# Finbureau LLC
# Issuer Rating Report

B STABLE

## Scope's credit view (summary)

The issuer rating on Finbureau reflects the following credit considerations:

Finbureau's business model focuses on debt purchases and collection management in Georgia. It operates with loan-issuing entity status and ranks among the largest debt purchasers and collection companies in the country.

The company's profitability metrics materially outperform the levels of other loan-issuing entities, microfinance organisations and commercial banks in Georgia on average. However, its profitability metrics have been declining in recent years due to higher operating costs, particularly higher collection costs, which are only partially mitigated by higher revenue following strong volume growth. Return on equity has remained above 24% since 2018.

Solvency and liquidity remain adequate. Continued low leverage indicates prudent financial management to avoid incurring excessive debt to finance the acquisition of loan portfolios. However, liquidity, measured as cash and liquid assets, has decreased in recent months following the acquisition of several large portfolios. This evolution is inherent to the company's business model, with periodic investments in portfolio acquisitions and a gradual replenishment of available liquidity from the cash flows received as part of its normal debt collection and recovery activities. The National Bank of Georgia does not supervise loan-issuing entities as closely as other financial institutions, and it does not require minimum regulatory capital or specific liquidity ratios. We consider this a material risk for the sector.

As loan-issuing entities in Georgia are not authorised to collect deposits, Finbureau relies mostly on funding from large domestic banks, which constitutes a potential funding risk. We view positively the alignment of interests with those banks that sell non-performing portfolios to Finbureau while also providing pledged funding. However, they do so with maturities that differ significantly from the ones of the expected portfolio recoveries, which adds a factor of material duration mismatching. Foreign currency mismatch is limited, with 3% of total financial liabilities in US dollars compared to 3% of total financial assets as of December 2022.

Finbureau continues to improve and implement initiatives regarding environmental, social and governance factors as well as digital capabilities (ESG factor). The company is privately owned by two final beneficiaries who play an important role in steering the strategy and managing the company. Enhancing digital capabilities is a priority for the company to improve the scalability of debt collection and ultimately reduce operating costs and improve efficiency.

## Outlook

The Stable Outlook reflects our view that Finbureau will continue to generate high returns from debt collection and rebuild its liquidity position in the coming months.

**What could move the rating up:**

- Sustained strengthening of Finbureau's market position, accompanied by more consistent levels of profitability
- Further growing the business through greater product diversification
- Expanding and diversifying the range of funding sources, providing the company with a more stable funding profile

**What could move the rating down:**

- Greater competition in the debt collection and management market, reducing profitability
- Pressure on profitability from higher funding costs
- Material deterioration in the company's liquidity position, leading to difficulties in meeting its financial obligations

### Ratings & Outlook

| | |
|---|---|
| Issuer rating | B |
| Outlook | Stable |


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## Issuer profile

Founded in 2015, Finbureau is one of Georgia's largest players in the debt purchase and collection management business. It was granted the status of loan issuing entity (LIE) in May 2019, and it is under the supervision of the National Bank of Georgia.

Its business model is to acquire non-performing loan portfolios at material discounts (75%-95%) from domestic banks, microfinance organisations (MFOs) and online lending companies; and to manage the outstanding debt and provide restructuring and flexible repayment schedules with more favourable conditions for customers to achieve higher recovery rates.

As of December 2022, the company had 17 branches and employed 778 people, of which 620 work as loan officers and 62 work in the legal department.

**Recent events**

- 2022 results*:* Finbureau's bottom line fell by about 21% YoY to around GEL 6m. The underlying factors for this decrease were higher collection costs following large portfolio acquisitions, higher administrative expenses (especially for communication, office, marketing and consultation) and higher funding expenses that could not be offset despite higher revenues from portfolio collections.

## Summary rationale for the rating construct

| Step | | Assessment | Summary rationale |
|---|---|---|---|
| STEP 1 | Operating environment | Very supportive | • Small emerging economy that still lags behind regional peers on some macro indicators (e.g. unemployment rate, GDP per capita), despite gradual improvements and reforms in recent years<br>• LIE market started to be regulated in 2018, and it is more loosely supervised than the MFO sector. |
| | | Supportive | |
| | | Moderately supportive | |
| | | **Constraining** | |
| | | Very constraining | |
| | Business model | Very resilient | • One of the largest players in Georgia's debt purchase and collection management business<br>• High-risk cyclical business focused on NPL management<br>• Very limited product and geographic diversification since the portfolio is purely focused on unsecured loans and domestic activities |
| | | Resilient | |
| | | Consistent | |
| | | Focused | |
| | | **Narrow** | |
| | Mapping refinement | High | • Not applicable |
| | | Low | |
| | **Initial mapping** | **b-/b** | |
| | Long-term sustainability | Best in class | • Gradual improvement in IT and digital transformation due to increasing investments in new platforms, software, etc.<br>• Sustainability initiatives have recently become part of Finbureau's strategy, but they are still at a very early stage. |
| | | Advanced | |
| | | **Developing** | |
| | | Constrained | |
| | | Lagging | |
| | **Adjusted anchor** | **b-** | |
| STEP 2 | Earnings capacity & risk exposures | Very supportive | • Very strong profitability metrics in past years, outperforming main domestic and international peers<br>• Predictable and supportive cash flow generation as a result of debt collection business<br>• No losses reported since 2018, when it started operating in the debt collection and management business |
| | | **Supportive** | |
| | | Neutral | |
| | | Constraining | |
| | | Very constraining | |
| | Financial viability management | Ample | • Low leverage ratio (as measured by assets/equity), indicating conservative financial management<br>• Finbureau relies heavily on funding from large domestic banks, which could lead to potential funding concentration risk.<br>• Material reduction of balance sheet liquidity due to recent large loan portfolio purchases |
| | | Comfortable | |
| | | **Adequate** | |
| | | Limited | |
| | | Stretched | |
| | | At risk | |
| | Additional factors | Significant support factor | • No additional factors were considered. |
| | | Material support factor | |
| | | **Neutral** | |
| | | Material downside factor | |
| | | Significant downside factor | |
| | **Standalone** | **b** | |
| STEP 3 | External support | Not applicable | |
| **Issuer rating** | | **B** | |

