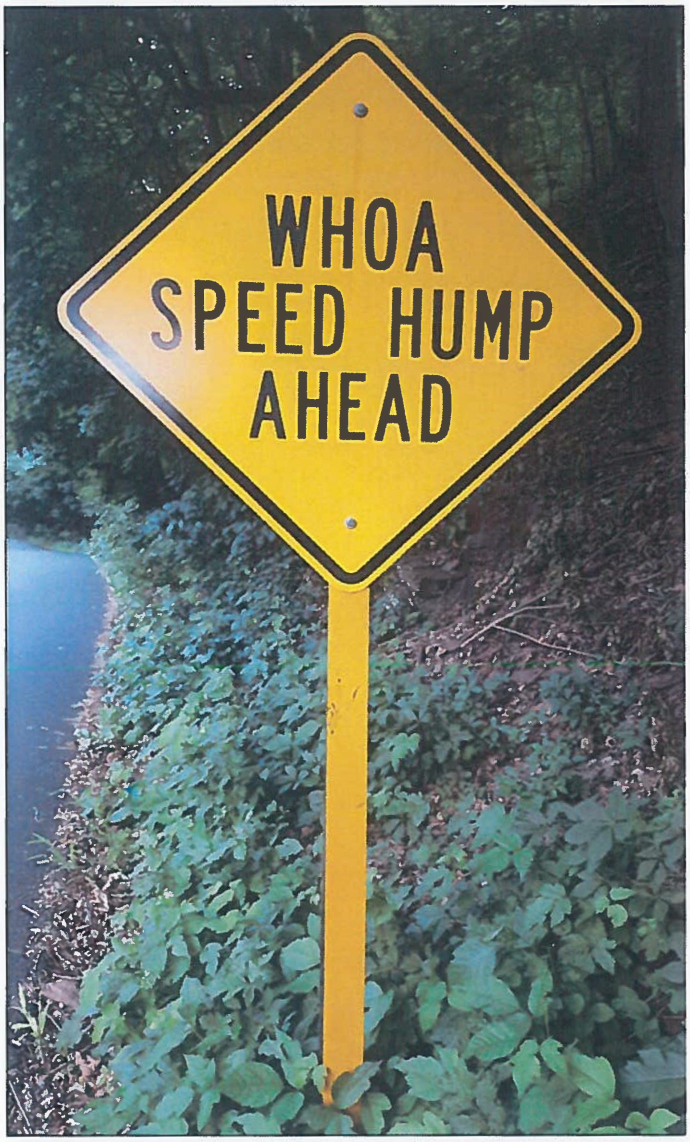
WE CREATE THE EXTRAORDINARY EXPERIENCE IN PERSONAL FINANCE, BY EXCEEDING CUSTOMER´S EXPECTATIONS.



IuteCredit Europe AS

2018 Annual Report

1 CONTENTS

2 GENERAL INFORMATION AND CONTACTS

Address:	Maakri 19/21 10145 Tallinn Republic of Estonia
Registry code:	11551447
Telephone:	+372 622 9177
Main activity:	Holding company
Auditor:	Ernst & Young Baltic AS
Reporting period:	1 January 2018 – 31 December 2018

3 ABBREVIATIONS AND KEY

The following styles of abbreviation are used in these International GAAP® Financial Statements:

GAAP	Generally Accepted Accounting Principles/Practice
IASB	International Accounting Standards Board
Interpretations Committee	IFRS Interpretations Committee (formerly International Financial Reporting Interpretations Committee (IFRIC))
YOY	Year-on-year
EIR	Effective Interest Rate
OCI	Other comprehensive income
CGU	Cash generating unit
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
SPPI	Solely payments of principle and interest
DVA	Debit value adjustment
CVA	Credit value adjustment
FVA	Fair value adjustment
ECL	Expected credit loss
12mECL	12 month expected credit loss
LTECL	Lifetime expected credit loss
PD	Probability of default
LGD	Loss given default
EAD	Exposure at default
POCI	Purchased or originated credit impaired (financial assets)

4 MANAGEMENT REPORT FOR 2018

Introduction

The mission of IuteCredit is to create the extraordinary experience in personal finance by exceeding customers' expectations. We help under-served customers in under-banked markets.

AS IuteCredit Europe (**ICE**) is a holding company specialized in consumer credits via its 100% subsidiaries using equity and loan capital. As at 31 December 2018, ICE had six subsidiaries: ICS OMF IuteCredit SRL (**ICM**) in Moldova, „IuteCredit Albania SHA" (**ICA**) in Albania, IuteCredit Macedonia DOOEL–Skopje (**ICMK**) in Macedonia, IuteCredit Kosovo JSC (**ICKO**) in Kosovo, IutePay Bulgaria EOOD (**IutePay**) in Bulgaria, FINAL SH.A (direct subsidiary of ICA) and representative office in Bosnia and Herzegovina (ICBIH). ICE, ICM, ICA, ICMK, ICKO and IutePay together form **the Group** (**IC**).
ICM, ICA, ICMK, ICKO, ICMK, ICBIH and IutePay and hereinafter referred to as **"Subsidiaries."**

ICE is responsible for strategic management that includes:

- Strategic targeting
- organizational structure and manning of management teams
- human resource and customer experience framework rules and targeting guidance
- financial management framework rules and targeting guidance
- sales and marketing framework rules and targeting guidance
- service process design and technological development
- risk management, including loan products approval and general compliance framework
- data harvesting
- the Group's financing and investor relations

Subsidiaries offer customers the services and develop the business on the local competition field according to strategic guidance, framework rules, finance and technology provided by the ICE. Subsidiaries own local teams, local customers pools, local loan portfolios and develop local investor relations and relations with regulatory authorities and partners.

ICM is in operation since August 2008, ICA since April 2015, ICMK since September 2017 and ICKO since October 2017. IutePay Bulgaria EOOD performs as technology operations cost center and cards service center.

We as the Group are actively seeking new markets where to offer its services.

2018 targets were mostly achieved

During 2018, the Group increased its net income by 150% (€ 18.92 million in 2018 vs € 7.56 million in 2017) while the net profit increased by 148% (€ 7.26 million in 2018 vs € 2.93 million in 2017).
Net income margin (net profit/total income) for 2018 was 22% (2017: 24%), while the set target was 20%. Loans pay out target of 80 million EUR was exceeded. Equity (post dividends) target of 10 million EUR was exceeded. We achieved the net loan portfolio target by € 48.05 million (2017: €20.35 million).

Customer performance index (CPI) is a unique index developed by IuteCredit, that measures customers' actual repayments against the expected repayments according to the original repayment schedules of loan agreements. It is cashflow- and reality-centric indicator that avoids evergreening illusions or illusions that may arise from inadequate provisioning. We reached our CPI targets set for 2018 (> 88) almost everywhere. That means, during 2018, more than 88% of expected loan repayments were performed according to the loan agreements, or with a maximum 30 days delay.

We did not however reach the set total customer pool target of 400,000 people (actual reach: 333,000 people) and are also behind the schedule with implementation of new technologies that extend our range of services or enhance customer experience.

Consolidated key financial parameters

	2018	2017
EBITDA (profit/loss before taxes and depreciation)	9 719 643	4 068 032
ROA (profit/assets)	13,12%	12,72%
ROE (profit/equity)	57,18%	62,43%
Assets/equity ratio	4,36	4,91
Equity per share (equity/share capital)	1,27	17,04
Earnings per share (profit/share capital)	0,73	10,64
Dividends paid per share (dividends paid/share capital)	0,20	1,71

Key parameters based on the parent company's financials

	2018	2017
ROA (profit/assets)	22,17%	17,26%
ROE (profit/equity)	55,58%	64,95%
Assets/equity ratio	2,51	3,76
Equity per share (equity/share capital)	1,33	17,04
Earnings per share (profit/share capital)	0,74	11,07
Dividends paid per share (dividends paid/share capital)	0,20	1,71

Consumer loan products

IC's loan products are unsecured consumer loans with maturities between 1 month and 36 months and car-secured loans with maturities of up to 60 months, loan amounts between € 25 and € 10 000, and annual percentage rates (APR) between 30% and 240% depending on the loan amount, maturity and type and status of customer.

IC aims to serve only clients with a permanent workplace and stable income. Loans are based on personal identification and personal credit rating. For a new applicant, the credit rating depends on comparison of the applicant's relevant parameters with respective parameters of performing and poorly performing statistic client groups and certain databases. 57% of new loan applications in Moldova, 69% in Albania, 50% in Macedonia and 46% in Kosovo have been approved. For returning customers, we apply personal credit rating which is based on individual performance data. More than 60% of loan applications across the Group have been approved.

Loans are handled via an agent network (such as shops, money transfer companies, postal agencies) and our own retail offices. By the end of 2018, we had 21 of our own retail branches. IC handles money only via bank accounts and does not perform cash operations. Certain IC agents perform also cash operations and assume the related risks.

Revenue base

The Group's revenue consists of (i) loan agreement commission fees which are charged for receiving, processing the loan application and issuing the loan, or modifying the valid loan conditions; (ii) interest, which is charged on the outstanding principal amount; and (iii) various fees applied in case of different breaches or later modifications of loan agreement.

IC business is built on the concept that we need performing customers and we want to avoid situations with poorly performing or defaulting loans. Therefore, the majority of the Group's interest and commission fee income is coming from normally performing customers. Fees applied in cases of different breaches are targeted, as a whole, to compensate the lost money that we should have otherwise received duly according to the original loan agreements.

Client base and portfolio

As at the end of 2018, IC had more than 333,000 individuals in its database (2017: more than 209 000). Women account for 48% of the client base in Moldova, 40% in Albania and Macedonia and 30% in Kosovo. Approximately half of the clients are returning customers with at least one successfully repaid loan agreement. The age of the customers is representative of the demographic age tree of the respective countries.

