Finbureau LLC

Rating report

Issuer rating

B

Outlook

Stable

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Summary and Outlook

Finbureau's issuer rating of B reflects the following assessments:

- **Business model assessment: Narrow (high).** Finbureau's business focus is on debt purchases and collection management in Georgia. The company manages non-performing loan (NPL) portfolios that it buys at material discounts from domestic banks and other financial institutions. It operates with a loan issuing entity (LIE) status and ranks among the largest debt purchase and collection companies in the country. It is also one of the most important players within the domestic loan issuing entities.
- **Operating environment assessment: Constraining (low).** Recent political tensions have not yet changed the economic outlook, but they remain an area of attention. The National Bank of Georgia supervises the loan issuing entity (LIE) sector, but Scope considers that regulations are less stringent than for licensed banks.
- **Long-term sustainability assessment (ESG factor): Developing.** Finbureau continues to strengthen its digital capabilities, a topic which is considered a strategic priority for the company to improve the scalability of debt collection.
- **Earnings and risk exposures assessment: Supportive (+1 notch).** Profitability metrics are solid and represent a rating strength. While volatile, Finbureau's profitability tends to be well above those of other loan issuing entities (LIEs), microfinance organisations (MFOs) and commercial banks in Georgia on average. It also compares favourably with international peers in the NPL management space. Finbureau's return on equity has consistently been above 20% since the company was founded in 2018.
- **Financial viability assessment: Adequate.** The management of solvency and liquidity metrics is adequate. The low and declining debt leverage ratio indicates prudent financial management to avoid incurring excessive debt to finance the acquisition of assets. Finbureau relies heavily on funding from a limited number of Georgian banks as loan issuing entities in Georgia are not authorised to collect deposits. The absence of diversified funding sources is a rating weakness. Foreign currency mismatch is limited.

The Stable Outlook reflects Scope's view that the risks to the current rating are balanced.

The upside scenario(s) for the rating and Outlook:

- Sustained strengthening of Finbureau's business model accompanied by more consistent levels of profitability.
- Expanding and diversifying sustainably the range of funding sources.

The downside scenario(s) for the rating and Outlook:

- Pressure on funding due to material concentration risk or material deterioration in the company's liquidity position.
- Greater competition in the domestic debt collection and management sector leading to a reduction in profitability.

Rating drivers

	Rating drivers	Assessment					
STEP 1	Operating environment	Very constraining	Constraining	Moderately supportive	Supportive	Very supportive	
	Low/High	*Low*			*High*		
	Business model	Narrow	Focused	Consistent	Resilient	Very resilient	
	Low/High	*Low*			*High*		
	Initial mapping	**b-**					
	Long-term sustainability	Lagging	Constrained	Developing	Advanced	Best in class	
	Adjusted anchor	**b-**					
STEP 2	Earnings capacity & risk exposures	Very constraining	Constraining	Neutral	Supportive	Very supportive	
	Financial viability management	At risk	Stretched	Limited	Adequate	Comfortable	Ample
	Additional factors	Significant downside factor	Material downside factor	Neutral	Material upside factor	Significant upside factor	
	Standalone rating	**b**					
STEP 3	**External support**	Not applicable					
Issuer rating		**B**					

Credit ratings

		Credit rating	Outlook
Issuer	**Finbureau LLC**		
	Issuer rating	B	Stable

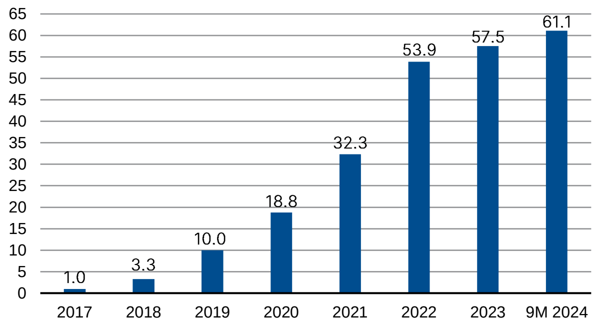
Business model

'Narrow – high' business model assessment

Finbureau focuses on debt purchase and collection in Georgia, ranking among the largest players in the country. It is also one of the largest domestic LIEs with a strong market position in its business niche and a growing loan base. The company manages non-performing loan (NPL) portfolios that it buys at material discounts from domestic banks, MFOs and online lending companies.

