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Fundamental Research Corp.
Investment Analysis for Intelligent Investors

March 10, 2017

IEG Holdings Corporation (OTCQB: IEGH) – Q4 results in line with expectations

Sector/Industry: Consumer Finance **www.investmentevolution.com**

Market Data (as of March 10, 2017)

Current Price	**US$4.20**
Fair Value	**US$10.05**
Rating*	**BUY**
Risk*	**4**
52 Week Range	N/A
Shares O/S	9.71 M
Market Cap	US$40.80 M
Current Yield	N/A
P/E (forward)	N/A
P/B	N/A
YoY Return	N/A
YoY OTCQX	-19.5%

*see back of report for rating and risk definitions
*All the figures are in US$ unless otherwise specified.

Highlights

- IEG Holdings Corporation ("company", "IEG") reported $2.14 million in revenues in 2016, up 16.3% YOY and the highest since inception. Our forecast was $2.22 million.
- As of December 31, 2016, the company had $6.37 million in loans receivables, net of provision for losses.
- The total operating expenses in 2016 were $6.88 million, down 9% YoY. The decrease was primarily because of a significant reduction in salaries/wages and advertising cost. IEG reported a net loss of $4.73 million (EPS: -$0.60) in 2016 versus our forecast of $4.01 million.
- Realized loan losses of $1.64 million in 2016 (20% of the loans outstanding) were much higher than expected.
- IEG had launched an unsolicited offer to acquire the shares of OneMain Holdings Inc. (NYSE: OMF), one of the largest consumer finance companies in the U.S. in January 2017. On February 7, 2017, the company extended the expiry date of the offer from February 6 to March 27,2017.
- IEG is also pursuing an offering for up to $10 million through the issuance of 12% p.a. senior unsecured notes due December 31, 2026.
- Management expects to start paying quarterly dividends in May 2017.
- We are maintaining our BUY rating and raising our fair value estimate from $9.04 to $10.05 per share.

Key Financial Data (in US$); YE - Dec 31	**2012**	**2013**	**2014**	**2015**	**2016**	**2017E**	**2018E**
Revenues	37,779	62,949	529,225	1,835,165	2,135,046	4,055,857	10,778,950
Net Income	(2,507,521)	(4,480,465)	(5,401,754)	(5,698,198)	(4,728,870)	36,101	4,509,837
EPS (basic)	(0.01)	(0.01)	(0.40)	(2.39)	(0.60)	0.00	0.43
Cash	178,601	281,879	433,712	485,559	322,441	-	-
Loans Receivable	130,486	426,113	4,316,316	7,124,702	6,374,908	20,000,000	50,000,000
Total Debt / Capital	-30.6%	-33.3%	48.2%	0.0%	0.0%	32.9%	38.7%
Total Assets	791,196	922,140	4,929,120	7,758,149	6,821,947	20,425,578	51,091,001

