DelfinGroup

ESG

REPORT

2021

2022

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# INTRODUCTION

This is DelfinGroup second consolidated Environmental, Social, and Governance report.

This report is created to help investors, customers, employees, and other stakeholders understand how our strategies and operations advance ESG objectives and long-term value creation. The sustainability of DelfinGroup is based on effective corporate governance, fintech innovation, responsible lending, financial inclusion, and facilitating circular economy.

This report encompasses ESG policies, principles, and results from January to December 2021 and the latest events at the time of publishing this report.

We have improved performance in every ESG component that made our work even more sustainable. This report describes how our initiatives help to improve the environment, the workplace for our employees, society, the quality of service for our customers, returns for investors, and benefits for other stakeholders.

This report was prepared in line with Nasdaq ESG Reporting Guide 2.0, Global Reporting Initiative (GRI), Greenhouse Gas Protocol (GHG), United Nations Sustainable Development Goals (SDG) and Task Force on Climate-related Financial Disclosures (TCFD) recommendations.



#### **About DelfinGroup**

DelfinGroup is a Latvian fintech company that offers accessible, simple and customer-focused financial services, while advancing the circular economy, inclusion, and sustainability goals of our country.

The company was launched in 2009, when the first pawn shop was opened. The company has been operating with profit since 2010 and has established Latvia's biggest network of branches providing financial services.

DelfinGroup operates several business lines for the convenience of customers:

Banknote brand offers four products – consumer loans, POS loans, pawn loans, the sale of pre-owned goods and jewellery.

VIZIA brand provides online consumer loans.

Company's priority is to provide fast and reliable financial services, ensuring customer satisfaction and peace of mind while maintaining sustainable growth and stability for our shareholders and investors. DelfinGroup has more than 90 branches present in populated areas of Latvia with at least 7 500 residents.



#### **CEO** statement



Didzis Ādmīdiņš, CEO

We are pleased that the publication of the ESG report has become an annual event for DelfinGroup and for first time we have published the report as a listed company. We have achieved a lot in terms of ESG, and that inspires us. Moreover, it is certainly one of the factors our stakeholders take into account to evaluate us. I hope that more and more companies will follow our footsteps to make the Latvian business environment more sustainable and transparent.

2021 has truly been the most significant year in the company's history - successful and at the same time the most challenging one. We announced and launched the initial public offering (IPO) on Nasdaq Riga Stock Exchange, which required a huge amount of work and involvement from our team, and I must say they did an excellent job, and the IPO was a success. As a result, almost

6 000 individuals and organizations appreciated our efforts and became the company's new shareholders. DelfinGroup continues to grow faster than the industry year by year. At the same time, the pandemic continued to be a significant challenge. DelfinGroup provides its services through more than 90 branches. Therefore the restrictions due to the pandemic had a severe impact on them. However, despite the constraints and the fluctuations in public sentiment, 2021 has proven to be the most successful year for the company. DelfinGroup had reached a record-high loan issuance volume that significantly enlarged the loan portfolio and increased the company's income.

In DelfinGroup, we believe that good governance and streamlined and transparent processes are the essential prerequisites for trust and confidence in the company. DelfinGroup continues to strengthen its corporate governance and internal processes. At the end of 2021 and early 2022, CFO Aldis Umblejs and COO Sanita Zitmane became members of the management board. Both Sanita and Aldis are fintech professionals with the expertise to accelerate the company's future growth.

In early 2022, the supervisory board of DelfinGroup approved the renewed strategy 2022-2024 that aims to strengthen the company's presence in the market and excel in user experience (UX), use of big data, and application of the latest approaches and technologies. DelfinGroup focuses on establishing a platform for the circulation of pre-owned goods that will increase our presence in the Latvian retail market.

In addition, we continue to be active in supporting our community, for example, the Latvian Senior's Association and Children's Hospital Foundation. In 2021 DelfinGroup joined the training program helping more than 200 youngsters acquire new digital skills free of charge to boost their competitiveness in the labour market.

The day after Russia invaded Ukraine, an event bearing huge humanitarian, environmental and economic implications for people everywhere, we decided to support Ukraine in its crucial fight and have already donated EUR 200 thousand.

Since DelfinGroup stakeholders are mostly European residents, the sanctions imposed against Russia for the invasion of Ukraine have a marginal impact on the company.

#### Vision, mission, values

DelfinGroup vision is to build a sustainable society by empowering people and promoting financial inclusion.

DelfinGroup has long understood that its long-term success and ability to deliver sustainable value for its stakeholders are inextricably linked to the well-being of communities, the economy, and the environment.

DelfinGroup mission is to create and provide innovative and custom finance solutions for our customers. DelfinGroup understands national challenges and those of local communities. A diverse range of financial services and accessibility for many people contribute to social inclusion and discrimination reduction. The company provides opportunities for under-served groups of society to continue living active economic lives, which is challenging to maintain through the traditional banking sector. Our community had to deal with various unforeseen financial challenges this year, and DelfinGroup was always there to support those who needed it most.

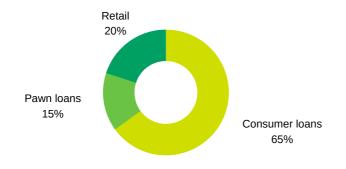
#### **DelfinGroup values:**

Simplicity Accessibility Respect Progress Mastery Ambition Focus on client

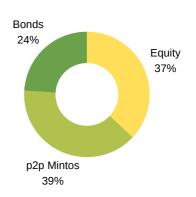
#### DelfinGroup business model and business segments

Sharing resources on a company-wide scale creates intelligent synergies while respecting the individual identities of our business segments. The combined strength of DelfinGroup is leveraged to benefit each of its business segments.

#### **DelfinGroup business model by income distribution:**



#### **DelfinGroup capital structure:**



#### **DelfinGroup main products:**

#### **Consumer loans**

Loans are often used for small daily needs, car repairs, medical fees, etc. Consumer loans are offered in various amounts with regularly scheduled payments or instalments. The decision to grant a loan is based on a thorough assessment of the customer's solvency. The service can be obtained at the branch and remotely.

#### **POS-loans**

A type of loan allows the customer to finance a specific purchase or use a set amount of funds at a point of sale and pay it off over time. The service can be obtained at the branch and remotely.

#### **Pawn loans**

Pawn loans are secured loans with items of personal property used as a pledge. Ownership of the pledge is always verified. The customer's liability is limited to the pledge only. Credit scores are not affected if the loan is not repaid. It is possible to apply for the service in person at the branch and remotely.

#### Sale of pre-owned goods

Banknote and "Rīgas pilsētas lombards" brands purchase pre-owned goods and jewellery from customers and sell pledges from pawn shops. All the pre-owned goods are handled by a team of experienced and skilled retail staff. It is possible to buy goods at the branch and the Banknote internet store.