The net loan portfolio (i.e., the balance of all receivables from customers, adjusted with allowances for loan impairment) increased on a year-on-year (yoy) comparison around 136% and reached a new high of approximately € 48.05 million (2017:

€ 20.35 million). As at 31 December 2018, future receivables from commission fees, guarantee fees and administration fees totaled € 21.65 million (2017: € 8.40 million).

As at the end of 2018, approximately 42% of the performing loan portfolio was occupied by loan products with a longer maturity than 12 months (2017: 39%) and approximately 58% of the performing loan portfolio was occupied by loan products with maturity of up to 12 months (2017: 61%).

Customer performance index (CPI) is an index we use to measure clients' actual repayments against expected repayments according to the original repayment schedules of loan agreements. During 2018 (and until the date of the annual report), more than 88% of expected loan repayments were performed according to the loan agreements, or with a maximum 30 days delay.

Team and team work efficiency

As at the end of 2018, the number of the Group's employees was 233 (2017: 133). Arithmetic average revenue per Group employee exceeded € 140 400 (2017: € 92 800). We continue increasing the efficiency of work processes and measurement of individual performance of team members and are expecting the productivity to reach the € 150 000 level in the near future.

The salary levels (including bonuses) are above local market average and above finance industry benchmarks that the Group is aware of. The personnel expenses for the team amounted to € 3.88 million in 2018 (2017: € 1.47 million). We are happy that our team makes more money when the company and its profit grows.

Legal risks

The Group must make sure that its activities and its loan agreements are recognized by the state authorities. In all the countries we operate in, lending is subject to state licensing or recognition and strict regulations. Recognition by the state and the law enforcement is the only security for the Group and its investors of otherwise unsecured loans.

ICM is registered by Moldavian Government for micro financing activities. ICA obtained its license from the Central Bank of Albania in April 2015. ICMK and ICKO were licensed in 2017.

ICE as the parent company is not involved in activities subject to a license. ICE keeps its transparency by disclosing its quarterly reports to investors, and maintaining its accounts according to IFRS, as adopted by the EU.

Terms of loan agreements and their updates or amendments are scrutinized by external lawyer. The enforcement of these terms is observed and any difficulties in national court of enforcement system are reported.

Investor relations

The Group's investor products and investor reporting are rather tailor-made and not described in this annual report. The Group works exclusively via private placement (subsection 12 (2) of the Estonian Securities Act) by issuing either bonds or taking loans, and has seen increasing demand of various institutions and well-established businesses to place certain amount of their free cash into relatively flexible, transparent and high-yield financial products. Investors receive quarterly reports. Subsidiaries of ICE also develop relations with local investors and crowdfunding platforms and obtain loans where interest rates are favorable, considering also the exchange rate risks.

During 2018, the Group raised more than € 21.9 million new capital. Raising additional capital was an important part of growing the portfolio of clients and turnover, especially in Albania.

The weighted average interest rate of liabilities to investors exceeded 14% per annum (2017: 14%). The amount of interest paid to investors in 2018 exceeded € 3.68 million (2017: € 1.73 million). All obligations by the Group were performed without issues.

Social responsibility

The Group understands their role and responsibility in the society and acknowledges the impact of their activities on the society at large. The Group therefore adheres to the following social responsibility principles:

- Helping the state to create new jobs and contributing to the state's tax revenues. For the third year in a row already ICM was awarded the title of Major Taxpayer of Moldova.

- The total amount of employment and income taxes paid in Moldova, Albania, Kosovo and Macedonia together exceeded € 2.9 million in 2018, in addition to the taxes paid in Estonia and Bulgaria
- We generated at least €4.5 million in VAT income for the countries by financing white goods consumption.
- We give meaningful work and self-realization opportunity to 236 talented and motivated people
- We support sports and healthy lifestyle through a variety of local projects.
- ICKO is sponsor of Olympic Committee of Kosovo for next 4 years
- ICM and ICA are sponsors of Chişinău Marathon in Moldova and Tirana Marathon in Albania.
- We support different social campaigns ("Free ticket to theatre"; winter campaign with donated Christmas gifts).

Well-being and motivation of employees

We believe that loyal, dedicated, ethical and goal-oriented employees are the cornerstones of success. The aim of IC's HR policy is to value, develop and retain the Group's employees under uniform principles covering HR management and planning, careful recruitment and selection processes and the following targeted and motivating development.

The individual performance of each employee is measured and monitored.

HR management plays an important role in the Group's HR policy: it is a crucial responsibility of the managers, ensuring effective cooperation and good results.
The Group's core HR management principles are the following:

- Develop into an organization that learns from the knowledge and experience of each employee.
- Develop our employees and teamwork.
- Be open and honest and encourage multilateral communication.

Targets for 2019

The Group intends to increase its net loan portfolio by the end of 2019 to at least €100 million without any decline in customer performance index (CPI > 88%) and without a significant increase in the share of operational costs in relation to interest income.

The Group has set the following targets for 2019:
- Over 500,000 clients in data base
- Over €150 million of loans issued
- Total net portfolio €100 million by 31.12.2019
- Revenue over €55 million
- Net profit margin at least 20%
- New technological platform to expand the range of financial services offered
- Dividends per share during 2019: 25 cents

Expected equity by end of 2019 should be at least €22 million (after dividend payments). During the year, the Group may adjust its targets in accordance with the ongoing volatility of local currency exchange rates. Currency exchange risk may become an inhibiting factor for business growth in several countries.

The Group may also accelerate the expansion through acquisitions of operating finance sector companies.

5 CONSOLIDATED FINANCIAL STATEMENTS

5.1 Consolidated statement of comprehensive income

	Notes	2018 EUR	2017* EUR
Interest and similar income	10	22 602 298	8 755 731
Interest and similar expense	11	-3 854 657	-1 546 614
Net interest and commission fee income		**18 747 641**	**7 209 117**
Loan administration fees and penalties	12	10 549 491	3 588 438
Total loan administration fee income		**10 549 491**	**3 588 438**
Other income		730	0
Allowances for loan impairment	13	-10 376 484	-3 238 081
Net operating income		**18 921 378**	**7 559 474**
Personnel expenses	14	-3 885 403	-1 471 472
Depreciation/amortization charge	15, 16	-219 609	-68 569
Other operating expenses	17	-5 977 976	-2 182 950
Total operating expenses		**-10 082 989**	**-3 722 991**
Foreign exchange gains/losses		661 644	162 979
Total foreign exchange gains/losses		**661 644**	**162 979**
Profit before tax		**9 500 033**	**3 999 462**
Income tax expense	18	-2 243 722	-1 071 215
Profit for the reporting period		**7 256 311**	**2 928 247**
Other comprehensive income			
Other comprehensive income to be classified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		504 787	117 757
Total comprehensive income		**7 761 098**	**3 046 005**
Profit attributable to:			
Equity holders		7 761 098	3 046 005
Total comprehensive income attributable to:			
Equity holders		7 761 098	3 046 005

**Restated - see additional information in Note 9*

Notes on pages 13 to 44 are an integral part of the consolidated financial statements.

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13.02.2019

5.2 Consolidated statement of financial position

	Notes	31.12.2018 EUR	31.12.2017 EUR
Assets			
Cash and bank accounts	19	2 627 643	1 793 258
Loans to customers	13, 20	48 050 771	20 352 419
Prepayments		250 697	32 661
Other assets	21	1 669 362	244 423
Other financial investments	22	1 455 646	10 000
Property, plant and equipment	15	496 334	204 614
Intangible assets	16	739 644	378 647
Total assets		**55 290 097**	**23 016 022**
Liabilities and equity			
Liabilities			
Loans and bonds from investors	23	39 178 464	17 207 372
Other liabilities	24	3 421 465	1 118 534
Total liabilities		**42 599 929**	**18 325 906**
Equity			
Share capital	25	10 000 000	275 200
Legal reserve		27 520	27 520
Share premium		0	37 761
Unrealized foreign exchange differences		378 250	-126 536
Retained earnings		2 284 397	4 476 171
Total equity		**12 690 167**	**4 690 116**
Total liabilities and equity		**55 290 097**	**23 016 022**

Notes on pages 13 to 44 are an integral part of the consolidated financial statements.

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5.3 Consolidated statement of changes in equity

	Share capital	Legal reserve	Share premium	Unrealized foreign exchange differences	Retained earnings	Total
01.01.2017	**275 200**	**0**	**37 761**	**-244 293**	**2 045 444**	**2 114 112**
Profit of the year	**0**	**0**	**0**	**0**	**2 928 247**	**2 928 247**
Other comprehensive income						
Foreign currency translation	0	0	0	117 757	0	117 757
Total comprehensive income	**0**	**0**	**0**	**117757**	**0**	**117757**
Statutory reserves	0	27 520	0	0	-27 520	0
Dividends	0	0	0	0	-470 000	-470 000
31.12.2017	**275 200**	**27 520**	**37 761**	**-126 536**	**4 476 171**	**4 690 116**
01.01.2018	**275 200**	**27 520**	**37 761**	**-126 536**	**4 476 171**	**4 690 116**
Effect of adoption of IFRS9	0	0	0	0	-995 979	-995 979
01.01.2018 (restated)*	**275 200**	**27 520**	**37 761**	**-126 536**	**3 480 193**	**3 694 137**
Profit for the year	**0**	**0**	**0**	**0**	**7 256 311**	**7 256 311**
Other comprehensive income						
Foreign currency translation	0	0	0	504 787	0	504 786
Total comprehensive income	**0**	**0**	**0**	**504 787**	**0**	**504 786**
Contribution to share capital	31 228	0	3 168 702	0	0	3 199 930
Bonus issue of share capital	9 693 572	0	-3 206 463	0	-6 487 109	0
Dividends	0	0	0	0	-1 965 000	-1 965 000
31.12.2018	**10 000 000**	**27 520**	**0**	**378 250**	**2 284 397**	**12 690 167**

**Restated - see additional information in Note 6.2*

Additional information about share capital is disclosed in Notes 18 and 25 .