## LIE focused exclusively on debt purchasing and collection management in the Georgian market

*The 'narrow' business model assessment reflects our view that despite being one of the largest LIEs in Georgia, Finbureau has limited product diversification since its business relies almost exclusively on the high-risk sector of debt purchases, collection and recovery management.*

*The 'constraining' operating environment assessment reflects our view that Georgia is a small emerging economy that still lags behind regional peers on some economic indicators (e.g. unemployment rate, GDP per capita), despite gradual improvements and reforms in recent years. We note that the LIE sector continues to play a very limited role in the domestic financial sector, which is dominated almost entirely by the banking sector, representing around 92% of all domestic financial assets (in 2021).*

**One of the largest companies in the debt purchase and collection business in Georgia**

Finbureau focuses on debt purchase and collection in Georgia. It is one of the largest LIEs in the country, with a strong market position in its business niche and a growing asset base. The company manages non-performing loan (NPL) portfolios that it buys at material discounts (75%-95%) 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 three years), cheaper and more flexible repayment schedules, according to each client's circumstances. Finbureau does not sell any loans. Since the business model is subject to reputational pressure, the company has been promoting financial education and financial literacy. If a client starts paying and can make six consecutive payments, this positive behaviour is reported to the national credit bureau, improving the client's credit score.

Finbureau has experienced rapid growth through active acquisitions of large loan portfolios since its founding, which total around GEL 54m (about EUR 20m) as of December 2022.

The company uses two procedures for portfolio purchases: i) open tenders in which domestic commercial banks and MFOs express a desire to sell assets; and ii) direct communication with banks due to positive, longstanding corporate relationships.

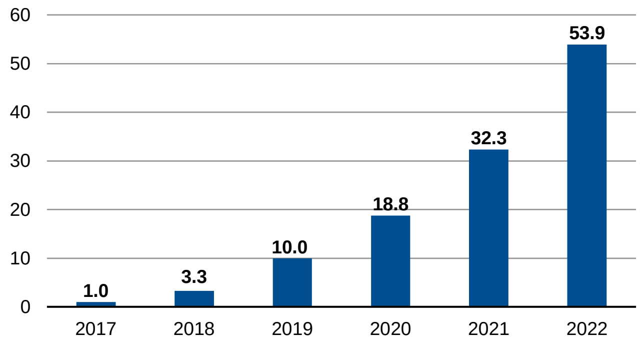
The business model is highly dependent on the company's ability to continually acquire new portfolios. While we acknowledge Finbureau's strong track record and its solid relationships with major Georgian financial institutions (mostly banks and MFOs), the lack of visibility over its long-term revenue stream is a concern. However, we note good visibility on the company's short-term cash flow and revenue generation for 2023 following the completion of its strategic business plan.

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.

**Finbureau's portfolio is made up of unsecured loans**

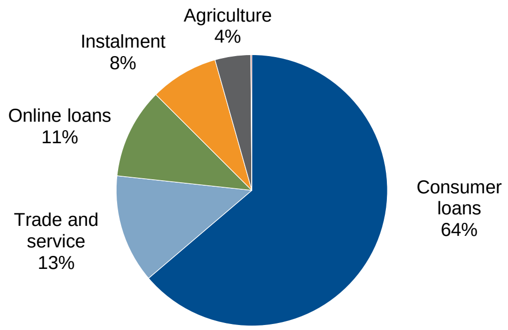
The company's portfolio is made up entirely of unsecured loans. This loan portfolio composition is not expected to change in the near future.

**Figure 1: Finbureau's net loan book size (GEL m, 2017-22)**




Source: Company data, Scope Ratings

**Figure 2: Gross loan portfolio breakdown by product type (December 2022)**



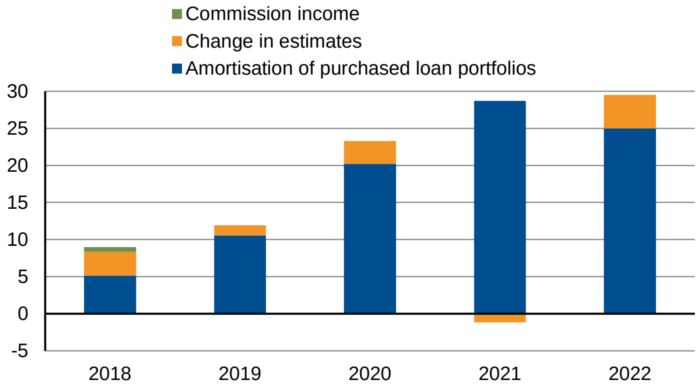

Source: Company data, Scope Ratings

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 is 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 and from third-party loan portfolio management services.

