LHV

AS DelfinGroup

Annual Review

7th Sep 2022

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Investment Summary

Taking consumer credit to the next level

AS DelfinGroup (together with subsidiaries hereinafter referred to as 'DelfinGroup' or the 'Group', as a parent company referred to as 'AS DelfinGroup' or the 'Company') is a licensed non-bank financial services company founded in 2009 and operates under the brand names Banknote, VIZIA, and Rīgas pilsētas lombards (Riga City Pawnshop). The Group's core services are consumer loans, pawn loans, and the sale of pre-owned goods, while the services are provided through two channels, i.e. online and the Group's extensive branch network across Latvia. The Group operates more than 90 branches in 38 cities of Latvia and employs over 300 professionals. DelfinGroup has issued more than EUR 335m in loans and has a total of over 400,000 registered customers. DelfinGroup has been known on the Nasdaq Riga Stock Exchange as a bond issuer, and, currently, it has one bond issue listed on the Nasdaq Riga First North bond list. On 15th October, AS DelfinGroup successfully closed its IPO by raising EUR 8.09m for an 11.74% stake. Although the majority stake in AS DelfinGroup was sold to a new strategic investor in April 2021, the founder of the Group, Mr Agris Evertovskis, still holds 27.6% of the shares after the IPO through two of his investment entities, with 57.53% of the Group being indirectly controlled by the Kesenfelds family and 1.33% held by the members of the management board. DelfinGroup has made good progress in developing its sustainability features, focusing on corporate governance, fintech innovation, responsible lending, financial inclusion, and facilitating the circular economy.

The Group is by far the largest player in the Latvian pawn loan market, controlling over half of this credit segment´s market, while it is currently the second-largest non-bank consumer loan lender with approximately 11% market share as of 2021. Latvia's non-bank consumer lending sector is a relatively new segment and started to develop only in 2007. Since 2011, the sector has been licenced and supervised by Consumer Rights Protection Centre ('CRPC'). Over the past five years, the regulations have been considerably tightened and licencing fees increased, raising the barriers of entry and initiating faster consolidation of the sector, however, it has built better consumer trust towards the consumer lending and market participants. Primarily based on the historical market trends, consumer lending recovery after the pandemic setback, and developments after revocation of pandemic-related restrictions in Q1 2022, we anticipate Latvia's non-bank consumer loan segment to grow c.a. 8% annually over the next three years. However, more rapid growth is anticipated for the pawn loan market c.a. 18% annually over the next three years. Although COVID-19 restrictions impacted the segment more than other consumer lending segments, we anticipate steady volumes for the pawn loan segment going forward. Backed by the new capital from the IPO, further development of the product portfolio and both online and offline sales channels, we project DelfinGroup to approximately double its net loan portfolio during the period starting from 2022 till end of 2024, expanding its market share in the consumer loan segment to c.a. 18% and pawn loan segment to c.a. 70%.

We have approached the valuation of DelfinGroup using a combination of income and

Key Numbers (EURm)	2018	2019	2020	2021	2022E*	2023E*
Sales (EURm)	18.9	22.2	23.7	25.5	33.5	42.4
Sales growth (%)	4.6	17.7	6.7	7.7	31.4	26.7
Net profit (EURm)	4.5	3.9	4.1	4.2	7.4	11.1
EPS (EUR)	3.03	2.61	0.10	0.09	0.16	0.25
P/E (x)	-	-	-	15.0	9.2	6.2
Payout per share (EUR)#	1.49	1.00	0.08	0.08	0.11	0.10
Payout yield (%)	-	-	-	5.9	7.4	6.5
P/B (x)	-	-	-	3.7	3.5	2.6
EV/Sales (x)	-	-	-	3.7	2.8	2.2
EV/EBITDA (x)	-	-	-	9.2	8.0	5.7
EV/EBIT (x)	-	-	-	18.0	10.8	7.7
ROE (%)	94.3	54.6	46.0	31.5	40.1	48.2

Source: DelfinGroup for historicals, LHV for estimates. *2022E-2023E multiples are based on the share price (5th Sep 2022) of EUR 1.514 per share. #Payout per share include dividends and share capital reduction.

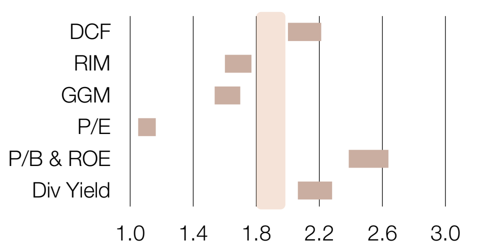
Company Profile	
Listing Market:	Baltic Main List
Bloomberg Ticker:	DGR1R LR
ISIN:	LV0000101806
Industry (Bloomberg):	Financials
Sector (Bloomberg):	Financial Services
Website:	www.delfingroup.lv

Share Data, as of 5th Sep 2022	
Current Share Price (EUR):	1.514
Fair Value Range (FVR), EUR:	1.80-1.99
Upside, % (to mid-point of FVR):	25.17
52-week High/Low (EUR):	1.53/1.20
3m Avg. Daily Volume (th):	5.37
Market Cap (EURm):	68.61
Ordinary Shares (m):	45.32

Key Shareholders, as of 30th June 2022	
LLC L24 Finance	57.53%
LLC EC Finance	18.81%
LLC AE Consulting	8.90%

YTD-Month Price Performance

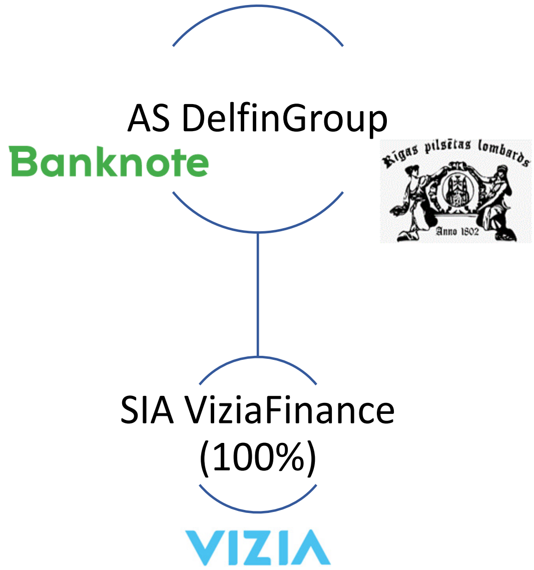
LHV Fair Value Range: EUR 1.80-1.99*



* As of 7th Sep 2022

market approaches. For the income approach, we used three different models: 1) Discounted Cash Flow, 2) the Residual Income Model, and 3) the modified Gordon Growth Model (GGM), which essentially identifies the fair P/B ratio-based valuation for the Company. For the market approach, we used a peer group valuation, which considers several peer group trading multiples for 2022-2024E. We believe the income approach is better suited for the valuation of DelfinGroup and assigned a combined weight of 80% to different income approach metrics in the total value. Overall, based on DelfinGroup's current development and our assumptions, we increase the fair value range (FVR) to EUR 1.80-1.99 per share compared to our previous FVR of EUR 1.68-1.82 per share. Using the current share price and our forecasts for 2022, the Group would be valued at the following 2022E multiples: P/E – 9.2x, P/B – 3.5x, and EV/EBITDA – 8.0x, with the respective ratios declining to 6.2x, 2.6x, and 5.7x by 2023E. We believe that the core attraction of the investment case of DelfinGroup is its strong market position in the Latvian competitive non-bank consumer credit market, enabling it to utilise sufficient economies of scale, while the additional equity from the IPO strengthens the capital base, helping to bring down the average cost of debt financing compared to historical levels and supporting investments into IT and new product developments. In sum, we believe that profitable growth along with appealing dividend yields would be the core of the respective investment case. The key risk factors to our valuation include potential economic recession resulting in slower than projected growth in consumer lending volumes and deterioration of the credit quality. Furthermore, key risks include downward pressure on loan rates due to rising competition, European Central Bank interest rate hikes exceeding our forecast, thus considerably increasing the Group´s cost of debt, and new extensive COVID-19 restrictions imposed.

Company Overview



Source: DelfinGroup

Business Overview

DelfinGroup is the second-largest issuer of non-bank consumer loans in Latvia. Since its inception in 2009, the Group has issued more than EUR 335m in loans and already has over 400,000 customers. The Group operates under three brands: Banknote, VIZIA, and Rīgas Pilsētas Lombards. Banknote offers consumer loans, loans secured by personal movable property (pawn loans), Point-of-Sale (POS) loans, and retail/redemption of pre-owned goods using a network of 93 branches throughout Latvia and an online platform for loan application and an online marketplace for pre-owned goods sales. The Banknote brand business is structured in a manner that it has strong synergy between its operating segments. VIZIA specialises in issuing consumer loans online, having a more appealing brand to the young customer segment.

AS DelfinGroup, formerly known as SIA Lombards24.lv and SIA ExpressCredit, was founded in 2009. The Group rapidly expanded its pawnshop business across the territory of Latvia, and, in 2011, it launched consumer lending services. Since the end of 2015, the Group's credit portfolio has been growing at a CAGR of 34.7% reaching EUR 46.1m at the end of 2021, mainly driven by consumer loan portfolio growth. The Company has successfully raised c.a. EUR 37m from bonds since 2013, and the Company currently has two outstanding bond issues worth EUR 15m with one additional bond issue amounting to EUR 10m in the subscription phase. Last year the Company redeemed one of the high coupon rate bonds amounting to EUR 5m (coupon rate 14%) and the other two high rate coupon bonds worth EUR 8.5m (coupon rates 14% and 12%) were redeemed before maturity by exercising the call options. In late May this year, the Company completed the issue of a EUR 10m bond with the historically lowest annual coupon rate of 8%. After the redemption of the bonds amounting to EUR 13.5m and a new bond issue of EUR 10m, the outstanding bonds issues amount to EUR 15m, which consists of two bonds issues of a private placement with the latest issue listed afterwards on alternative market Nasdaq Riga First North. The Group is also using the Mintos platform (a peer-to-peer loan platform) to raise funds, with the total amount of borrowed funds at the end of 2021 being EUR 18.6m.

Last year in March, the Group announced its plans to raise additional funds from an initial public offering (IPO) by listing its shares on the Nasdaq Riga Stock Exchange Baltic Main List during the second half of 2021. The IPO was closed on 15th October 2021 in which 5,927 investors participated, including 10 institutional investors. While this was the largest ever IPO in Latvia in terms of investor activity, demand reached 73% of the initial base offer (up to 7,300,000 shares) with EUR 8.09m of gross proceeds raised as a result of the IPO. Although the raised amount was approximately 27% less in capital gross proceeds than planned according to the base offer, the Company is satisfied with the results as the raised capital can contribute enough to the intended purpose, namely, to redeem high coupon bonds and refinance other borrowings, thus reducing the cost of debt. As indicated in the previous paragraph, the proceeds have already been allocated to pay back matured and redeem premature highest coupon bonds outstanding at that time with coupon rates of 14% and 12% and replace with 9.75% and 8% coupon rate bonds.

Under AS DelfinGroup, there are two brands – Banknote and Rīgas Pilsētas Lombards; however, the VIZIA brand is managed through subsidiary SIA ViziaFinance, both entities hold a lending license, which reduces operational and legislative risk in case the license of one entity is seized or annulled. After reorganisation, the debt collection operations are under AS DelfinGroup; nonetheless, doubtful debts that have a small chance of being recovered are sold to external debt collectors.

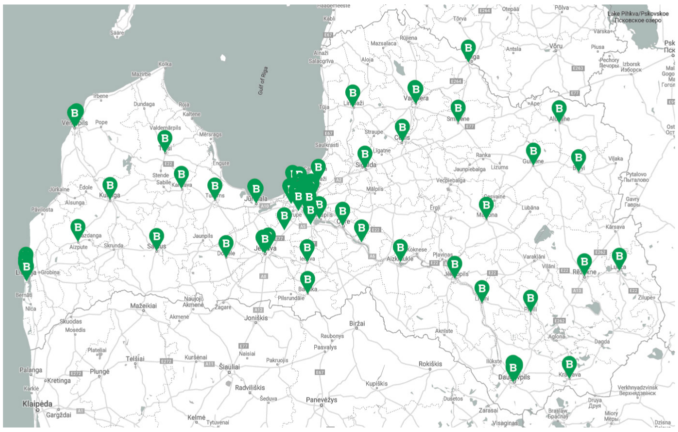
Consumer Loan Operations

Consumer loan operations commenced in 2011, introduced through then existing pawn loan brand Lombards24.lv and later MoneyMetro. In 2015 rebranding took place - Lombards24.lv was rebranded to Banknote. The rebranding was related to the fact that DelfinGroup (ExpressCredit at that time) has grown from a simple pawnshop into a versatile non-bank financial services provider. After two years, in 2017, Banknote launched an online lending platform which was followed by the establishment of a second online consumer lending brand VIZIA in 2018, which was formerly known as MoneyMetro, having distinct consumer lending positioning and more appealing brand to the young customer segment. Both brands list part of their consumer loans on the Mintos platform. Mintos has granted a risk score of 8 to Banknote and VIZIA-listed loans on a 10-grade scale (higher value implies better quality).

Pawn Loan Operations

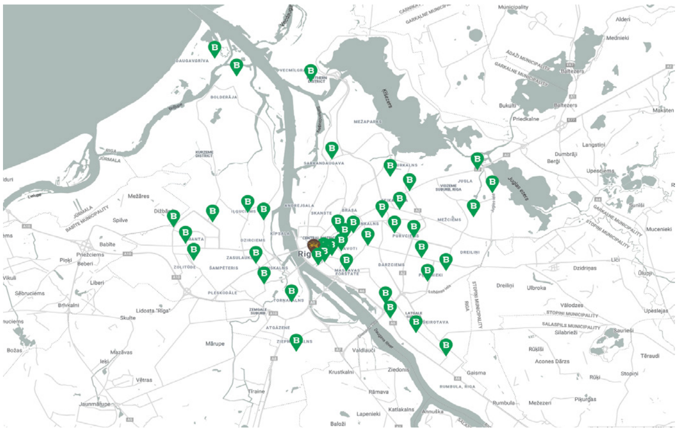
The pawn loan business was the foundation of DelfinGroup´s development. The first pawnshop was opened in 2009 under the brand name Lombards24. By 2010, the Group was already operating 50 branches in major Latvian cities. In 2014, Riga City Pawnshop was acquired; it is the oldest pawnshop in Latvia, having begun operations in 1802. Its product portfolio consists of luxury goods such as jewellery, paintings, watches etc. At the beginning of February 2022, the Group finalised taking over the pawn shop assets of AS Moda Kapitāls. As a result, the Group acquired AS Moda Kapitals' pawn loan portfolio for EUR 0.95m, including outstanding loans and second-hand goods inventory of c.a. EUR 0.7m in value. Furthermore, the most recent acquisition was the takeover of the loan portfolios of six pawnshop branches of the Finance 360 pawnshop partnership. Currently, the Group operates 93 pawnshops under a brand named Banknote and one branch under the brand Riga City Pawnshop. The Group has the widest pawnshop branch network in Latvia, covering nearly all of the Latvian regions. Banknote is the most geographically available financial services brand in the country, as it is present in every single populated area of Latvia with at least 4,000 inhabitants.

Banknote and Riga City Pawnshop Branch Distribution Map



Source: DelfinGroup

Banknote and Riga City Pawnshop branch distribution in Riga



Source: DelfinGroup

Trade of Pre-owned Goods

The pre-owned sales segment works in close coherence with the pawn loan segment as it supports the sale of unredeemed collaterals; approximately 30% of pawn loan collateral is not redeemed. The majority of sales of pre-owned goods consist of offline sales (on-site at Banknote branches); however, online sales are increasing y-o-y from the time of the online store launch. In addition to unredeemed collateral, Banknote shops are buying goods from persons who can prove the legitimate ownership of goods, which are then put on resale. Furthermore, the Group continues to increase cooperation with leading online stores in the region, which are stocking returned goods. Returned goods have already been shortly used by customers and cannot be traded as brand new on online stores. In total, Banknote has four types of suppliers for goods a) unredeemed pawn loan collateral, b) walk-in customers selling personal goods, c) other pre-owned goods wholesalers, and d) returned goods from online stores. Banknote is providing liquidity for the pre-owned goods market by buying goods at a sizable discount which is a margin of the selling price. DelfinGroup is inherently promoting a circular economy by resale and giving second life to products by repairing them. From 2017 to 2020, there were 10,127 goods repaired and listed on the secondary market. In 2020, DelfinGroup sold a total of over 157,000 items of pre-owned goods on the secondary market, while the total volume has increased by around 4% annually over the 2019-2020 period.

The quality of Banknote branches has been appreciated by the Latvian Trader Association. In 2021, experts evaluated several hundred points of sale places. The main evaluation criteria were service culture, equipment and environment, range of products, special offers, and availability of information. In the store category, only six stores in Latvia were ranked in the “Winner” nomination, two of which were Banknote branches.

Point-of-Sale Loans (Banknote Pirkumiem)

Point-of-Sale (POS) loan segment is a brand-new lending product for DelfinGroup, launched at the end of 2020, which operates under the Banknote brand. In order to use this service, customers have to make a purchase by invoice, and, afterwards, the invoice is submitted to Banknote, which makes the payment for the goods. The repayment schedule is then submitted to the loan receiver with interest or without interest if a loan is repaid within 30 days. Banknote Pirkumiem is exclusively partnering with Banknote shop; however, customers can apply for credit for purchases from any kind of retailer as long as they buy with post-pay (invoice).

