Currently, we are focusing on increasing the volume of consumer credit issues in Lithuania, improving loan issue risk assessment, recovery efficiency and platform development, taking into account the user needs, and ensuring profitable future operations in accordance with cash flow accounting method.

The company's Board is considering future prospects of strategic activities and development of the company, including renewal of activities of crowdfunding platform in Lithuania, development of services specific to e-money institutions, the P2P leasing activity model, the e-money institution and the P2P platform activities in foreign market. The company's existing e-money institution license issued in January 2017 allows us to start operations in any EU country.

The company publishes the results of each quarter's sales activity and stores it on its website https://www.paskoluklubas.lt/en/page/8/reports.

On behalf of the Board,

Chairman of the Board Evaldas Remeikis