#### **Consumer loans**

- Amount FUR 50 10 000
- Apply and receive a loan in branch or online
- Various offers from Banknote and VIZIA brands

#### **POS-loans**

- Loan amount EUR 50 1 400
- Application and issuance in the branch or online

#### **Pawn loans**

- Up to 95% of the pledge value (jewellery, mobile phones, electronics, and valuables)
- Apply in branch or online by sending photos of goods to get an assessment

#### Sale of pre-owned goods

- Offline in 93 branches
- Online at veikals.banknote.lv
- Stock sourced from pawn loan collaterals and goods bought from customers and 3rd party partners

#### **How DelfinGroup adds value:**

#### Social

Social responsibility:

- A long-term supporter of the Latvian Seniors' Association
- A long-term supporter of the Children's Hospital Foundation
- A supporter of young people

Quality services that are accessible to various groups of the general public, like:

- Near-prime (subprime) loans
- · Loans for underserved customers
- Loans for residents of regions (small towns, distant from the capital)
- · Loans for seniors

#### Community

- The estimated amount of taxes paid in 2021 is mEUR 4.46;
- 290+ jobs throughout the territory of Latvia
- Golden Level status for careful tax and risk management as part of the cooperation program with the Latvian State Revenue Service
- · The best trader award in Latvia

#### **Environment**

- Development of the circular economy
- Efficient use of energy ISO 50001 standards received
- Proper recycling
- Protecting the environment from new emissions – by repairing and selling goods in the secondary market



## Shareholders and investors

- ~6 000 new investors as a result of IPO receiving quarterly dividends according to the company's Dividend policy [1]
- Well regarded bond issuer at Nasdaq, with investors from different countries
- Lending company with one of the best risk scores in the largest P2P financing platform in continental Europe - Mintos
- Corporate Governance Award 2021 in the nomination "The most Successful supervisory Board Selection"

#### **DelfinGroup know-how**

DelfinGroup is a Fintech company that effectively utilizes big data carefully collected over 12 years of operation with hundreds of thousand customers and millions of customer transactions.

The company uses predictive models built in-house based on historical data by applying machine learning algorithms to identify patterns and trends in data that can be used to make intelligent business decisions.

DelfinGroup focuses on performance-based marketing to measure returns directly accurately. The company aims to invest in brand awareness, support performance channels, and keep of investments track while avoid monitoring returns to inefficient marketing costs.

Employee support and suggestions for improving products and services are significant. Innovative solutions from the front office staff often prove to be the best fit to meet the needs of our customers.

#### Financial technology

Data is fundamental for the company, and data analysts use various statistical and business intelligence software.

ETL (extract, transform, load) tools are combined with Microsoft PowerBi visualization capabilities to visualize and present data in online reports available anytime and anywhere.

Dashboards with carefully chosen KPIs are used to monitor and evaluate the performance of our primary business functions and departments and allows management to carry out quick and confident data-based decisions.

#### **Regulatory requirements**

The lending sector outside conventional banking is being monitored regulated and by authorities. Licenses for non-bank lenders are issued to provide an effective consumer protection mechanism in the non-bank lending sector and monitor participants providing such services. To obtain a non-bank lending license, the company must follow several legal requirements, policies, regulations, and guidelines. These requirements promote high standards for non-bank lending businesses. The Latvian Consumer Rights Protection Centre issues licenses for consumer lenders and pawn shops. [2]



## **Highlights of 2021**

Last year DelfinGroup experienced both challenges and positive events. Although Covid-19 required certain adjustments and changes, the company was able to adapt to new challenges and continued to work and develop tirelessly.

To improve user experience, DelfinGroup developed Banknote mobile app, which allows customers to log on to their profile using biometric data. Customers can apply for a new loan, view information about current loan agreements, make payments, find the nearest Banknote branch and perform other loan-related activities using the app. In addition, VIZIA started to offer a credit line with an option to repay the loan using a gateway/checkout solution.

The company's concern for its customers was also highly regarded in the competition for the best trader title in Latvia. Customer feedback has always been vital to us, so DelfinGroup implemented a customer service satisfaction system in several branches. It allows us to track the overall level of customer satisfaction online and make adjustments if required.

In 2021 DelfinGroup has improved its governance and implemented a business strategy that promotes good governance practices contributing to an open and transparent business environment. These efforts were acknowledged by the Institute for Corporate Sustainability and Responsibility, which awarded the company with the Silver category in its Sustainability Index. In addition, DelfinGroup received the Latvian Corporate Governance Award for the most successful selection of the supervisory board.

Branches	Employees	Customers
90+	270+	400 000+
Business segments 4	Brands 3	Total net loan portfolio mEUR 43.0
Shareholders	Dividend payouts	Profit before tax
6 000+	5 times a year	mEUR 5.2

#### **COO** statement



Sanita Zitmane, COO

In 2021, the demand for various types of loans increased, and the lending industry has returned to pre-Covid-19 level. Economic activity has not slowed down and customer desire to improve their living conditions remains high. According to the performance of the non-bank lending market report prepared by the Consumer Rights Protection Center in 2021, we see that DelfinGroup market share in the consumer and pawn loan portfolios has grown rapidly comparing to the industry. Loan disbursements in both product segments have increased remarkably as well.

In 2021, the company successfully launched new lending products and digital solutions, for example Banknote mobile app and automated customer income assessment tool to provide customers with a convenient and up-to-date user experience. To continue the improved customer service an option to identify new customers using Smart-ID was introduced in the portal.

DelfinGroup experts worked carefully to improve products and attract new customers. For example, we raised the maximum amount of Banknote and VIZIA consumer loans to EUR 10 000 and extended the maturity period up to 10 years. At the end of the year, a new lending product – VIZIA credit line with a maximum limit of EUR 5 000 – was successfully launched to meet the customers' needs and expand our product range.

Due to the accuracy of data collected for the solvency assessment of customers, and also a consistent and professional work of the debt collection team, a positive dynamic in loan repayments has been observed in 2021. Currently, the company does not abide a deterioration in repayment habits, thus maintaining a low level of NPL in the consumer loan portfolio.

One of values of DelfinGroup is excellent customer service. Therefore, last year we expanded the network of pawn shops and opened new branches to make financial services accessible for every resident of Latvia in a more convenient manner. We have acquired 25 pawn shop portfolios of AS Moda Kapitāls, which will strengthen the leading position of DelfinGroup in the local pawn shop segment and increase the overall value of the company in the long run.

According to the latest information collected by the Central Statistical Bureau, the population is increasingly using the e-environment to purchase goods and services. This change of habits resulted in a 4.2 percentage point increase in the total volume of online purchases in the previous year. In 2022, DelfinGroup will continue to emphasize innovative e-commerce solutions to purchase and sell pre-owned goods to even more increase the convenience and accessibility for customers.