Notes on pages 13 to 44 are an integral part of the consolidated financial statements.

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5.4 Consolidated statement of cash flows

	Notes	2018 EUR	2017* EUR
Operating activities			
Profit for the year		7 256 311	2 928 247
Adjustments to reconcile profit for the financial year to net cash flows:			
Depreciation/amortization charge	15,16	219 609	68 569
Allowances for loan impairment	13	10 376 484	3 238 081
Goodwill impairment	26	278 505	0
Net foreign exchange difference		-661 644	-162 979
Interest and similar income	10	-22 602 298	-8 755 731
Loan and administration fees and penalties	12	-10 549 491	-3 588 438
Interest expense	11	3 854 657	1 542 329
Income tax expense	18	2 243 722	1 071 215
Cash flows from operating activities before changes in assets and liabilities		**-9 584 145**	**-3 658 707**
Loans received from investors		26 081 021	10 113 895
Repaid loans to investors		-10 757 968	-2 557 804
Change in overdraft		1 973 550	2 618 379
Paid out to customers		-81 721 802	-35 469 239
Total principal repayments from customers		51 300 711	22 286 240
Interest, commission and other fees received		27 498 957	11 008 060
Change in other assets		-465 531	99 927
Change in other liabilities		3 669 499	456 952
Income tax paid		-1 403 382	-896 542
Interest paid		-3 676 756	-1 729 588
Net cash flows from operating activities		**2 914 154**	**2 271 574**
Investing activities			
Purchase of fixed assets	15,16	-778 107	-400 507
Net cash flow from aquitition of subsidiaries		-1 056 708	0
Receipts from other financial investments	22	10 000	0
Payments for other financial investments	22	-1 455 646	0
Net cash flows from investing activities		**-3 280 461**	**-400 507**
Financing activities			
Capital increase		3 199 930	0
Dividends paid	18	-1 965 000	-470 000
Net cash flows from financing activities		**1 234 930**	**-470 000**
Change in cash and cash equivalents		**868 623**	**1 401 067**
Cash and cash equivalents at the beginning of the year		**1 793 259**	**336 383**
Change in cash and cash equivalents		868 623	1 401 067
Net foreign exchange difference		-34 239	55 809
Cash and cash equivalents at the end of the year	19	**2 627 643**	**1 793 259**
		31.12.2018	**31.12.2017**
Cash and cash equivalents comprises			
Cash on hand		1 068	470
Non-restricted current account		2 626 575	1 792 789

**Restated - see additional information in Note 9*

Notes on pages 13 to 44 are an integral part of the consolidated financial statements.

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6 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.1 Corporate information

The accompanying consolidated financial statements of AS IuteCredit Europe (the Company) and its subsidiaries (collectively the Group) for the year ended 31 December 2018 authorized for issue in accordance with a resolution of the Management Board on 15 February 2019. Company's owners have the power to amend the financial statements after issue.

AS IuteCredit Europe (the Company or the parent) is a limited company incorporated and domiciled in Estonia. The registered office is located Maakri 19/2, Tallinn.

IuteCredit SRL, Iutecredit Albania SHA, FINAL SHA (direct subsidairy of ICA), IuteCredit Macedonia DOOEL–Skopje, IuteCredit Kosovo JSC and Iutepay Bulgaria EOOD are consumer credit providers whose sole shareholder is AS IuteCredit Europe. The Company has also representative office in Bosnia and Herzegovina (ICBIH). Annual report includes the consolidated financial statements of AS IuteCredit Europe and its subsidiaries and their consolidated annual report. Information on the Group's structure is provided in Note 26. Information on other related party relationships of the Group is provided in Note 29.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) as adopted by the European Union (IFRS EU). The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except where indicated otherwise.

6.2 Adoption and interpretation of new revised standards and new accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the IFRS 9 and IFRS 7R which Group has applied has been adopted as of 1 January 2018. In reporting period the Group has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9 Financial Instruments

The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

IFRS 9 replaces IAS 39 for annual periods starting 01.01.2018.
The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. There were no changes to the classification and measurement of financial liabilities.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets at the date of transition were recognised in the opening retained earnings. The comparative period notes disclosures repeat those disclosures made in the prior year according to IAS 39.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group. The adjustment of € 995 979 was recorded to the opening retained earnings, to reflect the transition from the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected credit loss model at 1 January 2018.

Adjustment to retained earnings from adoption of IFRS 9: EUR	31.12.2017	Adjustment	01.01.2018
Retained earnings	4 476 171	-995 978	3 480 193

See also Note 20.

Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.
The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortized cost) have been replaced by:

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- Debt instruments at amortized cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses o profit or loss on derecognition
- Financial assets FVPL

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.
The Group's classification of its financial assets and liabilities is explained in current Note.

Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the Group's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

IFRS 7R

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Group has adopted it since 01.01.2018, together with IFRS 9.

IFRS 7R also requires additional and more detailed disclosures for hedge accounting even for entities opting to continue to apply the hedge accounting requirements of IAS 39.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. Management has assessed the impact of the implementation of this amendment immaterial.

IFRS 15 Revenue from Contracts with Customers (Clarifications)

The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. Management has assessed the impact of the implementation of this amendment immaterial.

IFRS 2 Classification and Measurement of Share based Payment Transactions (Amendments)

The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Management has assessed the impact of the implementation of this amendment immaterial.

IAS 40 Transfers to Investment Property (Amendments)

The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Management has assessed the impact of the implementation of this amendment immaterial.

IFRIC INTERPETATION 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Management has assessed the impact of the implementation of this amendment immaterial.

IASB has issued the Annual Improvements to IFRSs 2014-2016 Cycle, which is a collection of amendments to IFRSs. Management has assessed the impact of the implementation of this amendment immaterial.

IFRS 1 First-Time Adoption of International Financial Reporting Standards: This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
IAS 28 Investments in Associates and Joint Ventures: The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

6.3 Standards issued but not yet effective and not early adopted

IFRS 16: Leases

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. Management has assessed the effect of principles for the recognition, measurement, presentation and disclosure of leases for both parties. Group will apply for the lessee's alternative loan interest. The transition to IFRS 16 will take place on 01.01.2019 and no retrospective restatements of lease agreements will be made. The Group recognised a right of use asset of € 3.11 million against a corresponding lease liability (*Property and equipment* and *Other liabilities)* on 1 January 2019.

Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contributon of Assets between an Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. Management has not yet assessed the impact of the implementation of this amendment.

IFRS 9: Prepayment features with negative compensation (Amendment)

The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. Management has not yet assessed the impact of the implementation of this amendment.

IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)

The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. These Amendments have not yet been endorsed by the EU. Management has not yet assessed the impact of the implementation of this amendment.

IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. Management has not yet assessed the impact of the implementation of this amendment.

IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These Amendments have not yet been endorsed by the EU. Management has not yet assessed the impact of the implementation of this amendment.

Conceptual Framework in IFRS standards

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

IFRS 3: Business Combinations (Amendments)

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU. Management has not yet assessed the impact of the implementation of this amendment.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. These Amendments have not yet been endorsed by the EU. Management has not yet assessed the impact of the implementation of this amendment.

IASB has issued the Annual Improvements to IFRSs 2015-2017 Cycle

This is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU. Management has not yet assessed the impact of the implementation of this amendment.

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
IAS 12 Income Taxes: The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
IAS 23 Borrowing Costs: The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

6.4 Summary of significant accounting policies

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Group entities apply uniform accounting policies. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated.

In accordance with the Estonian Accounting Act, the parent company's unconsolidated financial statements (statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity) are disclosed in the notes to the consolidated financial statements. The financial statements of AS IuteCredit Europe are presented in note 30. Unconsolidated statements of parent company as a separate entity. The parent company's financial statements are prepared using the same accounting policies and measurement bases as those applied on the preparation of the consolidated financial statements except that in the unconsolidated financial statements investments in subsidiaries and associates are measured at equity method.

These financial statements have been prepared under historical cost basis. The Group classifies its expenses by their nature.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the preceding period when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements.

When the presentation or classification of items in the consolidated financial statements is amended, comparative amounts for the previous period are also reclassified, if not specified differently under the relevant accounting principle.

Reporting currency

The consolidated financial statements are presented in euros and all values are rounded to the nearest euro (EUR), except when otherwise indicated. The functional currencies of group companies are as follows: IuteCredit SRL – the Moldovan leu (MDL), IuteCredit Albania SHA – the Albanian lek (ALL), IuteCredit Macedonia DOOEL–Skopje – the Macedonian denar (MKD), IuteCredit Kosovo JSC – the euro (EUR), IutePay Bulgaria EOOD – the Bulgarian lev (BGN), IuteCredit Europe AS – the euro (EUR).

Foreign currencies

The Group's consolidated financial statements are presented in euros, which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

On consolidation, the assets and liabilities of foreign operations are translated into euros at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in other comprehensive income.

