

ANNUAL REPORT 2020

BLUE FINANCE OY'S KEY FINANCIAL INDICATORS 1 JANUARY– 31 DECEMBER 2020*

- Number of new loans granted: 68,967
- Revenue: EUR 23.8 million
- Profit before taxes: EUR 11.6 million
- New technological environment rolled out also in Finland

PROFIT BEFORE TAX

11.6
EUR MILLION

REVENUE

23.8
EUR MILLION

SUMMARY OF THE MOST IMPORTANT KEY FIGURES FOR THE FOURTH QUARTER

EUR	2020	Q1/2020	Q2/2020	Q3/2020	Q4/2020
Revenue	23,805,030.36	5,878,134.22	6,156,004.38	5,903,765.85	5,867,125.91
Profit before taxes	11,617,632.83	4,035,584.86	3,817,990.09	3,689,201.85	74,856.03
Total lending	19,935,600.00	4,221,000.00	4,551,000.00	5,262,900.00	5,900,700.00
Amount of loan claims	60,923,704.81	54,755,252.34	58,686,286.21	61,892,533.74	60,923,704.81
Shareholders' equity	66,729,944.79	63,186,522.74	65,723,547.79	68,728,342.03	66,729,944.79
Active investments in class B, C, E, F & G-shares	51,506,600.00	48,810,700.00	49,360,200.00	50,505,800.00	51,506,600.00

* Consolidated financial statements have been prepared for the reporting period ended 31 December 2020.
The reporting practices were amended as of 1 January 2021 so that going forward quarterly reports will be group reports.

To retain the comparability of 2020 with earlier quarterly reports Blue Finance Oy's non-consolidated financial figures have been disclosed in this annual report. The figures have not been audited.

Lauri Lehtonen
CEO

EXCELLENT LEVEL OF PROFITABILITY MAINTAINED DESPITE EXCEPTIONAL CONDITIONS

With the outbreak of the pandemic in spring 2020, it was clear that hardly any of the expectations we had for the year would stack up. This also turned out to be the case, but not just in a negative sense.

As expected, our revenue was down compared to 2019 but the company's profitability remains at an excellent level. The fall in revenue was practically inevitable following new Finnish consumer market legislation on the capping of interest rates. In fact, operating profit fell relatively less than revenue, which indicates that by changing our cost structure, we were able to respond well to the fall in revenue and so maintain excellent profitability.

Over the past few years, we have invested heavily in intensifying and developing technology, the organisation and processes. Whereas at times the financial sector has been considered rigid and slow to develop, it is currently changing remarkably rapidly. It is critical for us as a company to be able to modify our products and processes in days or at most weeks, to take advantage of new opportunities brought by new service providers, and to generally respond to the changes required for profitable business in a rapidly changing market.

One important mid-term goal was the successful deployment of a new credit management system in all markets. In a world of almost never-ending data sources, there is no longer a contradiction in the right credit decision and a prompt credit decision. To sum it up, you could say that whereas in 2012 a credit decision was based solely on the customer's credit record – so one source of information – there are now dozens of sources available. A good and bad credit decision can be made just as quickly but no good decision can be made without a top-performing system. The results speak for themselves and our good profitability in 2020 indicates that our entirely updated system is working as intended.

We have also simplified our corporate structure over the past year. Whereas earlier Blue Finance Oy was both the parent company and the operational company in business in Finland, Blue Finance Oy is now purely the parent company and the operational businesses are now the responsibility of the parent company's fully-owned subsidiaries: Blue Finance Suomi Oy, which runs the consumer side of the business, and Blue Finance Corporate Lending Oy, which runs corporate lending in Finland. There are also separate subsidiaries with their own business operations in Denmark, Spain and Poland.

Finally: Our investors have complained to us about our communications and disclosures or rather lack of them. We have deserved those complaints. Our financial reporting has been slow and apart from figures, there has been very little outreach about themes, such as our strategy or the market situation, of relevance to investors. We must and will improve our communications going forward.

I would like to thank our investors, customers, employees, partners and other stakeholders for their good cooperation and trust in us. We are well placed to take the business forward to the next level in 2021.

BUSINESS IN 2020

BUSINESS PERFORMANCE

Overall, the company's operating profit for the accounting period was EUR 11.45 (13.43) million and earnings before appropriations and taxes were EUR 11.62 (13.41) million. Blue Finance Oy's revenue for the accounting period ended was EUR 23.81 (28.96) million, down 18% year on year. Revenue was down primarily due to an interest rate capping act that entered into force in Finland in 2019 and various interest rate ceiling and marketing restrictions enacted in 2020 for the pandemic period.

BUSINESS ENVIRONMENT

The year 2020 was a highly exceptional one. The global economy has been in a state of uncertainty due to the Covid-19 pandemic. The World Health Organisation (WHO) declared the coronavirus to be a pandemic on 11 March. The measures introduced to prevent the spread of the disease slowed global market development. The global pandemic affected the company's operations in all market areas and in all business areas.