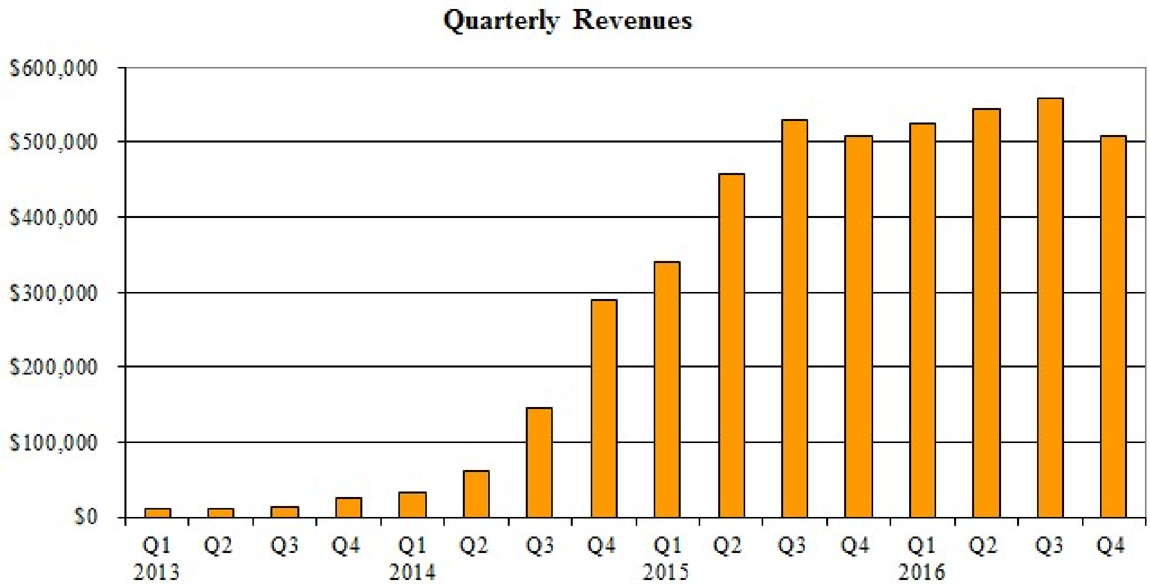
Site Visit

On January 12, 2017, we visited IEG's offices in Las Vegas. We met with IEG's COO, Carla Cholewinski, who walked us through their computer and internal control systems.

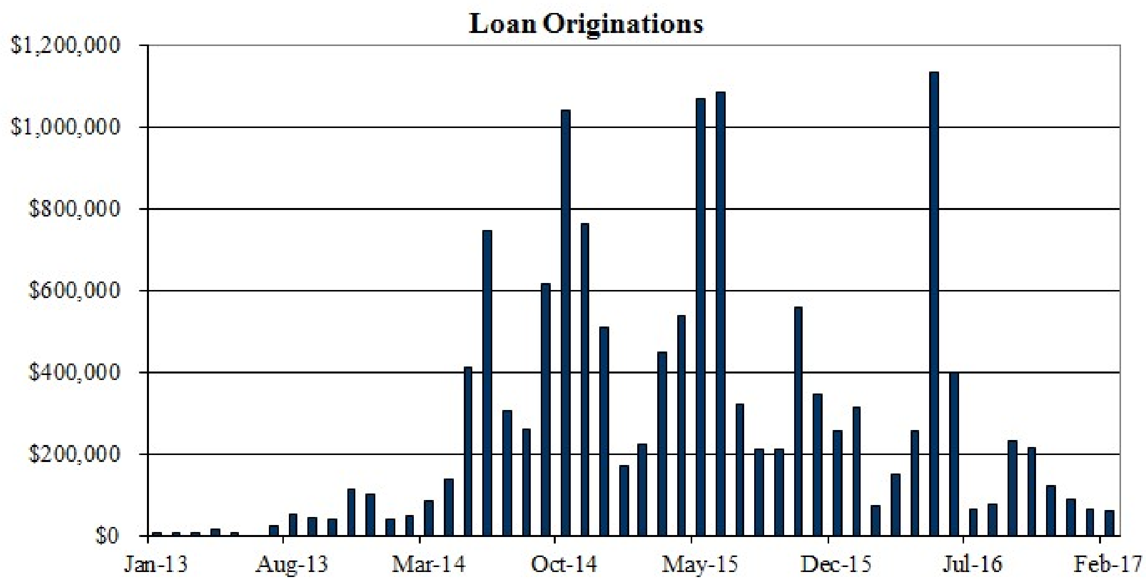
The process for origination is efficient and well thought out. The company can increase originations or lessen them almost instantly, target borrower criteria, and automate many of the initial due diligence steps. There are also controls in place for human review and oversight. Reporting can be drilled down so that the company can run a variety of different types of analysis. Overall, we believe, the operations are well run and provide a good base for the company to be able to scale and handle larger volumes.