2022 will mark a new trend in the digital marketing industry since Google announced they will stop using third-party cookies in Chrome by the end of 2023. In general, 2022 will be a challenging year for the marketing industry and effective campaign planning, considering the fragmentation of the audience and a ban of quite a few media channels, which makes the Russian-speaking audience practically unattainable. DelfinGroup will actively work on targeting and attracting new audiences and improving the user experience, testing both: new advertising formats in the conventional marketing channels and also planning for new channels.

#### **CFO** statement



Aldis Umblejs, CFO

2021 marked another year of growth for DelfinGroup. DelfinGroup achieved the best results ever in many indicators. The Group's turnover reached EUR 25.5 million, which is 7.7% more than in 2020. Group's profit before tax was EUR 5.2 million, an increase of 7.2% over last year, and net profit increased by 3% to EUR 4.2 million. As loan issuance continued to grow, the Group's net loan portfolio at the end of 2021 was EUR 43.0 million, compared to EUR 34.7 million a year earlier.

In 2021, the Group became a public listed company following an initial public offering (IPO). Almost 6 000 investors were attracted, and EUR 8.09 million was raised during the IPO, which strengthened the company's equity base and allowed to refinance the company's interest-bearing liabilities.

During 2021, the Group had two new bond issues. In July, two-year bonds were issued in the amount of mEUR 5 with a coupon rate of 9.75%. Demand for the bonds exceeded the issue volume 1.85 times. During November an issue of two-year bonds in the amount of mEUR 10 with an 8% coupon rate was launched. Subscription to the new bonds continued after the end of the year. Both bonds were issued in the form of a private placement with a possibility of listing them on the alternative market. Each of the relevant bond coupon rates was at a historically low level at the time of the bond issue. Since its operations in 2009, DelfinGroup has issued bonds seven times.

In addition, at the end of the year the Group repaid three bond issues: EUR 5 million of bonds with a 14% coupon rate on maturity and two bonds with 14% and 12% coupon rates in total of mEUR 8.5 repaid before maturity. The early redemption of the bonds was made to reduce the company's financing costs and to keep the commitment made during the IPO on the use of IPO proceeds.

The Group also continues to work with the peer-to-peer lending platform Mintos. The Group has more than 64 thousand investors from 107 countries on Mintos platform.

Following its Dividend policy, in 2021 DelfinGroup paid out in total EUR 3.7 million as dividends. Out of that EUR 0.5 million was paid out after the IPO at the end of 2021, thus starting a regular dividend distribution to the new shareholders. The distribution of quarterly dividends will continue going forward and the payments will be up to 50% of the consolidated net profit for a reporting quarter, thus ensuring regular income for shareholders. By paying quarterly and in addition annual dividends, AS DelfinGroup will pay shareholders at least five times a year.

In 2021, DelfinGroup paid in total EUR 4.46 million in taxes. Most of it was social insurance contributions and payroll tax. By regularly paying dividends to its shareholders, DelfinGroup also paid corporate income tax of EUR 754 536 for profit distribution. In addition, DelfinGroup also continues to participate in the Advanced Cooperation Program with the State Revenue Service, under which DelfinGroup has been awarded the highest – Golden Level.

Being a socially responsible company, DelfinGroup continued cooperation with the Latvian Association of Senior Communities, the Children's Clinical University Hospital and other public benefit organisations. In total, in support of several initiatives, during 2021 DelfinGroup made donations of EUR 99 942. In support of war-torn Ukraine, DelfinGroup donated additional EUR 200 000 at the beginning of 2022.

#### **Stakeholders**

The company's key stakeholders are its shareholders, investors, employees, regulators, suppliers, customers, and the communities it does business. The company actively engages with its stakeholders and continually reviews its engagement mechanisms to ensure effectiveness.

#### Membership in organizations













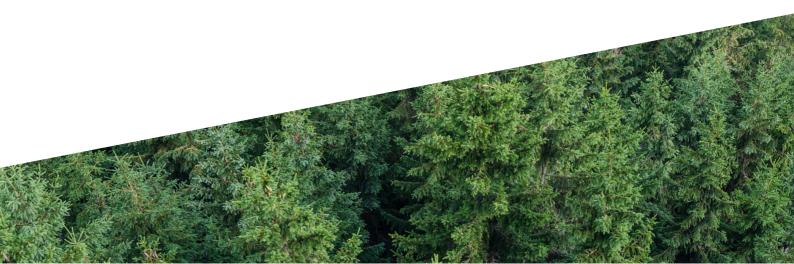


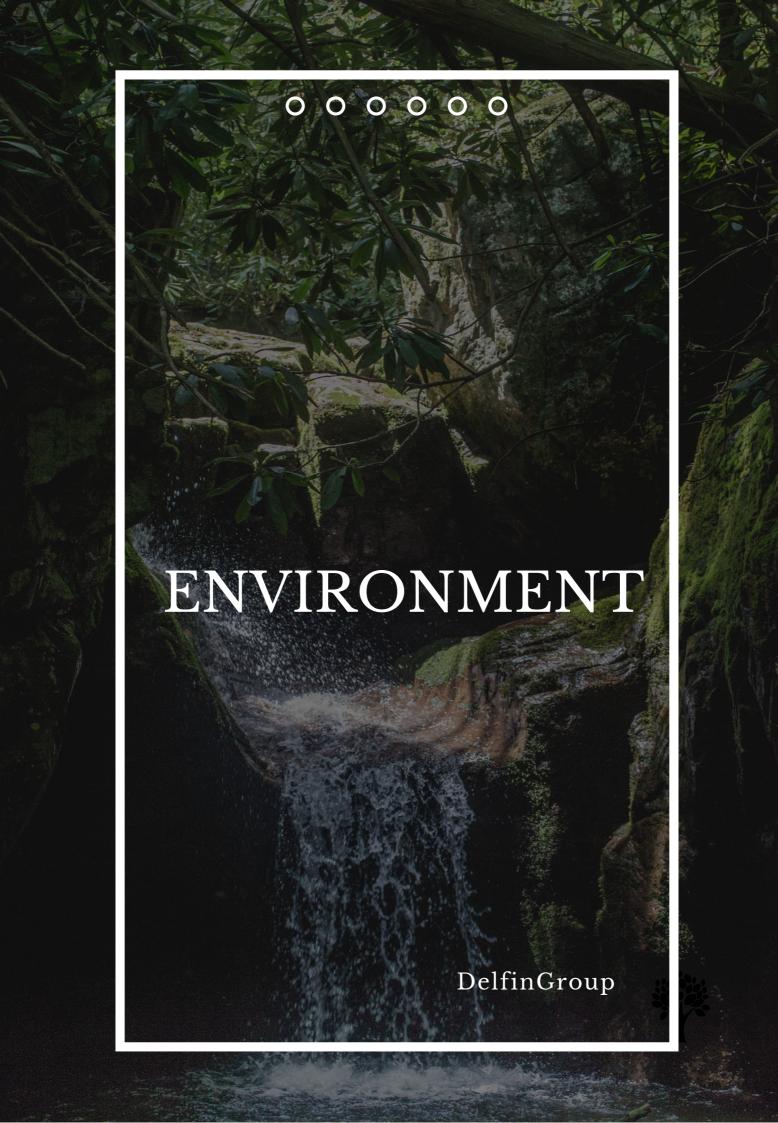
Fintech Latvia Association unites financial technology or FinTech companies operating outside the banking sector and providing financial services to the residents of Latvia.