Finbureau's core activity is to convert acquired non-performing loans into performing assets and then collect the respective cash flows. It typically restructures them into new, longer (up to five years), cheaper and more flexible repayment schedules, according to each client's circumstances.

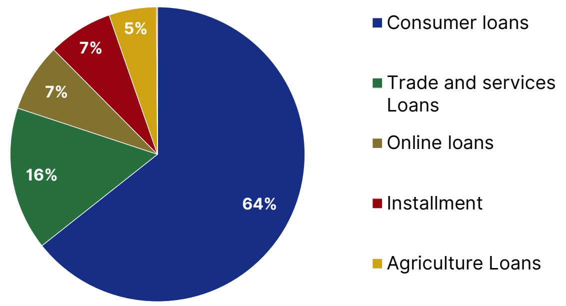
Figure 1: Net loan book size (GEL m, 2017-9M 2024)



Note: IFRS for 2017-2023. Local GAAP for 9M 2024

Source: Company data, Scope Ratings

Figure 2: Gross loan portfolio split by product (9M 2024)



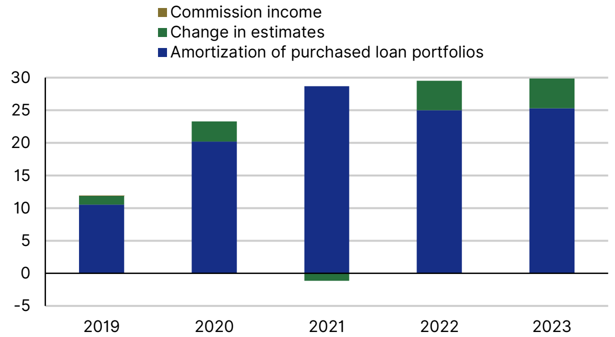
Source: Company data, Scope Ratings

The viability of the business model is highly dependent on the company's ability to continually acquire new portfolios. Finbureau originally started buying debt portfolios at very steep discounts, which meant lower-quality portfolios. However, this trend has changed in last few years as the company has been acquiring debt at lower discounts. This is because the largest NPL portfolios held by domestic banks have already been acquired. The remaining portfolios have better credit quality compared to the former ones.

The majority of Finbureau's revenue stems from amortisation payments on debt it collects, which are derived from purchased loan portfolios. Other revenue sources include the change in recovery estimates and commission income that result from the service of issuing loan notices.

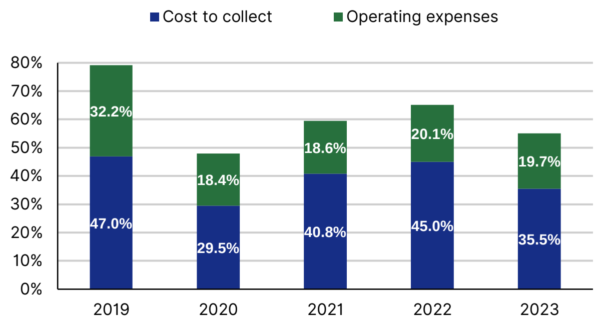
The company's term strategy for the 2025 targets a i) cost rationalization and optimisation of existing infrastructures (e.g. no branch expansion) and ii) maintaining a sustainable trend of loan portfolio purchases rather than accelerated acquisitions.

Figure 3: Revenue breakdown (GEL m, 2019-2023)



Source: Company data, Scope Ratings

Figure 4: Cost breakdown by type (2019-2023)



Source: Company data, Scope Ratings

Operating environment

Focus on Finbureau's country of domicile: Georgia (BB/Stable)

Economic assessment:

- The Georgian economy is undergoing a strong recovery and has robust medium-run growth potential. Growth in recent years has been well above this trend rate, benefiting from strong services-sector exports, financial inflows, transit trade and arrivals of skilled workers from Russia, Belarus and Ukraine. After very strong real growth of 10.6% in 2021, 11.0% 2022, and 7.5% in 2023, growth is expected to remain strong at 7.5% this year before decelerating to 5.4% next year.
- Russia's invasion of Ukraine created significant economic uncertainties given the strong trade linkages of Georgia to the warring counterparties. So far, the economy has weathered the crisis exceptionally well.
- In addition, the economy is vulnerable to external shocks due to its small size, high dependence on external financing and high dollarization.
- The Georgian parliament adopted a new foreign-agent law in May 2024, which was a source of political tensions in the country. It remains to be seen to what extent prolonged political tensions could alter economic momentum in the country.