Record revenues

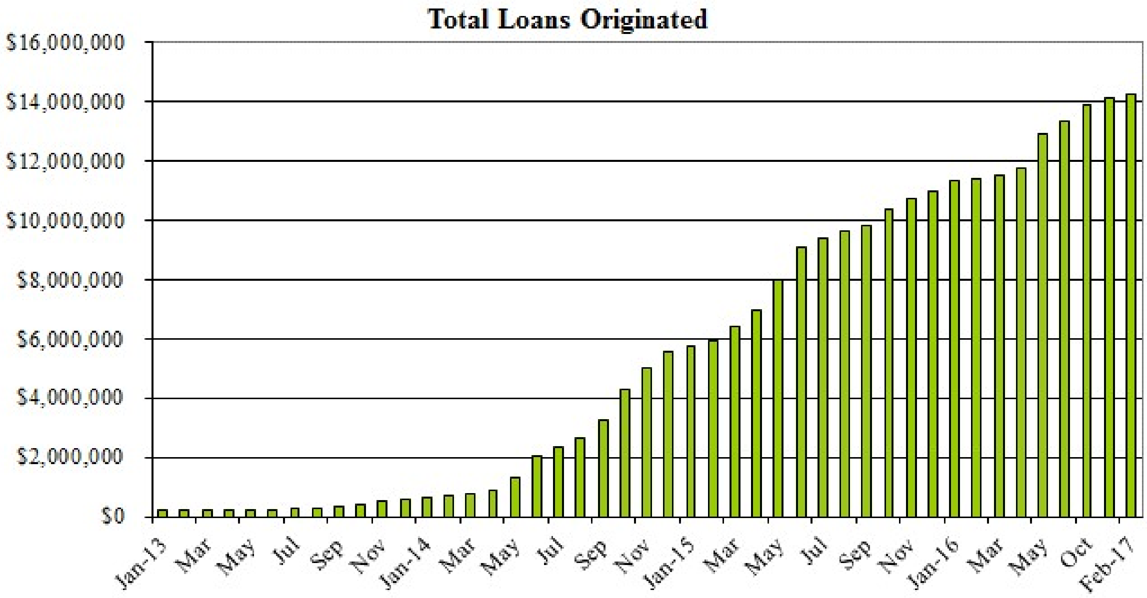
IEG reported $0.51 million in revenues in Q4-2016, down 0.1% YoY. Revenues were $2.14 million in 2016, up 16.3% YOY, and the highest since inception.



The company had originated $0.43 million million loans in Q4-2016 versus $0.37 million in Q3-2016, and $1.16 million in Q4-2015. The following chart shows the originations since inception of the online lending platform.



The total cumulative loan volume was $14.23 million as of February 2017.