DelfinGroup is also a member of the Baltic Institute of Corporate Governance (BICG). This non-profit, non-governmental association engages business and political leaders in encouraging best corporate governance practices in Lithuania, Latvia, and Estonia.

DelfinGroup is the only non-bank lender among 76 best governed companies in Latvia that has received Gold level status within the State Revenue Service In-Depth Cooperation Programme framework.

DelfinGroup strives towards sustainability, reports ESG indicators to Nasdaq and has become a Nasdaq ESG transparency partner. DelfinGroup is proud to be the first supporter company for a Task Force on Climate-Related Financial Disclosures (TCFD).





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European Union (EU) recognises climate change as one of today's biggest challenges. European Green Course has declared ambitious goals that by 2050, Europe must become a climate-neutral area. The aim is to reduce emissions by 55% by 2030 compared to 1990. Climate change issues are global, but the consequences are local. That's why DelfinGroup is working to contribute its part in achieving those climate goals.

#### Circular economy

EU aims to make sustainable and durable goods increasingly available to European citizens through political and legal instruments, which would increase the quality of life and allow people to save money in the long term. Today's digitisation ensures the mobility and accessibility of goods. A large segment of our business is composed of accepting, repairing, and selling used goods. Our professionals assess each item and, if necessary, fix it so that we can provide a warranty. We provide safe shopping and protection against fraudsters. By accepting and selling pre-owned goods, we extend the life cycle of goods and reduce their premature disposal.

#### Greenhouse gas emissions [3]

Caring for the land and environment is a traditional Latvian value and sustainability concept – a way of life that respects, preserves and protects our natural resources for future generations. At DelfinGroup, we prioritise protecting the Latvian environment and culture, as they are inherent in what makes Latvia special and unique. Therefore, DelfinGroup reduces its environmental impact.

		2018	2019	2020	2021
	Scope 1, t CO2	78	95	90	65
Carbon footprint	Scope 2, t CO2	114	109	103	129
	Scope 3, t CO2	18 025	18 760	19 575	19 755
Carbon	Sold goods on the secondary market,	145 027	151 365	157 234	161 931
handprint	pieces Saved emissions, t CO2	9 870	10 281	10 771	10 793

In 2021 DelfinGroup improved Scope 1 and Scope 2 emission calculations. For Scope 1, we calculated all DelfinGroup purchased diesel and petrol for company-controlled vehicles and wood chip briquettes\* for heating some of the DelfinGroup facilities. Our Scope 2 includes emissions from electricity and district heating. This year, DelfinGroup has taken the next step and started researching and collecting data to calculate its Scope 3 level. According to the Corporate Value Chain (Scope3) Standard and based on GHG protocol.[4]

DelfinGroup 2018-2020 Scope 3 includes emissions from purchased goods (its production and using emissions) and services, but 2021 Scope 3 includes emissions from purchased goods (its production and using emissions), business travel, employee commuting and downstream leased assets. So, all three Scopes together make up the company's CO2 footprint.

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The goal of collecting data and managing footprint is simple – to get the footprint close to zero, but with handprints, there is no limit to the positive impacts that can be achieved. To calculate DelfinGroup carbon handprint, DelfinGroup used each product's emissions when such a product was produced. DelfinGroup carbon handprint covers our direct emissions (Scope 1 and Scope 2) 57 times, a spectacular result.

The company calculated how much emissions, it saved from not producing new goods and properly recycling them. Through DelfinGroup saved emissions, it covered 2 955 people's CO2 emissions in 2021. In Latvia, CO2 emissions per capita are 3.59 tonnes.

#### DelfinGroup environment goals for the next decade

Extend the calculated Scope 3 emissions and calculate Scope3 emissions more accurately
Establish a more precise number of emissions we save by trading goods on the secondary market
Expand the assortment of goods

Establish a more precise amount of emissions we save by properly recycling goods

#### **Environmental operations = ISO 50001**

DelfinGroup received an energy certification under the ISO 50001:2015 standard in 2017. ISO 50001 provides a framework of requirements for organisations to:

Set targets and objectives to implement the policy
Develop a policy for more efficient use of energy
Data drove decision making about energy use
Continually improve energy management
Review how well the policy works
Measure the results

<sup>\*\*</sup>A green loan is a form of financing that enables borrowers to use the proceeds to exclusively fund projects that make a substantial contribution to an environmental objective.

<sup>[5]</sup> Where in the world do people emit the most CO2? - Our World in data



#### **Employees**

DelfinGroup starts with its clever, skilled, and intelligent employees. The company aims to attract top professionals in the industry and provide suitable and enjoyable jobs for its employees. DelfinGroup values its employees and works hard to ensure that each employee is happy with their workplace. DelfinGroup knows how important worklife balance is and therefore developed a concept for administrative employees to have the flexibility to choose their working time and location. In addition, during the IPO, shareholders approved the Employee share options program, meaning DelfinGroup employees may eventually become shareholders of DelfinGroup.

#### Family-friendly workplace



During the reporting year, we purposefully carried out various activities, which later allowed us to obtain the status of a "Family-friendly workplace" because:

- we follow all work safety regulations of the workplace and provide employees with equipment to install a home office
- we organise company events for employees together with their families
- we follow a circular economy approach that focuses on people and their needs, and we develop services that respect the needs of different social groups
- we support young people and foster financial awareness in Latvia

#### **Privacy**

It is significant for DelfinGroup that employee information is protected, so the company complies with all privacy and data protection laws. Our data protection rules are applied with respect to all employees – full time or part-time, payroll employees or outsourced.

#### Health and safety

DelfinGroup takes care of the health and safety of its employees by constantly improving working conditions and organising health and safety drills. The company offers its team members a partially covered health insurance that any employee is entitled to after the trial period. In twelve years of the company's history, it was zero work-related injuries.

DelfinGroup realises the importance of work-life balance. Apart from annual paid leave, working hours every Friday were reduced by two hours during the summer. The company also offers additional days off to celebrate significant family events.

As Covid-19 incidence increased and rules changed, DelfinGroup called on all employees to assess the opportunity of getting vaccinated. On August 9, a discussion on the pros and cons of vaccination was organised with a professor of medicine to tackle the concerns and uncertainty of those employees who hadn't decided. DelfinGroup provided employees with masks, disinfectants, gloves, and other necessary protective equipment.

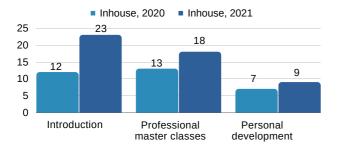
#### **Education**

The company is committed to developing its employees to drive its success. A shortage of skilled workers means that attracting and retaining the best people is an essential priority for the business.