Branches

DelfinGroup operates under 93 branches, of which 41 are located in Riga, 5 in Liepaja, 4 in Daugavpils, 3 in Jelgava, and 2 in Ventspils. The first branch was opened in 2009, solely as a pawnshop, but by 2010, the number of branches expanded to 50. Branches operated under the brand name Lombards24.lv until 2015 when rebranding took place; since then, branches have been operating under the brand name Banknote. Banknote branches offer a wide range of services (consumer loans, pre-owned goods retail/redemption, pawn loans, and POS loans), while Riga City Pawnshop offers pawn loans and retail services consisting of luxury goods. Banknote branches are gradually implementing a new concept that promotes society to act sustainably by providing goods for secondary use. The new concept branches are taking a new shape with differentiated and nature-friendly designs. Banknote is the most geographically available financial services brand in the country, as it is present in every single populated area of Latvia with at least 4,000 inhabitants.

Shareholding Structure

The overwhelming ownership of the Company is currently owned by three legal entities SIA EC Finance, SIA L24 Finance, and SIA AE Consulting. The Management Board is also in the ownership structure. In 2015, the Management Board was offered incentives to buy shares of ExpressCredit - 1.5% to CEO Didzis Ādmīdiņš and 2% in total to two former members of the Management Board. Aldis Umblejs (CFO of the Company) who recently joined the Management Board holds 0.01% of the Company's shares, but the third Management Board member Sanita Zitmane (COO of the Company) has no ownership in the Company. Formerly, all three legal entities with overwhelming ownership were solely owned by Agris Evertovskis – the founder of the Company. At the end of April 2021, changes were made in the ownership structure of SIA L24 Finance. The Kesenfelds family become a shareholder of SIA L24 Finance, owning 100% of L24 Finance, thus 65.19% of the Company before dilution due to IPO. The transaction amount and other details are not disclosed. According to the database Lursoft.lv, Agris Evertovskis and Aigars Kesenfelds are the final beneficiaries of AS DelfinGroup.

Aigars Kesenfelds has been successfully operating in Fintech and consumer lending industry for a considerable time – he is the co-founder of 4Finance, Mogo, Mintos and holds stakes in various consumer lending companies operating in Latvia (Sun Finance) and outside Latvia. In our view, for DelfinGroup, the experience and execution skills of Mr Kesenfelds brings added value by having the Kesenfelds family as a major shareholder. Mr Kesenfelds has expressed acknowledgement of DelfinGroup´s financial stability, strategy, and corporate governance, listing these factors as investment decision factors.

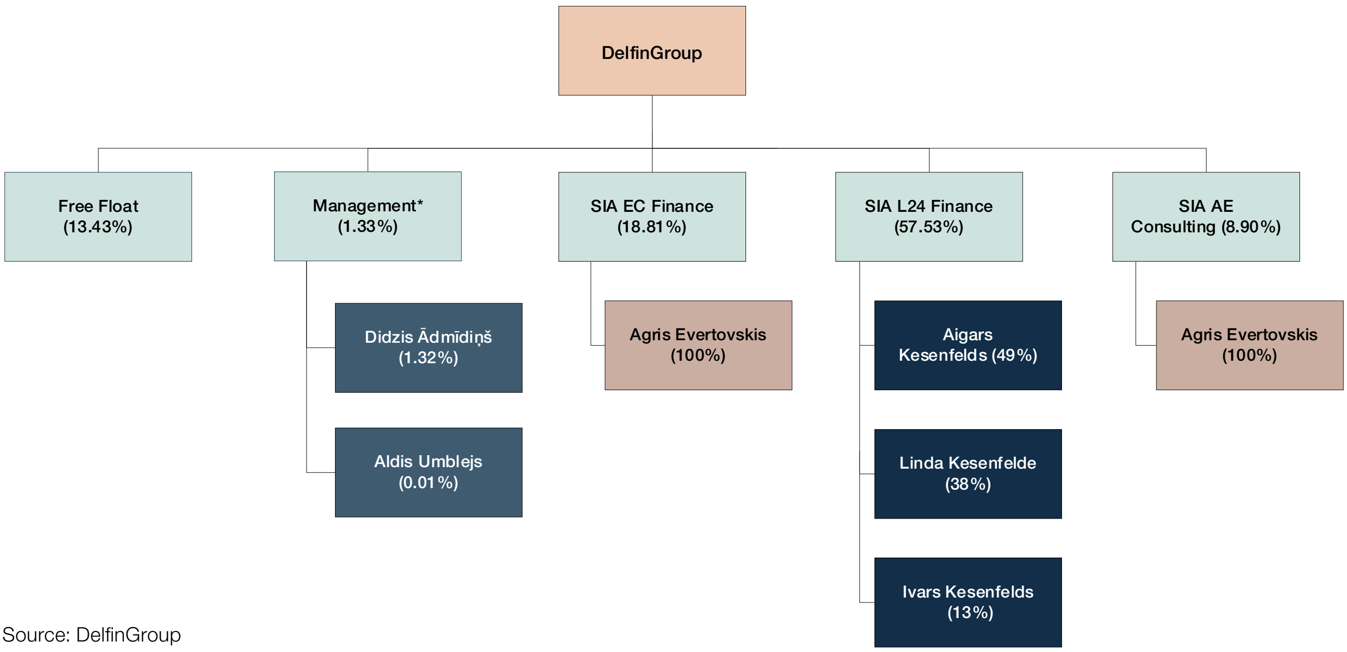
At the shareholder´s meeting on 9th September 2021, the Company decided to issue up to 450,000 shares as a part of a long-term motivation programme for its employees. In the long run, employees will be able to become owners of more than 1% of the Company's current outstanding shares.

Considering the IPO, in total, investors subscribed for 5,319,594 new shares having 11.74% share in the Company, as changes were made in the Group's Management Board, the former Management Board member's shares are transferred to the free float category, forming 13.43% in total. Although the newly issued shares did dilute other shareholders, there are no changes in the control of the company.

Management

Supervisory Board

According to AS DelfinGroup´s Articles of Association, the Supervisory Board must consist of five members, to be elected for no more than five years. It is recommended that half of the Supervisory Board is independent; however, if the number of council members is an odd



Source: DelfinGroup

*Management is not a legal entity, but describes natural persons number, then independent members may be one person less; nevertheless, currently, there are three fully independent members out of five. Striving for the highest governance principles, DelfinGroup organised an international contest to search for Supervisory Board members. This is a unique event in Latvia, as DelfinGroup is the first to show such an example for Latvia´s private sector. Currently, the Supervisory Board consists of Agris Evertovskis, Gatis Kokins, Edgars Voļskis, Jānis Pizičs, and Mārtiņš Bičevskis.

Agris Evertovskis (Chairman of the Supervisory Board)

- Founded the Company in 2009.
- Chairman of the Supervisory Board since 2021. Term of authority – until March 2026.
- Previously, Chairman of the board of Company since 2009.
- BSc in Economics and Business from the Stockholm School of Economics in Riga.

Gatis Kokins (Deputy Chairman of the Supervisory Board)

- Joined the Company in 2021.
- Deputy Chairman of the Supervisory Board since 2021. He is an independent member of the Supervisory Board. Term of authority – until March 2026.
- Previous experience on the boards of several companies in multiple sectors, including life insurance, banking, and telecommunications. Extensive international professional experience. Deep understanding of the financial sector - in the development of card and payment systems.
- MBA from the Stockholm School of Economics in Riga; MSc in Physics from the University of Latvia.

Edgars Voļskis (Member of the Supervisory Board)

- Joined the Company in 2021.
- An independent member of the Supervisory Board since 2021. Term of authority – until March 2026.
- Extensive international professional experience in finance, accounting, financial analysis, risk analysis, and financial investigation allows him to successfully work on the Company's audit committee, as well as to provide support to the Company in preparation for the IPO process and compliance with international accounting standards.
- Doctorate in Social Sciences, MBA, and BSc from the University of Latvia.

Jānis Pizičs (Member of the Supervisory Board)

- Joined the Company in 2021.
- Member of the Supervisory Board since 2021. Term of authority – until March 2026.
- Previous experience is mainly related to consumer lending, financial technologies, finance, budgeting issues, data science and analytics, which allows him to provide additional value to the Company's business development committee.
- MBA from Riga Business School; BSc in Economics and Business from the Stockholm School of Economics in Riga.

Mārtiņš Bičevskis (Member of the Supervisory Board)

- Joined the Company in 2021.
- An independent member of the Supervisory Board since 2021. Term of authority – until March 2026.
- Diverse experience, with an emphasis on communication with people, team building, and leadership development. These competencies allow him to work effectively on the Company's remuneration committee.
- BSc in Law from the University of Latvia.

Management Board

The Company's Management Board is comprised of the Chief Executive Officer, the Chief Operating Officer and Chief Financial Officer. A member of the Management Board is elected to office for a term of five years. The Company must be represented by at least two Management Board members jointly.

Didzis Ādmīdiņš (Chief Executive Officer)

- Working for the Company since 2010.
- CEO of the Company since 2018 and a member of the Management Board since 2014.
- He has held various management positions in the Company since 2010.
- Previous experience as Chief Operating Officer at several real estate companies (2008-2010); Retail credit specialist at Swedbank (2007-2008).
- Responsible at the Company for developing the strategy for the business in conjunction with the Supervisory Board, ensuring it is implemented, and the operational management of the business.
- Master's degree in Economics and Business Administration from Riga Technical University.

Sanita Zitmane (Chief Operations Officer)

- Working for the Company since 2021.
- Previous experience: Country Manager for Latvia at P2P lending platform Twino group (2018-2020); Product Manager of Consumer Lending in Retail Product Development Division at Citadele banka (2016-2018); and Head Manager of Projects with Partners in the Department of Consumer Lending at Citadele banka (2015-2016).
- Responsible for overseeing the day-to-day administrative and operational functions of the Company.
- BA in Philology from the University of Latvia and Leadership training, Consaltum AB (in association with Stockholm School of Economics in Riga)

Aldis Umblejs (Chief Financial Officer)

- Working for the Company since 2021.
- Previous experience: Member of the Management Board and Chief Financial Officer at a fintech company Finitera (2019-2021); CFO at DCE Solution (2017-2020); Manager at EY (2016-2017); CFO at Scandagra Latvia (2014-2016); and Internal Audit Manager at Modern Times Group (MTG) AB (2012-2014).
- Responsible for supporting the CEO in developing and implementing the strategy and for reporting the financial and operational performance of the Company.
- BSc in Business Administration from BA School of Business and Finance; CFA charter holder, CFA Institute; and Member of the Association of Chartered Certified Accountants (FCCA).

Sector Overview

Non-bank or alternative consumer lending is a relatively new type of lending in Latvia. The origin of non-bank consumer lending is deemed to be in 2007. A large part of society was underserved by banks; however, the market had huge potential due to which non-bank lending companies utilised the unserved customer segment for consumer lending. At that time, the first distance loan issuers appeared initially through means of SMS and later online. In conjunction with the development of the internet and changing consumer habits, the sector showed fast growth. According to Consumer Rights Protection Centre (CRPC), at the end of 2013, 53 non-bank lending licensed service providers already existed, while, in 2019, the count was 61 (+ 15.1%); however, in 2020, there were 56 (- 8.2%) licensed service providers, whereas at the end of 2021 the number was 43 (-23.2%). As a result of the Company acquiring AS Moda Kapitals pawn loan portfolio, at the beginning of 2022 it terminated its consumer lending licence leaving 42 licensed providers continuing to work in the country in the non-bank consumer lending sector, of which only 39 were entitled to fully provide consumer lending services, i.e. being able to issue new loans instead of only managing the existing loans. The market is consolidating for the past three years due to substantially increased licensing fees introduced in October 2019, which is making business unviable or less lucrative for small market players. Also, there are higher entry barriers in this industry. Small consumer lending companies are forming unions (single legal entity) and are operating various brands under one license. Although that allows to meet share capital criteria and bear the yearly license fee, such a concept possesses higher risk with various brands with different policies operating under one single license. The increasing and sophisticated compliance regulations are burdening the sector as well.

Regulatory Framework

After the introduction of non-bank consumer lending, the industry was rather unregulated, meaning that no industry-targeted legislation was in place. In 2011, the licensing of non-bank consumer lending was introduced, and the Consumer Rights Protection Center was designated as a supervisory institution. The amendments to the Consumer Rights Protection Law prescribed that only companies having received a special permit (license) may provide lending services to consumers. Earlier, the license issuance state fee was EUR 71,140, and the annual state fee was EUR 14,225, which, from October 2019, were raised to EUR 250,000 (251% increase) and EUR 55,000 (287% increase), respectively. In 2016, Consumer Rights Protection Law imposed that the license can only be obtained by companies that have paid-up share capital of EUR 425,000.

Furthermore, the maximum interest rate has been regulated since 2016 and has been lowered over time. In 2016, the total cost of credit to a consumer was considered as not corresponding to the requirements if it:

- exceeds 0.55% of the credit amount per day from day 1st to 7th,
- exceeds 0.25% of the credit amount per day from day 8th to 14th, and for loans exceeding 30-day term, and
- exceeds 0.2% of the credit amount per day from day 15th to 30th.

From June 2019, the maximum total cost of credit to the consumer is 0.07% per day. However, lenders may apply certain extra commission payments for extra services that eventually reflect in higher interest rate. Exclusion from this rule is applied to pawn loans. According to the formula provided in the legislation, the APR can be slightly over 50%.

Consumer lending businesses were notorious for extraordinarily high-interest rates at the time when it was not regulated; for instance, annual interest rates could reach up to 800% and more. On the one hand, the interest rate limitations are decreasing the profitability of the consumer lending sector, but on the other, regulations are building consumer trust in the sector.

From 2019, Consumer Rights Protection Law puts the responsibility on consumer loan service providers to thoroughly evaluate the ability of a borrower to repay the loan following the guidelines. Creditors have access to databases such as State Revenue Service, Credit Information Bureau, bank account statements, and their own historical data.

Regulators are increasingly limiting consumer lending service provider means of reaching the customers and customers to reach service providers. It is due to ill-made decisions by customers not fully being self-aware of the consequences.

Consumer creditors generally cannot encourage consumers for a loan application through advertising channels like TV, radio, banners and printing in public places; however, the essential exemption is given to consumer creditor brand name/logo advertisements. Service providers can advertise their services through channels like emails and calls, if given explicit permission or on their own premises. Furthermore, consumer creditors can operate within the time limit from 7:00 AM to 23:00 PM, limiting irresponsible borrowing at night hours.

Non-bank lenders are also subject to European Anti-Money Laundering, Combating Financing of Terrorism, and Certified Financial Planner Regulations. As financial systems are becoming more advanced and complex, so are the regulations. For small market players, such compliance requirements might get very costly.

Policymakers have changed the non-bank lending industry significantly from a non-regulated industry to a strictly regulated one. As a result, the market is consolidating, entry barriers are higher, profits on loans have been limited, and reaching customers has got a lot more difficult. Overall, the imposed rules can lead to limiting industry growth; however, reputational risks have been reduced compared to times when it was not regulated.

Non-Banks vs Bank Lending

According to the Latvian Credit Information Bureau (CIB), in terms of value (in EUR), banks have issued 7.7% less consumer loans than non-bank institutions during the last 3 years. In 2019, banks issued consumer credit was 5.7% less than non-banks, in 2020, it was 14.7% less, and until the end of November 2021, it was 2.9% less. The CIB data archive stores data of all Latvian commercial banks and data of 80-90% of alternative financial service providers. From April 2019 to January 2021, the amounts issued by banks have been steadily declining, while the amounts of consumer loans, with rare exceptions, issued by non-banks continued to exceed the amounts lent by banks. At present, banks manage about 15% of new loans issued (number of loans), while non-banks issue 85% of all consumer loans; thus, banks tend to issue substantially higher amount of money per loan.

Intars Mikelsons, the chairman of the CIB management board, states: “Looking at CIB’s credit rating or customer portfolio risk profile - banks vs non-banks, we see that 80% of bank customers are in category A-C, but the credit rating of non-bank customers is mostly in category B-D. This means that licensed consumer creditors are increasingly taking over the consumer credit market by operating at a higher risk.” The risk score scale goes from A to F, with “A” meaning great financial stability of creditor with very minimal risks, while “F” is an indication that a creditor will most likely default.

The difference in the customer portfolio risk profile is also reflected in the average APR. As of December 2021, the non-bank average APR for consumer loans with repayment schedule was 32.9% for offline credits and 33.57% for distance credits; however, the overall bank average APR stood at 16.36%.

Macroeconomic Environment

The COVID-19 pandemic breakout in 2020 caused notable disruption in the economic environment and also had a negative effect on non-bank consumer lending. Data shows that in 2020 Latvia's GDP was reduced by 3.8% y-o-y and private consumption by 7.4% y-o-y, while the non-bank consumer lending sector's newly issued loan value decreased by 16% y-o-y. Newly issued consumer loan value fell by 16.5% y-o-y, but newly issued pawn loan value dropped by 14% y-o-y. Understandably, the negative effect on the economy was mainly caused by pandemic-related restrictions on movement and business operations, but also self-incentivised social distancing and consumer precaution impacted the economic and consumer lending downturn. As restrictions were loosened periodically in 2021 and Latvia's economy recovered (GDP +4.5% y-o-y and private consumption +4.8% y-o-y), the total newly issued loans in the non-bank consumer lending sector increased by 15.7% y-o-y, while consumer loan issuance grew by 13.7% y-o-y. However, pawn loan issuance dropped by 20% y-o-y, still being impacted by periodical restrictions. There is a strong correlation between imposed COVID-19 restrictions and economic and consumer lending performance. The availability of vaccines and better hospital capacities for COVID-19 patients has let governments abolish pandemic-related restrictions in Latvia as at end of Q1 2022, which provides positive expectations about the consumer lending sector. However, with infection rates still being relatively high and the cold season approaching, the risk of governments imposing new pandemic-related restrictions to maintain hospital capacity still stands. Consequently, if such risk materialises, the historical data shows that it will hurt consumer lending.