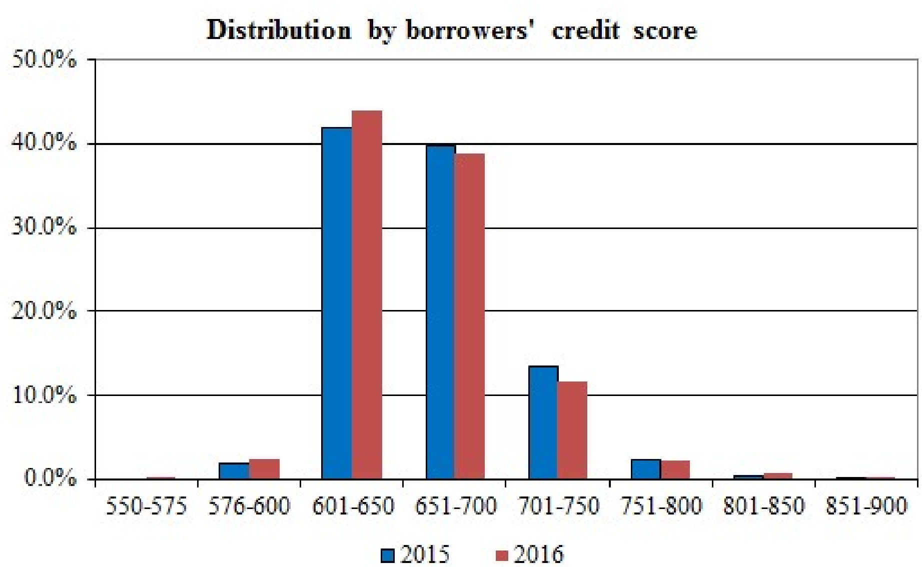


Operations in 19 States

In December 2016, the company received approval to operate in Ohio, making it the 19th state of operations. The total population of the 19 states is approximately 200 million, or 62% of the total U.S. population. Management targets to expand to 25 states by mid 2017. The remaining 25 states in the U.S. still require lenders to have at least one physical office location in each state.

Maintains borrower profile

The company's primary focus remains on borrowers with credit scores between 600 and 700 as shown in chart below. This category accounted for 82.8% of the portfolio as of December 31, 2016, versus 81.7% as of December 31, 2015.



Slashes Operating Costs

The following is a summary of the income statements.

STATEMENTS OF OPERATIONS (in US$) - YE Dec 31st	2014	2015	2016	YoY
Interest revenue	521,018	1,789,701	2,086,976	16.6%
Other revenue	8,207	45,464	48,070	5.7%
Total revenue	**529,225**	**1,835,165**	**2,135,046**	**16.3%**
EXPENSES				
Salaries and wages	1,889,136	2,126,243	1,592,990	-25.1%
Consulting fees	871,228	1,013,690	1,154,465	13.9%
Advertising	459,804	950,905	373,350	-60.7%
G&A	1,531,765	1,773,129	1,881,409	6.1%
Provision for credit losses	614,684	1,134,518	1,865,362	64.4%
Depreciation and amortization	15,054	14,124	8,618	-39.0%
Interest expense	558,257	527,921	0	-100.0%
Total Operating Expenses	5,939,928	7,540,530	6,876,194	-8.8%
Loss from Operations	**(5,410,703)**	**(5,705,365)**	**(4,741,148)**	**-16.9%**
Misc income / Tax	8,949	7,167	12,278	
Net Income	**(5,401,754)**	**(5,698,198)**	**(4,728,870)**	**-17.0%**
EPS	-0.40	-2.39	-0.60	-75.0%

Total operating expenses were $6.88 million in 2016, down 9% YoY. The decrease was primarily because of a significant reduction in salaries/wages and advertising cost. Our forecast was $6.21 million. **Almost all the expense line items were in line with our estimates except the provision for credit losses, which were $1.87 million versus our forecast of $1.00 million.**

IEG had a net loss of $4.73 million (EPS: -$0.60) in 2016 versus $5.70 million (EPS: -$2.39) in the previous year. Our forecast was a net loss of $4.01 million.

The following table shows the key line items in the income statements as a percentage of the average loan receivables. Revenues as percentage of loan receivables were 31.63% p.a. in 2016 versus 32.08% in 2015. However, the loss from operations dropped from 99.49% to 70.11% as a result of the significant reduction in operating costs.

% of Loans Receivable	2014	2015	2016
Interest revenue	21.97%	31.29%	30.92%
Other revenue	0.35%	0.79%	0.71%
Total revenue	22.32%	32.08%	31.63%
Salaries and wages	79.67%	37.17%	23.60%
Consulting fees	36.74%	17.72%	17.10%
Advertising	19.39%	16.62%	5.53%
G&A	64.60%	31.00%	27.87%
Interest expense	23.54%	9.23%	0.00%
Provision for credit losses	25.92%	19.83%	27.64%
Total Operating Expenses	249.87%	131.57%	101.74%
Income from Operations	**-227.55%**	**-99.49%**	**-70.11%**

*Note that the above calculations may not be precise as they are based on the average of the loans outstanding at the beginning and end of a period.