Main training types:

- Personality development: training to acquire new, unique knowledge and develop emotional intelligence skills
- Professional master class: regular training to ensure the level of knowledge required for staff to perform their duties at a high level
- Briefing: mandatory or comes from the need to implement a new product or process accurately
- Team building

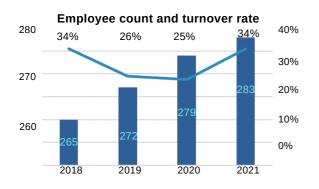
#### The number of in-house training by 2020 and 2021



Every team or department can choose the best training methods for their needs.

During the 2021 period, DelfinGroup provided 50 training activities, most of which were arranged remotely to ensure the most convenient and secure attendance possible.

#### Trust and engagement

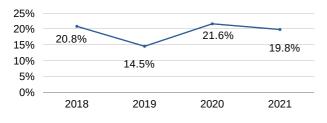


DelfinGroup acknowledges that reliable employees are crucial to company success and development. The company understands that to continue improving, there is a need to engage with the employee regularly to understand their issues and concerns better. DelfinGroup seeks to create a great place to work founded on open and honest culture.

Due to state requirements during the pandemic at the end of 2021, only employees with a valid Covid-19 certificate were allowed to work in the branches, which affected the turnover rate.

DelfinGroup has made various improvements in the work of the human resources department. Use the Predictive Index to select the most suitable employees quickly, conveniently, and qualitatively for the team to fill the vacancies. This program excludes the human factor in the selection process because it is based on scientific data and performs rational measurements to determine the most suitable candidate. The use of the program positively affected the "Employees released during the probation period" rate, which decreased by almost 2% in 2021.

## Percentage of employees released during the probation period



DelfinGroup participated in various environmental activities, education, sports and others.

DelfinGroup regularly conducted various internal surveys to measure employee satisfaction with the work environment and the quality of IT equipment and maintenance and establish which activities our employees would prefer to participate. DelfinGroup has introduced "snack Wednesdays" and encourages employees to share their suggestions on the most preferred snacks.

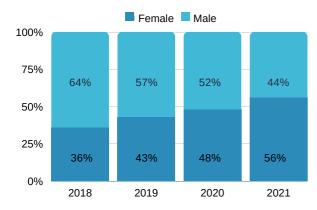
According to an annual internal employee survey, 93% of employees are generally satisfied with the work of DelfinGroup, which is a great result, and will continue to work to improve this outcome even further.

Last year DelfinGroup used the Net Promoter Score (NPS) calculator. NPS is a standard for calculating employees' loyalty and predicting future employee behaviour.[6] DelfinGroup NPS score is 35, which is better than many brands in other industries.[7]

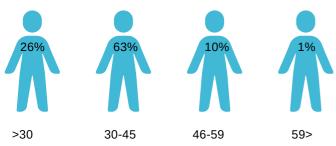
#### **Equality**







Employee age diversity in 2021



DelfinGroup addresses gender equality by reducing the gender pay gap and encouraging female employees to take managerial positions. That includes changes to the composition of our board: recently, DelfinGroup welcomed a female board member, and hopefully, she will provide another perspective to our work. The company comprises team members from all walks of life and treats everyone equally, irrespective of their origin, nationality, gender or age. DelfinGroup does not tolerate racism, discrimination, or harassment of any kind.

2021 was the first year since 2018 when most employees were female.

Provisional data of the Central Statistical Bureau (CSB)[8] show that in 2020 the average gross hourly earnings of females in the Financial and insurance industry were 35% smaller than those of males.

DelfinGroup continues to reduce the gender pay gap. Compared to three previous years, DelfinGroup has reduced the total gender pay gap by four p.p. It is a way to go further. DelfinGroup is a forward-thinking company that focuses on the development and contribution each team member can add to the company's future success. When hiring new employees, DelfinGroup selects them based on the company's values, professional skills, and knowledge.

Our concern for employees has also been appreciated, and DelfinGroup received the award as the Top Employer of 2021. AS DelfinGroup is once again the only non-bank lending company in the TOP 50 of Latvia's most coveted employers.

According to the age distribution, more than half of DelfinGroup employees are aged 35-49. The age group, 46-59, increased by 2% compared to the previous year, while the age group <30 decreased by 2%, which indicates a natural migration of employees from one age group to the next. The age group> 59 remained unchanged from the previous year.

#### **Customers**

Just as DelfinGroup is not imaginable without its employees, the company would not exist without its customers. DelfinGroup cares about customers and strives to be more accessible, convenient, and beneficial for them.

#### **Trust and equality**

DelfinGroup treats every customer equally irrespective of one's origin, place of residence, or financial or social status. The same applies to the privacy of the company's customers and their data protection. DelfinGroup processes the customer data following data protection policies and makes sure that the employees are sufficiently trained to prevent any data breaches. The company provides services with respect to values, principles of ethical conduct and non-discrimination policies. At DelfinGroup, we have competent staff who can answer various inquiries of customers and provide the highest quality and most enjoyable service experience.

Customers who purchase goods in DelfinGroup pawn shops are issued a receipt and a warranty just like in any other retail shop. DelfinGroup is confident in our products, as professional appraisers inspect the goods that arrive at the branches. DelfinGroup has set up its system for accurate product evaluation, during which well-trained specialists evaluate the technical and visual condition of each product and, if necessary, repair them. When shopping at DelfinGroup pawn shops, customers can avoid the risk of fraud or mismatch between the ordered and received items. DelfinGroup provides goods with a warranty.

The Covid-19 pandemic revealed another exciting and valuable aspect of the pawn shop business. Pawn shops promote economic equality and make quality brand items accessible to the groups of society which otherwise would not be able to afford such things. When school curricula were curtailed at the very peak of the Covid-19 crisis, sales of used laptops at pawn shops increased very fast - the only way for parents to quickly ensure that their offspring could study from home. This need became particularly acute in larger families, in which not every member of the family would have had a personal computer before the pandemic.

Complaints received by the Consumer Protection Centre about services of non-bank lenders[9]:

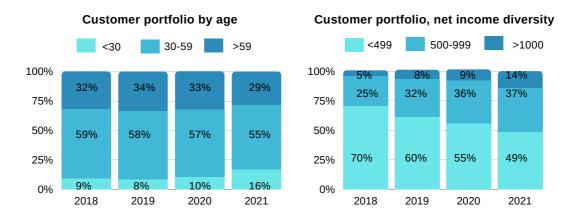


At DelfinGroup, we invite customers to provide feedback on their experience directly in branches or use the Customer Call Centre, email or WhatsApp. Employees processing the complaints must notify the customer care manager, and they have to respond to the customer in 30 days. DelfinGroup also monitors social media and online message boards for customer feedback, such as Google Reviews and local message boards. The company also actively cooperates with Consumer Rights Protection Centre and regularly participates in discussions on the development of the industry.