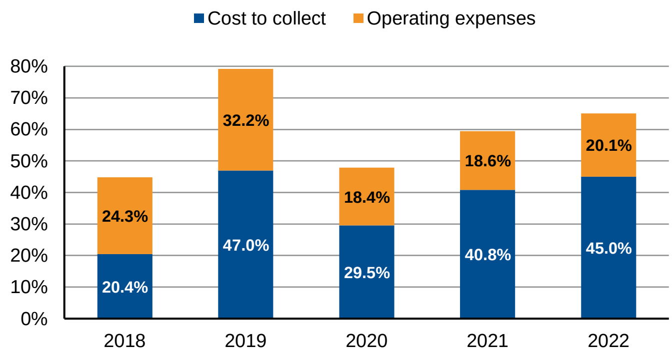
Finbureau's main operating expenses include: i) direct collection costs associated with each loan portfolio, including the cost of agent services related to collection and legal fees in court cases; and ii) other operating expenses, such as salaries (fixed remuneration, bonuses and other benefits), communication, office and other expenses.

**Figure 3: Finbureau's revenue breakdown (GEL m, 2018-22)**




Source: Company data, Scope Ratings

**Figure 4: Finbureau's cost breakdown by type (2018-22)**



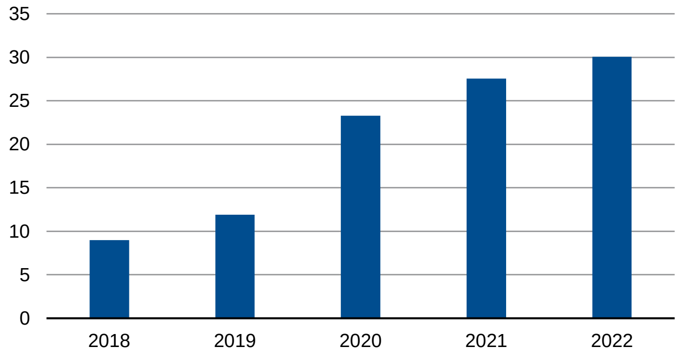

Source: Company data, Scope Ratings

**Finbureau does not collect cash from its customers**

Finbureau does not collect cash from customers, nor does it have access to their bank accounts as clients pay to Finbureau themselves or go through the largest Georgian banks' own payment services. The company monitors the process and status via its internal software.

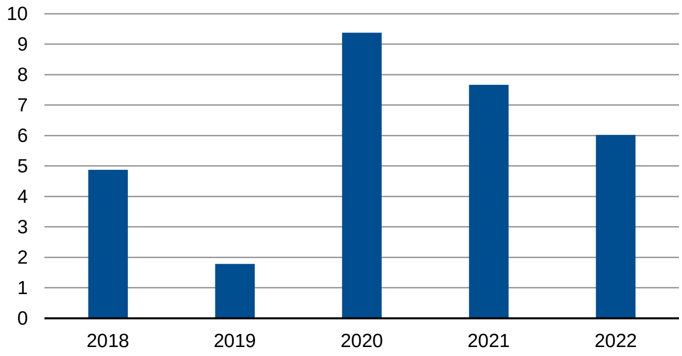
Finbureau has had a positive track record of revenue growth since its creation. Despite the overall positive evolution of its revenues, the company has been experiencing some bottom-line volatility since 2019. The key drivers of this volatility have been a material increase in direct collection costs, which is related to its loan portfolio growth, larger administrative expenses and higher finance expenses. The company is scaling up its business to enable better performance in future.

**Figure 5: Finbureau's revenues (GEL m, 2018-22)**




Source: Company data, Scope Ratings

**Figure 6: Finbureau's net income (GEL m, 2018-22)**




Source: Company data, Scope Ratings

The company's short-term strategy for 2023 targets significant branch expansion (four to five new service centres), headcount growth (100 additional employees) and a slowdown in loan portfolio purchases. Finbureau plans to keep moderate growth in 2023 and 2024, compared to the strong growth levels seen in 2022 and 2021.

## Box B: Focus on Finbureau's country of domicile: Georgia

### Macroeconomic assessment – key credit considerations

- Georgia is a small, open and emerging market economy with a GDP per capita of USD 5,023 as of December 2021. Georgia is a net importer, with Turkey as its largest trading partner (15% of total foreign trade turnover), followed by Russia (11.4%), China (10.3%), Azerbaijan (7.9%) and the US (5.7%) in 2021. Its main exporting sectors as of YE 2022 were manufacturing (33%), wholesale and retail trade (27%), and transport and storage (18%).
- Georgia's GDP grew by 3.8% over 2010-20, more than that of neighbouring countries and several eastern European nations (3%). This was mainly driven by the government's economic reforms, which were tilted towards business-friendly policies (low taxes, free market-oriented economy), and by higher domestic consumption, higher exports and a significant rise in tourism.
- Credit weaknesses stem from continuous domestic political tension between the government and the opposition, structural unemployment, a highly dollarised banking system, a material dependence on tourism and historical geopolitical tensions with Russia due to the self-proclaimed independent regions of South Ossetia and Abkhazia.
- Georgia's weighted average unemployment rate rose to 20.6% in 2021 from 17.6% in 2019 due to the pandemic and lockdowns. Nonetheless, the job market has improved moderately in the last two quarters, with unemployment decreasing to about 16% in Q3 2022, lower than in 2010-18.
- It is worth noting the country's shrinking population, now below 3.7m from a peak of 5m in 1993, due to emigration to countries with better economic conditions.

