

Creditstar Q&A Summary

On 27th of November and prior to the closing of a new bond issue, Creditstar held a Q&A webinar to cover an overview of the Company, the bond issue and other questions from investors.

The Bond issue was successfully completed with more than 80 investors from across various European countries. As soon as we have Creditstar's press release about the bond issue results, we will share it with our followers.

In this article, we will give an overview of other topics that were covered in Creditstar's webinar. If any reader is interested to learn more about purchasing Creditstar's bonds, then feel free to write at bonds@creditstar.com and Creditstar's team can share more details.

Brief presentation of Creditstar

Creditstar's CEO Aaro Sosaar and Chief Business Development Officer Valter Kaleta started the webinar with a brief presentation about Creditstar Group. Here is the summary of the key points from the Company Presentation.

- Creditstar Group, established in 2006, is a provider of consumer financial services in Europe. Since then, Creditstar has surpassed the one million user accounts milestone, across eight countries in Europe, including Estonia, Finland, Sweden, Poland, UK, Czech Republic, Spain and Denmark.
- The Company is run by a team of more than 140 people from 30+ nationalities of different age and backgrounds. Servicing over 1,000,000 customer accounts in eight countries with a team of 140 people is only possible by being technology-oriented. This means running on efficient automated processes and conducting the operations online from the first step.
- Creditstar had a successful third quarter with total assets being more than EUR 150 M at 31.10.2020 and net profit of EUR 5.2 M in the first three quarters of 2020.

Q&A section

Following the Company presentation, Aaro and Valter answered investors' questions that were sent ahead of the webinar as well as addressing new questions that the participants could ask during the event. Here is a recap of what was covered.

Covid-19

How has Covid-19 impacted the business in 2020?

2020 has been very different compared to other years. The year began with the strongest quarterly growth since the beginning of operations in 2006. Compared to the first quarter of 2019, revenue growth was up 41%. Creditstar reacted quickly to the Covid-19 crisis at the end of March and introduced measures to mitigate potential negative effects. Among these measures were the restructuring of payment schedules for many customer groups, assessment of loan extensions, and revision of the risk and underwriting strategies - for example, borrowers in employment segments which Covid-19 adversely affects more than others may be limited for loan issuance by the underwriting policies or scorecards.

To further respond to the effects of Covid-19 and its impact on the growth of e-commerce purchases, in Q3 Creditstar's wholly-owned subsidiary Monefit Estonia launched a new service called *Split*. *Split* allows customers to purchase products but pay at a later date or split the cost over time. The 'Buy Now Pay Slow' payment flexibility gives shoppers more control over how and when they make purchases online or in-store, or even to obtain financing post-purchase. As the Covid-19 pandemic has boosted e-commerce, Monefit *Split* and other Creditstar purchase-financing products in development put the Company in an excellent position to take advantage of this global growth trend.

Business developments

Has Creditstar applied to obtain a bank license in 2021?

Creditstar is aiming to get a specialised bank license in 2021-2022. Creditstar has filed a Specialised (Fintech) Bank License application to the Bank of Lithuania. With the banking license issued by European Central Bank through the Bank of Lithuania, the specialised bank can provide almost all traditional banking services within the EU/EEA area. Creditstar Group decided to apply for the licence of a specialised bank in Lithuania in 2019. For this purpose, the Company hired highly reputable financial advisor KPMG (Lithuanian office) and legal advisor Walless recognised as a Tier 1 FinTech

law firm by Chambers and Partners. These firms have previously worked with financial institutions such as Revolut and General Finance, both of which successfully acquired specialised bank licenses.

In addition, it is not Creditstar's objective to convert the entire group into a bank, but rather to create the flexibility to operate as a bank in some markets and product segments.

What does Creditstar have in focus regarding product developments or new markets?

Creditstar started in 2006 with a basic financial product and mainly specialised in short-term loans. Since then, Company products have evolved to include longer-term instalment loans and credit lines in which limits were assigned to customers for increased convenience and flexibility.

As discussed earlier, purchase financing is one of the firm's key focuses in the coming years, and Creditstar has moved to address this opportunity with the Estonian launch of purchase finance service *Split*. So far, feedback has been positive and Creditstar is looking to roll out the product in other markets.

The current focus is on the long-term and credit limit-based offerings. Further ahead, we envision partnering with merchants to allow them to provide purchase financing directly to customers using the Monefit product.

As for changes in operating countries, Creditstar's approach since the end of March has been to strengthen positions in the existing geographic markets and put an emphasis on the credit line product. There are no immediate geographic expansion plans.

Other topics

Who will be Creditstar Group's auditor for 2020?

Creditstar Group AS has signed a contract with an internationally recognised auditing company to audit the financial results of 2020.

Is Creditstar looking into any acquisition opportunities?

The downturn due to Covid-19 has triggered asset sales. Creditstar is continuously identifying and aims to capture opportunities that will accelerate the Company's growth at a reduced cost. Creditstar is currently screening and performing due diligence on various acquisition targets in several geographic markets. Creditstar Spain has acquired a small consumer loan portfolio in Spain.

Despite having grown mostly organically, Creditstar has done a couple acquisitions in the past. For example, when they first expanded to Finland in 2009 and later on in the UK, they did it through an acquisition.

What can you comment about portfolio quality and default rates?

In all Creditstar's markets, client repayments and non-performing loans (NPLs) have remained within expected levels and the overall portfolio quality of the group has performed to expectations also throughout the Covid-19 pandemic. Payment delays were evident in April and May to a certain extent but stabilised over the following months.

Default rates vary across the loan products and markets. For example, the best behaving loan portfolio for Creditstar is in Estonia, which also has the biggest portfolio for the Company. The overall policy for Creditstar is to keep default rates in single digits for 90 days overdue portfolios. So it should be under 10%. In reality, the default rates are lower, so there is sufficient headroom.

Foreign exchange risk?

Creditstar does not yet have an instrument for hedging foreign exchange risks. Possibilities are being investigated regularly, but so far all solutions have been too expensive. The Company is trying to get as much financing as we can in the local currencies so that both the assets and liabilities are in the same currency whenever possible. Same applies to costs and revenues and keeping them within the same currency.

Why is Creditstar offering different interest rates for its loans on different P2P platforms (Lendermarket and Mintos)?

The interest rate level at a P2P platform depends on different variables. But the biggest influence is the supply and demand at a given platform and general marketplace competition.