#### Customer age and income diversity

Unlike previous years, the number of customers aged under 30 increased last year. The largest customer segment is made up of those

between 30–59 years of age and those above 59 years of age. For seniors aged 64 and over, DelfinGroup offers services on more cost-effective terms. The company wants to encourage the inclusion of seniors and help them improve their daily lives.



Due to the severe challenges of the Covid-19 pandemic, the need for our services has increased among customers with an average monthly net income between EUR 500 and EUR 999 a month, and with a net monthly income of over EUR 1000. We can see a declining trend among customers with a net income below EUR 499.

#### **Availability**

The company's customers are primarily Latvian residents. DelfinGroup has 93 branches located in 38 cities and towns. Expansion in the regions is currently one of the company's focus areas, as the availability of modern financial services is very limited in many places outside Riga.

The company's essential task is to make financial services convenient for customers, including excellent service and financial solutions for existing and new customers. In addition, the company's online platform and customer call centre enable it to serve customers throughout the country. The company's customers can purchase goods located anywhere, and DelfinGroup will deliver goods to the location most convenient for the customer. Two of the DelfinGroup values are accessibility and progress, and we incorporated them into Banknote mobile app.

The Covid-19 pandemic has shown how much our customers value accessing financial services anytime. The online platforms ensure that customers interact safely from their homes.

DelfinGroup has deployed a tool in several branches for customers to evaluate the service they have received. The company's goal is to analyse the results of customer surveys to make service better. DelfinGroup plans to carry out market research on global trends in the market to adapt them for customers' needs.

#### **Community investment**

According to community investment policy, DelfinGroup distinguishes the following priorities:

**Education** – activities that focus on acquiring and improving skills useful to prevent the risk of social exclusion. It promotes people's competitiveness in the labour market and chances for additional income, as well as develops financial literacy for a better quality of day-to-day life;

**Healthcare** – activities that focus on raising public awareness of individual and public health and enhancing access to health care to improve quality of life and longevity;

**Environment** – activities that focus on mitigating the harmful effects of climate change and promoting biodiversity to build a better future for our children and grandchildren.

#### **Charity projects**

In mid-December, DelfinGroup supported the education program, during which more than 200 youngsters acquired new digital skills free of charge to boost their competitiveness in the labour market. Training "Learn Industry: digital marketing" took place in a remote format. At the end of the course, young people could present their skills to potential employers and eventually get a job offer. The training aimed to promote the integration of young people into the labour market, particularly those who would otherwise not be able to participate in such activity due to material constraints, place of residence, or other conditions. The event raised a lot of interest: more than 350 young people from more than 30 towns of Latvia applied for training, and more than 200 people aged 16 to 30 enrolled. Apart from training, participants also had the opportunity to join a specially designed job fair called "Fast Job Interviews: Digital marketing" and meet representatives from 15 companies looking for employees in the field. DelfinGroup, in cooperation with its long-term partner, the Latvian Senior's Association (Latvijas senioru kopienu apvienība - LSKA), expanded its support for seniors across Latvia placing particular emphasis on people in regions. In addition to the support provided at the beginning of 2021, DelfinGroup signed an agreement on making donations to LSKA for the procurement of medical equipment which would improve the quality of life of the elderly. The donations made last year helped to facilitate the procurement of medical equipment for social care institutions in 15 places in Latvia and continue educating seniors in financial literacy and IT. In several social care institutions, seniors had been successfully using medical equipment and inventory purchased due to donations - for example, a special oxygen device at Mazsalaca Hospital, walkers, wheelchairs, crutches, and various electrical equipment in Līvāni Day Center. Seniors in the care of Auce and Alūksne social services will also receive the necessary medical equipment in the near future.

Children's Clinical University Hospital is the only multi-profile specialized children's health care institution in Latvia. Every year more than 30 000 inpatient and more than 160 000 out-patient treatment and care services are provided. DelfinGroup was inspired by how professionals at the hospital care about children by offering the best medical care possible to children and support to their parents in challenging times. The existing medical technologies of the Children's Hospital received a new addition - the first Velo spiroergometer for children in Latvia, which helps to perform cardiopulmonary exercise tests. The new equipment was procured thanks to almost 60 thousand euros from DelfinGroup – a long-term supporter of the Children's Hospital Foundation. It is the first and only device in Latvia that examines the children's respiratory functionality, blood, nervous, and musculoskeletal systems.



#### **# Stand with Ukraine**

The war that began in February 2022 has affected the lives of the Ukrainian people and left the country in a critical state. DelfinGroup has made two donations of EUR 100 000 each to support Ukrainians. Out of EUR 200 000:

- DelfinGroup donated EUR 160 000 to the "Entrepreneurs for the Peace" movement, uniting Latvian companies to support Ukraine's fight for peace and freedom.
- EUR 30 000 is meant for the "For People of Ukraine" initiative, facilitated by Ziedot.lv.
- DelfinGroup donated EUR 10 000 to the "Help them rise!" movement. It is a Children's Hospital Foundation support program for Ukrainian refugee families and their children.

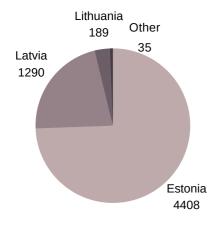


#### Shareholder structure

As a result of initial public offering (IPO), DelfinGroup shareholder structure has changed.



#### Free float investors count



Free float represents 13.43% of all shares in DelfinGroup. These shares are distributed among 18 countries, with the most significant number of investors from Estonia, Latvia, and Lithuania.

DelfinGroup beneficial owners are Agris Evertovskis and Aigars Kesenfelds.

#### **IPO**

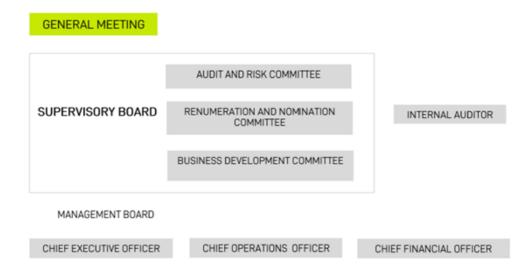
DelfinGroup launched the IPO on Nasdaq Riga autumn of 2021.

DelfinGroup IPO was one of the largest IPOs ever in Latvia in terms of investor activity, and mEUR 8.09 of gross proceeds were raised as a result. Capital increased was used to repay and refinance bonds, consequently reducing financing costs and thus becoming more efficient.

#### **Shareholders meetings**

After the successful IPO, DelfinGroup convened its first shareholders' meeting, which took place on December 10, 2021. The shareholders' meeting was organized in a hybrid model - shareholders could either participate and cast their votes remotely or participate in a person. The hybrid shareholders meeting model enabled thousands of foreign shareholders to participate in the shareholder's meeting without traveling.