Key economic indicators	2021	2022	2023	2024 E	2025F
Real GDP growth, %	10.6	11.0	7.5	9.5	6.8
Inflation, % change	9.6	11.9	2.5	1.0	1.9
Unemployment rate, %	20.6	17.3	16.4	13.5	12.5
Policy rate, %	10.5	11.0	9.5	8.0	7.5
Public debt, % of GDP	49	39	39	39	39
General government balance, % of GDP	-6.0	-2.6	-2.3	-2.0	-2.1

Source: Scope Ratings

Soundness of the Georgian financial sector:

- Commercial banks dominate the Georgian domestic financial sector, accounting for more than 90% of assets as of December 2023. Pension funds, insurance companies, MFOs and loan issuing entities (LIEs) together account for less than 10% of total assets.
- As of June 2024, 164 LIEs employed approx. 2,400 people in the country. LIEs are defined as entities or individuals that provide lending to 20 or more clients and can only perform activities related to issuing, purchasing and collecting loans. Largely unregulated until 2018, LIEs are today registered and required to submit quarterly consolidated reports to the National Bank of Georgia. They are also subject to payment-to-income and loan-to-value limits and cannot issue loans with a maximum amount of GEL 200,000 in domestic currency.
- LIEs are mostly active in consumer loans and pawnshop loans, (73% of the consolidated portfolio as of Q2 2024), as well as online loans (8%), trade and service loans (8%) and business loans (5%), with the remainder representing just 10% of the total loan portfolio.
- LIEs are supervised by the National Bank of Georgia. These entities are required to submit consolidated reports to the central bank on a quarterly basis, have PTI and LTV limits and have the obligation to issue loans with a maximum of GEL 200k only in the domestic currency.

Banking system indicators	2019	2020	2021	2022	2023
ROAA, %	2.9	1.3	3.0	3.3	3.6
ROAE, %	20.3	10.2	22.1	22.8	24.8
Net interest margin, %	5.3	4.4	4.8	5.2	5.8
CET1 ratio, %	13.3	12.5	14.3	17.3	22.8
Problem loans/gross customer loans, %	4.3	5.4	3.9	3.1	2.6
Loan-to-deposit ratio, %	124.3	114.9	119.0	102.8	106.9

Source: SNL, Scope Ratings

Long-term sustainability (ESG-D)

'Developing' long-term sustainability assessment

Finbureau is privately owned by two shareholders who play an important role in steering the strategy and in managing the company.

Governance

The shareholder structure has been amended in 2022 with the creation of an Estonian based investment company, co-owned by Finbureau's owners, and now controlling a 40% equity stake in Finbureau. This entity will serve as a special vehicle to attract non-domestic funds in the long term and diversify funding sources. This Estonian company is a startup with no active business operations at present.

Finbureau's corporate governance structure is comprised of a partners meeting, an executive board and a supervisory board with one independent member, complemented by four independent committees.

Digital

Finbureau is gradually implementing measures to make progress towards digital transformation such as increasing investments in new platforms, software, Internet, and mobile apps. The company is currently working on mobile applications to obtain more detailed customer information, expecting to be part of open banking in the future, as well as improving its Intranet platform to be more informative for its staff helping them for a more effective monitoring.

Social

We highlight the role LIEs play in the financial sector, along with MFOs, to develop the domestic economy, empower local communities and improve financial literacy and inclusion.

Since 2023, Finbureau's strategy has been to reduce the number of employees and increase their productivity, that is, to adapt its business model to one that is less dependent on human resources and more efficient through automation. The current domestic labour shortages driven by nationals migrating to EU countries for higher salaries has not had an impact in its business in 2024 so far.

Finbureau has been a signatory company of the UN Women's Empowerment Principles, which promote gender equality and inclusion, since 2022.