Transactions denominated in foreign currencies are recorded in euros at actual rates of exchange of the European Central Bank at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into euros at the rate of exchange prevailing at the end of the period. Any gain or loss resulting from a change in rates of exchange after the date of the transaction is included in the income statement as a profit or loss from revaluation of foreign currency positions.
The principal rates of exchange (EUR to 1 foreign currency unit) set by the European Central Bank, the National Bank of Moldova, the Bank of Albania and the National Bank of the Republic of Macedonia, used in the preparation of the Group's annual report were as follows:

Reporting date	MDL	USD	ALL	MKD	BGN
31 December 2017	20.4099	1.1993	132.95	61.4907	1.9558
31 December 2018	19.5212	1.1450	123.42	61.4950	1.9558
Average period	**MDL**	**USD**	**ALL**	**MKD**	**BGN**
2017	20.8282	1.1297	134.15	61.4812	1.9558
2018	19.8442	1.1810	127.59	61.5111	1.9558

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.
For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above.

Corporate income tax

According to the Income Tax Act, the annual profit earned by enterprises is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is subject to taxation at the rate of 20/80 on the amount paid out as net dividends. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

Tax variances

In Estonia, income tax (recorded as income tax expense in the income statement) is accounted for only in cases when a taxable event (e.g., payment of dividends, payments decreasing equity) occurs.

According to the Income Tax Act of the Republic of Moldova, the annual profits earned by companies (IuteCredit SRL) were taxed in 2018 and in 2017 at the rate of 12%. Also, the distribution of retained earnings is subject to taxation at the rate of 6% on the amount paid out as dividends. In 2017 the rate was the same.

According to the Income Tax Act of the Republic of Albania, the annual profits earned by companies (Iutecredit Albania SHA) were taxed in 2018 and in 2017 at the rate of 15%. The distribution of retained earnings is subject to taxation at the rate of 5% on the amount paid out as dividends. In 2017 the rate was 15% correspondingly.

According to the Income Tax Act of Macedonia, the annual profits earned by companies (IuteCredit Macedonia DOOEL-Skopje) were taxed in 2018 and in 2017 at the rate of 10%. Also, the distribution of retained earnings is subject to taxation at the rate of 10% on the amount paid out as dividends. In 2017 the rate was the same.

According to the Income Tax Act of Kosovo, the annual profits earned by companies (IuteCredit Kosovo JSC) are taxed in 2018 and in 2017 at the rate of 10%. he distribution of retained earnings is not subject to taxation. In 2017 the rate was the same.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (IuteCredit SRL-i, IuteCredit Albania SHA, IuteCredit Macedonia DOOEL–Skopje, IuteCredit Kosovo JSC, IutePay Bulgaria EOOD and FINAL SHA) as at 31 December 2018. See also Note 26. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

• Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
• Exposure, or rights, to variable returns from its involvement with the investee
• The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

• The contractual arrangement(s) with the other vote holders of the investee
• Rights arising from other contractual arrangements
• The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss.

The accounting principles are applied consistently when consolidating ownership interests in subsidiaries and are based on the same reporting periods as those used for the parent company. When preparing the consolidated financial statements, intra-group transactions and balances, along with unrealized gains and losses on transactions between group entities, are eliminated.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Investment in subsidiaries

Investment in subsidiaries in the parent stand-alone statement have been accounted for using the equity method, which reflects the equity value of subsidiaries belonging to the parent company. According to the equity method, an equity investment is first recorded at the cost price (which includes also transaction costs) and then adjusted to take into account the investor's share of the subsidiaries' profit or loss and other comprehensive income.

Changes in reflecting subsidiaries in unconsolidated reports are adopted retrospectively.

Quantitative impact on investments in subsidiaries: EUR	Cost method 31.12.2017	Correction	Equity method 31.12.2017*
ICM	275 934	4 475 134	4 751 068
ICA	474 996	612 716	1 087 711
ICKO	460 000	-207 704	252 296
ICMK	250 100	-237 963	12 137
IUTEPAY	153 531	-75 506	78 025
Investement in subsidiaries	1 614 561	4 566 677	6 181 238

See also Notes 26, 30.2 and 30.3.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values of financial assets or liabilities, including derivative financial instruments, in active markets are based on quoted market prices.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
• Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
• Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
• Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.
Fair value hierarchy for financial instruments is disclosed in Note 28.

Recognition of interest income

Interest and similar income

The Group calculates interest income by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired assets. Since 2018 when a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Group calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis.

The effective interest rate (EIR) method

Under both IFRS 9 and IAS 39, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost, financial instruments designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9, similarly to interest bearing financial assets classified as available-for-sale or held to maturity under IAS 39 are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.
The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Group recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle.

Financial instruments – initial recognition

Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Group recognises balances due to investors when funds are transferred to the Group.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value (as defined in Note 28), except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets and liabilities

From 1 January 2018, the Group classifies all of its financial assets based on the asset's contractual terms, measured at either:
- Amortized cost
- FVOCI
- FVPL

At 1.January 2018 and 31.December 2018 Group had only financial assets measured at amortised cost under IFRS 9.
Before 1 January 2018, the Group classified its financial assets as loans and receivables (amortised cost), FVPL, available-for-sale or held-to-maturity (amortised cost) under IAS 39.
Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied.

Financial assets and liabilities

Loans and advances to customers, Financial investments at amortised cost

From 1 January 2018, the Group only measures *Loans and advances to customers* and other financial investments at amortised cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

Debt issued and other borrowed funds

Financial liabilities are initially recognized on the balance sheet at their acquisition costs. After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR.

Reclassification of financial assets and liabilities

From 1 January 2018, the Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group acquires, disposes of, or terminates a business line.
Financial liabilities are never reclassified. The Group did not reclassify any of its financial assets or liabilities in 2017.

Financial assets
A financial asset is derecognised when the rights to receive cash flows from the financial asset have expired. The Group also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.
The Group has transferred the financial asset if, and only if, either:

- The Group has transferred its contractual rights to receive cash flows from the financial assetOr
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.
Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

Impairment of financial assets (Policy applicable from 1 January 2018)

Overview of the ECL principles

As described before, the adoption of IFRS 9 has fundamentally changed the Group's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Group has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, in this section all referred to as 'financial instruments'.
The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Group's policies for determining if there has been a significant increase in credit risk are set out below.
The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.
Both LTECLs and 12mECLs are calculated on collective basis.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition.
Based on the above process, the Group groups its loans into Stage 1, Stage 2,Stage 3 as described below:

- Stage 1: When loans are first recognised, the Group recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired. The Group records an allowance for the LTECLs.

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.
Impairment losses and releases are accounted for as an adjustment of the financial asset's gross carrying value.
The main parameters the Group uses in assessing credit risk are the probability of default (PD), loss given default (LGD) and exposure at default (EAD). The probability of default reflects how high is the probability that the loan customer will experience a settlement default of more than 50 days by the 12th month after the assessment. Loss given default reflects the economic loss that may occur in the event of default of more than 50 days on the basis of country specific loss rates identified using historical loss statistics.

The mechanics of the ECL method are summarised below:

- Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date.
  These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- Stage 3: For loans considered credit-impaired, the Group recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

Forward looking information

In its ECL models, the Group relies on the following forward looking information as economic input:

- GDP growth

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Impairment of financial assets (Policy used before 1 January 2018)

Loans to customers were accounted for as loans and receivables from clients and were carried at amortized cost using the effective interest rate method. Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in active markets. All loans and receivables were recognized in the statement of financial position when cash was advanced to borrowers.

A credit risk allowances for loan impairment was established if there was objective evidence that the Group would not be able to collect all amounts due.

The Group determined impairment of loans for a group of loans with similar credit risk characteristics and records collective impairment only. The Group reviewed their loan portfolio to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group made judgments as to whether there was any objective indication that there was a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease could be identified with an individual loan in that portfolio. Management used estimates based on historical loss experience for assets with similar credit risk characteristics and current economic climate in which the borrowers operate. The methodology and assumptions used were reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When a loan was uncollectible, it was written off against the related allowances for credit losses; subsequent recoveries were credited to the income statement.

If the Group determined that no loss event had occurred for specific loan, it was included in a group of loans with similar credit risk characteristics and collectively assessed for impairment (using statistical approach, where provisions amount was based on historical loss rate for specific group and probability of becoming impaired).
In 2017, the Group established allowances for credit losses incurred using the net present value (NPV) method. This method was based on the estimated number of years during which debts were collected, the discount rate and the estimated percentage of defaulted loans that were reclassified to loss.

The IBNR methodology was based on historical loan performance and was calculated based on the loan's net present value.

Write-offs

The Group's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Fixed assets

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.
Depreciation is calculated using the straight-line method to expense the cost of each asset to their residual value over the estimated useful life of the asset. The following depreciation rates are applied:

Category	Annual rate
Network and computer equipment	15–20%
Furniture	15–20%
Vehicles	14–20%

Depreciation rates are reassessed at each reporting date and whenever circumstances arise, which may have a significant impact on the useful life of an asset or asset class. The effect of changes in estimates is recognised in the current and subsequent periods.

Intangible assets

Intangible assets are carried at cost less any accumulated amortization and any impairment losses.

Acquired computer software licenses are recognized as intangible assets on the basis of the costs incurred to acquire and bring to use the software. Amortization of software is calculated based on straight-line method, considering their useful life according to their description/benefits. Amortization is calculated on a straight-line basis over 3–10 years.

Derecognition of fixed assets

An item of property, plant and equipment and intangible assets are written down to their recoverable amount if the recoverable amount of the asset is less than its carrying amount. An asset impairment test is performed to determine whether an asset may be impaired, and the recoverable amount of the asset is determined. Test is performed at least once a year at Balance Sheet date when signs of a possible changes in value occur. Impairment of assets is recognized as an expense in the reporting period.

