

HALF-YEAR REPORT

H1 2021

JANUARY–JUNE

BLUE FINANCE GROUP* H1/2021: INTEREST CAP AND RESTRICTIONS HIT REVENUE IN FINLAND – STRONG PERFORMANCE IN DENMARK

- Number of new loans granted: 32,528
- Revenue: EUR 7.8 million
- Profit before taxes: EUR 2.0 million
- Danish operating profit improved 359% year on year

PROFIT BEFORE TAX

2.0
EUR MILLION

REVENUE

7.8
EUR MILLION

SUMMARY OF THE MOST IMPORTANT KEY FIGURES FOR THE FIRST AND SECOND QUARTERS AND H1

EUR thousand	Q1/2021	Q1/2020	Change %	Q2/2021	Q2/2020	Change %	H1/2021	H1/2020	Change %
Revenue	4,092	6,427	-36%	3,696	6,658	-44%	7,788	13,085	-40%
Operating profit	1,211	3,958	-69%	739	3,181	-77%	1,950	7,139	-73%
Equity ratio	94%	97%	-3%	95%	96%	-1%	95%	96%	-1%
Invested non-restricted equity, total	52,630	48,811	8%	53,546	49,357	8%	53,546	49,357	8%
Trade receivable, total (equity and yield component)	66,297	57,694	15%	66,686	62,278	7%	66,686	62,287	7%
Shareholders' equity	65,872	59,765	10%	66,456	61,687	8%	66,456	61,687	8%

* Reporting practices were changed as of 1 January 2021 so that going forward quarterly reports are group reports.

Lauri Lehtonen
CEO

CORPORATE LENDING IS THE COMPANY'S KEY STRATEGIC FOCUS AREA

In 2021, the key theme in our business has been switching the biggest focus of our operations away from consumer credit in Finland. Diversifying operations has been one of our main objectives over the past three years. This year, our long-term work has begun to bear fruit.

Denmark is clearly firming up its position as the company's second largest market area. Compared to the same period in 2020, our business in Denmark has doubled and our operating profit margin is 42%. In terms of business development, Denmark is a really interesting market for us because of progressive regulation of the financial services sector outside banking. Since operations in Denmark require authorisation from the Danish Financial Supervisory Authority, the rules of play are clear to all operators in the country.

In Spain on the other hand, we launched our business when the pandemic beached in Europe in April 2020. The fact that it was not until late summer 2021 that members of our Spanish team met face to face for the first time speaks to the exceptional nature of the situation. The team had been working for over a year without meeting colleagues physically. We're very pleased that despite these exceptional times, we have seen steady development in our customer base and revenue. Our business in Spain returned a profit in June 2021, roughly a year after we launched operations there. Reporting a profit so soon can be considered good performance even during an ordinary year of operations, let alone in crisis conditions.

Corporate lending currently still accounts for a small part of Blue Finance's business, but the sector is showing rapid growth. Corporate lending under the Broaden brand is the company's key strategic focus area. Corporate lending provides a flexible and efficient way to impact pricing and risk management, in other words great opportunities to increase revenue with a small risk of credit loss. Consequently, there is potential for a clearly better operating profit margin than from consumer credit.

The current year has been dire for the consumer business in Finland and revenue in the market was well down year on year. The trend was in many ways inevitable: the interest rate cap introduced in 2019 and the temporary cap, together with a direct marketing ban, imposed because of the pandemic resulted in a dip in revenue. However, the future is looking brighter since the temporary interest ceiling, which cut the maximum annual rate on credit to 10% ended in October 2021. The interest rate cap on credit is currently 20%. However, since the statute was removed towards the end of the year, it will only positively affect sales for the final few months of the year. Despite the hit in revenue from the consumer business in Finland, the operating profit margin on the market is still 25%. The good percentage indicates that the company has effectively been able to impact on all those business areas over which its influence extends.

BUSINESS IN H1/2021

BUSINESS PERFORMANCE

Blue Finance Group's revenue for H1/2021 was EUR 7.8 million, down 40% year on year (H1/2020: EUR 13.1 million). Group operating profit was EUR 2.0 million (H1/2020: EUR 7.1 million). The operating profit margin was 25%, which was down 30 percentage points year on year (H1/2020: 55%).

Revenue was down in Finland primarily due to the interest rate ceiling imposed by the Finnish Government, in particular together with a special interest rate capping act and marketing restrictions enacted in 2020 for the time of the pandemic. Blue Finance Corporate Lending Oy, which focuses on corporate lending, had a good start to the year and successfully doubled its monthly revenue during the report period.

Our business in Denmark saw a strong first half of the year, with revenue up 153% and operating profit 359% year on year. The company's performance is expected to show strong positive development during the second half of the year.

For the Spanish subsidiary, the first half of the year developed in line with expectations and strong performance can be expected for the second half of the year.

BUSINESS ENVIRONMENT

The global coronavirus pandemic, with its many collateral consequences, was the main dark shadow over the company's business environment in the first half of 2021.