Environmental

Sustainability initiatives have been integrated gradually in the company's strategy and put in place to prepare for the implementation of the Sustainable Finance Taxonomy developed by NBG. The taxonomy went into force for commercial banks in January 2023, and further, separate frameworks in this legislation are planned for the rest of the domestic financial sector (MFOs and other financial institutions).

Although Finbureau is not exposed to traditional industries or geographies facing environmental risks (e.g. oil and gas, mining), it strives to minimise its environmental exposure through regular risk-effectiveness practices.

Figure 5: Long-term sustainability overview table[1]

	Industry level			Issuer level						
	Materiality			Exposure			Management			
	Low	Medium	High	Low	Neutral	High	Weak	Needs attention	Adequate	Strong
E Factor		◇			◇				◇	
S Factor	◇				◇				◇	
G Factor			◇			◇			◇	
D Factor			◇		◇				◇	

Source: Scope Ratings

[1] The overview table illustrates how each factor informs our overall assessment. Materiality refers to our assessment of the credit relevance of each factor for the financial industry. Exposure refers to what extent Finbureau is exposed to risks or benefits from opportunities compared to peers, given its business model and countries of operation. Management refers to how we view Finbureau's navigation through transitions.

Earnings capacity and risk exposures

'Supportive' earnings capacity and risks exposures' assessment

Finbureau has had a positive track record of revenue growth since its creation. Despite the overall positive evolution of its revenues, the company has been experiencing some bottom-line volatility since 2019. The key drivers of this past volatility were overall a material increase in direct collection costs, due to loan portfolio growth, larger administrative expenses and higher financing costs. The company is scaling up its business to improve operational efficiency.

In contrast to the losses reported by other LIEs in 2019 and 2020, Finbureau has been able to maintain solid profitability. It has not reported a loss since its creation in 2018, when the company started operating in the debt collection and management business.

Finbureau has strong profitability metrics, with double-digit RoE and RoA, thanks to dynamic portfolio acquisition and material recovery rates. Profitability is inherently volatile. In 2022, lower net income was due to higher collection costs, higher administrative expenses and higher funding expenses.

However, the company's bottom-line has rebounded since 2023. In 2023, its net income increased by more than a third thanks to lower direct collection costs of the loan portfolio, driven by materially lower court fees on court cases, and higher other income. Finbureau's net profit rose by nine percent during the first nine months of 2024 due to slightly higher non-interest income and lower interest expenses despite a mild increase in loan-loss provisions.

Finbureau's asset mix is mainly comprised of purchased loan portfolios. It does not have any investment securities or any other investment assets. Other assets include property, plant and equipment, intangible assets and cash at commercial banks.

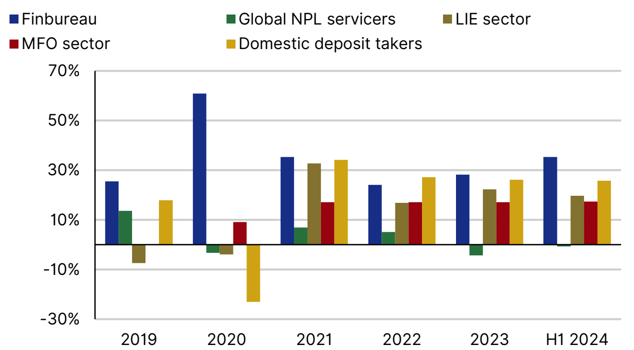
The company's portfolio is made up entirely of unsecured loans. We understand that the loan portfolio composition is not going to change in the near future.

A certain level of asset risk is intrinsic to the business model, given the nature of the portfolios purchased. However, we believe this risk is adequately mitigated by the portfolios' low purchase prices, which are set taking into account historical data and expected recovery rates.

The volatility of purchase prices of loan portfolios also impacts revenue generation. They have been more expensive recently compared to past periods due to the change in the asset quality profile of underlying assets as Finbureau focuses now on higher quality portfolios.