| Key economic indicators | 2019 | 2020 | 2021 | 2022 | 2023F |
|---|---|---|---|---|---|
| GDP per capita (USD '000s) | 4.6 | 4.2 | 5.0 | NF | NF |
| Real GDP, % change | 5.0 | -6.8 | 10.4 | 10.2 | 6.0 |
| Unemployment rate, % | 17.6 | 18.5 | 20.6 | 17.3 | 14.5 |
| CPI, % change | 4.8 | 5.2 | 9.6 | 11.9 | 5.7 |
| Policy rate, % | 9.00 | 8.00 | 10.50 | 11.00 | 9.00 |

Source: SNL, Scope Macroeconomic Board's forecast, IMF, Scope Ratings

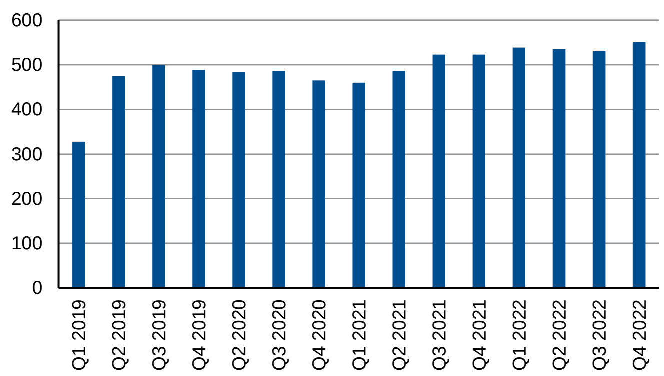
### Soundness of the Georgian financial sector – key credit considerations

- The Georgian domestic financial sector is dominated by commercial banks, accounting for over 90% of assets. Pension funds, insurance companies, microfinance organizations (MFOs) and loan issuing entities (LIEs) are accounting for less than 10% of total assets combined.
- As of December 2022, 176 LIEs employ 2460 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 must issue loans up to GEL 200,000 in the domestic currency.
- LIEs are mostly active in consumer loans and Lombard loans, representing about 70% of the total portfolio as of Q4 2022. These were followed by trade and service loans (12%) and online loans (9%), with the remainder representing just 8% of the total loan portfolio. It is worth noting the material increase seen in consumer loans since Q1 2021, the height of the Covid-19 crisis; they grew by about 20-fold in absolute terms versus 2020 levels.
- LIEs financial performance can be volatile. The sector reported aggregate net losses of EUR 3.1m and EUR 1.4m in 2019 and 2020 respectively,but sung back to profitability in 2021 (EUR 18.5m) and 2022 (EUR 14.8m)

| Banking sector | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| ROAA (%) | 2.8 | 2.7 | 2.9 | 1.3 | 3.0 |
| ROAE (%) | 19.8 | 18.6 | 20.3 | 10.1 | 22.2 |
| Net interest margin (%) | 5.8 | 6.0 | 5.3 | 4.4 | 4.8 |
| CET1 ratio (%) | 9.5 | 13.9 | 13.3 | 12.5 | 14.3 |
| Problem loans/gross customer loans (%) | 2.3 | 4.8 | 3.6 | 5.6 | 3.9 |

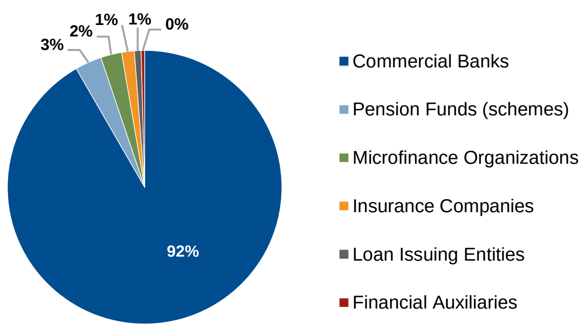
Source: SNL, Scope Ratings

**Figure 7: Georgian LIE sector total assets (GEL m)**




Source: NBG, Scope Ratings

**Figure 8: Georgian financial sector structure by assets (2021)**

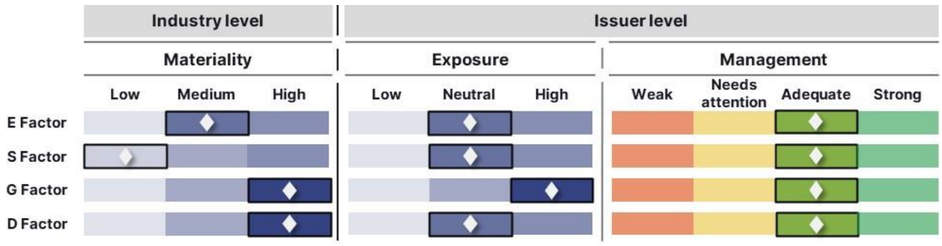



Source: NBG, Scope Ratings

## Continual improvement in IT and digitalisation

*The 'developing' long-term sustainability assessment reflects our view that Finbureau is proactively starting to develop its environmental initiatives and continuing to strengthen its IT and digital transformation. It has also changed its ownership structure recently by adding a financial investment company in Estonia, owned equally by the two owners, with no effect on the ultimate shareholder structure.*

**Figure 9: Exposure to and management of key ESGD factors[1]**




Source: Scope Ratings

**Fully privately owned company, with two individuals as shareholders**

Finbureau is privately owned by two shareholders. In Q3 2022, the company's owners created a financial investment company to be added to the shareholder structure. Based in Estonia and split 50/50 between them, it is to be used 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 that is non-independent, complemented by four independent committees.

**Gradually improving steps for digital transformation**

Among LIEs, Finbureau is well positioned with respect to the digital transformation. It has made relevant improvements to its digital infrastructure, driven by increasing investments in new platforms, software, Internet and mobile apps. Recent initiatives in this field include the implementation of Internet and mobile banking, the introduction of new communication channels with customers (Viber/Messenger) and the launch of its autodialing system.