#### **Organizational chart**



#### Supervisory board

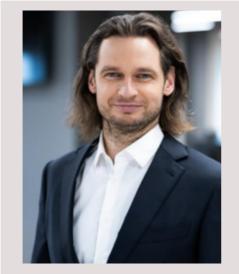
DelfinGroup can be proud of its outstanding supervisory board, also acknowledged by the Financial and Capital Market Commissions, Corporate Governance Award 2021 in the nomination "The most successful selection of supervisory board".

A competent and experienced supervisory board is a precondition for effective operations and decision-making of the company, contributing to the long-term growth in value of the company. The supervisory board works in the interests of the company and shareholders and ultimately considers the interests of all stakeholders.

The supervisory board of DelfinGroup approves the company's strategy and sets priorities for the management board. The supervisory board approves the company's key policies and monitors the effectiveness of the internal control system and risk governance.

Each member individually and the supervisory board collectively must be able to demonstrate the skills, experience, and knowledge required to contribute to the effectiveness of the company. Members must have at least five years' experience working in management positions at a large and successful private or public company in the financial, e-commerce, or service sectors.





Agris Evertovskis
Chair of the supervisory board
Founded the company in 2009

BSc in Economics and Business from Stockholm School of Economics in Riga.

Previous experience as Chairman of the management board of DelfinGroup since 2009.

Member of the Remuneration and nomination committee and the Business development committee. Compliance with independence criteria: 2,3,6,7,9.[10]

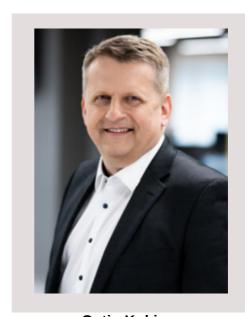


Mārtiņš Bičevskis Independent Member of the supervisory board

BSc in Law from the University of Latvia.

Previous professional diverse experience, emphasizing communication with people, team development. building, and leadership These competencies allow work effectively in the Company's remuneration committee.

Compliance with independence criteria: meets all the independence criteria.



Gatis Kokins Independent Deputy chair of the supervisory board

MBA from Stockholm School of Economics in Riga; MSc in Physics from the University of Latvia.

Previous experience on the boards of several companies, incl. life insurance, banking, telecommunications.

Member of the Audit and risk committee, the Remuneration, and nomination committee and the Business development committee.

Compliance with independence criteria: meets all the independence criteria.



**Jānis Pizičs**Member of the supervisory board

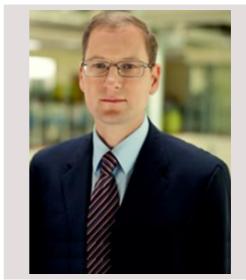
MBA from Riga Business School;

BSc in Economics and Business from the Stockholm School of Economics in Riga.

Previous experience is mainly related to consumer lending, financial technologies, finance, budgeting issues, data science, and analytics.

DelfinGroup business development committee and audit and risk committee member.

Compliance with independence criteria: meets all the independence criteria except 5.



Edgars Volskis
Independent Member of the
supervisory board

Doctor in Social Sciences from the University of Latvia; Previous experience in finance, accounting, financial and risk analysis, and financial investigation.

Works on the company's audit committee.

Compliance with independence criteria: meets all the independence criteria.

#### **Management board**

The company's management board comprises the chief executive officer, the chief financial officer, and the chief operating officer. Each member of the management board must be able to demonstrate the skills, experience, and knowledge required to contribute to its effectiveness.



Didzis Ādmīdiņš

Chair of the management board, CEO

Master's degree in Economics and Business Administration from Riga Technical University.

CEO of DelfinGroup since 2018 and member of the management board since 2014. Various management positions in the company since 2010.

Responsible at DelfinGroup for developing a strategy for the business in conjunction with the supervisory board, ensuring it is implemented, and the company's operational management.



Aldis Umblejs

Member of the management board, CFO

BSc in Business Administration from BA School of Business and Finance.

Chartered Financial Analyst (CFA) and Member of the Association of Chartered Certified Accountants (FCCA).

Responsible for financial management, accounting, treasury, and investor relations.



Sanita Zitmane

Member of the management board, COO

BA in Philology from the University of Latvia.

Leadership training, Consaltum AB (in association with Stockholm School of Economics in Riga).

More than ten years of experience in the fintech, insurance, and banking sector.

Responsible for loan operations, the development of technologically intensive products, the development of consumer loans, customer service, and marketing projects.



#### DelfinGroup 2022-2024 strategy

DelfinGroup constantly develops products in segments like consumer loans, pawn loans, and retail of pre-owned goods to achieve sustainable and far-reaching growth. Building robust investor relations and implementing socially and environmentally conscious policies make DelfinGroup a valuable society member.

- We have set the following long-term objectives to increase DelfinGroup value:
- Data-driven decision-making at all levels is achieved by extensive use of big data collected from millions of customer interactions and transactions and analysed with the most advanced business intelligence software.
- Superior UX that facilitates customer satisfaction with DelfinGroup products.
- Advanced IT solutions and competencies as a precondition for scaling up the business.
- Access to products online and on-site through a broad branch network in Latvia.
- A highly appreciated employer attracts the industry's top talents and provides them with the necessary tools for personal well-being and professional growth.
- Ambassador of a circular economy that promotes rational use and reuse of resources to prolong the life cycle of consumer goods by developing the platform for buying and selling pre-owned goods and increasing awareness in society about an environmentally friendly lifestyle.
- Diversified financing structure to ensure flexibility, stability, and cost-efficiency.
- Professional corporate governance ensures transparency and financial sustainability for DelfinGroup shareholders.

#### Key strategic indicators to be achieved by the end of 2022 and 2024:

Indicator	2022 target	2024 target
Net loan portfolio	mEUR 51	mEUR 70
Profit before tax	mEUR 8.7	mEUR 12.9
EBITDA	mEUR 12.0	mEUR 17.6
Return on Equity (ROE)	>30%	>30%
Cost-to-income ratio	<52%	<45%
Equity ratio	>27%	>27%
Dividend payout ratio	>50%	>50%
Cost of interest-bearing liabilities	8%	<8%



#### Cybersecurity

Nowadays, the world is facing more and more cyber-attacks. DelfinGroup is aware of these risks and is working to protect our employees and customers from various system viruses and data losses.

DelfinGroup is constantly guarding the security of IT/IS infrastructure with:

- · ESET Endpoint Antivirus
- "CoSoSys Endpoint Protector" DLP
- · Firewall incoming and outbound data flow is organized only through allowed ports
- Maintaining DB backup in two places on-site (DWH) and Bite data center

For our daily work, DelfinGroup uses Microsoft Office 365, and for safe work organization, the company has introduced:

- Mandatory multifactor authentication in Microsoft 365 service
- Control file extensions and quarantine dangerous emails
- · Safe Links Policy: MS checks for links to known malicious sites
- Restrict file sharing outside DelfinGroup
- Sharing documents in SharePoint is only possible with the involvement of IT administrators

#### Audit and risk management

Since 2020, DelfinGroup has established an independent internal audit department. This assures that an autonomous position in the company creates value for all parties involved.