The fair value of the asset must be estimated when the indications below occur:

(a) the selling price of the asset agreed in the binding sale contract;
(b) in the absence of a binding sale contract, the market value of the asset in an active market;
(c) in the absence of a binding sale contract and an active market, the asset is expected selling price in a transaction between independent parties, taking into account recent developments similar transactions in the same industry.

The purpose of assessing the value of the asset, a realistic estimate of the cash flows associated with the asset is prepared for subsequent periods and the present value of those cash flows is calculated.

Legal reserve

In case of a public limited company, the size of the reserve capital shall not be less than 1/10 of the share capital. Legal reserve is formed from annual net profit allocations, as well as from other provisions, which are transferred to the legal reserve on the basis of law or the articles of association. At least 1/20 of net profit must be transferred to the reserve capital each year.

Related parties

For the purposes of the Group's annual report, related parties include:
- Owners (parent company and owners of the parent company)
- Executive and senior management
- Close family members of the aforementioned persons and companies connected with them

7 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

Impairment losses on financial assets

IFRS9 implementation in IuteCredit

The expected credit loss model follows a "three-stage" approach based on changes in the credit quality of the financial instruments since their initial recognition.

Group used the next classification into stages:
- Stage 1 – all non-defaulted loans with DPD<=5 (DPD - Days Past Due)
- Stage 2 – all non-defaulted loans with DPD>5
- Stage 3 – all defaulted loans (DPD>50)

The forward looking adjustment is performed in a simplified way, by comparing the forecasted GDP growth for one year from reporting date, with the latest GDP growth available.

There is also used a correlation factor of 60% between the PD and GDP (set expertly).

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

According to IAS39 before 1 January 2018 loan impairment allowances were determined when there was objective evidence that the Group was unable to collect all amounts due. Based on previous loss experience, management used estimates of assets with similar credit risk characteristics and the current economic situation in which borrowers operate. The methodology and assumptions used were reviewed on a regular basis to reduce the difference between loss estimates and actual losses.
When the loan was unlikely, it was written off at the expense of the loan losses; subsequent recoveries were credited to the income statement.
If the Group determined that there was no loss on a particular loan, it was included in a group of loans with similar credit risk characteristics and assessed for impairment (using a statistical approach where the amount of provisions was based on previous group loss rates). probability of damage).

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In 2017, the Group established credit losses for the net present value (NPV) method. This method was based on the number of years of expected debt collection, the discount rate and the estimated percentage of non-reclassified loans.
The IBNR methodology was based on historical loan results and was calculated based on the present value of the loan.

8 General risk management policies

The management constantly observes the following ratios, and if necessary, makes adjustments to operations, credit policy or finance management:
• CPI – customer performance index – is the ratio of actually duly repaid loan installments against expected (contractually required) repayments within a tolerance period for repayment delays, which is normally 30 days; CPI is measured by whole portfolio, by different loan products, by customer groups and by periods. CPI 100 means that all repayments are duly made, as expected according to the contracts. The Group's target is CPI above 88 but it actually varies by loan product, customer group and even issuing offices (Moldova, Albania, Macedonia and Kosovo regions).
• Group's liabilities versus loan portfolio, where the target is to have the loan portfolio increase faster than the Group's liabilities
• Debt collection rates
• Number of operations performed by each employee, and time spent on various operations – to increase work efficiency
• Group's actual performance versus the budgeted performance.

The Group reviews the risk identification and management policies and procedures according to the change of Group's activities and financial situation, several times a year. The usual review period is once a month, but extraordinary events (such as sharp exchange rate fluctuations or competition situation on the market) trigger immediate responses.

External risks

Macroeconomic and legal situation in Moldova, Albania, Macedonia and Kosovo

The economic sustainability of Moldovan, Albanian, Macedonian and Kosovan companies is the key to the Group's sustainability and profitability. The Group observes on a daily basis the media, exchange rates and developments related to important macroeconomic aspect in its domestic markets, such as (i) GDP and GDP per capita; (ii) quarterly export volumes, (iii) quarterly internal consumption volumes; (iv) quarterly volume of money transfers home by Moldovans, Albanians, Kosovans and Macedonians working abroad, (v) monthly unemployment and average salary rates; (vi) quarterly data on banks' loan and deposits portfolios and (vii) changes in legislation or in the government.

The Group is an active member of the Moldovan-American Chamber of Commerce, which is one of the few private sector lobby organizations which is heard by the government in the issues of future economic policy or change in laws that govern finance sector, consumer finance, consumer protection laws or legal enforcement. Also the Group's major competitors participate in AmCham.

Changes in macroeconomic situation affect the Group's lending policy. For example, due to relatively good tax collection results, Group have encouraged lending to public sector employees. Due to overall macroeconomic instability in the Balkans and Southern Europe region, the Group has limited the maximum maturity of its loan products.

Capital management

The Group's objectives when managing capital are the following:

- Maximize the utilization of capital and keep available capital below 10% of the Group's total assets.
- Maintain a strong capital base and an equity ratio of 1:5, supporting business development. This objective was accomplished in 2018.
- Secure investors' claims in accordance with agreed terms. This objective was met in 2018.

The Group monitors the equity ratio (assets/equity) on a regular basis to keep it below 5.
Equity holders base any decisions regarding the distribution of dividends or increasing or decreasing the share capital on the financial position of the Group.
Capitalization ratio (total equity/net loan portfolio) for 2018 was 26,4% (2017: 23,0%).

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Exchange rate volatility

Calculation of exchange rate volatility is made based on evolution of exchange rate of foreign currency with which the Company operates, this evolution is estimated in percentage for certain reporting period and recorded in the gains and losses.
The following tables demonstrate the sensitivity to a reasonably possible change in the USD and EUR, MDL and EUR, ALL and EUR, and MKD and EUR exchange rates, with all other variables held constant. The effect on profit before tax is reflecting the proportion of untaxed profit considering exchange rate changes during reporting period. From the calculation is excluded the effect on Group's internal loans and other accruals.

Currency		EUR 31.12.2017	EUR 31.12.2018	Average fluctuation
MDL		20,4099	19,5212	19,9656
	Change in exchange (MDL)	2,30%	4,35%	3,33%
	Effect on profit before tax (MDL)	268 244	759 037	513 640
USD		1,1993	1,1450	1,1722
	Change in exchange (USD)	-13,77%	4,53%	-4,62%
	Effect on profit before tax (USD)	-72 630	25 391	-23 619
ALL		132,95	123,42	128,1850
	Change in exchange (ALL)	1,69%	7,17%	3,45%
	Effect on profit before tax (ALL)	66 317	457 303	261 810
MKD		61,4907	61,4950	61,4929
	Change in exchange (MKD)	-0,02%	-0,01%	-0,01%
	Effect on profit before tax (MKD)	-141	-215	-178
BGN		1,9558	1,9558	1,9558
	Change in exchange (BGN)	0	0	0

Exchange rate volatility poses significant risks of loss, because all subsidiaries loan products are nominated, issued and repaid according to domestic laws in the national currency (MDL, ALL, MKD), whereas the Group's major liabilities before investors are assumed in euros.

The Group is sensitive to exchange rate volatility only if the exchange rate of the value dates of (i) lending to the Group the principal investment amount and (ii) redemption of the Group of the principal investment amount (bullet payment) differ. Given that the Group's liabilities as at 31 December 2018 were € 42.6 million (2017: € 18.3), weakening of all exchange rates by investment maturity date by 20% would bring a loss of ca € 8.5 million (2017: € 3.66). The Group's equity is enough to cover that loss, but exchange rate weakening by more than 30% would already cause significant difficulties.

The Group is relatively insensitive to regular interest payments, because interest payments (interest expense) account for 30% of the overall cost base of the Group, an amount of approx. € 3.68 million per year (2017: € 1.73 million). A 20% decrease of exchange values would therefore cause the financial expenses to increase by approximately € 0.74 million (2017: € 0.35 million). Given the Group's margin on its products, it can easily be absorbed.

To mitigate the foreign exchange volatility risks, the Group has taken the following measures:
• Diversification of liability currencies – liabilities have been assumed in EUR (ca 83%), MDL (ca 10%), ALL (ca 6%) and USD (ca 1%).
• Diversification of maturity dates – liabilities are assumed and become mature on different dates. No single liability exceeds 25% of the total liabilities and becomes mature within 3 months from the other liabilities. The short- or even mid-term fluctuations are counterbalanced with different maturity dates.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with fixed interest rates.
Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings as follows:

Currency	Changes in base interest rate, in bps	Loans to customers		Loans from creditors	
		Effect on profit before tax in 2018 EUR	Effect on profit before tax in 2017 EUR	Effect on profit before tax in 2018 EUR	Effect on profit before tax in 2017 EUR
EUR	+/- 100	+/- 39 936	+/- 1 921	+/- 323 711	+/- 122 720
EUR	+/- 300	+/- 119 808	+/- 5 763	+/- 971 134	+/- 368 160
EUR	+/- 500	+/- 199 681	+/- 9 605	+/- 1 618 557	+/- 613 600
USD	+/- 100	0	0	+/- 5 506	+/- 5 236
USD	+/- 300	0	0	+/- 16 517	+/- 15 709
USD	+/- 500	0	0	+/- 27 528	+/- 26 182
MDL	+/- 100	+/- 281 805	+/- 143 907	+/- 36 969	+/- 23 135
MDL	+/- 300	+/- 845 415	+/- 431 720	+/- 110 908	+/- 69 406
MDL	+/- 500	+/- 1 409 025	+/- 719 533	+/- 184 847	+/- 115 677
ALL	+/- 100	+/- 162 794	+/- 64 149	+/- 21 638	+/- 18 935
ALL	+/- 300	+/- 488 383	+/- 192 447	+/- 64 913	+/- 56 805
ALL	+/- 500	+/- 813 972	+/- 320 745	+/- 108 189	+/- 94 674
MKD	+/- 100	+/- 35 731	+/- 6 892	+/- 325	0
MKD	+/- 300	+/- 107 193	+/- 20 676	+/- 976	0
MKD	+/- 500	+/- 178 655	+/- 34 460	+/- 1 626	0

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily from issued loan agreements).
To manage IuteCredit's credit policy and portfolio risks Group has Credit Committee (CreCO). Credit Committee defines which loans are issued and to which customer groups.
There are two levels of CreCo: (i) Group Credit Committee and (ii) Subsidiary Credit Committee.
Group Credit Committee (Group CreCo) has authority over following decisions:
a) To determine the competence of Subsidiary Credit Committee (Subsidiary CreCo).
b) To determine loan parameters (Loan Parameters).
c) To determine loan application checking and approval procedure (Checking Procedure).
d) To determine overdue procedure (Overdue Procedure).
Group CreCo members are CEO, CCO – Chief Commercial Officer and Group CFO – Chief Financial Officer, COO- Chief Operations Officer, CRO – Chief Rick Officer. Group CreCo's work is organized by Group CRO and it records and decisions are maintained and communicated by Group CRO.
Group CreCo makes decisions at request of local subsidiary's management or on its own if necessary.
Subsidiary CreCo consists of local management team or other relevant positions.