The company is currently working on mobile applications to obtain more detailed customer information, and it expects to be part of open banking in future.

**Environmental factors starting to be integrated in strategy**

Sustainability initiatives have recently become part of Finbureau's strategy due to the domestic 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 is trying to minimise its environmental exposure through regular risk-effectiveness practices.

[1] The overview table illustrates how each factor informs our overall long-term sustainability assessment. The materiality table shows how we view the credit relevance of each factor for the industry at large. The exposure table shows how we see the issuer's degree of exposure to each ESG-D factor. The management table shows how we view the issuer's management of these exposures.

Nevertheless, Finbureau has not yet published a corporate social responsibility (CSR) or sustainability report, nor has it joined any international environmental agreements or initiatives.

**Social factor embedded in promoting financial education of its clients while enhancing gender diversity, retaining talent and improving efficiency**

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.

Finbureau is taking important steps to promote the importance of financial education, personal finance, debt and financial liabilities management.

Finbureau has been a signatory company of the UN Women's Empowerment Principles, which promote gender equality and inclusion, since 2022. As of March 2023, female employees represented over 80% of the company's total workforce (vs 70% in 2021). The majority of the company's top management is also female (75%), resulting in a higher female representation compared to other domestic peers Scope has rated.

## Supportive earnings capacity and risk exposures due to strong profitability, although declining

*The 'supportive' earnings capacity and risk exposures assessment reflects our view that Finbureau can maintain strong profitability. This is demonstrated by metrics that materially exceed the levels of main international NPL servicers as well as Georgian LIEs and MFOs.*

**Finbureau has not reported any losses since 2018**

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.

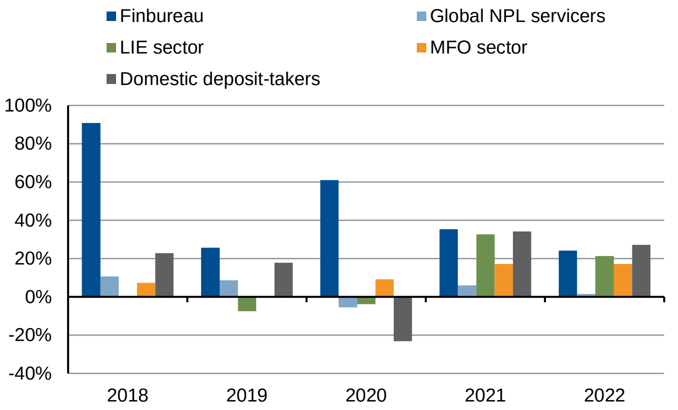
**Very strong profitability in recent years, outperforming main peers**

Finbureau has very strong profitability metrics compared to other LIEs, other domestic non-banking institutions (mostly MFOs) and international NPL servicers. It delivers high returns, with double-digit RoE and high single-digit RoA. These strong results are due to several factors, including rising revenue supported by the acquisition of deep NPL portfolios that have generated material recovery rates.

**Net income continued to decline in 2022 due to higher costs and expenses**

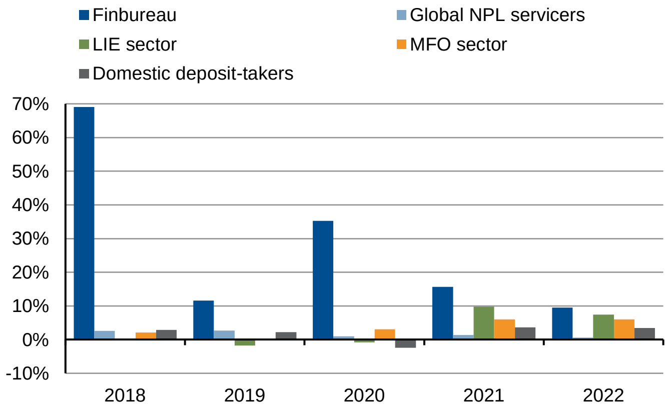
During 2021, the company's net income decreased by about 22% YoY to GEL 7.3m (EUR 2.4m), mainly driven by higher collection costs and higher funding expenses. The same trend continued in 2022, with Finbureau's bottom line falling by about 21% YoY to approx. GEL 6m. The underlying factors in this decrease were aligned with the previous year. These factors include higher collection costs, higher administrative expenses (especially for communication, office, marketing and consultation) and higher funding expenses. The last of these was due to larger funding volumes needed to acquire loan portfolios, which could not be offset despite increasing revenues from debt collections. However, the company recently bought large loan portfolios to become more effective, and it usually takes around six months to get ready to start the collection phase.

**Figure 10: RoE of Finbureau vs global NPL servicers, LIEs, MFOs and domestic deposit-takers (2018-22)**




Source: Company data, NBG, Scope Ratings

**Figure 11: RoA of Finbureau vs global NPL servicers, LIEs, MFOs and domestic deposit-takers (2018-22)**




Note: Global NPL servicers include Arrow Global, Lowell, Cabot Credit Management, Encore, PRA Group, Intrum, Hoist Finance, Axactor and EOS Solutions.

Source: Company data, NBG, Scope Ratings

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.

We note the fact that portfolios are now more expensive (on average 14% and 16% of gross book value in 2022 and 2021 respectively) compared to past periods (10% and 6% of gross book value in 2019 and 2018 respectively). This is mostly due to the change in the asset quality profile of underlying assets as the recent portfolios are relatively new NPLs, which should have a higher recovery rate and be easier to collect.