The position of internal auditor provides for:

- · Functional independence from the management board and accountability to the supervisory Board
- · Appointment of the Internal auditor by the supervisory board
- Development of a risk-based internal audit plan approved by the supervisory board
- Informing the management board and the supervisory board of the implementation of the internal audit plan, audit results, and recommended actions to address deficiencies, if any
- The company has also revised the methodology for risk assessments and carried out re-scoring and assessing risks. A new Risk management policy and updated Risk management procedure have been developed and are available on delfingroup.ly webpage.

#### Whistleblowing policy

The whistleblowing process at DelfinGroup is designed to uphold the culture of compliance and ethical entrepreneurship. DelfinGroup Whistleblowing policy was developed following the relevant legal requirements and guidelines. The implementation of the policy and the process depends heavily on employee training, which the company provides annually so that all DelfinGroup employees know where and how to report irregularities. To ensure the proper reporting process, DelfinGroup has established a Whistleblowing channel available and accessible to everyone on the company's intranet. Employees can report any ethical or legal misbehaviour, breach, or concern without fear of retaliation. DelfinGroup ensures that employees know that they are protected, and their anonymity and privacy will be preserved. There have been 0 whistleblowing reports during 2021.

#### **Code of Ethics**

This year, DelfinGroup has developed such an important policy as the Code of Ethics. The adherence to our corporate values is promoted both internally and externally by implementing the Code of Ethics and other policies and procedures. They set forth the principles of not only our expected behaviour but also that of our partners and stakeholders. All effective DelfinGroup policies are available on our web page.[11]



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#### Market overview [12]

In 2021, 43 companies were licensed to provide consumer credit services in Latvia.

Loans against pledges (pawn loans) issued by 7 companies;

consumer loans issued by 11 companies; and distance loans were issued by 17 companies.

In 2021, there were no new entrants to the consumer (non-bank) lending market, but 13 lending companies left the non-bank lending sector.

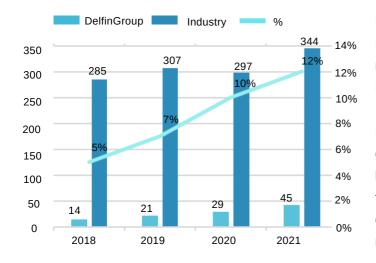
The total loan portfolio of consumer lenders in 2021 was mEUR 831.32, which is 15% more than in 2020.

The loan portfolio quality improved during the reporting year, and loans were mainly repaid on time.

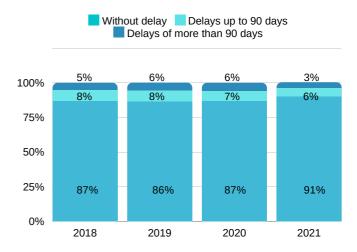
#### **DelfinGroup** market share

#### Consumer loan

## DelfinGroup vs Industry Consumer Ioan portfolio, 2018-2021, mEUR



#### The quality of the consumer loan portfolio, 2018-2021

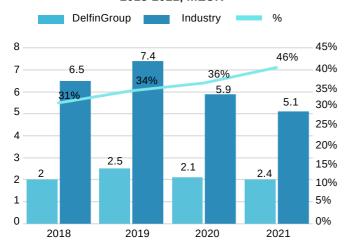


DelfinGroup continues to grow its market share in the Latvian non-bank consumer loan market. DelfinGroup major competitors are InCredit Group, IPF Digital Latvia, Aizdevums.lv, ExtraCredit, 4Finance, and Inbank Latvia. However, according to the Consumer Protection Centre, small lenders leave the market every year for high standards to get Consumer lending and Pawn shop lending licenses. In the fight for customers, the major players in the industry are constantly investing in product development, creating more competitive advantage, and improving the user

experience. As a result, customers are happy to choose a more convenient, friendly, and high-quality solution for their financial needs.

#### Pawn loan

#### DelfinGroup vs Industry Pawn Ioan portfolio, 2018-2021, mEUR



Historically, the pawn loan market consisted of small and independent local pawn shops. DelfinGroup was the first pawn shop to rapidly cover the Latvian market with an extensive open-type branch network. DelfinGroup continued its development by expanding the network of pawn shops in Latgale and Riga and reaching new records of issued pawn loans. DelfinGroup pawn loan portfolio volume has been broadly stable over the last 4 years.

DelfinGroup continues to be the largest pawn shop network in Latvia and continues to invest in its development. The company plans to be well-positioned in the market with excellent customer service, a large loan to value ratio, a comprehensive network of branches, and a wide range of acceptable collateral and online services. For example, DelfinGroup provides a remote assessment of pledges, using photos and videos of goods.

DelfinGroup has taken a significant step to strengthen its presence in the pawn shop market and acquired AS Moda Kapital's portfolio of 25 branches and 4 pawn shop portfolios of SIA Finance 360 association. By establishing an association of pawn shops, SIA Finance 360 achieved a rapid increase in the number of branches.

DelfinGroup is a company driven by success and development and intends to maintain a leading position and improve performance in all segments of its business.

Company	Branches in 2021	Branches in 2022
DelfinGroup	92	93
E-Lats	36	28
Vita Credit	26	26
Finance 360 association	17	29
Fresh Cash	12	6



#### **Highlights:**

**IPO** 

## Acquisition of 25 AS Moda Kapitāls and 4 SIA Finance 360 association pawn shop portfolios

#### **Portfolio Market shares**

2021



#### Portiono market shares

Pawn loan 36% +10% 46%

Consumer loan 10% +2% 12%

#### **Environment:**

CO2 Footprint: 194 t



#### CO2 Handprint: 10 793 t

Covered 2955 peoples CO2 emissions

2020



#### Social responsibility:

#### **Employee gender diversity:**

2021	56%	44%
	+8%	-8%
2020	48%	52%

#### **Employee gender pay gap:**

2021 12%
-4%
2020 16%

#### **Customer net income diversity, 2021**

14% <499 49% 37%

>1000

#### Governance:



Shareholders: ~6 000

Independent supervisory board

members: 3 from 5 Internal auditor



#### Whistleblowing reports:

in 2021: 0 in 2020: 0



Complaints vs Industry:

in 2021: 4 vs 106 in 2020: 1 vs 112

#### **Charity projects:**



We provided free training to 200 young people to increase their competitiveness in the labor market



Ensured medical equipment for seniors; senior education of financial literacy and IT

Purchased the first Velo spiroergometric for children in Latvia

#### Awards:

Corporate Governance Award 2021 in the nomination "Successful Board Selection" Gold Level status as part of the cooperation programme with the Latvian State Revenue Service

Top 30 employer of the year 21'