Loan Loss Rates

As of December 31, 2016, the company had $6.37 million in loans receivables, net of provision for losses. The company had $1.21 million in allowance for credit losses, or 16% of the loans receivable. As shown in the table below, the allowance was significantly increased in Q4-2016 as the company had been maintaining it at approximately 12% since 2012. Management indicated that this was a result of the significant increase in realized losses in the year and a more conservative loan charge off policy.

	2012	2013	2014	2015	Q1-2016	Q2-2016	Q3-2016	2016
Loans Receivable	148,263	487,432	4,913,279	8,110,077	7,662,039	8,766,508	8,253,490	7,587,349
Allowance for credit losses	(17,777)	(61,319)	(596,963)	(985,375)	(930,938)	(1,065,131)	(1,002,799)	(1,212,441)
% of Total	*12.0%*	*12.6%*	*12.1%*	*12.2%*	*12.2%*	*12.2%*	*12.1%*	*16.0%*
Loans receivables net	130,486	426,113	4,316,316	7,124,702	6,731,101	7,701,377	7,250,691	6,374,908
Beginning balance	6,840	17,777	61,319	596,963	985,375	985,375	985,375	985,375
Provision for credit losses	20,340	63,492	614,684	1,134,518	387,519	742,437	1,000,344	1,865,362
Loans charged off	(9,403)	(19,950)	(79,040)	(746,106)	(441,956)	(662,681)	(982,920)	(1,638,296)
% of average loans outstanding	*6.3%*	*6.3%*	*2.9%*	*11.5%*	*22.4%*	*16.2%*	*15.9%*	*20.3%*
					(annualized)	(annualized)	(annualized)	(annualized)
Ending balance	17,777	61,319	596,963	985,375	930,938	1,065,131	1,002,799	1,212,441

Realized loan losses (loans charged-off) were $1.64 million in 2016 (20% of the loans outstanding) versus $0.75 million in 2015 (12% of the loans outstanding).

The following table shows that, as of December 31, 2016, approximately $0.37 million, or 4.8% of the loans, were delinquent (91+ days past due). This figure was also 4.8% at the same time in the previous year. Loans become eligible for lenders to take legal action at 60 days past due.

	31-Dec-15		March 31 2016		31-Dec-16	
	Unpaid	%	Unpaid	%	Unpaid	%
0-30 days	7,409,707	91.36%	7,154,921	93.38%	6,799,362	89.61%
31-60 days	157,316	1.94%	145,715	1.90%	257,299	3.39%
61-90 days	153,623	1.89%	92,746	1.21%	163,590	2.16%
91-120 days	95,288	1.17%	98,144	1.28%	210,790	2.78%
121-184 days	294,143	3.63%	170,513	2.23%	156,308	2.06%
Total	**8,110,077**	**100.00%**	**7,662,039**	**100.00%**	**7,587,349**	**100.00%**

The high loss in 2016, and a significant increase in the provision for loss, continue to concern us. When asked about this, management estimates normalized annual loss rates to average approximately 5% of the loan receivables. The key for private lenders is to keep loan losses at reasonable levels. The current delinquency rate on consumer loans and credit cards is between 2.0% and 2.5% p.a.

EPS Estimates

Based on the delay in potential financings, we are lowering our 2017 year-end portfolio estimate from $35 million to $20 million, and our 2018 estimate from $75 million to $50 million. Our revised revenue forecasts for 2017, and 2018, are $4.06 million, and $10.78 million, versus our previous estimates of $6.29 million, and $16.17 million, respectively.

We have also significantly lowered our operating cost estimates as a result of management's recent decision to cut salaries and other expenses. Our revised EPS forecast for 2017 is net profit of $0.03 million (EPS: $0.00), versus our previous forecast of a net loss of $1.08 million (EPS: -$0.10). Our 2018 forecast is net profit of $4.51 million (EPS: $0.43) versus our previous estimate of net profit of $4.08 million (EPS: $0.36).