Russia's invasion of Ukraine made things worse and led to supply chain disruptions and a record high inflation in the Eurozone, especially in Latvia. In June, inflation soared 19.2% y-o-y in Latvia, mostly driven by housing and utilities (c.a. 40%), food/beverages (22%) and transportation (31%). Inflation continued to increase in July reaching 21.5% y-o-y. The main drivers (product/service categories) of inflation fall into the first necessity product basket, thus the inflationary pressure is reaching all households, especially lower-income households or subprime clients. As per Latvia's Central Bank's (LCB) economists the overall inflation is expected to reach 14.8% in 2022. While in Q1, the gross wage increased by 6.9% y-o-y, the inflation in January, February and March reached 7.5%, 8.8%, and 11.5%, respectively, meaning the real purchase power is reducing. However, until now consumption has remained stable.

LCB economists consider that the revocation of pandemic-related restrictions on retail stores positively affected the activity of consumers, especially in apparel retail, home improvement-related goods stores, recreational and cultural goods and allows for a possibility that the consumers' reluctance to postpone purchases due to rising prices might be stimulating purchases now. Furthermore, few possibilities where to spend money during the period when a lot of pandemic-related restrictions were imposed on physical shopping, travelling, and entertainment have accumulated savings. However, with inflation remaining strong and less government support for mitigating the impact of rising energy prices, savings are depleting fast and total purchases may suffer in real terms, i.e. retail sales growth may slow in the second half of the year.

Currently, the economic forecasts are changing quite frequently with inflationary pressures becoming stronger, new EU sanctions imposed on Russia, and European Central Bank (ECB) raising interest rates to get inflation under control. Also, there are increasing worries of natural gas supply shortages in the heating season as Russia is gradually tightening supply to EU member states. Forecasts have generally been downgraded compared to those released in 2021. In March 2022, LCB forecasted real GDP growth of 1.8% for 2022, 3.2% in 2023, and 4.1% in 2024, on a y-o-y basis. However, with economic activity recovering faster in Q1 the forecast was changed to 2.9%, 2.4%, and 4.2% y-o-y in 2022, 2023 and 2024, respectively. The 2023 forecast has been downgraded due to the belief that starting in the second half of 2022, economic activity will be more negatively affected by high inflation. According to estimates, the purchasing power will continue to decrease throughout 2022 and 2023 as inflation will exceed gross income growth.

According to the LCB forecast, the big picture currently does not seem detrimental to the consumer lending sector, but, as mentioned, the forecasts change frequently because of the volatile economic environment. Furthermore, some economists do see an uncomfortably high possibility of the economy going into recession. In July's Bloomberg News survey of 49 economists, according to 12 respondents, the chance of a recession happening in the Euro area over the next 12 months is 45%.

Considering CEIC data, household resilience to financial turbulence is much stronger than in 2008. The indebtedness of households (as a percentage of GDP) in the last decade has decreased substantially. In 2010, household debt was 51.6% of GDP (in 2008 - 45%) compared to 20.8% on 1st March 2022.

According to the current LCB forecast and in absence of pandemic-related restrictions we believe that the consumer lending sector will grow. We assume that in the short-term high inflation will drive consumer loan issuance amounts as the same can be applied to pawn loans. In case of recession, we consider the consumer loan segment, DelfinGroup's largest segment (62% of total revenues in 2021), at a higher risk compared to other segments. It is hard to estimate what will be impacted more – loan demand or supply. Firstly, rapid deterioration in household financial stability can reflect in high default rates. As client financial stability deteriorates, lending institutions are more risk averse and also limited by regulations to issue high-risk loans. On the demand side, as households perceive declines in income and wealth as long-lasting, they may lower current consumption and demand for debt. Similarly, an increase in uncertainty can depress consumption and increase precautionary or "safety buffer" savings, reducing demand for credit. On the other hand, during recessions households may optimally respond to a temporary negative income shock by drawing on new and existing credit in order to smooth consumption. Overall, we consider that the consumer loan segment could show resilience to mild recession with a positive outlook in the foreseeable future.

Considering DelfinGroup's pawn loan (16% of total revenues in 2021) and second-hand goods sale (22% of total revenues in 2021) segments, we do consider them under less risk than the consumer loan segment. The following reasons are that in times of crisis, pawn loans could be a relatively desired type of loan to cover short-term needs as the risk is limited to the self-chosen collateral, risk evaluation is not regulated by law, and cash can be obtained fast. The second-hand goods sales could show an increase in demand as consumers will seek cheaper goods with good price performance.

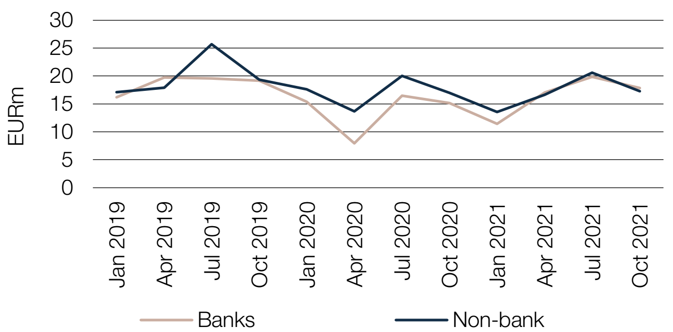
Last but not least, the crisis might also mean opportunity for loan issuers, as Mintos CEO Martins Sulte explains: "For those who are well capitalized and have liquidity, a recession is a golden time as they can gain market share by getting affordable interest rates for their customers and this can build a strong business. Many lending companies emerged in 2008 and 2009 when they were able to build a customer base and issue loans at reasonable costs." Putting DelfinGroup in this context, with capital injections from IPO, Group has improved its capitalisation, thus could allow DelfinGroup to use the state of the distressed economy for its market share growth being able to offer reasonably cheaper loans. However, this likely would cause a setback in dividend yields.

Consumer Loan Market Within Non-Bank Sector

Consumer loan portfolio for non-bank institutions in the last five years has grown at a CAGR of 10%. Although for the past few years distance loans have been constantly exceeding consumer loans in terms of total loan issuance value. The composition of the consumer loan portfolio has been changed by the COVID-19 pandemic with distance loans constituting a majority part and this proportion has been growing since 2020. Consequently, online channel in consumer lending is increasingly growing its overall prominence. The distance consumer loans constituted 45%, 55%, and 61% of the total credit portfolio in 2019, 2020, and 2021, respectively. CRPC distinguishes distance consumer loans and consumer loans by their type of issuance, namely, both are consumer loans, but distance loans are issued through online channels or distance communication (online platforms, SMS, calls etc.). However, the category "consumer loans" are loans that are issued in branches on-place. Although CRPC obliges the credit issuers to distinguish when submitting data to the supervisor, in DelfinGroup reporting, they are accounted for together. The consistently growing popularity of distance loans is the result of society becoming more digital overall. Of course, the pandemic circumstances often left no other choice. We believe that the pandemic drove many clients to have the first-time user experience of online services, which will lead to a rapid increase in the popularity of online channels in future. Thus, service providers are required to provide such options to stay competitive.

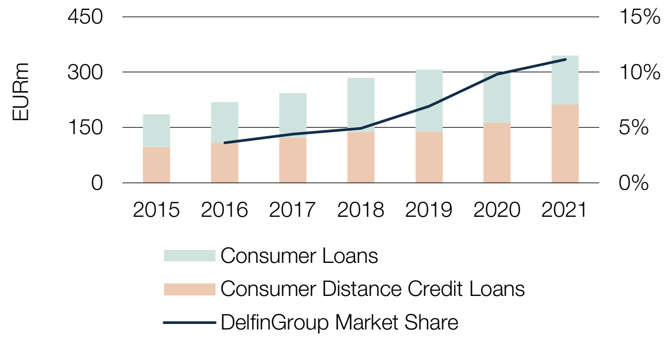
The consumer loan market has shown strong growth in the past; for instance, newly issued consumer loans reported a CAGR of 10% during 2016-2018. However, the CAGR for the 2016-2021 period stand at 1% and the issued value of loans in 2021 still didn´t reach the pre-pandemic level. Notwithstanding the COVID-19 pandemic's negative impact, a downward trend can be observed starting from 2019. The decreased loan issuance from 2019 could be a consequence of government-issued limitations to the sector regarding stricter borrower evaluation and advertising restrictions. Consumer lending was on a slow start in the first half of 2021 due to the pandemic, however, quite positive growth trends were observed starting from the second half of 2021, especially in distance loans, which leads to positive expectations regarding demand in 2022. Furthermore, DelfinGroup's remarkable performance in consumer loan issuance in H1 as well as revocation of pandemic-related restrictions at the end of Q1 result-

Consumer Loans Issued (Banks vs Non-Banks)



Source: Credit Information Bureau

Consumer Loan Credit Portfolio



Source: DelfinGroup and CRPC

Latvia	2022E	2023E	2024E
Economic Forecast (y-o-y %; at constant prices; seasonally adjusted data)			
GDP	2.9	2.4	4.2
Private Consumption	4.8	1.5	4.9
Government Spending	2.6	(2.5)	0.8
Investments	0.9	2.3	6
Exports	(1.9)	1.9	3.6
Imports	(4.8)	1.8	3.6
HICP inflation (y-o-y; %)			
Inflation	14.8	7	2.4
Underlying inflation (excluding food and energy)	6	4	3.2
Labour market			
Unemployment (% of the economically active population; seasonally adjusted data)	7.3	7.1	6.3
Nominal gross wage (y-o-y; %)	10.3	6.7	5.7

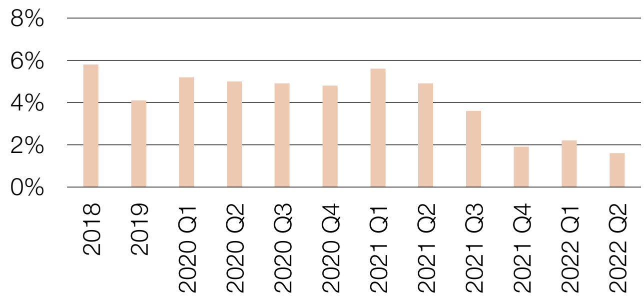
Source: Latvia Central Bank, June 2022 macroeconomic forecasts for Latvia ing in increased consumer activity supports positive expectations for the consumer loan market this year. High inflation in the short-term is expected to benefit consumer loan issued amounts, but the economic uncertainty still raises concerns about H2 consumption and thus loan demand. The main risks potential recession holds for the consumer loan segment are extensive credit defaults and reduction in loan demand as consumption plummets. However, as stated by Mintos CEO, well-capitalised lenders with good liquidity can offer loans with reasonable costs, thus using the state of crisis to build a strong client base.

Considering the market slowdown effect caused by stricter borrower evaluation and advertising restrictions, it most likely will increase competition between the non-bank consumer lenders, namely, to have a meaningful market share increase, lenders will have to win over competitors´ clients. Interest rates, service quality, online service accessibility and branch network will play an important role in customer acquisition. DelfinGroup possesses online platforms as well as the most extensive branch network over regions, serving clients that do not prefer online credit. Furthermore, there was only one complaint about DelfinGroup to CRPC in 2017 and 2 in 2018 and 2019, compared to industry total complaints of 65, 59, and 75, respectively, during the same periods, indicating good client servicing, understandable procedure, terms and conditions, and good brand image.

In the past years, it can be observed that issued credit count has decreased more rapidly than issued credit value, thus resulting in a higher average value of credit issued. In 2021, the average industry value of one issued credit was EUR 637.68 for on-place issued loans and EUR 638.41 for distance issued loans. This can be explained by changes in legislation; namely, small loans are no longer issued by creditors because they suffer losses due to limited interest rates. “The reduction in the number is logical - if previously an individual took six small loans a year, then currently licensed lenders practice the credit line principle when one loan is issued for a larger amount,” says a member of the CIB board. DelfinGroup has introduced a credit line option through VIZIA but is not available at Banknote. DelfinGroup’s average consumer loan value issued per loan in Q1 2022 was EUR 1,258 exceeding the industry average almost two times.

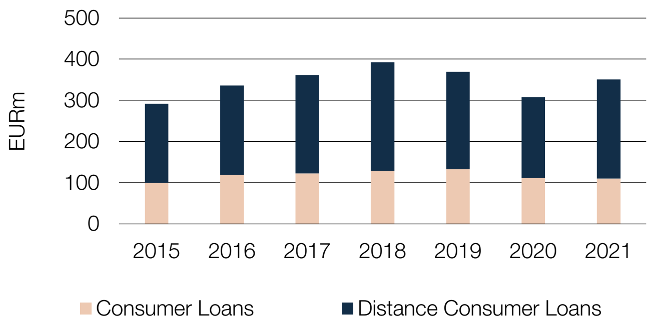
Consumer loan portfolio quality, with some minor fluctuations, has increased gradually from 2013 to 2021. The continuous portfolio quality increase in 2021 reassures that credit issuers successfully imposed stricter risk management measures on consumers during the pandemic. Distance consumer loans without delay are performing slightly worse than consumer loans issued at branches. DelfinGroup states that it is a common situation and is linked to higher young consumer proportions applying for credit through network channels, and observation is that the young consumer segment is performing slightly worse in credit payback. Comparing DelfinGroup’s non-performing loan rate (delay of more than 90 days) with the industry, it shows that DelfinGroup has implemented effective and data-driven risk management systems, as the Group’s non-performing loan ratio of 1.9%, with some fluctuations during pandemic-related restrictions period, at the end of 2021 is notably lower compared to 3.75% for distance consumer loans and 4.12% for offline consumer loans, in the industry. Furthermore, we see that the portfolio quality for the Group until so far in 2022 has remained good.

DelfinGroup's Consumer Loans Non-Performing Ratio



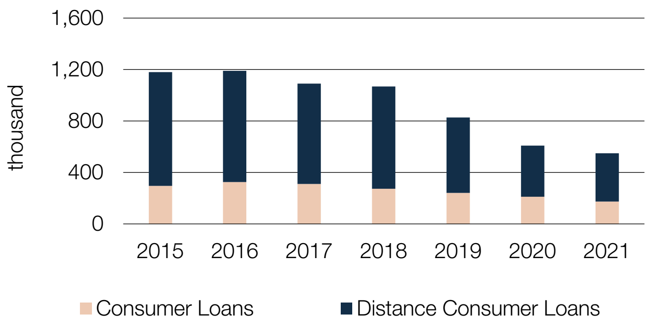
Source: DelfinGroup

Newly Issued Consumer Loans (Value)



Source: CRPC

Newly Issued Consumer Loans (Count)



Source: CRPC

Year	2016	2017	2018	2019	2020	2021
% Change (Distance Consumer Loans)	13.0	9.6	10.5	(10.3)	(16.6)	21.7
% Change (Consumer Loans)	19.5	3.8	4.6	3.3	(16.5)	(0.6)

Source: CRPC

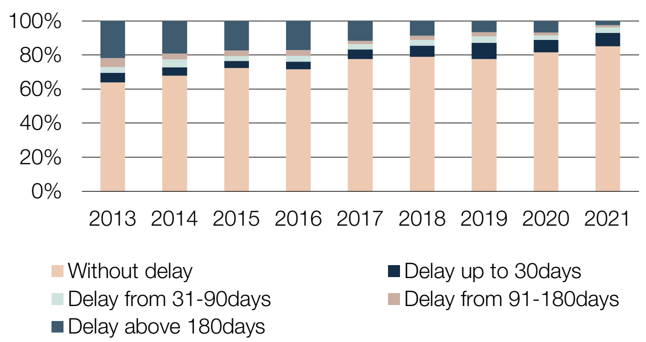
Year	2016	2017	2018	2019	2020	2021
% Change (Consumer Loans Count)	9.7	(4.8)	(12.0)	(11.3)	(12.8)	(17.8)
% Change(Distance Consumer Loans Count)	(1.9)	(9.9)	2.1	(26.5)	(31.9)	(5.6)

Source: CRPC

Average Value of Credit Issued (EUR)	2019	2020	2019/2020 % Change	2021	2021/2019 % Change	2021/2020 % Change
Consumer Loans	550.5	527.3	(4.2)	637.7	15.8	20.9
Distance Consumer Loans	404.0	495.2	22.6	638.4	58.0	28.9

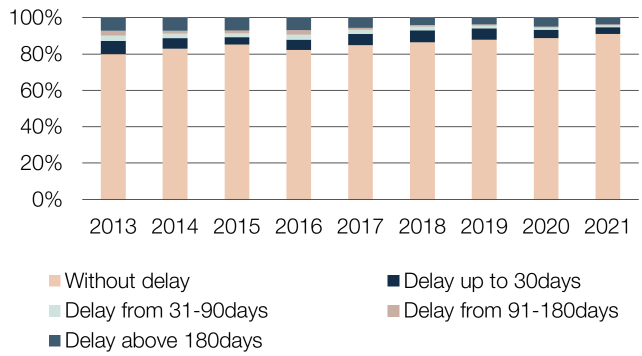
Source: CRPC

Portfolio Quality of Distance Consumer Loans



Source: CRPC

Portfolio Quality of Consumer Loans



Source: CRPC

DelfinGroup has continuously and rather rapidly grown its consumer loan market share by providing customers with a wide range of modern and traditional solutions such as a variety of consumer loan types (Point-of-sale, wide loan amount range of consumer loans and credit line), online credit applications, and a wide network of branches for on-place applications serving people in regions and customer segments that do not prefer online services. The main competitors are InCredit Group, IPF Digital Latvia, Aizdevums.lv, Bino, 4Finance, and Inbank Latvia.