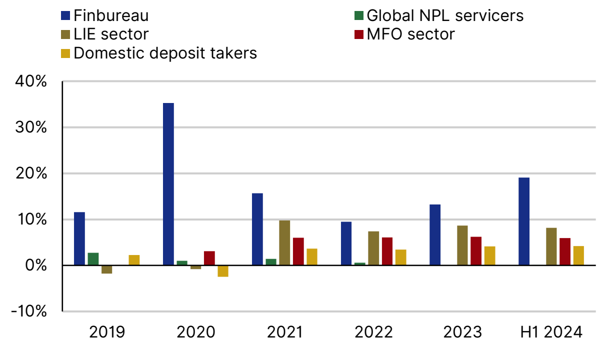
Reflecting the highly concentrated structure of the Georgian banking sector, the company is significantly dependent on a few loan portfolio originators for a large portion of its business. It would be a material challenge for Finbureau if the originators' appetite for portfolio sales were to diminish. Since the largest NPLs portfolios have already been sold, current sales focus on newer and better-quality NPLs.

Figure 6: Finbureau's RoE vs other financial players



Source: Company data, Scope Ratings

Figure 7: Finbureau's RoA vs other financial players



Source: Company data, Scope Ratings

Financial viability management

'Adequate' financial viability management assessment

As a loan issuing entity (LIE), Finbureau is not subject to minimum regulatory capital or liquidity requirements. The leverage ratio (total assets/total equity), which is the main indicator used by management to steer Finbureau's capital position, stood at 1.8x as of September 2024, meaning that over half of its balance sheet is funded by equity. This ratio has been improving since 2023 thanks to high profitability and high earnings retention as well as a slow growth in assets. However, the payout ratio increased materially in recent years (51% in 2023 vs 36% in 2022 and 17% in 2021). We now expect that the payout ratio will remain stable at current level to keep the funding structure balanced.

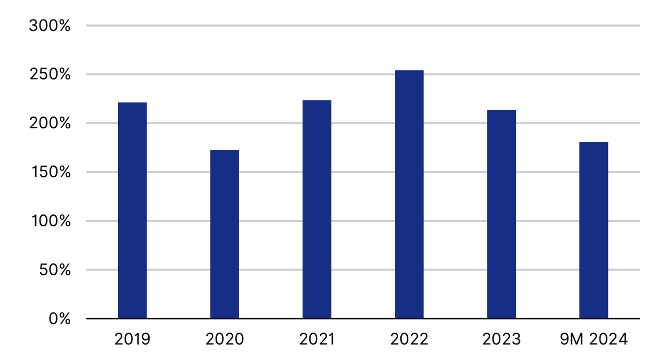
We view Finbureau's funding dependence as its main financial viability risk. Its main source of funds is medium-term loans (three to five years) in domestic currency from Georgian commercial banks. As a LIE, the company cannot take deposits, which explains its dependence on financial institutions. To reduce this dependence, the company is planning to borrow from international financial institutions via the Estonian investment company controlled by Finbureau's initial owners. This project is in place but not yet active.

Finbureau's audit report for 2023 highlighted non-compliance with some of its bank loan covenants. These were related to certain commercial conditions in the loan agreements and were resolved with all the counterparties involved providing waiver letters to Finbureau. As of September 2024, Finbureau complied with all of its bank loan covenants. However, it is very likely that the company will breach the dividend covenant in 2024 and has started to communicate this to the banks to provide waiver letters.

Liquidity, measured as cash and cash equivalents, tends to fluctuate depending on loan portfolio acquisitions and debt collections. This evolution is inherent to the company's business model, which uses its available liquidity along with funding from banks to acquire portfolios. Liquidity has improved since 2023.

The company does not have any funding in foreign currencies, but some lease liabilities in USD. Therefore, the currency mismatch is very limited and not a credit concern. Due to the government's larisation (de-dollarisation) programme since 2017, the share of foreign currency loans fell to 3% of total financial assets in December 2023 (versus 5% of total financial liabilities)

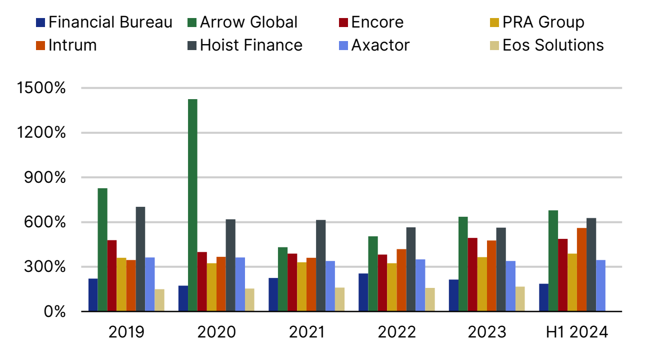
Figure 8: Leverage ratio (Total assets/total equity, 2019-9M 2024)