No Debt

IEG management stated that they now expect to report a net loss and negative operating cash flows in Q1-2017 because of the one-time / unusual expenses related to the recent bid to acquire OneMain Holdings. However, management remains confident in their ability to start paying quarterly dividends by May 2017 (previous guidance was April 2017).

At the end of 2016, the company had $0.32 million in cash, and no debt. The following table shows a summary of the balance sheet.

Liquidity & Capital Structure (US$)	**2012**	**2013**	**2014**	**2015**	**2016**
Cash	178,601	281,879	433,712	485,559	322,441
Working Capital	(1,207,909)	(280,786)	4,468,754	7,585,836	6,794,095
Current Ratio	0.2	0.6	15.5	71.3	6,410.5
LT Debt	250,000	385,438	2,230,000	-	-
Total Debt	250,000	500,000	2,230,000	-	-
Total Debt / Capital	-30.6%	-33.3%	48.2%	-	-
EBIT Interest Coverage	(46.5)	(13.8)	(8.7)	(9.8)	n/a

Cash from financings have totaled $24.93 million since 2012. Cash spent on operations were $13.16 million and on investing were $11.70 million. As mentioned in our previous reports, a significant proportion of the previous operating expenses were paid in shares, so they were non-cash items. Note that the CEO is the largest equity investor, holding approximately 71% of the total outstanding shares).

Summary of Cash Flows (US$, mm)	2012	2013	2014	2015	2016	Total
Operating	-$1.59	-$1.53	-$3.30	-$3.96	-$2.78	-$13.16
Investing	-$0.42	-$1.59	-$4.51	-$4.06	-$1.12	-$11.70
Financing	$1.94	$3.22	$7.97	$8.07	$3.73	$24.93
Net	**-$0.07**	**$0.10**	**$0.15**	**$0.05**	**-$0.16**	**$0.08**

The company's previous audited reports had a statement – "Our accountants have raised substantial doubt regarding our ability to continue as a going concern." This has been removed in the most recent financial statements.

OneMain Bid

On January 9, 2017, IEG had announced its intent to pursue a stock repurchase program of up to $2 million. This has been put on hold due to the recent OneMain bid.

In November 2016, IEG had announced the launch of an offering for up to US$10 million through the issuance of 12% p.a. senior unsecured notes due December 31, 2026. The company has yet to provide an update on the financing.

On February 7, 2017, the company extended the expiry date of the OneMain Tender Offer from February 6 to March 27, 2017. The following is a short summary of the offer we discussed in detail in our previous report in January 2017:

On January 6, 2017, the company announced the commencement of a tender offer to purchase up to all of the outstanding shares of OneMain Holdings Inc. OneMain is a traditional private lender (100+ years of track record) providing consumer finance and insurance products and services through over 1,800 branches in 44 states. With a market capitalization of $3.7 billion, OneMain is one of the largest consumer finance companies in the U.S.

IEG management's primary rationale for the offer is that they believe a combined entity could attain significant synergies and cost savings by converting OneMain's traditional bricks-and-mortar business model to an online model. IEG's management believes they have a significant first mover advantage as they are one of the very few online lenders who have a license to operate in multiple states in the U.S covering more than half the U.S. population.

A key factor that prompted IEG to make this move is the significant fall in OMF's share price in 2016, as shown below. OMF had completed a major acqusition in late 2015.

Source: S&P Capital IQ

As per the offer, IEG expects to issue two IEG shares in return for one common share of OMF. In such a scenario, IEG will issue approximately 270 million shares if they were to acquire 100% of the outstanding shares of OMF. Subsequent to the transaction, OMF's shareholders will own 96.5% of the combined entity. IEG shares were trading at $5.45 per share and OMF shares were at $23.36 per share prior to the announcement. On January 9, 2017, OMF announced through a press release that the unsolicited offer from IEG is a lowball offer and went on to state that *"grossly inadequate and reckless, does not even remotely reflect the value of the Company, and is not in the best interests of the Company and its stockholders"*. IEG responded to this by urging OneMain to enter into negotiations with IEG rather than simply dismissing the potential synergies and cost savings.