Due to quite high licensing costs, the entry barrier is high and many small players still exist. CRPC has observed that small lenders leave the market every year due to increasing licensing costs, stricter compliance regulations, and industry specifics such as capital intensiveness. Economies of scale play an important role as the cost advantage allows market players to introduce more sophisticated solutions in IT, user experience, and data science, which reflects in enhanced credit portfolio risk management, customer satisfaction and loyalty and a more effective operational environment within a company. Considering the industry environment, market consolidation is expected.

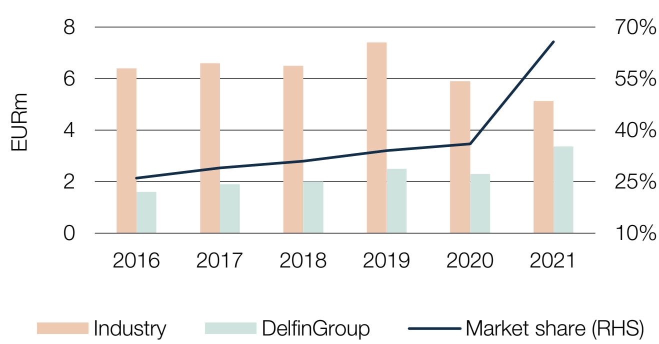
Pawn Loan Market

Pawn loans are provided exclusively by non-bank institutions. The pawn loan portfolio showed 14% y-o-y growth in 2019; however, it declined significantly in 2020 (-20% y-o-y) and continued the downtrend in 2021 with a 13% y-o-y drop. Lockdowns were specifically impacting pawn loan issuance as they cannot be availed online completely. In a greater sense, this reflects in new loans issued value which in 2020 decreased by 14.3% and 20% in 2021 y-o-y. Although y-o-y portfolio and newly issued loan amount was lower overall, positive trends were observed in H2. With pandemic-related restrictions lifted in Q1 2022, it is reasonable to expect the pawn loan market to have a rapid recovery. Also, high inflation in short term is expected to drive issuance amounts. In a time of inflationary pressures causing financial difficulties, pawn loans could see increased demand. Financial distress often causes a short-term need for funds to cover first necessities. With financial stability worsening, it is more difficult for consumers to obtain consumer loans, especially with stricter evaluation criteria in place, which is not the case for pawn loans that are secured by collateral, and a person's solvency evaluation is not regulated by law. Thus, we expect the pawn loan sector to show good resilience to economic recession, but the highest risk here is pandemic-related restrictions which may severely impact pawn shop operations.

CRPC observes that a decrease in the number of pawn loans issued correlates with the number of specific service providers reduction, as in both 2020 and 2021, a large proportion of players who left the market specialised in providing this particular type of credit. According to CRPC, previously adopted state decisions regarding annual fees for special permits (licenses), the extent of the supervision of credit providers, and the pandemic had significant consequences on the pawn loan market. A significant consolidation can be observed in this market within the last two years; presumably, only 4 participants will remain in 2022. Under Finance 360 SIA small pawn shop owners are forming a union (single legal entity) and are operating various brands under one license. Although that allows to meet share capital criteria and bear the yearly license fee, such a concept possesses higher risk with various brands with different policies operating under one single license.

The non-bank average value of one pawn loan issued has grown continuously for the past three years. In 2021 average value was EUR 83.39, which is a 13.9% increase compared to 2019 and a 5.7% increase compared to 2020. DelfinGroup's average value of pawn loans issued was around EUR 76 in Q4 2021 and EUR 72 in Q1 2022.

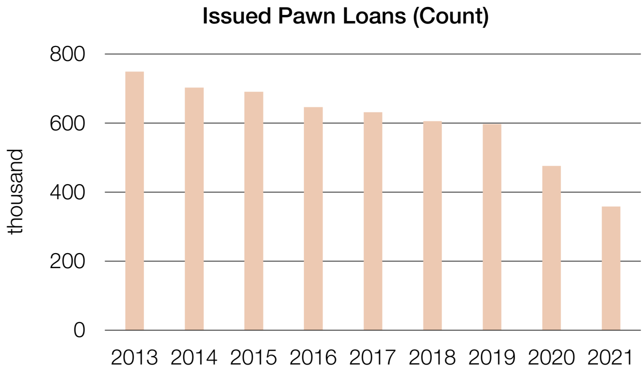
DelfinGroup vs Industry Pawn Loan Portfolio



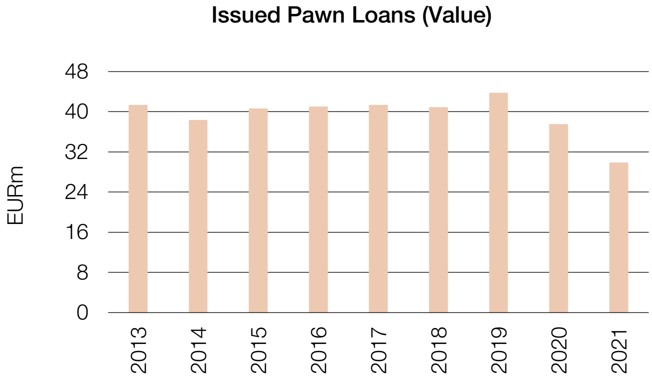
Source: DelfinGroup and CRPC

Company	Online	Offline	Pay day loans	POS loans	Mobile app
DelfinGroup	Yes	Yes	No	Yes	Yes
Aizdevums.lv	Yes	Yes (Limited)	No	Yes	No
4Finance	Yes	No	No	No	Yes
IPF Digital	Yes	No	No	No	No
Bino	Yes	No	No	No	No
InBank	Yes	Yes	No	Yes	Yes

Source: Respective companies



Source: CRPC



Source: CRPC

The main market players in the pawn loan business are AS DelfinGroup, Vita Credit, and E-lats. Previously, AS Moda Kapitāls (hereafter referred to as 'Moda') was also one of the main market players with wide pawnshop coverage across Latvia (25 branches), when its pawn loan portfolio was acquired by DelfinGroup in 2021 leading to further market consolidation. The deal included inventories of EUR 0.388m and a pawn loan portfolio of EUR 0.314m. In Q3 2022, DelfinGroup continued to strengthen its leading positions in the Latvian pawnshop market and completed the takeover of the pawn loan portfolios of six pawnshop branches of the Finance 360 pawnshop partnership. Among them were the loan portfolios of four branches of Loko Finanses in Riga, Jūsu Lombards in Liepaja, and Ātrais Kredīts in Rezekne. The high licence fee, as well as the annual fee, is significantly burdening the market entry and profitability of small players, thus occasionally there are opportunities for the Group to offer attractive deals. Apart from taking over acquired pawn loan portfolios and second-hand goods, DelfinGroup's acquisitions narrow competitor pawnshop network coverage leading to an increased client base for Banknote further on. For example, the acquisition of Moda significantly reduced pawnshop coverage across regions, where Banknote and Moda in some cases were closest competitors, but the most recent acquisition reduced competitor network coverage in highly populated cities. The positive effect of acquisitions can be observed in the rapid growth of DelfinGroup´s market share from 36% in 2020 to 66% in 2021 after the acquisition of Moda.

Considering dominating market share of DelfinGroup, there will be increased supervision from Competition Council gradually. Comparing the features of pawn loan market players, DelfinGroup's Banknote brand has a more extensive branch network and is very competitive in terms of types of collateral for a pawn loan.

Point-of-Sale (POS) Loan Market

As POS loans are just starting to gain momentum in Latvia, the segment has little data. The same regulation is applied to POS loans, as for consumer loans; namely, the maximum interest rate can reach 0.07% per day. However, credit issuers are often offering a 0% rate by sharing the cost with retailers from product margins. We observed promoted POS loan offers from some of the most popular and largest physical and online retailers in Latvia with a wide range of product assortment.

Concluding from observations, Lateko, Inbank, and Aizdevums.lv are dominating the POS loan market in Latvia. Considering that in

Average Value of Credit Issued (EUR)	2018	2019	2019/2018 % Change	2020	2020/2018 % Change	2020/2019 % Change
Pawn loans	67.5	73.4	8.7	78.9	16.9	7.5

Source: CRPC

Company	Wide branch network in regions	Pledge - gold	Pledge - electronic devices	Developed consumer loan
Delfingroup	Yes	Yes	Yes	Yes
E-Lats	Limited	Yes	Limited	Limited
Vita Credit	Limited	Yes	Yes	No

Source: DelfinGroup ESG Report 2020

Name	Type	POS loan partnerships
1a.lv	Online retailer, product assortment – mixed, mostly electronics	• Inbank • Lateko
220.lv	Online retailer, product assortment – mixed	• TF Bank
TopShop	Online and physical retailer, product assortment – household goods	• Inbank • Aizdevums.lv
RD Electronics	Online and physical retailer, product assortment –electronics	• Lateko
Euronics	Online and physical retailer, product assortment – electronics	• Inbank • Incredit
Kurši	Physical and online retailer, product assortment – construction	• Inbank
IKEA	Physical and online retailer, product assortment – mixed	• Aizdevums.lv

Source: Respective companies

Latvia, there are relatively few large retailers, competition for such retailer partnerships is quite saturated. A great synergy is made by Banknote Pirkumiem (POS loan) and Banknote shop giving Banknote Pirkumiem exclusive rights to provide consumer loans for purchases. It is more likely that the success of DelfinGroup's POS loan segment will be dependent on the Banknote shop's degree of success due to strong and established market players and a few unused partnerships.

Pre-owned Goods Market

Increasing social awareness of sustainability is turning many consumers to the secondary market as it inherently promotes a circular economy. For many, the choice of the secondary market is due to the affordability of goods to satisfy themselves with things that are rather luxurious. According to a survey conducted in 2016 by mobile operator "Amigo" in Latvia, 90% of the respondents often choose to acquire pre-owned goods. Most demanded pre-owned goods are apparel and furniture, which are bought by 71% and 61% of respondents, respectively. A smaller percentage of consumers are keen to buy electronic devices due to fear of latent defects. Generally, 50% of respondents are often discouraged from buying pre-owned goods due to latent defects. 41% are purchasing used goods for practical reasons (quality/price performance); however, one-third of respondents admit that they are forced to buy used goods for financial reasons. Characteristically females take more discretion in buying electronic devices, while 30% of females would be willing to buy a used electronic device, with males constituting 50%. Only 24% assert that they are able to trust the seller when buying a telephone "from hand", the main requirement for a buyer is to be able to make certain the visual and technical condition of the telephone before buying. Currently, second-hand goods could see an increase in demand due to decreasing purchase power that is caused by soaring inflation. For example, new research by eBay Ads UK has found that consumers are increasingly turning to shop for second-hand goods as the cost-of-living crisis deepens and "climate consciousness" increases.

Vendors and buyers in the pre-owned goods market mostly interact through platforms like ss.lv, Facebook Market, eBay, Andele Mandele, Alibaba, and Amazon. Considering the possibilities that are provided by the internet and modern logistics, competition in the pre-owned goods market is rather global with some limitations; for instance, specific goods bought outside European Union are subject to customs duty, VAT, customs declaration or delivery is relatively expensive. Although some of these platforms like eBay, Alibaba, and Amazon offer support with returns and refunds, it is a relatively lengthy and complex process. There are several reasons why consumers choose local vendors, for example, to have the option to inspect the goods, reduce delivery time and cost or have more protection against fraud. In Latvia, the main local vendors are in ss.lv, Andele Mandele, and Facebook Marketplace. These platforms do not protect the consumer from considered dangers in the Amigo survey; furthermore, if the transaction takes place remotely, there is a mutual distrust regarding "money or delivery first". Generally, consumers have the right to bring up a claim if received merchandise is incompliant with expectations, but usually, there is no written contract in place, so there is a small chance to prove your case, and sometimes it is not worth the time and money. So, while 90% choose to purchase pre-owned goods, the market is still limited in many ways due to a lack of protection and trust.

Banknote shop employs practices that solve the above-mentioned limitations for the secondary market. The goods are bought from a legal entity, which is regulated as every other official retailer in Latvia. Goods bought will always have invoices or receipts that prove the transaction. Banknote shop conducts special training for employees in order that they are competent in checking the status of goods before they are put on the market. Furthermore, goods must pass the "anti-theft" process; consequently, consumers can be sure that goods acquired have a legitimate origin. A physical presence allows consumers to inspect the goods in place if a Banknote branch is nearby, however, if the goods are available only online, consumers are entitled to return the goods within 14 days without any specific reason if they are bought in Banknote online shop. Last but not least, a Banknote shop grants a 24-month guarantee for every purchase.

Besides the safety net that Banknote provides for consumers, it has a wide scope of product categories offered, except for apparel or vehicles which are one of the most traded categories in the secondary market. In lower populated regions often Banknote is one of the very few physical stores selling a relatively wide variety of electronic and other household goods, furthermore as income level in rural areas is lower, consumers should be willing to buy cheaper goods or second-hand goods. Considering the above, Banknote shop has promising potential to become the first choice as a pre-owned goods retailer in Latvia.

Financials

In this section of the report, we are discussing the Group's financial drivers in greater detail, providing an overview of the key elements in its volumes, revenues, and expenses dynamics, as well as those affecting the Group's asset quality, efficiency ratios, and dividend policy. In order to assess the Group's potential performance, we have prepared projections for its balance sheet, income statement, and cash-flow statements for the 2022-2027 period, based on our assumptions for the key operational and financial indicators. We would like to notify that we have used the management's strategic goals, financial guidance figures and H1 2022 financial results as an indicative basis for our base case projections for the Group up until 2024. Given the Group's development and growth over the past ten years, and current financial performance in H1 2022, we consider most of the management's financial guidance as a reasonably realistic scenario going forward. As described earlier, although Latvia's Central Bank remains positive on the macro-economic forecast the high economic uncertainty remains in Europe which could potentially downgrade our forecast. This scenario assumes Latvia's macro background to remain rather supportive, based on the LCB macro forecast, for overall economic development in the country as well as for the consumer finance sector.

Core Assumptions and the Management's Guidance

The Group has recorded a solid performance and growth track record since the establishment of the parent company back in 2009. Since that time, the Group has gone through several stages of restructuring and reorganisation of its operations. In addition, since 2013, the Group has successfully facilitated the regional bond market to finance its operations, arranging a total of seven different bond issues until now with one additional currently being in the subscription phase, the Company is attracting funds from retail, corporate, and institutional investors from all the Baltic states as well as from other countries. Several bond issues of the Group have been traded on the Nasdaq Riga Stock Exchange since 2014. Given its continued growth and development plans, the Group entered the next stage of reorganisation, which has included the change of the name of its parent company to DelfinGroup AS in 2020, changing its legal status to a joint-stock company at the beginning of 2021, and the reorganisation of three of its subsidiaries, bringing all their functions under the parent company. Most importantly, the Group decided to go public by arranging an IPO and listing the shares on the Nasdaq Riga Main List in the second half of 2021. The IPO closed on 15th October where EUR 8.09m of gross proceeds were raised. Although the raised amount was approximately 27% less in capital gross proceeds than planned according to the base offer, the Company was satisfied with the results as the raised capital contributed enough to the intended purpose, namely, to strengthen the Company's equity base, redeem high coupon bonds replacing with lower coupon bonds, thus reducing the cost of debt. Furthermore, with additional equity financing from the IPO, DelfinGroup has been successful in organically and inorganically strengthening its market position and developing new and innovative consumer lending products for various social groups. With its new financial technology solutions, the Group plans to further develop its consumer lending business to compete even more successfully in the segment, including competition with traditional banks.

In connection with the IPO, DelfinGroup published its financial targets to give guidance regarding the Group's ambitions concerning its financial performance. In August 2021, the initial set of 2024 financial targets was complemented by the additional guidance for 2022, representing interim performance targets that are in line with the management's vision for future growth and the previously set goals for 2024. In May 2022, when the business environment became complicated the Group restated previous targets with confidence, considering the results that have been achieved already in Q1 2022 and strong market performance afterwards. The management's financial targets for 2022 and 2024 are summarised in the table.

Management's guidance Indicator	2022 target	2024 target
Net loan portfolio (EURm)	51.0	70.0
EBITDA (EURm)	12.0	17.6
Pre-tax profit (EURm)	8.7	12.9
Cost-income Ratio (%)	<52	<45
ROE (%)	>30	>30
Cost of debt (%)	8	<8
Equity Ratio (x)	>27	>27
Dividend payout ratio (%)	>50	>50

Source: DelfinGroup

Taking into account the financial targets of the Group and H1 2022 reported results, we have prepared the projected financial statements and the valuation for the Group based on the following principal assumptions:

- Considering the H1 2022 results and other circumstances we believe most of the financial guidance until 2024 presented by the management is reasonable with a scope of outperformance.
- Our financial projections and equity valuation of the Group are prepared considering the latest macro forecast of Latvia's Central Bank which is rather supportive of the Group's business environment. Considering the high uncertainty of further economic developments, an extensive economic recession could downgrade our forecast.
- As the Company has registered a new unsecured bond issue of EUR 10m with a variable rate of 3M EURIBOR + 8.75%, the 3M EURIBOR interest rate hikes higher than predicted will increase its cost of debt which will most likely impact the further bond issue cost and can negatively impact the Group's performance.
- Last but not least, our forecast for the pawn loan segment excludes the impact of potential pandemic-related restrictions.