- As expected, revenue was down compared with 2019. This was due to an interest rate capping act that entered into force in Finland in 2019 and various interest rate ceiling and marketing restrictions enacted in 2020 for the pandemic period.
- Relatively more credit losses were realised compared to earlier years and this hit earnings.
- The challenges posed by the pandemic in the customer base called for greater flexibility in among other things making payment plans, which in turn adversely affected cash flow and increased financial assets in the balance sheet.
- A significant number of simultaneous redemption claims and requests for preference shares forced the company to discontinue the share redemption programme until further notice.
- Despite the challenges faced in 2020, the company maintained excellent profitability.

HEAVY INVESTMENTS IN THE DEVELOPMENT OF TECHNOLOGIES

One of the most important strategic projects during the reporting year was the development of the company's technology systems. The IT organisation was significantly strengthened: the team is international and the focus has been recruiting top experts without geographical restrictions. This has enabled cost efficiency and scalability, but above all a team of top excellence.

Particular attention has been paid to information security and GDPR matters with the support of various external testing and audits.

The largest technology investment in the company's history reached a decisive mid-term goal in December 2020 with the deployment of the AXON credit management system in Finland, too. AXON now serves customers in all markets and all customer groups. The AXON credit management system is of great importance to the company's business and has implications for all areas of the company's operations. The company is now able to process greater numbers of credit applications than earlier while shortening processing times and improving assessment of customers' creditworthiness. New credit products can now be brought to market faster and it is easier to modify existing products. The AXON system contributed greatly to good revenue and profit even during the exceptional year of 2020.

FUTURE OUTLOOK

2021

The year 2021 will be an inconsistent year. In the early part of the year, demand for credit products decreased on the consumer side compared to a year earlier. This was to be expected to some extent: restrictions introduced as a result of the pandemic have quite simply reduced consumption and consequently the need for financing. However, in April–May, demand started to show strong growth and according to some estimates, the second half of 2021 will see one of the highest surges in consumption in living memory once the remaining restrictions are lifted and travel opens up. If this is the case, as current signs indicate, an unprecedented peak can be expected in demand for financial products.

The opening on the Polish market during the third quarter will mean a major leap into one of the largest markets in Northern Europe.

STRATEGY FOR 2021–2022

Blue Finance's strategy for 2021–2022 rests on two basic fundamentals, both of which serve the same purpose: to generate the best possible return with the least possible risk.

Scalability. The financial products we provide are based on technology and processes. This enables lending volume to increase or contract flexibly within a very short time. Scalability often merely means the possibility to grow rapidly but for a financial services company it is equally important to be able to scale down volumes of an individual financial product where market conditions so require.

Diversification. Diversification on the consumer side means geographical diversification, in other words operations in a number of different countries, and diversification across as broad a customer base as possible. Geographical diversification is necessary simply because of the regulatory risk, i.e. various new regulatory provisions imposed on the industry. The regulatory risk in corporate lending is considerably lower, which is why diversification aims to minimise the risk of credit loss through a broad product portfolio and customer base.

In practice, this means that going forward we will pursue opportunities to expand into new countries and to focus strongly on corporate lending.

RISK FACTORS AFFECTING FINANCIAL PERFORMANCE

The company's most significant risks at the general level remain unchanged from one year to the next and relate to credit losses associated with unsecured consumer credits, an expansion of operations into new countries and national regulation applying to the industry.

The credit loss risk is managed by customer-specific assessment of creditworthiness. The customer's creditworthiness and solvency is ensured before making any credit decision. Besides entries in the credit information register, we also check, for example, the customer's actual solvency and information about other loans. The credit loss risk is reduced by diversifying the loan stock across a broad number of customers.

The expansion of operations into new geographical areas or new financial products involves risks. The focus of the company's operations is on countries where the industry has already been regulated for years or where the legal environment is otherwise in line with what we are already accustomed to.

The key management tools to manage legal risks are diversification of the product portfolio into consumer credit and corporate loans as well as into other financial products in Finland and abroad.

PARTICULAR FACTORS OF UNCERTAINTY BROUGHT ABOUT BY THE COVID-19 PANDEMIC

The coronavirus pandemic has greatly impacted our business environment since March 2020 and will continue to exacerbate the above risks and factors of uncertainties.

The legal risk has become harder to predict than earlier. Whereas in normal times it took a year or more to change legislation or other main guidance, during the pandemic legislation has changed in as little as weeks. The company's main tool to respond to rapidly changing market conditions is a high-performing and flexible technical system as well as clear processes to implement significant product changes to a very tight timeframe.

The risks of credit losses have also grown with the pandemic and have required broader assessment of customers' creditworthiness and solvency. It is essential to have access to as up-to-date information as possible on the actual financial situation of each customer. The company has introduced information sources and tools to allow assessment of the real-time financial situation in combination with traditional mathematical models.