We highlight the risk that changing economic conditions may lead to lower or slower recovery rates compared to initial expectations, affecting original estimates of expected cash flows. Similarly, banks' origination practices may change, which could also lead to discrepancies in expected vs actual recovery rates if such changes are not adequately tracked, understood and considered in the pricing setup for portfolio acquisitions.

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, which we flag as a relevant concentration risk. It would be a material challenge for Finbureau if the originators' appetite for portfolio sales diminished. This trend has already been observed, since the largest NPLs portfolios have already been sold, with current sales focused on newer and better-quality NPLs.

Finally, changes in the domestic regulatory environment (e.g. insolvency law) might significantly impact the debt purchase and collection business, increasing its costs or halting business and adding a factor of regulatory risk to the business model.

## Financial viability management is adequate and supported by low leverage but limited by funding dependence on large domestic commercial banks

*The 'adequate' financial viability management assessment reflects our view that Finbureau has sufficient funding and capital to support the business in the short-to-medium term. However, we observe heavy reliance on funding from few large domestic commercial banks. Liquidity has declined materially in recent months following the acquisition of large loan portfolios. This is inherent to Finbureau's business model, with periodic investments in portfolio acquisition and a gradual replenishment of liquidity as soon as debt collection activity starts generating the expected cash flows.*

**Low leverage and high earnings retention, although declining, indicate prudent financial management**

As an LIE, Finbureau is not subject to minimum regulatory capital or liquidity requirements. However, we deem its balance sheet leverage (total assets/total equity) to be conservative. Leverage stood at 2.5x as of December 2022, meaning that about 40% of the balance sheet is funded by equity. We note positively that Finbureau's leverage is significantly lower than international NPL servicers. This ratio has been roughly stable since 2019 thanks to high profitability and high earnings retention and despite fast growth in assets. However, the payout ratio in 2022 was higher than in previous years (36% vs a historical range of 10%-20%) as the company's shareholders requested a higher dividend. We expect this to be a one-off and that the payout ratio will remain stable to keep the funding structure balanced.

**Finbureau's main source of funding is medium-term loans from domestic banks**

We view Finbureau's funding dependence as its main financial viability risk. Its main source of funds is medium-term loans (one to three years) in domestic currency from Georgian commercial banks. Due to the limitations of the regulatory framework, the company is not able to take deposits, which generates its dependance on financial institutions. To reduce this limitation, the company is planning to borrow from international financial institutions via its recently created Estonian shareholder's unit. This project is in place but not yet active.

We note that the company also benefits from a USD 10m personal guarantee from shareholders to back a GEL 11m loan, although this guarantee should be extinguished this year since the short-term portion of the loan amounts to 90% of the exposure.

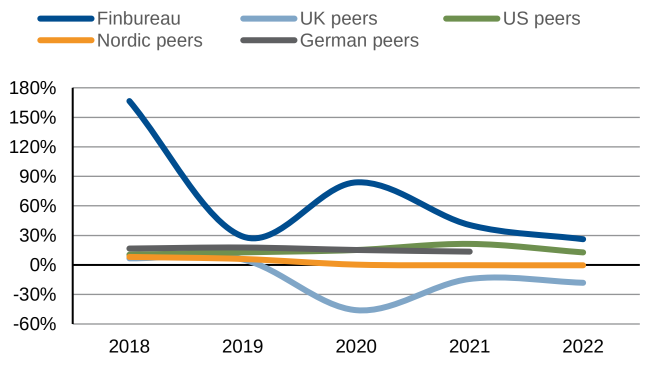
Finbureau's audit report for 2022 highlighted non-compliance with some of its bank loan covenants. These were related to certain commercial conditions in the loan agreements and were resolved with all the counterparties involved providing waiver letters to Finbureau. We do not see these breaches as material issues for financial viability since most of the agreements will be reviewed or closed by the end of this year.

Liquidity, measured as cash and cash equivalents, has declined materially in recent months following the acquisition of large loan portfolios. This evolution is inherent to the company's business model, which uses its available liquidity along with funding from banks to acquire portfolios, materialising cash flow recognition as the collection process starts, which supports the replenishment of liquidity in the medium term.

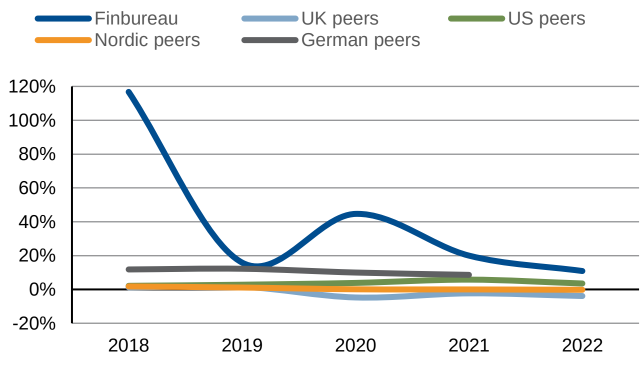
The company does not have any funding in foreign currencies, although it has some lease liabilities in USD due to real estate premises. Therefore, the currency mismatch is very limited and not a credit concern. Due to the Georgian government's larisation (de-dollarisation) programme since 2017, the share of foreign exchange loans in Finbureau's financial assets fell to 3% in December 2022, with 3% of total financial liabilities in foreign exchange as of December 2022. The possible impact linked to foreign exchange risk has improved materially since 2018 in line with the company decreasing its reliance on foreign exchange (foreign exchange represented 45% of total financial liabilities in 2018).