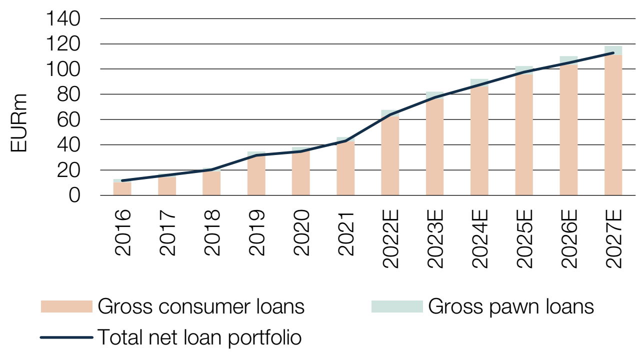
Consumer Lending Operations

Over the past few years, the Group has managed to rapidly expand its consumer lending volumes, although the growth is partly coming from the low base effect. The Group introduced more advanced consumer loan products and online operations quite recently. During the five years since the end of 2016, the Group's total gross loans and receivables (including pawn loans) have expanded at a CAGR of 29% to reach EUR 46.1m by the end of 2021. At the same time, the total net portfolio grew at a CAGR of 30% to EUR 43m. However, it should be noted that the growth was primarily attributable to consumer lending, while the pawn loan volumes remained relatively steady. The gross consumer loan amount rose at a CAGR of 32.8% during the five years to EUR 42.7m, with total gross pawn loans increasing just 5.8% and standing at EUR 3.4m at the end of 2021. According to the Group's accounting principles, the mentioned gross amounts of loans and receivables include loans outstanding and the accrued interest receivable, while the net volumes represent the gross amount minus the expected credit loss (ECL) allowances.

In 2020, non-bank consumer lending operations in Latvia were somewhat disrupted by the COVID-19 pandemic and related movement restrictions, limiting access to physical shops, other selling points, entertainment, and travel. The most hurt segment has been pawn loan lending, considering that such credit cannot be issued remotely. In light of the pandemic, consumer lending started cautiously in H1 2021, however, the easing of restrictions significantly increased activity in consumer activity in H2 2021. At the end of Q1 2022, the government lifted all COVID-19 restrictions related to retail, entertainment, and travel which significantly increased consumer activity, accordingly consumer lending is expected to benefit from that. Due to Russia´s invasion of Ukraine in February, inflation has soared significantly, reducing consumer purchase power, but until now the negative effects on retail are not observed, consequently we consider that in the short-term high inflation will have a positive effect on consumer lending amounts. The positive impact on consumer lending is also supported by rapidly growing consumer loan issuance by DelfinGroup, reaching EUR 26.9m (+83% y-o-y) H1 2022. Accordingly, considering the above-mentioned factors we estimate that the consumer loan market will record 10% y-o-y growth in 2022 following the strong growth numbers in 2021 (15.9% y-o-y) and a CAGR of 8.3% until 2024 followed by steady 6-7% y-o-y growth afterwards. As at the end of 2021, the Group's market share in the non-bank consumer loan segment reached c.a. 11%, up from just 3.6% in 2016. Considering a strengthened capital base from IPO, and further development of both offline and online sales channels, the Group expects to expand ahead of the overall market, increasing its market share to 17% by 2024. We acknowledge that such a target presumes additional CapEx for IT developments, upgrading the branch network, as well as marketing expenses directed toward the development of the Banknote and Vizia brands. We believe that with the additional capital injection from the IPO, the Group is in a good position to continue to expand its presence in the Latvian non-bank consumer lending market. Considering the remarkable growth of the net portfolio in H1, reaching EUR 54.2m and exceeding the Group's 2022 target of EUR 52m, mainly driven by consumer loan portfolio growth, we have projected the Group to reach a non-bank consumer loan market share of 15% in 2022, 18% by 2024, and 20% by 2027. Although the expected market share increase in 2022 is somewhat rapid, the historical consistency in market share growth and the Group's H1 consumer loan issuance amounts are convincing for rapid growth in market share. However, we take a more modest increase further on, considering that part of the consumer loan market consists of POS loans where DelfinGroup most likely will not grow to a major player and also as the Group expands its market share, we expect the competition between main players to become tougher. In our base scenario, the gross consumer loans of the Group are expected to increase at a 3Y CAGR (during 2021- 2024) of c.a. 26% to EUR 86m and reach EUR 111m in 2027 growing at a 6Y CAGR of 17%.

Regarding the Group's pawn loan volumes, overall, they have been growing rather slowly, but at a higher rate than the market. Although the pandemic put some setbacks in 2020, decreasing the Group's pawn portfolio by 10% y-o-y, DelfinGroup was able to recover in 2021 increasing its pawn portfolio by 6% y-o-y, while the market continued a downtrend. Partly this could be attributed to DelfinGroup´s acquisition of Moda in 2021 approximately for EUR 0.95m. In 2021, inventories of EUR 0.388m and a pawn loan portfolio of EUR 0.314m were acquired. Furthermore, in Q3 2022, DelfinGroup completed the takeover of the loan portfolios of six pawnshop branches of the Finance 360 pawnshop partnership, although the details of the deal have not been disclosed. According to CRPC, H2 2021 showed positive dynamics in pawn loan lending, but due to weak volumes in H1, the pawn loan portfolio overall stayed lower. With the revocation of pandemic-related restrictions in Q1 2022 and inflation expected to boost pawn loan issuance amounts, we expect the pawn loan market to recover quickly to the pre-pandemic level in 2022. As an indication of the market recovery, DelfinGroup pawn loan issuance in H1 2022 reached EUR 5.8m or 49% y-o-y. Furthermore, Delfingroup in H1 has had a remarkable pawn portfolio growth reaching EUR 4.5m increasing c.a. 56% y-o-y. Following the acquisitions, gradual market consolidation and a more favourable business environment, we expect the Group's pawn loan portfolio to reach c.a. EUR 5m by the end of this year. After the expected recovery of the pawn loan market this year we anticipate the total pawn loan market in Latvia to grow 8% y-o-y in 2023 in line with expected inflation and relatively modest growth in the following years, rising approximately in line with the target inflation level of c.a. 2-3% annually during our forecast period. Currently, DelfinGroup is the market leader in Latvia in terms of the pawn loan segment, accounting for 62.5% market share at the end of 2021, up from 26% and 36% back in 2016 and 2020 respectively. Considering the recent acquisitions and other consequential factors, we expect the market share of the Group to reach about 65% by the end of 2022, continuing the growth to 70% by 2024 and reaching 75% by 2027. Although the management expected the Group to control around 42% of the pawn loan segment by 2024, we assume the acquisitions of Moda and other recent pawn portfolios were not counted in the forecast. Overall, we projected the total pawn loan market to expand at a CAGR of c.a. 18% until 2024, which is mostly driven by the rapid recovery anticipated this year. With the addition of Moda's and other pawn shop pawn portfolios, our assumptions will drive the respective balance of the Group´s pawn portfolio to EUR 6.2m by the end of 2024 growing at a CAGR of c.a. 22% and reaching EUR 7.1m in 2027 growing at a 6Y CAGR 13%. It has to be noted that we consider that the Group will continue to spot opportunities for small player portfolio acquisitions as the cost of running a pawn shop require large economies of scale to maintain desired profitability, thus small market players are also seeing an opportunity to exit as the market main players are very well established.

Loan portfolio development of DelfinGroup



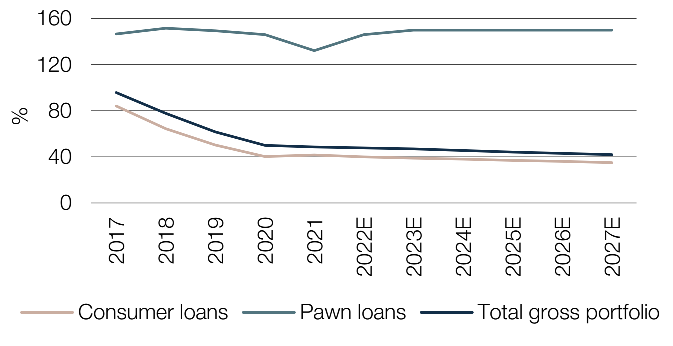
Source: DelfinGroup, LHV

Lending Rates

Over the past few years, the average effective interest rates and the interest-earning capacity of the Group's lending business have been impacted by different aspects, including the changes in market regulations, interest limitations, shifts in the product portfolio as well as the competitive environment. In general, the historical data for the five years before 2021 shows that the average effective interest on pawn loans has remained broadly stable, ranging between 146% and 152% annually, but dropped to 132% in 2021. The Group has commented that, in general, pawn loan interest rates remain stable at around 150%, thus the negative effect in interest rates comes from our calculation method, i.e. when the portfolio growth picks up in the H2 the yearly interest rate is reduced. Also, in the periods of operational restrictions due to COVID-19 the profitability significantly suffered, which was the case in 2021. The Group recorded a considerable drop in terms of the average effective rate on consumer loans, coming down from over 92% in 2016 to around 42% by 2021. As discussed in the regulatory framework section of this report, the regulations for the maximum interest rate applicable to consumer credits have been significantly tightened since 2016, setting strict limitations to the daily total cost of credit to the consumer. According to the current regulations, effective since June 2019, in case of utilising all permitted regulatory limitations to the maximum, the upper limit for the annualised effective interest rate for a single credit is c.a. 42%. However, please note that such limitations are not applied to pawn loans, for which similar monthly rates are normally offered to all customers, mostly determined by the competitive situation in the pawn loan market and could be adjusted based on the quality of the pledge offered or the client's credit history.

Looking forward, we have projected the Group's average interest earned on consumer lending products to slightly decline further during our forecast period. The main factors potentially dragging down the average rates include a) the rising presence and sales of DelfinGroup's consumer credit products through online channels, where competition is more intense compared to the branch network, both from domestic and international credit platforms; b) keeping in mind the Group's market share targets and growth ambitions, the Group may need to attract more younger customers with higher net income level, who generally accept lower effective interest rates; and c) we anticipate the weighted average term of consumer loans to increase in the coming years, while the longer loan period should additionally reduce the average rate levels. Nonetheless, we do not predict any sharp decline in rates, estimating the average effective rate on consumer credits to decline from c.a. 40% in 2022 to 35% by 2027, remaining steady thereafter. In terms of pawn loans, we project the average effective annual rates to stand c.a. 146% in 2022 as Q1 was still impacted by restrictions and stabilise at about 150% from 2023. We notify that keeping in mind our discussed interest rate formula peculiarity, we consider the loan portfolio to grow consistently without any rapid spikes at the end of the periods.

Average effective interest rates on loans



Source: DelfinGroup, LHV

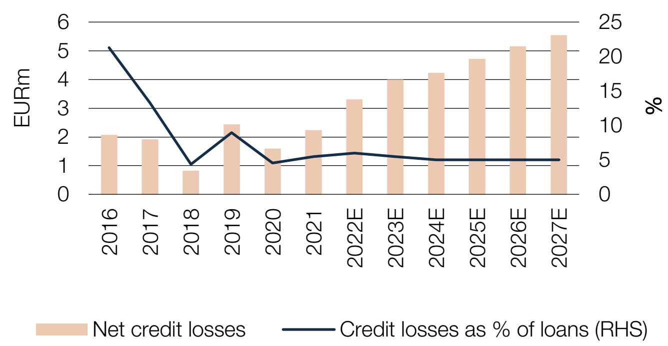
NPLs and Credit Losses

Similar to what is quite normal for the overall non-bank consumer credit market, DelfinGroup's credit products and services are targeted primarily to disadvantaged community groups in the financial and economic life. For example, such groups include retired people or people close to the retirement age, rural and small-town residents far away from the larger cities, underbanked and underserved customers with generally lower-than-average net income levels. Obviously, providing flexible financing for those customer groups is connected to much higher risks compared to the regular banking services, and the risks need to be accordingly compensated with higher interest rates. Although the share of customers of DelfinGroup with age below 30 years has nearly doubled over the last two years, rising to 10% as of 2020, a vast majority of the Group's customer base is still formed by people over 30 years of age, while nearly one-third of the total customers are over 64 years old, i.e. in their retirement age. However, according to the management, retired and older people are in practice generally more reliable and conscientious credit customers in comparison with the younger customer group. Nevertheless, the average cost of risk of the Group has been steadily high in the past, and we do not expect it to come down significantly going forward.

According to its accounting principles, DelfinGroup uses the expected credit loss (ECL) model for calculating and recognising loan impairment losses. Essentially, the ECL model envisages a 'three stage' approach, which is based on the change in the credit quality of financial assets since initial recognition. The ECL is calculated as a function of the probability of default (PD), the exposure at default (EAD), and the loss given default (LGD), while the result is additionally adjusted for ceded loans. In practice, for Stage 1, the Group has to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets. Stage 2 requires adjusting the ECL for claims overdue >30 days but <90 days. Stage 3 classification is used when there is evidence that the claim is impaired and overdue for more than 90 days, capturing the ECL based on the full probability of default. DelfinGroup defines non-performing loans (NPL) primarily based on the payment delay period, and the contract is deemed to be non-performing if payments are past due for more than 90 days, although some other factors are also considered in the process. Following the overdue period definition of NPLs, according to our calculations, DelfinGroup's overall rate of NPL to gross loans stood at 3% at the end of 2021 and has remained at this level in H1 2022, showing considerable improvements compared to the 7.0-7.4% recorded in 2017-2018 and 5.1-5.9% in 2019-2020.

From 2020, the Group made changes in the presentation of credit loss expenses. Until 2019, credit losses were presented within selling expenses, whereas the losses on cessions were presented within interest and similar expenses, with effect from the reversal of allowance on ECLs for cessioned loans were presented under selling expenses. Starting from 2020, DelfinGroup presents credit loss expenses as a separate item in the income statement, reclassifying losses on cessions to other operating expenses, including the effect of the reversal of ECL allowances. As losses on cessions can be considered as credit losses, for a better presentation of financial information, we decided to present losses on cessions as part of credit loss expenses. DelfinGroup has signed a contract with a third party for the regular cession of overdue loans, normally collecting around

Net credit losses and credit loss rate



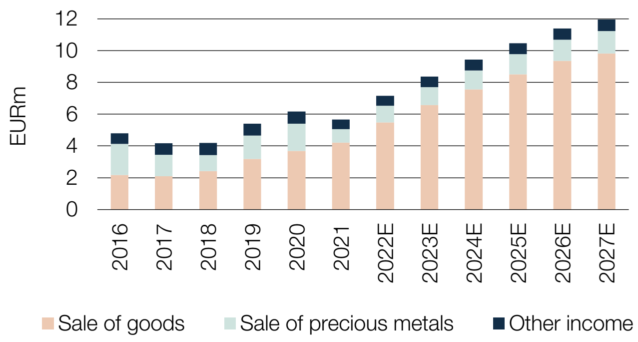
Source: DelfinGroup, LHV

two-thirds of the outstanding loan balance of such debtors. Although the average cost of risk for the Group, calculated as a percentage of net credit losses (including losses on cessions) to average gross loans, has fluctuated significantly over the recent years, the overall trend shows improvements in the average credit quality. In 2020, the annual net credit losses amounted to 4.5%, but in 2021 slightly increased to 5.5% of the average gross loan portfolio of the Group. As inflationary pressures in H2 2022 could cause some credit delays and even defaults, we project the ECL to reach 6% in 2022 and to decline gradually to 5% by 2024, stabilising thereafter.

Sale of Pre-owned Goods

Following a setback recorded in 2016-2017, the sale of pre-owned goods of the Group has demonstrated an upward trend over the past four years, and we expect positive dynamics to continue going forward. DelfinGroup has good preconditions in place to further improve its position as an important reseller of pre-owned goods in Latvia. The retail business of pre-owned goods and jewellery operates under the brand Banknote. Over the past eleven years, Banknote has developed a network of 92 branches in 38 cities of Latvia so that reseller points are available for a large audience across the country. Effectively, Banknote is present in every single populated area of Latvia with at least 4,000 inhabitants. In lower populated regions often Banknote is one of the very few physical stores selling a relatively wide variety of electronic and other household goods, furthermore as income level in rural areas is lower, consumers should be willing to buy cheaper goods or second-hand goods. In order to support the expansion of its sale of pre-owned goods, it launched an online shop in 2018, and this sales channel has been growing rapidly over the last three years. Further, the retail trade is additionally supported by the consumer credit product launched in 2020, Banknote Pirkumiem (in English: Banknote for Purchases), which essentially offers Point-of-Sale (POS) loans, also called as Buy-Now-Pay-Later loans (BNPL loans). The product gives an opportunity to receive a loan to purchase a product selected in a physical or online store of Banknote. In addition to a broad physical and online access to the pre-owned goods offered by the Group, compared to the person-to-person retail trade channels, Banknote's pre-owned goods trade should benefit from the fact that all transactions are subject to the same consumer protection regulations as the regular retail shops. The Banknote's branches and online store generally receive the goods for sale from four primary sources: a) unredeemed pledges from pawn shops, b) purchases of goods and jewellery from walk-in customers; c) occasional wholesale purchases of certain goods from other second-hand retailers, and d) returned goods from largest online retailers in Latvia. Although unredeemed pawn pledges support Banknote's retail channel, the revenues from pledges are accounted for in interest income, namely, only goods that are bought by Banknote from walk-in customers or other retailers are included in this segment's revenues.