- The special interest rate ceiling and marketing regulation entering into force in Finland on 1 July 2020 had a major impact on the Finnish consumer business. The highest permitted interest rate halved from 20% to 10%. This temporary interest ceiling regulation remained in force until the end of September 2021, when interest was restored to the 20% rate. Revenue and operating profit in the Finnish consumer business were hit as expected.
- Our subsidiary Blue Finance Polska sp z o.o. was established in Poland but did not engage in lending during the first half of the year.
- The Danish consumer business showed strong growth during the first and second quarters of the year.
- The Spanish consumer business developed in line with expectations and showed a profit in June 2021.
- Corporate lending in Finland showed steady development and has been profitable throughout operations.

FUTURE OUTLOOK

2021

It is challenging to form a view of the global economic development due to factors of uncertainty ensuing from the Covid-19 pandemic. The first half of 2021 was challenging for Blue Finance Group's consumer lending in Finland because of the tougher regulatory environment and restrictions. Also demand for credit products decreased on the consumer side in Finland compared to a year earlier.

The Group's other companies are expected to show good performance in the second half of 2021. This, in tandem with rising demand for credit products in Finland as we head towards the end of the year, and the removal of restrictions in the autumn envisage a strong profitable second half of the year across the group.

The company addressed its profitable growth strategy by opening on the Polish market in the third quarter. This will be a major leap into one of the largest markets in 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, access to financing, 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.

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 tools 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.

CONSOLIDATED INCOME STATEMENT

EUR thousand	Q1/2021	Q1/2020	Change %	Q2/2021	Q2/2020	Change %	H1/2021	H1/2020	Change %
Revenue	4,092	6,427	-36%	3,696	6,658	-44%	7,788	13,085	-40%
Other operating income	0	-	-	0	0	-	1	0	-
Materials and services	-297	-7	4,143%	-465	-21	2,115%	-762	-28	2,581%
Personnel expenses	-624	-463	35%	-601	-516	16%	-1,225	-979	25%
Depreciation and impairments	-14	-7	100%	-30	-10	200%	-44	-17	159%
Other operating expenses, total	-1,946	-1,992	-2%	-1,861	-2,929	-36%	-3,807	-4,921	-23%
Operating profit (loss)	1,211	3,958	-69%	739	3,181	-77%	1,950	7,139	-73%

EARNINGS BY SEGMENT

REVENUE

EUR thousand	Q1/2021	Q1/2020	Change %	Q2/2021	Q2/2020	Change %	H1/2021	H1/2020	Change %
Company									
Blue Finance Suomi + Parent company*	2,523	5,878	-57%	1,592	6,156	-74%	4,116	12,034	-66%
Blue Finance Corporate Lending	100	-	-	147	-	-	247	-	-
Denmark	955	549	74%	1,342	359	274%	2,297	908	153%
Poland	-	-	-	-	-	-	-	-	-
Spain	516	-	-	613	142	-	1,128	142	695%
Total	4,092	6,427	-36%	3,696	6,658	-44%	7,788	13,085	-40%

OPERATING PROFIT

EUR thousand	Q1/2021	Q1/2020	Change %	Q2/2021	Q2/2020	Change %	H1/2021	H1/2020	Change %
Company									
Blue Finance Suomi + Parent company*	984	4,013	-75%	50	3,822	-99%	1,033	7,835	-87%
Blue Finance Corporate Lending	35	-	-	52	-5	-	88	-5	-
Denmark	288	178	62%	682	33	1,993%	968	211	359%
Poland	-	-	-	-	-	-	-	-	-
Spain	-95	-233	-59%	-44	-669	-93%	-139	-903	-85%
Total	1,211	3,958	-69%	739	3,181	-77%	1,950	7,139	-73%

* Consequent to a business transaction on 31 December 2020, Blue Finance Oy's consumer credit business was transferred to Blue Finance Suomi Oy. For reasons of comparability, these two companies have been combined in segment-specific reporting.

CONSOLIDATED COMPARABLE BALANCE SHEET

EUR thousand	Q1/2021	Q1/2020	Change %	Q2/H1/2021	Q2/H1/2020	Change %
Assets						
Non-current assets						
Intangible assets	181	62	193%	285	62	360%
Tangible assets	98	94	4%	133	104	28%
Financial assets, total	9	9	4%	9	9	4%
Non-current assets, total	289	164	76%	428	175	145%
Current assets						
Inventories, total	985	74	1,231%	1,168	269	334%
Accounts receivable	66,297	57,694	15%	66,686	55,923	19%
Financial assets	1,618	5,558	-71%	828	3,412	-76%
Other receivables / adjustments	616	-1,771	-135%	677	4,699	-86%
Current assets, total	69,516	61,555	13%	69,359	64,303	8%
Assets, total	69,805	61,720	13%	69,787	64,748	8%
Equity and liabilities						
Shareholders', participating interests or similar equity	3	3	0%	3	3	0%
Reserve for invested unrestricted equity	52,630	48,811	8%	53,546	49,357	8%
Retained profit (loss)	12,371	7,560	64%	11,413	6,719	70%
Result for the accounting period	869	3,392	-80%	1,495	5,570	-73%
Shareholders' equity, total	65,872	59,765	10%	66,456	61,687	8%
Liabilities						
Long-term liabilities, total	800	-	-	567	-	-
Short-term liabilities, total	3,132	1,954	60%	2,763	2,791	-1%
Liabilities, total	3,932	1,954	101%	3,330	2,791	19%
Equity and liabilities, total	69,805	61,720	13%	69,787	64,478	8%

BLUE FINANCE OY

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