## I. Appendix: Peer comparison

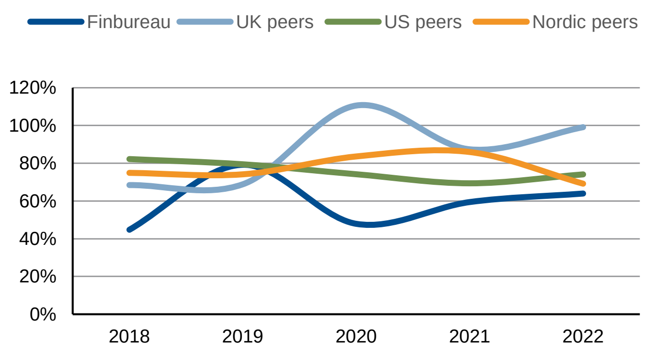
**Return on average equity (%)**



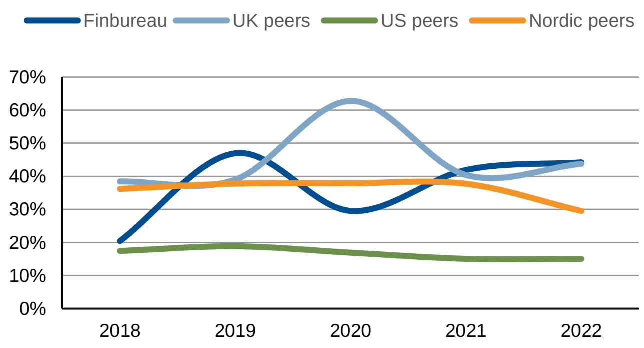

**Return on average assets (%)**



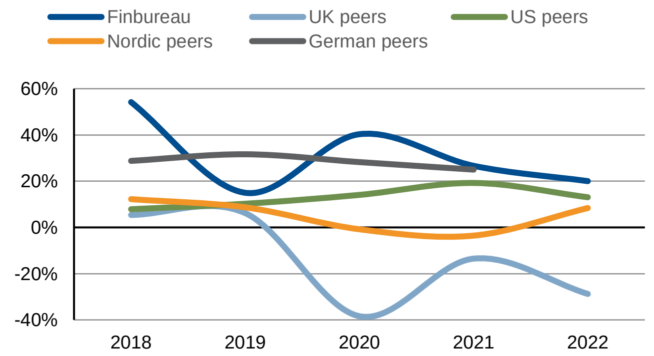

**Cost-to-income ratio (%)**



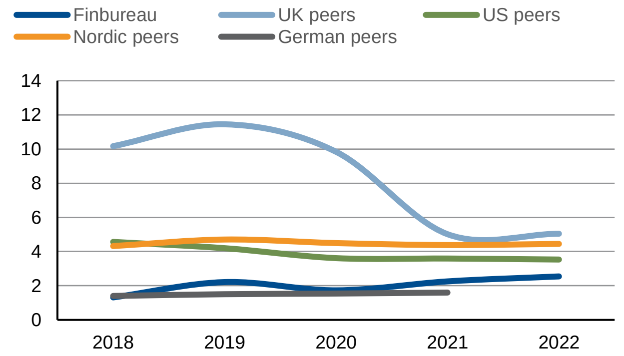

**Collection costs/total income (%)**




**Net profit/total income (%)**




**Total assets/total equity (x)**




UK peers: Arrow Global, Lowell, Cabot Credit Management
US peers: Encore Capital, PRA Group
Nordic peers: Intrum, Hoist Finance, Axactor
German peers: EOS Solutions
Source: Company data, Scope Ratings

## II. Appendix: Selected financial information – Finbureau LLC

### Balance sheet (GEL)

| | 2018Y | 2019Y | 2020Y | 2021Y | 2022Y |
|---|---|---|---|---|---|
| | | | | | |
| **Assets** | | | | | |
| Cash and cash equivalents | 1,031,386 | 282,816 | 1,510,895 | 4,874,290 | 536,258 |
| Amount due from credit institutions | 2,200,000 | 3,200,000 | 3,550,000 | 6,343,032 | 6,360,633 |
| Loans issued | - | - | - | 422,349 | 449,257 |
| Advances paid for loan portfolio | - | - | - | 500,000 | - |
| Other assets | 54,922 | 63,214 | 68,938 | 70,734 | 371,334 |
| Purchased loan portfolio | 3,284,100 | 9,976,523 | 18,754,399 | 31,905,012 | 53,446,719 |
| Deferred tax asset | - | - | 36,644 | 53,602 | - |
| Intangible assets | 23,890 | 38,118 | 47,537 | 46,138 | 63,707 |
| Right-of-use assets | 141,518 | 1,207,633 | 1,813,806 | 2,045,883 | 1,502,475 |
| Property and equipment | 322,808 | 654,875 | 832,632 | 951,781 | 774,160 |
| **Total assets** | **7,058,624** | **15,423,179** | **26,614,851** | **47,212,821** | **63,504,543** |
| **Liabilities** | | | | | |
| Deferred tax liability | 53,587 | 272,347 | 1,822,682 | 0 | 17,791 |
| Tax liabilities | - | - | - | 2,606,461 | 3,226,905 |
| Lease liabilities | 145,239 | 1,262,206 | 2,003,354 | 2,209,747 | 1,544,900 |
| Borrowings | 726,937 | 5,872,478 | 5,985,551 | 19,022,570 | 31,827,765 |
| Trade and other payables | 770,287 | 1,045,522 | 1,406,822 | 2,263,813 | 1,926,416 |
| Total liabilities | **1,696,050** | **8,452,553** | **11,218,409** | **26,102,591** | **38,543,777** |
| Charter capital | - | - | 872,841 | 195,044 | 195,044 |
| Retained earnings | 5,362,574 | 6,970,626 | 14,523,601 | 20,915,186 | 24,765,722 |
| **Total equity** | **5,362,574** | **6,970,626** | **15,396,442** | **21,110,230** | **24,960,766** |
| **Total liabilities and equity** | **7,058,624** | **15,423,179** | **26,614,851** | **47,212,821** | **63,504,543** |