Net sales development of DelfinGroup

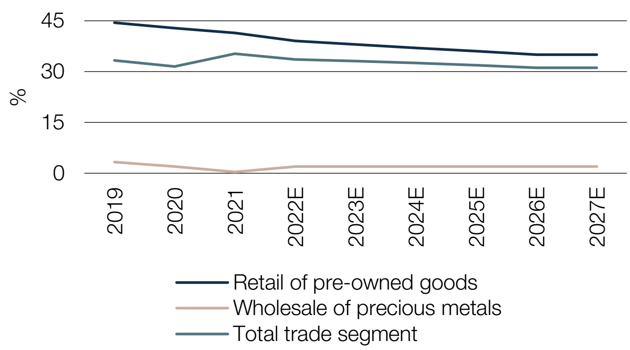


Source: DelfinGroup, LHV

Starting from 2019, DelfinGroup breaks down its net sales by product groups, separating the sale of goods, the sale of precious metals, and other sales income, including mostly sales commissions, storage fees, and other related revenues. Over the last three years until 2021, the total net sales growth has been primarily driven by the sale of goods, rising at a CAGR of 20.2%, however, the sale of precious metals and other revenues has decreased with a CAGR of 5.8% and 6.6%, respectively. The sale of precious metals might also fluctuate considering its price movements, if the price is expected to be higher in the following quarters. We projected relatively fast growth to continue in terms of the sale of goods, posting a 6Y CAGR of c.a. 15%, backed by the development of both offline and online shops as well as the growing usage of POS loans to finance purchases. We predict the expansion of precious metals trade and other income, up c.a. 9% annually over the next six years. Overall, we estimate total net sales to reach nearly EUR 12m by 2027, corresponding to a 6Y CAGR of c.a. 13%. As inflation has soared in 2022 and is estimated to remain at a high level next year, exceeding average salary growth, Banknote's retail of goods could see increased demand as consumer purchase power decreases, thus we believe that consumers will seek to acquire goods with little wear and tear for a good price. Positive tendencies can be observed in Q1 and Q2 2022 with sales growing at 21.5% and 30% y-o-y respectively.

The gross margin on the sale of pre-owned goods has remained relatively steady in recent years, fluctuating at around 41-44%. In our projections, however, we estimate the respective gross margin to gradually decline in the coming years. In order to grow its retail turnover, Banknote will have to bring in more goods to sell, thus we consider that the markup will have to be reduced to motivate walk-in customers to sell more personal goods as well as motivate other retailers to give up more of their goods to Banknote. Also, changes in the sales mix by product categories towards more widely traded goods with transparent market values are also playing a role. Overall, we anticipate the gross margin on retail trade of pre-owned goods to decline to 39% by 2022, further to 37% by 2024, and gradually reach 35% by 2026, remaining stable afterwards. A significant portion of DelfinGroup's net sales is formed by the wholesale of precious metals. Understandably, the gross margin of this trade segment is quite minimal at about 3% in 2019, 2% in 2020, and 0.5% in 2021. We expect it to remain around 2% in the coming years. Wholesale of precious metals comprises primarily gold, as silver forms just a marginal part of sales, according to the management.

Gross margins of trade segment by product type



Source: DelfinGroup, LHV

Debt Funding and Cost of Financing

DelfinGroup has a solid track record in successfully using bond markets as one of its core funding sources to finance lending operations and growth. Until today, the Group has placed a total of seven different bond issues for a total amount of EUR 37m. The first issue was convened in November 2013 in the amount of EUR 5m with a term of 5 years, and the issue was listed on Nasdaq Baltic Bond List in March 2014. The second issue took place in March 2014, with the Group placing EUR 3.5m worth of bonds with maturity in December 2020. The respective bond issues carried coupon rates of 14% and 15%, respectively, and have been fully repaid. Using the funds from IPO, the Company redeemed one of the high coupon rate (14%) bonds amounting to EUR 5m on 25th October 2021, followed by another two high coupon bond redemptions using the call option on 24th November (EUR 5m, coupon rate 14%) and on 27th December (EUR 3.5m, coupon rate 12%). The Company currently has two outstanding bond issues worth EUR 15m, including a EUR 5m bond issue with a 9.5% coupon rate and a EUR 10m bond issue with the historically lowest annual coupon rate of 8% issued in late May this year. We are glad to see that the Group has managed to increase confidence among its debt investors during the period of bond issuance, and the coupon rates of the bonds have come down considerably since the first issue, reducing the cost of financing and contributing to the improving profitability of the Group. Looking forward, however, with soaring inflation, higher economic risk and rising central bank rates, investors are demanding higher returns. As per the latest announcement, the Company has registered a new unsecured notes issue of EUR 10m with a coupon rate of 3M EURIBOR + 8.75% with a maturity of 25th September 2024. In order to make bonds interesting for investors, we expect the Company to issue new bonds for financing its portfolio growth with similar coupon rate characteristics as to its latest registered bond for the next two years. For the 3M EURIBOR rate forecast, we take the Bloomberg News survey, from 1st July to 7th July, as guidance, in which the average rate forecast for Q2 2022-Q4 2024 of 49 economists is taken. As the forecast tells, increased EURIBOR rates are likely to sustain for a prolonged period and are anticipated to gradually reach 1.45% in Q3 2023 remaining steady until the end of 2024, causing higher bond yields. Considering the anticipated pace of the loan portfolio expansion, we projected the total volume of outstanding bonds to reach EUR 32m by 2024 and EUR 35m by 2027, with the average effective interest rate reaching 9.3% this year, further on increasing to c.a. 10% in 2024, coming down to 8% by 2026 and remaining steady thereafter.

DelfinGroup joined the global lending platform Mintos in February 2016. Since then, the Group has rapidly expanded the total financing attracted from the platform, effectively using a P2P lending setup. According to the Latvian legislation, a private person is not allowed to directly finance the personalised consumer loans applied for by Latvian private persons. Therefore, Mintos issues credit notes (financial instruments) where several loans with similar properties are pooled together which then are bought by investors. Mintos platform historically and currently is a very substantial source of debt financing accounting for nearly 60% of total debt at the end of 6M 2022. According to the Group, as at the end of Q2 2022, the weighted average annual interest rate of the funds collected from the Mintos platform stood at 10.9% increasing from 9.5% at end of Q1, however, our estimated effective interest rate at the end of 6M was around 7.8%. The difference arises from previously issued loans on Mintos that have been with considerably lower interest rates. Since the start of the pandemic in Q1 2020, the daily weighted average interest by the amount available for investment increased from c.a. 10% to c.a. 13.4% in three months and although further data is not available, from inspecting the loan originator average interest offered, it goes beyond 10% in most of the cases. DelfinGroup´s average interest rate currently offered is c.a. 12% with a maximum interest rate offered of 15%. The interest rates fluctuate by demand and supply forces, for instance, when there is a lower demand, originators offer higher interest rates. Also, Mintos is able to set the interest rate floor if it observes a decrease in investor activity. We do not consider that interest rates in Mintos will reduce any time soon, but this of course will depend on demand and supply forces. While there are many previously issued loans by DelfinGroup with considerably lower interest rates than the current average, we expect the average effective interest rate to increase gradually to 12% by 2024 and further gradually decrease to 7.5% by 2027. We expect the Group to keep utilising the Mintos platform as one of the main debt financing for growing credit portfolio. The Group has stated that, although rather expensive at this point, DelfinGroup aims to diversify its financing structure and funds from Mintos can be acquired fast according to its portfolio growth needs. All DelfinGroup's issued loans have a buyback obligation, i.e. if the debtor defaults for 60 days, DelfinGroup must pay back the investor the unpaid principal. If there is an extensive recession followed by many defaults, the Group could encounter high amounts of buyback which requires cash. Historical data shows that the Group is not holding extensive cash reserves which is not necessarily a bad thing, but in such cases, it will be a problem. However, while such consequences would hurt the financial stability of the Group, we believe that it can be managed by credit cessation, selling precious metal reserves, and income from the rest of the portfolio.

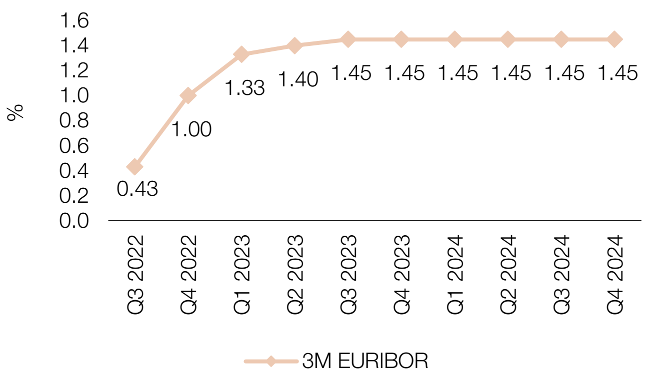
As interest rates are rising for both of the current debt financing sources of DelfinGroup and in our expectation will remain that way for a prolonged period, we do not see DelfinGroup achieving its set cost of debt target of 8% in 2022 and below 8% by 2024. According to our assumptions, DelfinGroup´s total debt average effective interest rate will stand at 9.4% at end of this year, reaching 10.7% in 2024 and afterwards gradually declining to 8% in 2026, remaining steady afterwards. Last but not least, the Group has mentioned a plan to raise funds from banks which is believed to reduce the cost of financing complying with the Group's targets. Currently, it is not announced in detail how much and at what cost the Group could obtain borrowings from banks, thus in the current forecast, we do not account for it. In general, if a bank lends money to a non-bank lender issuing loans to sub-prime clients which are not serviced by banks, it means that the bank is still indirectly financing sub-prime clients. Consequently, the loan interest rate should be very ap-

List of bond issues of the Company	Initial amount EURm	Issued	Maturity	Coupon %	Secured	Listing
Bond issue 1	5.0	Nov 2013	Nov 2018	14.0	Comm. pledge	Nasdaq Main List
Bond issue 2	3.5	Mar 2014	Dec 2020	15.0	Comm. pledge	Nasdaq Main List
Bond issue 3	5.0	Oct 2016	Oct 2021	14.0	Comm. pledge	Nasdaq First North
Bond issue 4	5.0	Nov 2019	Nov 2022	14.0	Comm. pledge	Nasdaq First North
Bond issue 5	3.5	Sep 2020	Nov 2022	12.0	Not secured	No
Bond issue 6	5.0	July 2021	Aug 2023	9.75	Not secured	No
Bond issue 7	10.0	Nov 2021	Nov 2023	8.00	Not secured	Nasdaq First North

Source: DelfinGroup

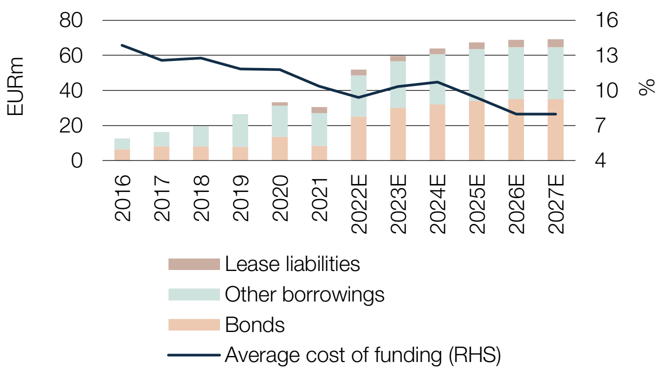
pealing to banks and might involve pledges, for example, a part of DelfinGroup´s credit portfolio. Also, the loan interest rate, besides the base rate, is most likely to include the EURIBOR rate.

3M EURIBOR Forecast



Source: Bloomberg

Interest bearing liabilities and cost of financing

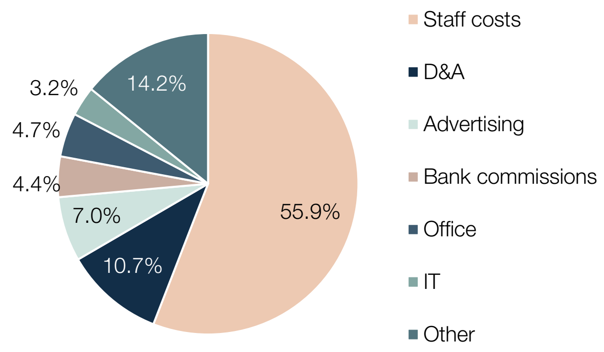


Source: DelfinGroup, LHV

Cost Base

Apart from the cost of goods sold, interest and similar expenses as well as other operating expenses, the largest cost group of DelfinGroup is selling expenses, followed by administrative costs. Both selling and administrative costs are dominated by staff expenses, including salaries and social taxes. In 2021, staff-related costs accounted for nearly 60% of the total combined operating expenses of the Group, forming EUR 5.9m. As at the end of 2021, the Group employed 301 people, up from 279 a year earlier, while a large portion of the headcount is engaged in the wide branch network. The second-largest cost item represents the depreciation and amortisation of assets, including depreciation of the right-of-use assets booked according to IFRS 16 since 2019, formerly accounted for mostly under rental expenses. Other notable operating cost items include advertising expenses, bank commissions, general office expenses, and IT and communication expenses. Following c.a. 7-8% annual growth in total operating expenses during 2017-2019, the Group managed to keep operating costs steady in 2020, inching up just 0.5% y-o-y. However, in 2021, with increasing staff count, recovery of the consumer lending market and inflationary pressures picking up in H2, both administrative costs and selling costs increased noticeably, 19% and 13% y-o-y respectively. The increase in costs is mainly attributable to salary and advertising cost increases. High inflationary pressures are likely to persist this year, which is also observed by DelfinGroup´s selling and administrative costs increasing in 6M by 24% and 29% y-o-y respectively. Overall, in 2022, we expect selling costs to increase by 20% y-o-y and administrative by 25% y-o-y, followed by a 15% y-o-y increase in 2023 and then slow down afterwards.

DelfinGroup operating cost structure 2021

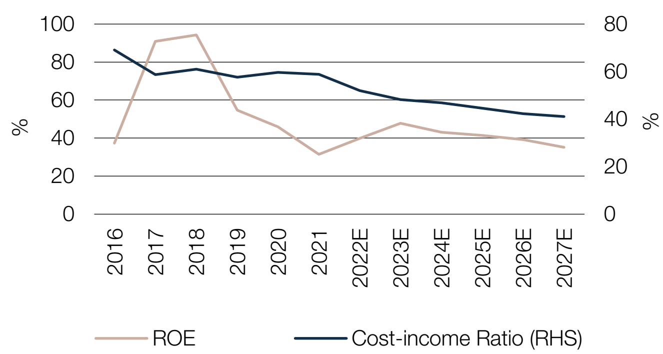


Source: DelfinGroup

Profitability

As DelfinGroup managed to increase its revenue streams ahead of operating expenses in recent years, it has gradually improved its operating efficiency and profitability indicators. DelfinGroup calculates the Cost-Income Ratio as follows: Cost-Income Ratio (CIR) = (Selling expenses + Administrative expenses + Other operating expenses)/ (Net sales – Cost of sales + Interest and similar income – Interest and similar expenses + Other operating income). Although the Group's profitability will be pressured by increasing selling, administrative, and debt financing costs, but supported by the IPO proceeds, we project DelfinGroup's CIR to decline from 59% in 2021 to 52% by end of 2022, partly driven by stronger economies of scale and a decline in average cost of financing in 2022. Also, due to inflationary pressures on operational costs and expected increase in the cost of debt, we believe it may not quite reach the level of <45% by 2024, as anticipated by the Group, with our projection currently standing at 47%. Following the IPO, DelfinGroup considerably strengthened its equity position and may find itself somewhat underleveraged going forward, depending on the dividend policy and debt financing strategy. However, assuming the expansion of lending volumes goes broadly according to the plan, and the Group continues with its relatively generous dividend payments, we believe it should be able to maintain ROE hovering nicely above the 30% level in the coming years.

Cost-Income Ratio and ROE



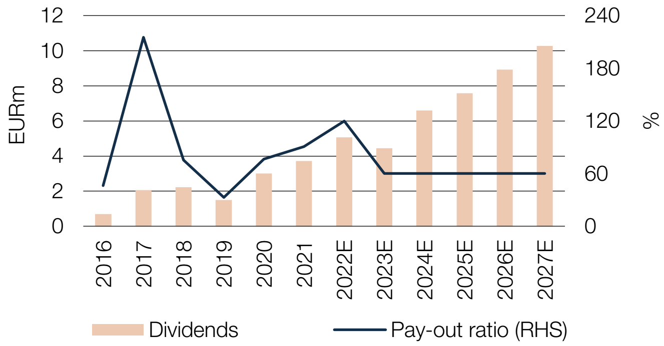
Source: DelfinGroup, LHV

Dividend Policy and Leverage

In September 2020, DelfinGroup announced its new dividend policy, envisaging quarterly dividend payments, subject to certain conditions and limitations. According to the new dividend policy, DelfinGroup targets to pay up to 50% of its quarterly consolidated net profits as dividends, normally paid out by the end of the following quarter. In addition to the quarterly dividends, the Group plans to pay additional annual dividends each year, aiming at least a 50% payout ratio from the consolidated profits together with preceding quarterly payments, taking into account the financial conditions of the Group and ensuring the optimal capital structure to maintain sustainable operations. Until now the Group is paying quarterly dividends at a payout ratio of c.a. 50% which is the maximum rate set by its policy. The current official dividend policy describes that the optimal capital structure is ensured if the consolidated equity ratio to the total assets of the Group is at least 20%. However, the announcements concerning the management guidance for 2022 and 2024 presume the equity ratio to be kept above 27%. According to our projections, we believe the Group can conservatively keep the equity ratio at or above 27% throughout our forecast period, despite the estimated payout ratios exceeding 50%.