The Group consider a financial asset in default when contractual payments are 50 days past due.
Group used the next classification into stages:

- Stage 1 – all non-defaulted loans with DPD<=5 (DPD - Days Past Due)
- Stage 2 – all non-defaulted loans with DPD>5
- Stage 3 – all defaulted loans (DPD>50)

However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Max exposure to credit risk before collateral held

Credit risk exposures relating to on-balance sheet assets	31.12.2018	31.12.2017
Cash and bank accounts	2 627 643	1 793 258
Loans to customers	48 050 771	20 352 419
Other assets	1 669 362	244 423
Financial assets	1 455 646	10 000
TOTAL	**53 803 422**	**22 400 100**

See also Notes 19, 20, 21 and 22.

Liquidity risk

Liquidity risk is managed separately by each subsidiary. The Group's loan products are unsecured consumer loans with maturities between 1 month and 36 months and car-secured loans with maturities of up to 60 months, loan amounts between € 25 and € 10 000, and annual percentage rates (APR) between 30% and 240% depending on the loan amount, maturity and status of customer (new or recurring client with good payment history).

The Group aims to serve only clients with a permanent workplace and stable income. Loans are based on personal identification and personal credit rating. For a new applicant, the credit rating depends on automated comparison of the applicant's relevant parameters with respective parameters of performing and poorly performing statistic client groups and certain databases. More than 2/3 of new loan applications have been approved. For returning customers, Group applies personal credit rating which is based on individual performance data (see Credit risk above).

In section "Loan receivables and allowances for loan impairment" is discussed how the impairment analysis is performed by the Group.

Liquidity risk regarding loans received is managed by the Group. This has been discussed in the section "Exchange rate volatility".

		Up to 1 year	1 to 5 years	TOTAL
Loans issued, maturity	31.12.2018	27 895 618	20 155 152	**48 050 771**
	31.12.2017	12 501 206	7 851 213	**20 352 419**
Loans received, maturity	31.12.2018	21 371 918	17 806 546	**39 178 464**
	31.12.2017	5 256 695	11 950 678	**17 207 373**
Liquidity gap	31.12.2018	6 523 700	2 348 607	**8 872 307**
	31.12.2017	7 244 511	-4 099 465	**3 145 046**

See also Notes 20 and 23.

Operational risk

Damage to physical assets or data

The Group's work process includes data processing. Loss of data or damage to physical assets that support the work process must be mitigated to the effect that the Group is able to continue its work process without significant interruption.

All the Group`s work process data (LES) is stored at a cloud server with daily backup. Backup is maintained separately and available for system restart within a day.

All the Group`s work processes are supported by LES in such a manner that a team member can perform its tasks from any computer that has basic software and internet connection, independently of physical location. Therefore, loss of a computer or even computers can be mitigated within the same day; and loss of an office can be mitigated within two workdays at the latest (relocation of workplaces to a temporary rental office).
Main physical assets are also insured at their replacement value.

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Client fraud or incapability

A client with original fraud intention, or inability to repay is the second biggest possible source of financial loss. Measures to mitigate that risk belong to the Group`s knowhow and are not disclosed in the notes to the annual report.

Group uses personal identification, personal contact verification, employment verification, cross-verification of public databases, social links and statistical analysis of performing/nonperforming clients (a scorecard) to make the credit approval/rejection decision.

Approximately 1/3 to 1/2 of new loan applications are rejected by the Group. Client incapability or non-performance risk is mitigated by regulating loan product parameters (maximum loan amount, maximum loan duration, maximum monthly repayment in relation to the client's salary, and commission fee) that particular client qualifies for. Majority of new clients can get loans for up to a year, with a higher APR (annualized percentage rate) to cover the increased risk of loss. Returning clients' choice of products increases, depending on their individual performance. The APR is reduced and the maturity can also be lengthened in comparison with new clients.

Internal risks

Internal user fraud or incapability

An internal user with authority to execute loan agreements, payments out or enter false data into system is the first possible source of financial loss.
Measures to prevent internal fraud are manifold and constantly under development:
• Selection of employees. The characteristics required include honesty and punctuality. Whereas honesty is a subjective criteria (until a fraud may be discovered), punctuality and correctness of individual performance are observed by LES.
• Individual responsibility and traceability. All important work operations at the Group (entering new loan application, application data checking, application approval, loan agreement execution, loan issue, accounting the loan repayments and debt collection process) are individually traceable by name, date, time and content.
• System design. Several important operations are double-checked by LES and the user cannot proceed to the next operation unless the prior operation has been completed up to the parameters required by LES.
• Task diversification in loan issue process. Normally, it will take the input of at least three different employees to issue a loan. A single internal user cannot pursue fraudulent objectives.
• Task diversification in management. The Group's finances are managed by different persons, local CFO, CEO and also the Group`s CFO, under direct supervision of shareholders.

System design errors

The Group`s LES automatically generates tasks and other outputs for its users. A mistake in LES source code or configuration can cause system malfunction, misreporting, slow or increased cost work process.
System design errors are discovered and corrected only by implementing any changes via testing before putting them into production.
General system design and performance is also counterchecked against randomly selected individual work processes and randomly selected system reports.

Workplace safety and efficiency

A safe workplace with enough space, controlled temperature and climate mitigates the risks related to loss of attention or concentration, and deteriorating health or overall dissatisfaction thereafter.

Countermeasures have been, and will be, investments into ventilation and heating systems, functional furniture and optimization of work processes.

9 Change in presentation

Impact on Consolidated Statement of Comprehensive Income	Initial balance of 2017	Correction	Corrected balances of 2017	Source of correction
Loan and administration fees and penalties	0	3 588 438	3 588 438	*presentation*
Other income	3 588 438	-3 588 438	0	*presentation*

Impact to Consolidated Statement of Cash Flows	Initial balance of 2017	Correction	Corrected balances of 2017	Source of correction
Interest and commission fee income	-12 344 169	3 588 438	-8 755 731	*presentation*
Loan and administration fees and penalties	0	-3 588 438	-3 588 438	*presentation*
Change in receivables from customers	-15 285 976	15 285 976	0	*presentation*
Paid out to customers	0	-35 469 239	-35 469 239	*presentation*
Total principal repayments from customers	0	22 286 240	22 286 240	*presentation*
Interest, commission and other fees received	11 021 216	-13 156	11 008 060	*presentation*
Change in loan and bonds liabilities	10 847 472	-10 847 472	0	*presentation*
Loans received from investors	0	10 113 895	10 113 895	*presentation*
Repaid loans to investors	0	-2 557 804	-2 557 804	*presentation*
Change in overdraft	0	2 618 379	2 618 379	*presentation*
Change in other liabilities	688 124	-231 172	456 952	*presentation*
Income tax paid	0	-896 542	-896 542	*presentation*
Interest paid	-1 440 483	-289 105	-1 729 588	*presentation*

Changes in presentation are done for better presentation purposes of Group's operating activity.

10 Interest and similar income

Interest and similar income	**2018 EUR**	**2017 EUR**
Interest on loans to customers and commission	22 602 182	8 755 029
Other interest	116	702
TOTAL	**22 602 298**	**8 755 731**

See also Note 27.

11 Interest expenses

Interest expense	**2018 EUR**	**2017 EUR**
Interest on amounts due to creditors	-2 257 109	-746 312
Interest on bonds	-1 597 548	-800 302
TOTAL	**-3 854 657**	**-1 546 614**

12 Loan and administration fees and penalties

Loan and administration fees and penalties	2018 EUR	2017* EUR
Penalties under loans and delay interests	8 702 256	2 759 497
Resigns under customer loans	1 500 799	508 490
Other administration fees	346 436	320 451
TOTAL	**10 549 491**	**3 588 438**

**Restated - see additional information in Note 9*

See also Note 27.

13 Allowance for impairment of loans to customers

Allowance for impairment of loans to customers	2018 EUR	2017 EUR
At the beginning of the year	**-3 594 287**	**-1 614 813**
IFRS 9 adjustment to opening balances	-995 978	**0**
Adjusted opening balance at the beginning of the year	**-4 590 264**	**-1 614 813**
Arising during the year	-10 376 484	-3 238 081
Other changes	-286 883	0
Utilized	3 225 817	1 340 092
Exchange differences	-437 001	-81 485
At the end of the year	**-12 464 814**	**-3 594 287**

On the row "Other changes" is reflected the impact on allowance for impairment in the acquisition process of Final Sh.a. In 2017 the Group calculated the allowance statistically based on historical information. For 2018 the Group has taken into account historical information, but the judgements are done on forward looking basis.