Valuation

We believe the company has made a prudent decision to cut costs and focus on achieving profitability. Profitable operations should allow the company to attract capital (equity and debt) for growth. Our fair value estimate increased from $9.04 to $10.05 per share as we raised our EPS forecasts. The following table shows a summary of our valuation models:

2021 Estimates	
Revenues	$80,842,125
Net Income	$31,008,924
Book Value	$139,561,172

	Industry Average	Fair Value (2021E)	Current FV	Current FV / Share
P/S	2.80	$226,357,950	$140,550,478	$9.15
P/E	12.00	$372,107,091	$231,049,227	$15.04
P/B	1.80	$251,210,109	$155,981,713	$10.16
Average		**$283,225,050**	**$175,860,473**	**$11.45**

Discounted Cash Flow (DCF)	**$8.64**
Average	**$10.05**

Risk

We believe the company is exposed to the following key risks:

- Consumer finance lending is a highly competitive market. Although we believe the U.S. consumer credit market is healthy, unfavorable macroeconomic changes may impact consumer finance lenders and their ability to grow.
- The company's ability to consistently originate good quality loans at attractive yields is critical.
- Loan loss rates have to be maintained at reasonable levels.
- The company's ability to grow depends heavily on management's ability to raise capital (equity and debt).
- Only one director at this time.
- IEG has yet to generate profits.
- As with most investments, there is no guarantee that the company will be able to return principal and meet interest payments on the notes.
- The average trading volume of IEG's shares has been low as the shares are tightly held; the CEO holds 71% of the outstanding shares.

APPENDIX

STATEMENTS OF OPERATIONS (in US$) - YE Dec 31st	2014	2015	2016	2017E	2018E
Interest revenue	521,018	1,789,701	2,086,976	3,937,725	10,465,000
Other revenue	8,207	45,464	48,070	118,132	313,950
Total revenue	**529,225**	**1,835,165**	**2,135,046**	**4,055,857**	**10,778,950**
EXPENSES					
Salaries and wages	1,889,136	2,126,243	1,592,990	652,289	815,361
Consulting fees	871,228	1,013,690	1,154,465	115,447	144,308
Advertising	459,804	950,905	373,350	681,255	1,500,000
G&A	1,531,765	1,773,129	1,881,409	1,928,444	1,976,655
Provision for credit losses	614,684	1,134,518	1,865,362	637,491	1,500,000
Depreciation and amortization	15,054	14,124	8,618	4,831	3,623
Interest expense	558,257	527,921	0	0	329,165
Total Operating Expenses	5,939,928	7,540,530	6,876,194	4,019,756	6,269,113
Loss from Operations	**(5,410,703)**	**(5,705,365)**	**(4,741,148)**	**36,101**	**4,509,837**
Misc income / Tax	8,949	7,167	12,278	-	-
Net Income	**(5,401,754)**	**(5,698,198)**	**(4,728,870)**	**36,101**	**4,509,837**
EPS	-0.40	-2.39	-0.60	0.00	0.43