Such capital structure should ensure reasonable risk assessments from the debt investors' point of view and enables the Group to maintain the average cost of financing down compared to historical levels. If the economic environment stays rather positive for the sub-prime lending market and DelfinGroup manages to maintain a reputable position in the regional debt markets and ensure attractive financing yields, it may decide to increase the dividend payments, further enhancing the core attraction of the Group's investment case. In connection with the Group's outstanding bond issues, there are certain leverage covenants in place which might limit the dividend payments. However, at this stage, DelfinGroup comfortably meets all the requirements, and the financing position is quite strong following the IPO.

Dividends and Pay-out ratio*



Source: DelfinGroup, LHV
* Estimated annual figures are based on rolling 4 quarters announced dividends

Results Review, EURm	Q2/22A	Q1/22A	Q2/21A	% q-o-q	% y-o-y	6M FY/22A	6M FY/21A	% y-o-y
Net loan portfolio	53.8	47.1	33.3	14.2	61.7	53.8	33.3	61.5
Net sales	1.9	1.5	1.5	31.6	29.9	3.4	2.7	26.2
Cost of Sales	(1.3)	(0.9)	(1.0)	40.8	24.1	(2.2)	(1.8)	22.2
Net interest income	5.7	5.3	3.7	7.7	53.8	11.1	7.4	49.7
Credit loss expenses	(1.3)	(1.1)	(0.2)	15.8	412.1	(2.3)	(1.0)	146.0
Gross profit	**5.1**	**4.8**	**4.0**	**7.0**	**30.2**	**10.0**	**7.4**	**35.2**
Operating expenses, net	(3.2)	(3.2)	(2.8)	(0.6)	12.7	(6.4)	(5.1)	25.2
EBITDA	3.2	2.6	2.1	24.0	52.7	2.6	4.6	(43.9)
Operating profit	**2.0**	**1.6**	**1.1**	**22.4**	**74.2**	**3.6**	**2.3**	**58.1**
Net profit	**1.2**	**1.4**	**0.8**	**(13.9)**	**47.5**	**2.6**	**1.6**	**61.4**

Source: DelfinGroup, LHV

Valuation

In this section, we discuss our assumptions and approach to derive the fair equity value range of the Group. We have approached the valuation of DelfinGroup using a combination of income and market approaches. For the income approach, we used three different models: 1) Discounted Cash Flow to Equity, 2) the Residual Income Model, and 3) the modified Gordon Growth Model (GGM), which essentially derives the fair P/B ratio based valuation for the company. For the market approach, we used a peer group valuation, which considers several peer group trading multiples for 2022-2024E and applies the peer group average valuation multiples to the respective financials for the Group. In terms of the peer group, in addition to P/E and Dividend Yield comparison, we pay attention to a correlation between ROE and P/B values for the selected peers, which is quite a common approach for the financial sector companies.

Discounted Cash Flow

The free cash flow to equity (FCFE) is calculated as the net profit, adjusted for CapEx, working capital investments, and depreciation and amortisation. Considering DelfinGroup as a company with a relatively strong growth profile throughout our forecast period, we decided to use a three-step DCF model, which includes a five and a half-year forecast period, followed by a three-year transition period, when all elements of the Group's cash flows gradually approach those applied for the terminal period. Main assumptions for the cost of capital calculations used in our DCF models, such as the normalised long-term risk-free rate, sector betas, and equity risk premium, are sourced from the "2017 Valuation Handbook – International Industry Cost of Capital" published by Duff & Phelps. The country risk premium is based on a ratings-based default spread sourced from the Damodaran database. Also, the additional company-specific risk premium is applied to capture operational risks. Below are the main assumptions used for the DCF:

- DCF model – a three-step DCF model, which includes a five-year forecast period, followed by a three-year transition period and terminal value calculations.
- Risk-Free Rate - we used a risk-free rate of 2.5% based on a normalised long-term forecast.
- Market Risk Premium - we considered a long-term normalised equity risk premium of 5.1% in our calculations.
- Levered Beta - we used a peer group median unlevered Vasicek Adjusted five-year beta of 0.74 to calculate levered beta of 2.12 for DelfinGroup, based on an average long-term debt-to-equity ratio of 1.87x and a tax rate of 0%.
- Country Risk Premium – we decided to base our country risk premium on where the revenues are generated. As all of the Group's activities are performed in Latvia, we used that country's default spread of 1.19% as the Group's country risk premium.
- Company-Specific Risk Premium - considering the relatively small size of the company, low liquidity of its shares, and the characteristics of its business model involving mostly high-rate consumer credit operations, we applied a company-specific risk premium of 4.0%.
- Tax rate - starting from 2018, Latvian corporate taxation has been changed and, instead of earned profits, only distributions (such as dividends) are taxed. Therefore, interest expenses do not provide any tax shield, and we applied an effective tax rate of 0% for the cost of capital calculations. For the free cash flows, we calculated expected tax costs based on forecasted dividends during the forecast period.
- CAPEX – taking into account the nature of the business of DelfinGroup, we decided not to count for the issuance of loans as well as the issuance and repayment of debt facilities when calculating the free cash flow to equity, as we assume them to broadly offset each other during the normal business development process.

Based on these assumptions, we calculated a DCF-based value of the Group's equity per share of EUR 2.11.

DCF Assumptions:	
Risk free rate	2.50%
Market risk premium	5.10%
Levered Beta	2.12
Country Risk Premium	1.19%
Add.comp.risk premium	4.00%
Cost of equity	**18.50%**
Terminal sales growth	2.5%
Terminal EBT margin	35.0%

Source: LHV

Residual Income Model

The Residual Income Model (RIM) calculates the company's "extra" return on equity, i.e. the return the company is generating in excess of the required rate of return, in this case, the Cost of Equity (CoE). We are using a two-step model, including a six-year forecast period and terminal value calculations. The discounted values of residual income are then added to the beginning equity value of the Group dated as at the end of 2022. For DelfinGroup, we used the CoE of 18.5%, the same as for the DCF model, based on the capital asset

DCF valuation, EURm	Q3/Q4 2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	Term
EBT	5.1	12.2	14.5	17.0	19.5	20.9	21.7	22.3	22.8	23.3
Taxes	(0.3)	(1.1)	(1.7)	(1.9)	(2.3)	(2.6)	(2.7)	(2.7)	(2.8)	(2.8)
Non-cash charges	0.6	1.2	1.3	1.4	1.5	1.6	1.6	1.6	1.7	1.7
Capex	(1.0)	(1.4)	(1.6)	(1.8)	(1.9)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
Change in NWC	(0.5)	(0.3)	(0.4)	(0.4)	(0.5)	(0.3)	(0.5)	(0.2)	(0.1)	(0.1)
FCFE	**4.0**	**10.6**	**12.2**	**14.3**	**16.4**	**17.7**	**18.1**	**19.0**	19.6	**20.1**
Discounted FCFE	4.0	8.9	8.6	8.6	8.3	7.5	6.5	5.8	5.0	32.2
Equity value										**95.5**
Equity value per share (EUR)										**2.11**

Source: LHV

pricing model ('CAPM'). The main assumptions for the CoE calculations used in our RIM and GGM models are the same as in our DCF valuation for the Group.

Based on our RIM calculations, we derived the equity value of the Group per share at EUR 1.69.

Gordon Growth Model

The GGM based fair P/B model calculates a company's appropriate P/B ratio using the following formula: P/B= (ROE-g)/(COE-g). Although this method is commonly used to value banking stocks, considering the nature of the Group's core operations, we believe this approach could be reasonable as one indication of the potential value of this entity. For this approach, we are using a two-step model, which includes a five-and-a-half-year forecast period and terminal value calculations at the end of the fifth year. In order to calculate the fair P/B valuation, we use the estimated long-term normalised ROE level.

We used the following base assumptions for the GGM approach:

- Return on Equity – We assumed a long-term normalised ROE of 35%.
- Cost of Equity – CoE is used the same as for the DCF and RIM approach at 18.5%.
- Terminal growth – The long-term growth rate (g) is considered to be 2.5%, the same as for the DCF and RIM approaches.
- Dividends – From 2021, DelfinGroup started to pay quarterly dividends, and it is expected to retain relatively high dividend payments throughout our forecast period, supported by the solid capital base after the IPO, respectable ROE levels, and improving profit margins driven by the economies of scale and reduced cost of debt.

In sum, this modified GGM indicates the equity value of the Group per share at EUR 1.62.

Peer Valuation

For the peer valuation, we compiled a list of different companies, mostly specialising in consumer loans and pawnshop operations with different sizes. Due to the small number of comparable listed companies available from Europe, we added few names also from the US for broader comparison, as there seem to be no major deviations in average trading multiples between the companies in the same consumer credit segment, while some companies are even active globally over electronic channels, therefore widening the competitive landscape. We decided to use the peer group median values as a basis for the comparative analysis of DelfinGroup, but we are applying an additional company size, and liquidity discount of 10% to all peer group derived market multiples. As we are not certain about EBITDA calculation principles being fully comparable for all companies in our peer group, we are not using EBITDA based market multiples for peer analysis of DelfinGroup at this stage to avoid any accounting errors in the comparable data. As mentioned earlier, a quite common approach in valuing financial stocks is to follow the correlation between ROE and P/B values to find a reasonable market-driven fair P/B ratio for a company under consideration. The data for our peer group indicates rather weak correlation between the estimated ROE and P/B values for each year with R^2 correlation coefficients ranging from 0.41 to 0.28 for the 2023-2024 period. The same peer group in our last coverage indicated a considerably

Residual Income Model (EURm)	2022E	2023E	2024E	2025E	2026E	2027E	Term
ROE (%)	40.1	48.2	43.6	41.6	39.2	35.2	35.0
Cost of Equity (%)	18.5	18.5	18.5	18.5	18.5	18.5	18.5
Residual Income Yield (%)	21.6	29.7	25.1	23.1	20.7	16.7	16.5
Total Equity (eop)	19.7	26.4	32.6	40.0	48.2	56.2	
Residual Income (RI=Equity*RI %)	4.0	6.8	7.4	8.4	9.1	8.7	55.7
Discounted Residual Income	**4.0**	**5.8**	**5.3**	**5.0**	**4.6**	**3.7**	**28.2**
Sum of PV of RI							56.6
Opening Equity							19.7
Equity Value							**76.4**
Equity Value per share (EUR)							**1.69**

Source: LHV

Fair P/B Model (Gordon Growth Approach, EURm)		Q3/Q4 2022E	2023E	2024E	2025E	2026E	2027E
Long-term normalised ROE (%)	35.0						
Cost of Equity (%)	18.5						
Long-term growth rate (%)	2.5						
Fair P/B=(ROE-g)/COE-g)	**2.03**						
Total Equity (end of period)		19.7	26.4	32.6	40.0	48.2	56.2
Fair terminal P/BV							2.03
Terminal Value (based on fair P/BV)							114.1
Dividends Distributed		2.3	4.5	6.7	7.7	9.1	10.4
PV of dividends + TV		2.3	3.8	4.7	4.6	4.6	53.2
Equity Value	**73.3**						
Equity Value per share (EUR)	**1.62**						

Source: LHV

stronger correlation between the estimated ROE and P/B values and we believe that it has been disturbed by the stock market's bearish sentiment arising from economic uncertainty. We still decide to apply this valuation approach but assign a low weight in the final valuation calculations. We calculated the respective correlation implied fair P/B ratios for DelfinGroup, considering the Group's estimated ROEs in the coming years, but discounting them similarly to other peer group implied multiples. In addition to ROE and P/B correlations, we also considered the peer median P/E multiples and Dividend Yield data for 2022-2024E. Taking into account the anticipated relatively strong forecasted expansion rates of the Group's operating volumes and profits in coming years, we decided to apply different time weightings to the implied equity values derived from the peer group data, giving only 20% weight to 2022 and 40% to both 2023 and 2024 estimated values. Looking at 2022-2024E data, the implied equity value per share of DelfinGroup ranges widely between EUR 0.89-2.84.

Company	**Bloomberg ticker**	**Market Cap**	**P/E (x)**			**Dividend Yield (%)**			**P/B (x)**		
		EURm	**2022E**	**2023E**	**2024E**	**2022E**	**2023E**	**2024E**	**2022E**	**2023E**	**2024E**
GOEASY LTD	GSY CN Equity	1,607	11.8	8.8	7.3	2.6	3.1	3.6	2.5	2.1	1.7
GRUPPO MUTUIONLINE SPA	MOL IM Equity	990	18.7	16.5	15.2	1.6	1.7	1.8	3.3	2.9	2.6
PROVIDENT FINANCIAL PLC	PFG LN Equity	560	5.3	4.8	4.1	7.4	107.8	10.3	0.7	0.7	0.6
RESURS HOLDING AB	RESURS SS Equity	438	5.8	5.5	5.1	9.0	9.9	11.0	0.6	0.6	0.6
OPORTUN FINANCIAL CORP	OPRT US Equity	221	6.0	3.1	3.1				0.4	0.3	0.3
REGIONAL MANAGEMENT CORP	RM US Equity	368	5.9	5.4	4.4	3.1	3.5	3.6	1.2	1.0	0.9
INTERNATIONAL PERSONAL FINAN	IPF LN Equity	283	4.7	4.8	4.0	8.4	9.4	11.0			
H&T GROUP PLC	HAT LN Equity	216	12.6	8.2	7.2	3.3	4.9	5.9			
ELEVATE CREDIT INC	ELVT US Equity	54		2.3	0.5				0.3	0.3	
RAMSDENS HOLDINGS PLC	RFX LN Equity	68	10.5	9.6		4.4	5.0				
Median (Excluding outliers)			6.0	5.4	4.4	3.8	4.9	5.9	0.7	0.7	0.7
Average (Excluding outliers)			9.0	6.9	5.7	5.0	5.4	6.7	1.3	1.1	1.1
Quartile 1			5.8	4.8	4.0	3.0	3.4	3.6	0.5	0.5	0.6
Quartile 3			11.8	8.7	7.2	7.6	9.6	10.6	1.8	1.5	1.5
Company size discount applied	10%										
Respective financial result of Delfin (EURm)			7.4	11.1	12.8	5.1	4.5	6.7	19.7	26.4	32.6
Estimated ROE for Delfin (%)											
P/B and ROE correlation Implied P/B (x)											
Implied equity value based on Median (EURm)			**40.4**	**54.5**	**50.7**	**119.7**	**83.0**	**103.3**			
Implied value per share (EUR)			**0.89**	**1.20**	**1.12**	**2.64**	**1.83**	**2.28**			

Source: Bloomberg, LHV

Company...continued	Bloomberg ticker	Market Cap		ROE (%)	
		EURm	2022E	2023E	2024E
GOEASY LTD	GSY CN Equity	1,607	23.3	26.4	26.6
GRUPPO MUTUIONLINE SPA	MOL IM Equity	990	18.8	18.6	18.0
PROVIDENT FINANCIAL PLC	PFG LN Equity	560	15.7	16.2	17.9
RESURS HOLDING AB	RESURS SS Equity	438	11.1	11.1	11.4
OPORTUN FINANCIAL CORP	OPRT US Equity	221	8.4	12.8	11.3
REGIONAL MANAGEMENT CORP	RM US Equity	368	20.8	19.2	19.2
INTERNATIONAL PERSONAL FINAN	IPF LN Equity	283	13.9	12.7	14.0
H&T GROUP PLC	HAT LN Equity	216	10.1	14.3	14.9
ELEVATE CREDIT INC	ELVT US Equity	54			
RAMSDENS HOLDINGS PLC	RFX LN Equity	68			
Median (Excluding outliers)			14.8	15.2	16.4
Average (Excluding outliers)			15.3	16.4	16.7
Quartile 1			10.9	12.8	13.4
Quartile 3			19.3	18.7	18.3
Company size discount applied	10%				
Respective financial result of Delfin (EURm)					
Estimated ROE for Delfin (%)			40.1	48.2	43.6
P/B and ROE correlation Implied P/B (x)			4.6	4.9	3.4
Implied equity value based on Median (EURm)			**91.1**	**128.6**	**110.7**
Implied value per share (EUR)			**2.01**	**2.84**	**2.44**

Source: Bloomberg, LHV

Valuation Summary

Finally, in valuing the equity of DelfinGroup, we have used the weighted average of values derived from the DCF, RIM, GGM, and the peer group data (P/E, Dividend Yield, and ROE&P/B correlation), applying different weights to each method. Given the attractive growth and profitability characteristics of the Group as well as a limited number of fully comparable listed peers, we see the income approach as more suited for the valuation of DelfinGroup and assigned a total of 80% weight combined to different income approach metrics in the total value, leaving the peer valuation weight at 20%, including a 10% weight for P/E comparison and 5% each of the peer Dividend Yield and P/B&ROE correlation methods. In terms of income approach methods, we decided to focus more on the DCF and assigned a 50% weight to the respective value derived from our DCF model, leaving the RIM and GGM with a 15% weight each in the total value. Overall, based on DelfinGroup's current development and our assumptions, we increase the fair value range (FVR) to EUR 1.80-1.99 per share compared to our previous FVR of EUR 1.68-1.82 per share. Using the current share price and our forecasts for 2022, the Group would be valued at the following 2022E multiples: P/E – 9.2x, P/B – 3.5x, and EV/EBITDA – 8.0x, with the respective ratios declining to 6.2x, 2.6x, and 5.7x by 2023E. DelfinGroup plans to retain hefty dividend payments in the coming years, and even based on relatively modest dividend expectations without fully utilising its dividend capacity following the IPO, calculated based on the current share price, the Group is anticipated to offer decent annual dividend yields of c.a. 6.5-9.7% over the period 2023-2024E, with potentially higher levels thereafter.