BLUE FINANCE OY'S INCOME STATEMENT

EUR	Q4/2020	Q4/2019	Change (%)	2020	2019	Change (%)
Revenue	5,867,125.91	6,673,304.04	-12	23,805,030.36	28,958,557.64	-18
Other operating income	700.00			7,700.00	368,750.00	-100
Materials and services						
Raw materials and consumables						
Purchases during the accounting period	-350,416.74	-	100	-350,416.74	-	0
External services	-82,310.73	-3,986.38	1,965	-107,798.73	-89,890.16	20
Materials and services, total	-432,727.47	-3,986.38	10,755	-458,215.47	-89,890.16	410
Personnel expenses						
Wages and salaries	-159,980.96	-223,287.07	-28	-882,447.63	-743,886.85	19
Social security expenses	-38,513.26	-35,127.22	10	-157,338.62	-113,870.39	38
Pension expenses	-37,355.39	-30,586.59	22	-137,707.97	-110,015.38	25
Other social security expenses	-1,157.87	-4,540.63	-75	-19,630.65	-3,855.01	409
Personnel expenses, total	-198,494.22	-258,414.29	-23	-1,039,786.25	-857,757.24	21
Depreciation and impairments						
Depreciation according to plan	-9,898.09	-6,950.19	42	-35,414.15	-29,558.25	20
Depreciation and impairment, total	-9,898.09	-6,950.19	42	-35,414.15	-29,558.25	20
Other operating expenses	-5,307,375.87¹	-1,694,733.25	213	-10,832,050.28	-14,920,143.72	-27
Operating profit (-loss)	-80,669.74	4,709,219.93	-102	11,447,264.21	13,429,958.27	-15
Financial income and expenses						
Income from other financial assets held as non-current assets						
Other interest and financial income						
From group undertakings	216,562.58	-	100	246,254.47	-2,086.32	11,903
Interest and other financial expenses						
To group undertakings	-56,569.00	-	100	-56,569.00	-	0
To others	-4,467.81	-3,982.30	12	-19,316.85	-20,381.80	-5
Financial income and expenses, total	155,525.77	-3,982.30	4,005	170,368.62	-22,468.12	858
Result before appropriations and taxes	74,856.03	4,705,237.63	-98	11,617,632.83	13,407,490.15	-13
Appropriations						
Group contributions, paid	-124,378.61	-	100	-124,378.61	-	0
Appropriations, total	-124,378.61	-	100	-124,378.61	-	0
Income taxes	830,303.53	-810,786.47	202	-1,472,313.45	-3,272,318.34	-55
Profit (loss) for the accounting period	780,780.95¹	3,894,451.16	-80	10,020,940.77	10,135,171.81	-1

¹ The December result was hit by a revaluation of the fair value of receivables portfolio in conjunction with the financial statements in accordance with the principle of prudence. Owing to the exceptional conditions, a historically higher than average credit loss was recorded in the receivables portfolio and this was implemented in a non-recurring write-down in December.

BLUE FINANCE OY'S COMPARABLE BALANCE SHEET

EUR	31.12.2020	31.12.2019	Change (%)
ASSETS			
Non-current assets			
Intangible assets, total	–	–	0
Tangible assets, total	54,339.37	90,601.84	-40
Financial assets, total	100,938.61	9,745.27	936
Non-current assets, total	155,277.98	100,347.11	55
Current assets			
Inventories, total	–	–	0
Accounts receivable			
Long-term receivables, total	9,758,319.83	2,579,564.49	278
Short-term receivables, total ¹	60,923,704.81	50,781,373.60	20
Receivables, total	70,682,024.64	53,360,938.09	32
Investments, total	–	–	0
Cash in hand and at bank	302,799.37	3,548,282.21	-91
Current assets, total	70,984,824.01	56,909,220.30	25
ASSETS, TOTAL	71,140,101.99	57,009,567.41	25
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Subscribed capital	2,500.00	2,500.00	0
Other reserves	51,506,600.00	43,671,300.00	18
Reserve for invested unrestricted equity	51,506,600.00	43,671,300.00	18
Retained profit (loss)	5,199,904.02	1,605,256.40	224
Result for the accounting period	10,020,940.77	10,135,171.81	-1
Shareholders' equity, total	66,729,944.79	55,414,228.21	20
Provisions, total	–	–	0
Liabilities			
Long-term liabilities, total	2,020,416.74	–	0
Short-term liabilities, total	2,389,740.46	1,595,339.20	50
Liabilities, total	4,410,157.20	1,595,339.20	176
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL	71,140,101.99	57,009,567.41	25

¹ Blue Finance Oy's consumer business was transferred on 31 December 2020 to Blue Finance Suomi Oy, a fully owned subsidiary of Blue Finance Oy. The table shows short-term liabilities so as to maintain comparability with earlier quarters.

BLUE FINANCE OY

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