Note: IFRS for 2019-2023. Local GAAP for 9M 2024

Source: Company data, Scope Ratings

Figure 9: Leverage ratio, peer comparison (International NPL servicers, 2019-H1 2024)



Note: IFRS for Finbureau's 2019-2023. Local GAAP for Finbureau's H1 2024

Source: Company data, Scope Ratings

Financial appendix

I. Appendix: Selected financial information – Finbureau LLC

Balance sheet (GEL, IFRS, 2019-2023)

	2019Y	2020Y	2021Y	2022Y	2023Y
Assets					
Cash and cash equivalents	282,816	1,510,895	4,874,290	536,258	1,344,304
Amount due from credit institutions	3,200,000	3,550,000	6,343,032	6,360,633	-
Loans issued	-	-	422,349	449,257	248,358
Advances paid for loan portfolio	-	-	500,000	-	-
Other assets	63,214	68,938	70,734	371,334	405,353
Purchased loan portfolio	9,976,523	18,754,399	31,905,012	53,446,719	57,287,313
Deferred tax asset	-	36,644	53,602	-	51,625
Intangible assets	38,118	47,537	46,138	63,707	48,803
Right-of-use assets	1,207,633	1,813,806	2,045,883	1,502,475	2,004,906
Property and equipment	654,875	832,632	951,781	774,160	550,859
Total assets	**15,423,179**	**26,614,851**	**47,212,821**	**63,504,543**	**61,941,521**
Liabilities					
Deferred tax liability	272,347	1,822,682	0	17,791	0
Tax liabilities	-	-	2,606,461	3,226,905	3,779,019
Lease liabilities	1,262,206	2,003,354	2,209,747	1,544,900	2,070,052
Borrowings	5,872,478	5,985,551	19,022,570	31,827,765	26,204,653
Trade and other payables	1,045,522	1,406,822	2,263,813	1,926,416	888,893
Total liabilities	**8,452,553**	**11,218,409**	**26,102,591**	**38,543,777**	**32,942,617**
Charter capital	-	872,841	195,044	195,044	195,044
Retained earnings	6,970,626	14,523,601	20,915,186	24,765,722	28,803,860
Total equity	**6,970,626**	**15,396,442**	**21,110,230**	**24,960,766**	**28,998,904**
Total liabilities and equity	**15,423,179**	**26,614,851**	**47,212,821**	**63,504,543**	**61,941,521**

Source: Company data, Scope Ratings

Income statement (GEL, IFRS, 2019-2023)

	2019Y	2020Y	2021Y	2022Y	2023Y
Income statement summary (GEL)					
Revenue	**11,894,863**	**23,273,346**	**27,544,751**	**29,517,513**	**29,859,170**
Other income	0	0	0	545,012	1,382,595
Direct collection costs of loan portfolio	5,585,890	6,875,800	11,251,268	13,294,424	10,588,407
Employee expenses	3,023,702	2,993,185	3,225,879	3,009,797	3,400,859
Depreciation and amortisation	311,528	695,610	1,121,549	1,176,311	1,169,685
Other operating income/expenses net	810,464	1,280,193	1,895,213	2,918,241	2,466,829
Other income/(expenses)	0	0	0	0	0
Operating profit	**2,163,279**	**11,428,558**	**10,050,842**	**9,663,752**	**13,615,985**
Finance income	307,923	356,803	497,821	819,619	419,002
Finance expenses	331,920	833,772	1,468,578	3,470,582	4,313,641
Foreign exchange gain/(loss), net	-68,871	97,299	-105,437	-91,257	26,457
Profit before income tax	**2,070,411**	**11,048,888**	**8,974,648**	**6,921,532**	**9,747,803**
Income tax expenses	288,675	1,664,679	1,305,983	901,213	1,568,227
Total comprehensive income	**1,781,736**	**9,384,209**	**7,668,665**	**6,020,319**	**8,179,576**