We believe that the core attraction of the investment case of DelfinGroup is its strong market position in the Latvian competitive non-bank consumer credit market, enabling it to utilise sufficient economies of scale, while the additional equity from the IPO strengthens the capital base, helping to bring down the average cost of debt financing compared to historical levels and supporting investments into IT and new product developments. The Group has the largest branch network in the country in the financial sector, giving convenient access to Latvia's underserved and disadvantaged lower-income customer segments, who often need quick and flexible financing solutions. At the same time, with its expanding trade of pre-owned goods, the Group supports a sustainable way of life and creates an infrastructure for the environmentally friendly reuse of several groups of consumer goods. The Group has a good track record in maintaining attractive profitability and dividend capacity despite directing sufficient funds into a continuous expansion of its overall credit portfolio while also keeping adequate credit quality. In sum, we believe that profitable growth along with appealing dividend yields would be the core of the respective investment case. The key risk factors to our valuation include potential economic recession resulting in slower than projected growth in consumer lending volumes and deterioration of the credit quality. Furthermore key risks include downward pressure on loan rates due to rising competition, European Central Bank interest rate hikes exceeding our forecast, thus considerably increasing the Group´s cost of debt, and lastly, new extensive COVID-19 restrictions imposed.

Sensitivity of mid-point of FVR to main assumptions (EURm)

Terminal growth rate \ Cost of Equity	17.0%	17.5%	18.0%	18.5%	19.0%	19.5%	20.0%
1.6%	2.03	1.97	1.92	1.86	1.82	1.77	1.72
1.9%	2.05	1.99	1.93	1.87	1.82	1.78	1.73
2.2%	2.06	2.00	1.94	1.88	1.83	1.78	1.74
2.5%	2.07	2.01	1.95	1.89	1.84	1.79	1.75
2.8%	2.09	2.02	1.96	1.90	1.85	1.80	1.75
3.1%	2.10	2.04	1.97	1.92	1.86	1.81	1.76
3.4%	2.12	2.05	1.99	1.93	1.87	1.82	1.77

Source: LHV

Weighted Value, EURm	Period weights			Period weighted value	Weights	Contribution to value
	2022E	2023E	2024E			
Method	**20%**	**40%**	**40%**			
Dividend Yield	2.64	1.83	2.28	2.17	5%	0.11
P/B & ROE	2.01	2.84	2.44	2.51	5%	0.13
P/E	0.89	1.20	1.12	1.11	10%	0.11
RIM				1.69	15%	0.25
GGM				1.62	15%	0.24
DCF				2.11	50%	1.05
Total weighted value					**100%**	**1.89**

Source: LHV

Financial Tables

Income Statement (EURm)	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E
Net turnover	4.2	5.4	6.2	5.7	7.2	8.4	9.4	10.5	11.4	12.0
Cost of sales	(2.7)	(3.6)	(4.2)	(3.7)	(4.8)	(5.6)	(6.4)	(7.1)	(7.9)	(8.2)
Interest and similar income	14.7	16.8	17.5	19.8	26.3	34.1	38.5	41.7	44.4	46.4
Interest and similar expenses	(2.3)	(2.9)	(3.5)	(3.8)	(3.9)	(5.8)	(6.7)	(6.2)	(5.5)	(5.5)
Credit loss expenses	(0.8)	(2.4)	(1.6)	(2.2)	(3.3)	(4.0)	(4.2)	(4.7)	(5.2)	(5.5)
Gross profit	**13.1**	**13.3**	**14.3**	**15.8**	**21.6**	**27.1**	**30.7**	**34.2**	**37.3**	**39.1**
Selling expense	(5.6)	(5.4)	(5.4)	(6.1)	(7.3)	(8.4)	(9.1)	(9.7)	(10.0)	(10.2)
Administrative expense	(2.8)	(3.5)	(3.3)	(4.2)	(5.3)	(6.1)	(6.7)	(7.0)	(7.3)	(7.4)
Other operating income	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Other operating expense	(0.2)	(0.2)	(0.8)	(0.3)	(0.4)	(0.5)	(0.6)	(0.6)	(0.7)	(0.7)
Operating profit	**4.6**	**4.3**	**4.9**	**5.2**	**8.7**	**12.2**	**14.5**	**17.0**	**19.5**	**20.9**
Profit before tax	**4.6**	**4.3**	**4.9**	**5.2**	**8.7**	**12.2**	**14.5**	**17.0**	**19.5**	**20.9**
Corporate income tax (incl. deferred)	(0.1)	(0.3)	(0.8)	(1.0)	(1.3)	(1.1)	(1.7)	(1.9)	(2.3)	(2.6)
Net profit for the period	**4.5**	**3.9**	**4.1**	**4.2**	**7.4**	**11.1**	**12.8**	**15.1**	**17.3**	**18.3**
D&A	(0.3)	(1.0)	(1.1)	(1.1)	(1.2)	(1.2)	(1.3)	(1.4)	(1.5)	(1.6)
EBITDA	**7.2**	**8.1**	**9.5**	**10.2**	**13.8**	**19.2**	**22.5**	**24.6**	**26.5**	**28.1**

Source: DelfinGroup for historicals, LHV for estimates

Balance Sheet (EURm)	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E
Intangible assets	0.4	0.4	0.5	0.6	0.6	0.6	0.7	0.7	0.8	0.8
Property, plant and equipment	0.2	2.4	3.7	3.5	3.7	3.9	4.2	4.5	4.9	5.2
Non-current financial assets	4.6	10.0	18.2	28.6	35.1	54.3	61.3	68.3	73.4	78.9
Investments in associates	-	0.1	-	-	-	-	-	-	-	-
Loans & receivables	3.5	8.9	17.7	28.6	35.1	54.3	61.3	68.3	73.4	78.9
Loans to shareholders and management	1.1	1.0	0.5	-	-	-	-	-	-	-
Total non-current assets	**5.2**	**12.7**	**22.4**	**32.7**	**39.4**	**58.9**	**66.1**	**73.5**	**79.1**	**84.9**
Inventories	0.8	1.2	1.5	1.9	2.6	3.1	3.7	4.2	4.7	5.1
Loans & receivables	16.7	22.7	17.0	14.4	28.7	23.3	26.3	29.3	31.5	33.8
Receivables from related parties	0.2	0.2	-	-	-	-	-	-	-	-
Loans to related companies	-	0.0	-	-	-	-	-	-	-	-
Deferred expenses	0.1	0.1	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.4
Other receivables	0.2	0.3	0.4	0.4	0.4	0.4	0.5	0.5	0.6	0.6
Cash and cash equivalents	3.5	1.1	4.6	2.5	2.2	2.7	2.7	2.6	4.0	3.8
Total current assets	**21.5**	**25.5**	**23.7**	**19.3**	**34.1**	**29.9**	**33.4**	**36.9**	**41.1**	**43.6**
Total Assets	**26.7**	**38.3**	**46.2**	**52.1**	**73.5**	**88.7**	**99.5**	**110.5**	**120.2**	**128.6**
Share capital and reserves	1.5	1.5	4.0	11.4	11.4	11.4	11.4	11.4	11.4	11.4
Retained earnings	0.4	3.0	1.4	1.7	0.9	3.9	8.3	13.4	19.5	26.4
Profit for the reporting year	4.1	3.9	4.1	4.2	7.4	11.1	12.8	15.1	17.3	18.3
Total equity	**6.0**	**8.4**	**9.5**	**17.4**	**19.7**	**26.4**	**32.6**	**40.0**	**48.2**	**56.2**
Bonds issued	6.2	6.1	8.4	10.8	10.0	21.9	23.9	24.9	24.9	24.8
Other borrowings	1.0	5.6	6.8	8.1	10.1	12.1	13.1	14.1	14.1	14.1
Finance lease liabilities	-	1.5	2.7	2.7	2.5	2.6	2.8	3.0	3.2	3.4
Total non-current liabilities	**7.2**	**13.2**	**18.0**	**21.6**	**22.5**	**36.6**	**39.8**	**42.0**	**42.2**	**42.3**

Balance Sheet (EURm)...continued	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E
Bonds issued	1.7	1.8	5.0	0.0	15.0	8.0	8.0	9.0	10.1	10.1
Other borrowings	10.6	13.0	10.9	10.5	13.5	14.5	15.5	15.5	15.5	15.5
Finance lease liabilities	-	0.6	0.7	0.7	0.6	0.8	1.0	1.2	1.4	1.6
Trade payables	0.4	0.5	0.7	0.8	0.9	1.1	1.2	1.3	1.4	1.4
Payables to related companies	0.0	0.0	-	-	-	-	-	-	-	-
Taxes and social insurance	0.2	0.2	0.8	0.4	0.5	0.6	0.6	0.7	0.7	0.7
Accrued liabilities	0.6	0.6	0.6	0.8	0.6	0.7	0.8	0.8	0.9	0.9
Total current liabilities	**13.5**	**16.7**	**18.7**	**13.1**	**31.2**	**25.7**	**27.1**	**28.5**	**29.8**	**30.1**
Total liabilities	**20.7**	**29.9**	**36.7**	**34.7**	**53.7**	**62.3**	**66.9**	**70.5**	**72.0**	**72.4**
Total Equity and Liabilities	**26.7**	**38.3**	**46.2**	**52.1**	**73.5**	**88.7**	**99.5**	**110.5**	**120.2**	**128.6**

Source: DelfinGroup for historicals, LHV for estimates

Cash Flow Statement (EURm)	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E
Profit before tax	4.6	4.3	4.9	5.2	8.7	12.2	14.5	17.0	19.5	20.9
Adjustments for:										
- Amortisation and depreciation	0.3	1.0	1.1	1.1	1.2	1.2	1.3	1.4	1.5	1.6
- Change in loans and receivables	(4.7)	(11.6)	(4.5)	(10.2)	(20.8)	(13.9)	(9.9)	(10.0)	(7.4)	(7.8)
- Change in inventories	(0.2)	(0.3)	(0.4)	(0.4)	(0.7)	(0.5)	(0.5)	(0.5)	(0.5)	(0.3)
- Change in payables and accrued liabilties	0.2	(1.2)	(0.0)	(1.6)	0.1	0.3	0.2	0.2	0.1	0.1
- Other adjustments	0.8	1.7	1.0	1.8	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.0)
Cash generated from operations, gross	**1.0**	**(6.1)**	**2.0**	**(4.1)**	**(11.5)**	**(0.7)**	**5.6**	**8.0**	**13.2**	**14.4**
Corporate income tax paid	(0.4)	(0.1)	(0.3)	(0.8)	(1.3)	(1.1)	(1.7)	(1.9)	(2.3)	(2.6)
Net cash flows from operating activities	**0.6**	**(6.2)**	**1.7**	**(4.8)**	**(12.8)**	**(1.9)**	**3.9**	**6.0**	**10.9**	**11.9**
Purchase of intangible assets and PPE, net	(0.2)	(0.7)	(0.6)	(0.5)	(1.3)	(1.4)	(1.6)	(1.8)	(1.9)	(2.0)
Other Investments, net	0.0	(0.0)	0.8	0.5	-	-	-	-	-	-
Net cash flows from investing activities	**(0.2)**	**(0.8)**	**0.3**	**(0.1)**	**(1.3)**	**(1.4)**	**(1.6)**	**(1.8)**	**(1.9)**	**(2.0)**
Dividends paid	(2.2)	(1.5)	(3.0)	(3.7)	(5.1)	(4.5)	(6.7)	(7.7)	(9.1)	(10.4)
Changes in Equity	-	-	-	8.1	-	-	-	-	-	-
Loans repaid & received, net	4.2	5.4	(1.1)	0.8	5.0	3.0	2.0	1.0	-	-
Bonds repaid & received, net	(1.1)	(0.1)	5.6	(2.4)	14.1	5.0	2.0	2.0	1.0	(0.1)
Finance lease liabilities, net	(0.1)	0.8	-	-	(0.2)	0.3	0.4	0.4	0.4	0.4
Net cash flows from financing activities	**0.8**	**4.6**	**1.5**	**2.8**	**13.9**	**3.8**	**(2.3)**	**(4.3)**	**(7.7)**	**(10.1)**
Change in cash and cash equivalents for the year	**1.3**	**(2.4)**	**3.5**	**(2.1)**	**(0.3)**	**0.5**	**(0.0)**	**(0.1)**	**1.3**	**(0.2)**
Cash and cash equivalents at the beginning of the year	2.2	3.5	1.1	4.6	2.5	2.2	2.7	2.7	2.6	4.0
Cash and cash equivalents at the end of the year	**3.5**	**1.1**	**4.6**	**2.5**	**2.2**	**2.7**	**2.7**	**2.6**	**4.0**	**3.8**

Source: DelfinGroup for historicals, LHV for estimates

Main Ratios	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E
Growth										
Revenues (%)	4.6	17.7	6.7	7.7	31.4	26.7	13.0	8.9	6.8	4.7
Gross Profit (%)	13.3	1.6	7.7	10.2	36.9	25.5	13.4	11.3	9.1	4.7
EBITDA (%)	26.2	12.9	16.8	7.4	35.3	39.9	16.9	9.4	7.6	6.0
Pre-tax Profit (%)	26.6	(7.8)	13.9	7.2	67.4	40.5	18.6	17.3	14.7	7.2
Net Profit (%)	53.9	(13.9)	4.8	3.0	76.2	49.4	15.5	17.5	14.3	6.3
Profitability										
Gross Profit margin (%)	69.3	59.9	60.4	61.8	64.4	63.8	64.0	65.5	66.9	66.9
EBITDA margin (%)	38.1	36.5	40.0	39.9	41.1	45.3	46.9	47.1	47.5	48.1
EBIT margin (%)	24.5	19.2	20.5	20.4	26.0	28.8	30.3	32.6	35.0	35.9
PBT margin	24.5	19.2	20.5	20.4	26.0	28.8	30.3	32.6	35.0	35.9
Net Profit margin (%)	24.1	17.6	17.3	16.6	22.2	26.2	26.8	28.9	31.0	31.4
Return										
Capital Employed (EURm)	25.5	36.9	44.0	50.1	71.4	86.3	96.9	107.7	117.3	125.5
ROCE (%)	20.3	13.7	12.0	11.1	14.3	15.5	15.8	16.6	17.4	17.2
ROE (%)	94.3	54.6	46.0	31.5	40.1	48.2	43.6	41.6	39.2	35.2
ROA (%)	18.9	12.1	9.7	8.6	11.9	13.7	13.6	14.4	15.0	14.8
Leverage										
Net Debt	16.1	27.4	30.0	30.3	49.4	57.2	61.6	65.1	65.1	65.6
Net gearing (x)	2.7	3.3	3.2	1.7	2.5	2.2	1.9	1.6	1.4	1.2
Debt/Equity ratio (x)	3.3	3.4	3.7	1.9	2.6	2.3	2.0	1.7	1.4	1.2
Net Debt/EBITDA (x)	2.2	3.4	3.2	3.0	3.6	3.0	2.7	2.6	2.5	2.3
Other										
Average yield on earning assets (%)	77.7	61.6	50.0	48.7	47.7	46.9	45.6	44.2	43.0	41.9
Cost of interest-bearing liabilities (%)	12.8	11.8	11.8	10.3	9.4	10.3	10.7	9.4	8.0	8.0
Net credit losses to gross loans (%)	4.4	9.0	4.5	5.5	6.0	5.5	5.0	5.0	5.0	5.0
Cost-income ratio (%)	61.0	57.6	59.6	58.8	51.9	48.0	46.6	44.3	42.1	40.9
Dividend payout ratio (%)	75.5	33.0	76.7	90.8	120.0	60.0	60.0	60.0	60.0	60.0
Valuation										
Mkt.Cap. (EURm)	-	-	-	63.4	68.6	68.6	68.6	68.6	68.6	68.6
Enterprise Value (EURm)	-	-	-	93.7	109.9	109.9	109.9	109.9	109.9	109.9
Dividend yield (%)	-	-	-	5.9	7.4	6.5	9.7	11.2	13.2	15.1
EV/Revenue (x)	-	-	-	3.7	3.3	2.6	2.3	2.1	2.0	1.9
EV/EBITDA (x)	-	-	-	9.2	8.0	5.7	4.9	4.5	4.1	3.9
P/E (x)	-	-	-	15.0	9.2	6.2	5.3	4.5	4.0	3.7
P/BV (x)	-	-	-	3.7	3.5	2.6	2.1	1.7	1.4	1.2

Source: DelfinGroup for historicals, LHV for estimates
The market ratios are calculated used the market price of EUR 1.514 as of 5th Sep 2022.

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