See also Notes 20 and 27.

14 Salaries and other personnel expenses

Salaries and other personnel expenses	2018 EUR	2017 EUR
Salaries and bonuses	-2 852 641	-1 120 423
Social security expenses	-728 842	-302 381
Medical insurance expenses	-59 070	-26 999
Other expenses	-244 851	-21 669
TOTAL	**-3 885 403**	**-1 471 472**
Number of employees adjusted to full-time	233	133

See also Note 27.

15 Property, plant and equipment

Furniture and equipment	2018 EUR	2017 EUR
Acquisition cost		
At the beginning of the year	**307 167**	**150 999**
Additions	319 861	149 439
Other changes	96 466	0
Prepayments	13 076	0
Disposals and write-offs	-1 025	0
Exchange differences	24 286	6 729
At the end of the year	**759 831**	**307 167**
Depreciation and impairment		
At the beginning of the year	**-102 553**	**-65 732**
Depreciation charge for the year	-96 234	-32 647
Other changes	-47 683	0
Disposals and write-offs	103	0
Exchange differences	-9 899	-4 174
At the end of the year	**-263 498**	**-102 553**
Net book value at 31.12.	**496 333**	**204 614**

On the rows "Other changes" is reflected the impact on fixed assets in the acquisition process of Final Sh.a.

16 Intangible assets

Computer software	2018 EUR	2017 EUR
Acquisition cost		
At the beginning of the year	**504 796**	**249 342**
Additions	407 241	251 068
Other changes	62 268	0
Prepayments	37 928	0
Disposals and write-offs	-24 918	0
Exchange differences	32 802	4 386
At the end of the year	**1 020 117**	**504 796**
Depreciation and impairment		
At the beginning of the year	**-126 149**	**-88 396**
Depreciation charge for the year	-114 648	-37 116
Other changes	-59 296	0
Disposals and write-offs	24 918	0
Exchange differences	-4 722	-637
At the end of the year	**-280 473**	**-126 149**
Net book value at 31.12.	**739 644**	**378 647**

On the rows "Other changes" is reflected the impact on fixed assets in the acquisition process of Final Sh.a.

17 Other operating expenses

Other operating expenses	2018 EUR	2017 EUR
Advertising expenses	-1 762 410	-747 738
Office lease expenses	-324 539	-141 176
Outsource services	-1 285 751	-736 329
Repair, maintenance of property and equipment	-192 568	-36 038
Utilities	-52 516	-24 622
Telecommunication and IT	-292 675	-61 542
Small items of equipment	-245 869	-40 597
Transportation	-243 752	-97 727
Withheld taxes	-189 720	-169 673
Other operating expenses	-1 377 677	-127 508
TOTAL	**-5 977 976**	**-2 182 950**

18 Income tax expense

Income tax expense	2018 EUR	2017 EUR
Consolidated profit before tax	8 504 055	3 999 462
Current income tax expense from foreign jurisdictions	-2 243 722	-1 071 215
Income tax expense reported in statement of comprehensive income	**-2 243 722**	**-1 071 215**

In 2018, shareholders declared and paid dividends in the amount of € 1 965 000 (2017: € 470,000).

As at 31 December 2018, the Group's retained earnings amounted to € 2 284 395 (31.12.2017: € 4 476 171). The distribution of these retained earnings as dividends would be subject to income tax at the rate of 20/80 on the net distribution. As at the reporting date, the Group had received pre-taxed dividends and the balance of the dividends under tax exemption was to € 1 503 471 (31.12.2017: € 1 658 100). Therefore after allocation to statutory reserves (see Note 31) it is possible to distribute € 1 891 804 (31.12.2017: € 3 912 557) of the retained earnings as at the balance sheet date as dividends.
The corporate income tax on the payment of dividends would amount to € 97 083 (31.12.2017: € 563 614).

19 Cash and bank accounts

Cash and bank accounts	31.12.2018 EUR	31.12.2017 EUR
Cash on hand	1 068	470
Bank accounts	2 626 575	1 792 789
TOTAL	**2 627 643**	**1 793 259**

20 Loans to customers

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year end stage classification. The amounts presented are gross of impairment allowances.

31.12.2018	Stage 1	Stage 2	Stage 3	Total
According to IFRS 9				
Gross loans to customers	38 770 621	4 727 911	9 238 383	**52 736 915**
Accrued interest from loans	5 752 880	724 378	1 301 413	**7 778 671**
Allowances for loan impairment	-3 061 297	-2 240 408	-7 163 110	**-12 464 815**
TOTAL	**41 462 204**	**3 211 882**	**3 376 685**	**48 050 771**

31.12.2017	Neither past due nor impaired	Past due, but not impaired	Impaired	Total
According to IAS 39				
Gross loans to customers	18 261 095	1 288 103	2 137 660	**21 686 858**
Accrued interest from loans	4 957	505 850	1 749 040	**2 259 847**
Allowances for loan impairment	0	0	-3 594 286	**-3 594 286**
TOTAL	**18 266 052**	**1 793 953**	**292 414**	**20 352 419**

Additional information regarding provisions has been disclosed in Notes 13 and 27.

21 Other assets

Other assets	31.12.2018 EUR	31.12.2017 EUR
Receivables of collection companies	207 109	82 888
Receivables from parent company (Note 29)	425 000	2 070
Other receivables	386 582	59 886
Other claims	230 758	56 530
Prepayments	204 989	43 050
Deposit receivables from MasterCard International	214 924	0
TOTAL	**1 669 362**	**244 423**

Receivables of collection companies have immaterial impact to the business model and consequently the measurement of loans.

22 Other financial investments

Other financial investments	31.12.2018 EUR	31.12.2017 EUR
Other shares and securities	0	10 000
Prepayments for future investments	255 646	0
Deposit account	1 200 000	0
TOTAL	**1 455 646**	**10 000**

AS IuteCredit Europe has done prepayment for future investment purpose in Bosnia and Herzegovina in sum € 255 646. See also Note 26.
Deposit in sum € 1 200 000 is set to guarantee for the overdrafts and is due in December 2019.

23 Loans and bonds from investors

	31.12.2018	Residual maturity Up to 1 year	1 to 5 years	Currency	Interest
Loans from investors and banks	**27 029 178**	18 439 170	8 590 008	EUR, MDL, USD, ALL, MKD	3-17%
Bonds A11	**1 815 514**	0	1 815 514	EUR	12-14%
Bonds A10	**3 550 335**	0	3 550 335	EUR	14–16%
Bonds A9	**3 414 008**	0	3 414 008	EUR	14–16%
Bonds A9	**436 681**	0	436 681	USD	14%
Bonds A8	**1 285 365**	1 285 365	0	EUR	14%
Bonds A7	**1 286 764**	1 286 764	0	EUR	14–15%
Accrued interest	**360 619**	360 619	0	EUR, MDL, USD, ALL, MKD	
TOTAL	**39 178 464**	**21 371 918**	**17 806 546**		

	31.12.2017	Residual maturity Up to 1 year	1 to 5 years	Currency	Interest
Loans from investors and banks	**8 584 759**	5 051 991	3 532 768	EUR, MDL, USD, ALL	10–16%
Bonds A10	**2 083 367**	0	2 083 367	EUR	14–16%
Bonds A9	**3 364 477**	0	3 364 477	EUR	14–16%
Bonds A9	**416 910**	0	416 910	USD	14%
Bonds A8	**1 273 787**	0	1 273 787	EUR	14%
Bonds A7	**1 279 368**	0	1 279 368	EUR	14–15%
Accrued interest	**204 704**	204 704	0	EUR, MDL, USD, ALL	
TOTAL	**17 207 372**	**5 256 695**	**11 950 677**		

In January and February 2019, loans in the amount of € 450 000 were prolonged for a period of 1-2 years.
Loans from investors and banks include credit lines from Moldovan and Albanian banks all together in sum € 6 384 967 from which € 4 907 445 was used as at 31 December 2018 (€ 3 542 819 as at 31 December 2017 from which € 2 933 894 was used respectively).

24 Other liabilities

Other liabilities	**31.12.2018 EUR**	**31.12.2017 EUR**
Trade payables	618 027	330 668
Payables to employees	559 763	41 106
Corporate Income Tax payables	1 358 519	516 352
Other Tax payables	489 481	101 199
Other liabilities	395 675	129 209
TOTAL	**3 421 465**	**1 118 534**

25 Share capital

Share capital	**31.12.2018 EUR**	**31.12.2017 EUR**
Share capital	10 000 000	275 200
Number of shares	10 000 000	43 000
Nominal value of share	1,00	6,40

As a result of the share subscription in September the number of shareholders was increased up to 12, and as a result of the share issue in December, the share capital was increased up to € 10 million from retained earnings and share premium. Majority shareholder remained unchanged.

All shares are fully paid. Each share carries one vote at meetings of the company, granting the holder the right to participate in the management of the company, the distribution of profits and the distribution of residual assets on the dissolution of the company.

26 Investments in subsidiaries

Subsidiary	Country	Acquisition date	31.12.2018	31.12.2017
IuteCredit SRL	Moldova	28.11.2008	100%	100%
IuteCredit Albania SH.A	Albania	04.08.2014	100%	100%
IuteCredit Macedonia DOOEL	Macedonia	24.07.2017	100%	100%
IuteCredit Kosovo JSC	Kosovo	07.02.2017	100%	100%
IutePay Bulgaria EOOD	Bulgaria	12.12.2017	100%	100%
Final SHA	Albania	17.04.2018	100%	0

IuteCredit Albania SH.A has direct ownership in subsidiary Final SH.A The acquisition purpose was to gain control over customer relationships in local market. Acquisition price was € 1 504 820. Nevertheless on the basis of the purchase analysis and the future perspective goodwill was immediately expensed at € 278 505 on the acquisition date. Information included in the purchase analysis is confidential and therefore is not disclosed here.