### Income statement (GEL)

| | 2018Y | 2019Y | 2020Y | 2021Y | 2022Y |
|---|---|---|---|---|---|
| **Income statement summary (GEL)** | | | | | |
| **Revenue** | **8,990,541** | **11,894,863** | **23,273,346** | **27,544,751** | **29,517,513** |
| Other income | 0 | 0 | 0 | 0 | 545,012 |
| Direct collection costs of loan portfolio | 1,837,091 | 5,585,890 | 6,875,800 | 11,542,622 | 13,294,424 |
| Employee expenses | 1,616,802 | 3,023,702 | 2,993,185 | 2,934,526 | 3,009,797 |
| Depreciation and amortisation | 72,296 | 311,528 | 695,610 | 1,122,097 | 1,176,311 |
| Other operating income/expenses net | 570,931 | 810,464 | 1,280,193 | 1,894,595 | 2,918,241 |
| Other income/(expenses) | 0 | 0 | 0 | 0 | 0 |
| **Operating profit** | **4,893,421** | **2,163,279** | **11,428,558** | **10,050,911** | **9,663,752** |
| Finance income | 272 | 307,923 | 356,803 | 158,187 | 819,619 |
| Finance expenses | 36,820 | 331,920 | 833,772 | 1,468,707 | 3,470,582 |
| Foreign exchange gain/(loss), net | 15,394 | -68,871 | 97,299 | -105,471 | -91,257 |
| **Profit before income tax** | **4,872,267** | **2,070,411** | **11,048,888** | **8,634,920** | **6,921,532** |
| Income tax expenses | 0 | 288,675 | 1,664,679 | 1,297,814 | 901,213 |
| **Total comprehensive income** | **4,872,267** | **1,781,736** | **9,384,209** | **7,337,106** | **6,020,319** |

Source: Company data, Scope Ratings

## Financial ratios

| Selected Financial Data | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| **Earnings** | | | | | |
| Net profit margin (%) | 54% | 15% | 40% | 28% | 20% |
| Return on equity (%) | 91% | 26% | 61% | 36% | 24% |
| Return on assets (%) | 69% | 12% | 35% | 16% | 9% |
| **Operational efficiency** | | | | | |
| Cost/Income | 45% | 79% | 48% | 59% | 65% |
| Collection costs/Total income | 20% | 47% | 30% | 41% | 45% |
| Other operating expenses/Total income | 24% | 32% | 18% | 19% | 20% |
| Estimated remaining collection (GEL m) | 19.3 | 35.8 | 25.3 | 54.8 | 78.3 |
| Gross Money Multiple (x) | 12.9 | 9.5 | 7.2 | 6.0 | 3.4 |
| Cashflow from operations / debt | 410% | -68% | 65% | -11% | -33% |
| Net income / Average Managed assets | - | 16% | 45% | 21% | 11% |
| **Capital and leverage** | | | | | |
| Leverage ratio | 132% | 221% | 173% | 224% | 254% |
| Liabilities / equity | 32% | 121% | 73% | 124% | 154% |
| Loans to total assets (%) | 47% | 65% | 70% | 68% | 84% |
| Dividend payout ratio | 0.0% | 9.7% | 19.5% | 16.7% | 36.0% |
| **Funding and liquidity** | | | | | |
| Current ratio (%) | 335% | 63% | 59% | 84% | 53% |
| Cash ratio (%) | 82% | 4% | 15% | 19% | 2% |
| Short-term funding / total funding | 49% | 0% | 0% | 53% | 81% |
| Adjusted ST funding / total funding | 49% | 0% | 0% | 45% | 27% |
| Debt / EBITDA (x) | 0.1 | 2.2 | 0.5 | 1.6 | 2.8 |

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) Cost/income (%) = (Collection costs of loan portfolio + employee expenses + other operating income/expenses net + other income/expenses)/revenue
e) Collection costs/total income (%) = Collection costs of loan portfolio/revenue
f) Other operating expenses/total income (%) = (Employee expenses + other operating income/net expenses + other income/expenses)/revenue
g) Estimated remaining collection (ERC) = Finbureau's estimate of the gross amount that can be collected on the loan portfolios currently owned by the company. It is the sum of all undiscounted future projected cash collections from acquired portfolios.
h) Gross money multiple (GMM, %) = Purchase price for the loan portfolio (Buy amount)/total life income of the loan portfolio
i) Cash flow from operations/debt (%) = Net cash outflows from operating activities/total borrowings
j) Net income/average managed assets (%) = Total comprehensive income/average total assets of year t and year t-1
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 funding/total funding (%) = Short-term borrowings/total borrowings
q) Adjusted short-term funding/total funding (%) = Short-term borrowings/total borrowings, adjusting the borrowings that are not short-term funding to long-term funding due to technical breaches
r) Debt/EBITDA (%) = Borrowings/(Total comprehensive income + income tax expenses + finance expenses + depreciation and amortisation)

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