Source: Company data, Scope Ratings

II. Appendix: Selected financial information – Finbureau LLC

Selected Financial Data	2019	2020	2021	2022	2023
Earnings capacity and risk exposures					
Net profit margin (%)	15%	40%	28%	20%	27%
Return on equity (%)	26%	61%	36%	24%	28%
Return on assets (%)	12%	35%	16%	9%	13%
EBITDA / total revenues (%)	23%	54%	42%	39%	51%
Net income / average managed assets (%)	16%	45%	21%	11%	13%
Operational efficiency					
Cost / income (%)	79%	48%	59%	65%	55%
Collection costs / total income (%)	47%	30%	41%	45%	35%
Other operating expenses / total income (%)	32%	18%	19%	20%	20%
Gross Money Multiple (x)	9.5	7.2	6.0	3.4	3.7
Cashflow from operations / debt (%)	-68%	65%	-11%	-33%	37%
Financial viability management					
Leverage ratio (%)	221%	173%	224%	254%	214%
Liabilities / equity (%)	121%	73%	124%	154%	114%
Loans / assets (%)	65%	70%	68%	84%	92%
Dividend payout ratio (%)	10%	20%	17%	36%	51%
Current ratio (%)	63%	59%	84%	53%	147%
Cash ratio (%)	4%	15%	19%	2%	15%
Short-term debt / total debt (%)	0%	0%	53%	81%	35%
Adjusted short-term debt / total debt (%)	0%	0%	45%	27%	NA
Gross debt / EBITDA (x)	2.2	0.5	1.6	2.8	1.7
Gross debt / tangible equity (x)	0.8	0.4	0.9	1.3	0.9
Liquid assets / short-term funding (%)	NA	NA	48%	2%	15%
EBITDA / interest expense (x)	8.2	15.1	7.9	3.3	3.5
Tangible equity / tangible assets (x)	0.5	0.6	0.4	0.4	0.5

Source: Company data, Scope Ratings

Note: Ratio calculation

a) Net profit margin (%) = Total comprehensive income/revenue
b) Return on equity (%) = Total comprehensive income/total equity
c) Return on assets (%) = Total comprehensive income/total assets
d) EBITDA/total revenues (%) = (Total comprehensive income + income tax expenses + finance expenses + depreciation and amortisation) / revenues
e) Net income/average managed assets (%) = Total comprehensive income/average total assets of year t and year t-1
f) Cost/income (%) = (Collection costs of loan portfolio + employee expenses + other operating income/expenses net + other income/expenses)/revenue
g) Collection costs/total income (%) = Collection costs of loan portfolio/revenue
h) Other operating expenses/total income (%) = (Employee expenses + other operating income/net expenses + other income/expenses)/revenue
i) Gross money multiple (GMM, %) = Purchase price for the loan portfolio (Buy amount)/total life income of the loan portfolio
j) Cash flow from operations/debt (%) = Net cash outflows from operating activities/total borrowings
k) Leverage ratio (%) = Total assets/total equity
l) Liabilities/equity = Total liabilities/total equity
m) Loans/assets (%) = Purchased loan portfolio/total assets
n) Current ratio (%) = Current assets/current liabilities
o) Cash ratio (%) = Cash/current liabilities
p) Short-term debt/total debt (%) = Short-term borrowings/total borrowings
q) Adjusted short-term debt/total debt (%) = Short-term borrowings/total borrowings, adjusting the borrowings that are not short-term funding to long-term funding due to technical breaches
r) Gross debt/EBITDA (%) = Borrowings / (Total comprehensive income + income tax expenses + finance expenses + depreciation and amortisation)
s) Gross debt/tangible equity (x) = Borrowings / (Total equity – intangible assets – preferred equity – goodwill)
t) Liquid assets/short-term funding (%) = Cash and cash equivalents / short-term borrowings
u) EBITDA/interest expense (x) = (Total comprehensive income + income tax expenses + finance expenses + depreciation and amortisation) / finance expenses
v) Tangible equity/tangible assets (x) = (Total equity – intangible assets – preferred equity – goodwill) / (Total assets – intangible assets)

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Applied methodology

Financial Institutions Rating Methodology, February 2024

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