BALANCE SHEETS					
(in US$) - YE Dec 31st	2014	2015	2016	2017E	2018E
ASSETS					
CURRENT					
Cash and cash equiv.	433,712	485,559	322,441	0	0
Loans receivable - current, net	4,316,316	7,124,702	6,374,908	20,000,000	50,000,000
Other receivables	25,882	76,262	84,851	393,772	1,046,500
Prepaid expenses		7,276	12,955	9,844	26,163
Total Current Assets	**4,775,910**	**7,693,799**	**6,795,155**	**20,403,617**	**51,072,663**
PP&E	36,100	28,511	19,322	14,492	10,869
Security deposits	39,329	35,839	7,470	7,470	7,470
Loan costs, net	77,781				
Total Assets	**4,929,120**	**7,758,149**	**6,821,947**	**20,425,578**	**51,091,001**
LIABILITIES					
CURRENT					
A/P & accrued expenses	172,139	96,441	1,060	401,976	626,911
Deferred rent	28,429	11,522		0	0
CEO accrued consulting fees	106,588				
Total Current Liabilities	**307,156**	**107,963**	**1,060**	**401,976**	**626,911**
Senior debt	2,230,000			6,583,307	19,548,632
SHAREHOLDERS EQUITY					
Preferred stock	2,400	1,160			
Common stock	2,158,111	2,165,405	2,233,181		
Additional paid-in capital	14,914,705	26,025,071	29,698,025		
Prepaid preferred share redemption		-160,000			
Equity	17,075,216	28,031,636	31,931,206	38,514,513	51,479,838
Accumulated deficit	-14,683,252	-20,381,450	-25,110,319	-25,074,218	-20,564,381
Total shareholders' equity (deficiency)	**2,391,964**	**7,650,186**	**6,820,887**	**13,440,295**	**30,915,457**
Total Liabilities and Shareholders Equity	**4,929,120**	**7,758,149**	**6,821,947**	**20,425,578**	**51,091,001**

STATEMENTS OF CASH FLOWS (in US$) - YE Dec 31st	2014	2015	2016	2017E	2018E
OPERATING ACTIVITIES					
Net loss	-5,401,754	-5,698,198	-4,728,869	36,101	4,509,837
Adjusted for items not involving cash:					
Provision for credit losses	614,684	1,134,518	1,865,362		
Depreciation & amortization	15,054	14,124	8,618	4,831	3,623
Loss on disposition of P&E		12,582	571		
Change in assets:					
Deposits		3,490	28,369		
Other receivables	-25,882	-50,380	-8,589	-308,921	-652,728
Prepaid expenses		-7,276	-5,679	3,111	-16,318
Change in liabilities					
AP & accrued expenses	554,867	452,285	74,118	400,916	224,936
Deferred salary	907,598	118,412			
Deferred rent	-20,415	-16,906	-11,522	0	0
NET CASH USED IN OPERATING ACTIVITIES	**-3,302,159**	**-3,959,568**	**-2,777,621**	**136,036**	**4,069,350**
INVESTING ACTIVITIES					
Net Loans	-4,504,945	-3,942,905	-1,115,567	-13,625,092	-30,000,000
Advances to CEO	0	-95,003			
Advance to officer	-9,009	-19,117			
NET CASH USED IN INVESTING ACTIVITIES	**-4,513,954**	**-4,057,025**	**-1,115,567**	**-13,625,092**	**-30,000,000**
FINANCING ACTIVITIES					
Payments for buyback of common stock			-209,099		
Proceeds from long term debt	1,730,000			6,583,307	12,965,325
Proceeds from short term loans	669,980	400,000			
payments on short term loans	-419,980	-400,000			
Repayment of senior debt		-2,230,000			
Prepaid preferred share redemption		-160,000			
Deposit on common shares to be issued	1,834,112				
Preferred dividends paid	-114,115	-220,974	-35,517		
Proceeds from issuance of preferred stock		6,100,000	246,000		
Proceeds from issuance of common stock	4,267,949	4,579,414	3,728,686	6,583,307	12,965,325
NET CASH FROM FINANCING ACTIVITIES	**7,967,946**	**8,068,440**	**3,730,070**	**13,166,615**	**25,930,650**
INCREASE IN CASH FOR THE YEAR	151,833	51,847	-163,118	-322,441	0
CASH, BEGINNING OF THE YEAR	281,879	433,712	485,559	322,441	0
CASH, END OF THE YEAR	**433,712**	**485,559**	**322,441**	**0**	**0**

Fundamental Research Corp. Equity Rating Scale:
Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
Hold – Annual expected rate of return is between 5% and 12%
Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk
Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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