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Current year consolidated profit does not consist the economical result before the acquisition date.

Investments to subsidiaries in unconsolidated statements composed using equity method:

		Investment in subsidiaries				
	31.12.2017	Dividends received	Contribution to share capital	Aquisition	Profit/loss using equity method	31.12.2018
ICM	4 751 068	-1 610 000	0	0	8 165 259	11 306 327
ICA	1 087 711	-200 371	0	0	734 697	1 622 038
ICKO	252 296	0	500 000	0	-752 296	0
ICMK	12 137	0	300 000	0	-312 137	0
IUTEPAY	78 025	0	0	0	7 547	85 572
FINAL	0	0	0	1 504 820	-389 096	1 115 724
Investments in subsidiaries	6 181 238	-1 810 371	800 000	1 504 820	7 453 974	14 129 661

See also Notes 6.4, 22, 30.1, 30.2 and 30.3.
AS IuteCredit Europe has done prepayment for future investment purpose in Bosnia and Herzegovina in sum € 255 646. The aim is to start business in 2019 acquiring 100% ownership in legal body. As at 31.12.2018 the investment stayed in representative office status.

27 Segment information

As at 31 December 2018, ICE had 6 subsidiaries : ICS OMF IuteCredit SRL (ICM) in Moldova, „IuteCredit Albania SHA" (ICA) in Albania, IuteCredit Macedonia DOOEL-Skopje (ICMK) in Macedonia, IuteCredit Kosovo JSC (ICKO) in Kosovo which offered customers consumer loans products.
The representative office in Bosnia and Herzegovina (ICBIH) will start business during year 2019 and IutePay Bulgaria EOOD is Group operations cost center and cards competence center without revenue during year 2018.

The Group divides its operating activities in segment according to its geographic location. The revenues of reported segments do not contain transactions between the segments.

	Segment							
31.12.2018	ICE	ICM	ICA	ICMK	ICKO	IUTEPAY Bulgaria	FINAL	In total
Loans to customers	0	28 180 492	16 279 431	3 573 092	3 993 615	0	710 285	52 736 916
Accrued receivables	0	3 450 709	3 785 954	431 670	101 598	0	8 740	7 778 671
Income	117	19 252 109	10 054 097	2 102 481	1 468 459	0	274 526	33 151 789
Allowances for loan impairment	0	-5 265 662	-4 615 643	-1 447 434	-970 678	0	-165 399	-12 464 815
Number of employees	15	77	76	30	28	7	0	233
Personnel expenses	-660 629	-1 232 059	-1 071 328	-358 249	-308 012	-130 685	-124 442	-3 885 403
31.12.2017	ICE	ICM	ICA	ICMK	ICKO	IUTEPAY Bulgaria	FINAL	In total
Loans to customers	0	14 390 654	6 414 891	689 208	192 105	0	0	21 686 858
Accrued receivables	0	1 018 602	1 212 057	24 232	4 957		0	2 259 848
Income	6 906	8 433 838	3 813 435	82 907	7 083	0	0	12 344 169
Allowances for loan impairment	0	-1 825 708	-1 747 361	-17 366	-3 852	0	0	-3 594 287
Number of employees	5	49	44	19	15	1	0	133
Personnel expenses	-191 548	-741 473	-372 106	-69 251	-90 094	-7 000	0	-1 471 472

See also Notes 10, 12, 13, 14 and 20.

28 Fair value measurement

The carrying amount of the major part of the Group's assets and liabilities is a reasonable approximation of their fair value.

The carrying amounts of financial instruments, consisting of cash and cash equivalents, loan receivables and other accounts receivable and loans and other payables with a maturity of less than one year (less estimated credit adjustments) corresponds to their fair value.
As at 31 December 2018, the fair value of interest-bearing loans to customers and loans, bonds from investors amounted to € 48.05 million and € 39.18 million respectively, other financial assets and investments in total € 3.13 million and other financial liabilities € 1.01 million. As at 31 December 2017, these values amounted to € 20.35 million, € 17.21 million, € 0.25 million and € 0.46 million respectively. The fair values of financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

In assessing the fair value of financial instruments, the Group uses a variety of methods and makes assumptions based on market conditions existing at the reporting date. The fair values of interest-bearing loans granted and long-term receivables are estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. For the purposes of current financial statements, the mentioned techniques were not used extensively as no such financial assets and financial liabilities exist in the statement of financial position of the Group. There have been no transfers between levels during the period. Loans and interest are recorded in level 3 as there are significant unobservable inputs.

Fair value hierarchy for financial instruments not measured at fair value as at 31 December 2018 and 31 December 2017 (EUR):

		Fair value measurement using			
	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets for which fair values are disclosed					
Loans and interest receivables to customers	31.12.2018	0	0	48 050 771	**48 050 771**
Other assets	31.12.2018	0	0	1 669 362	**1 669 362**
Other financial investments	31.12.2018	0	0	1 455 646	**1 455 646**
Liabilities for which fair values are disclosed					
Loans, bonds and accrued interest payables	31.12.2018	0	0	39 178 464	**39 178 464**
Trade payables	31.12.2018	0	0	618 027	**618 027**
Other liabilities	31.12.2018	0	0	395 675	**395 675**
Assets for which fair values are disclosed					
Loans and interest receivables to customers	31.12.2017	0	0	20 352 419	**20 352 419**
Other assets	31.12.2017	0	0	244 423	**244 423**
Other financial investments	31.12.2017	0	0	10 000	**10 000**
Liabilities for which fair values are disclosed					
Loans, bonds and accrued interest payables	31.12.2017	0	0	17 207 372	**17 207 372**
Trade payables	31.12.2017	0	0	330 668	**330 668**
Other liabilities	31.12.2017	0	0	129 209	**129 209**

See also Notes 20, 21, 22, 23 and 24. There were no transfers between the levels in 2018 and 2017.

29 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Related parties are defined as shareholders, members of the Supervisory Board and the Management Board, key management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies.

The main shareholder of IuteCredit Europe AS with 89,81% of shares is still Alarmo Kapital OÜ, registered in Estonia (comparing that as at 31.12.2017 owned 100%). Other shares belong to minority shareholders owning no more than 3% of each. As a result of the share subscription in September the number of shareholders was increased up to 12, and as a result of the share issue in December, the share capital was increased up to € 10 million from retained earnings and share premium.

The Group's management has not identified significant transfer pricing risks as the Group's main income and expenses are related to lending activities. The margin on investor loans can be declared at market price (see Note 23). The transactions made inside the Group are related to loan installments in the ordinary course of business and are rated by market price. The effect of such transactions are eliminated from the consolidated financials. Management believes that there are no significant price and tax risks arising from transactions between the Group and related parties.

Transactions are entered into with related parties in the normal course of business. The volumes of related party transactions, outstanding balances at the year end and relating income and expense for the year are as follows:

		Loans from related parties	Other receivables from parent company	Amounts owed to related parties
Shareholders	2018	356 400	425 000	4 855
Shareholders	2017	173 000	2 070	258 246

		Purchases from related parties	Services to related parties	Interest paid on loans to related parties
Shareholders	2018	39 600	7 887	31 163
Shareholders	2017	80 047	6 870	25 001

The Group's Board members' remuneration expense have been as follows:

Remuneration of Group's Board Management	2018 EUR	2017 EUR
Member of the Council	18 000	18 000
Remuneration according to labor agreements	92 137	0
TOTAL	**110 137**	**18 000**

No key management personnel compensation are agreed.

30 Unconsolidated financial statements of parent company as a separate company

The parent company´s unconsolidated financial statements have been prepared in accordance with the Accounting Act of the Republic of Estonia, and do not constitute parent company´s separate financial statements in the meaning of IAS 27 „Separate financial statements“.

30.1 Statement of comprehensive income

	2018 EUR	2017 EUR
Interest and similar income	2 925 285	1 549 156
Interest and similar expense	-2 588 271	-1 318 964
Net interest income	**337 014**	**230 192**
Other income	730	6 870
Net operating income	**337 744**	**237 062**
Personnel expenses	-660 629	-191 548
Depreciation/amortization charge	-28 533	-17 987
Other operating expenses	-1 165 191	-539 146
Total operating expenses	**-1 854 353**	**-748 680**
Foreign exchange gains/losses	-27 197	21 097
Total foreign exchange gains/losses	**-27 197**	**21 097**
Net income from subsidiaries using equity method	8 958 794	3 536 526
Total finance income	**8 958 794**	**3 536 526**
Profit before tax	**7 414 988**	**3 046 005**
Profit for the reporting period	**7 414 988**	**3 046 005**
Other comprehensive income		
Other comprehensive income (classified profit or loss in subsequent period)	0	0
Exchange differences on translation of foreign operations	0	0
Other comprehensive income total	**0**	**0**
Profit attributable to:	0	0
Equity holders	7 414 988	3 046 005
Total comprehensive income attributable to:		
Equity holders	7 414 988	3 046 005

30.2 Statement of financial position

	31.12.2018 EUR	31.12.2017* EUR
Assets		
Cash and bank accounts	653 678	627 479
Loans and receivables	17 747 083	10 643 128
Prepayments	33 874	1 035
Other receivables	461 557	27 200
Other financial investments	0	10 000
Property, plant and equipments	38 738	7 197
Intangible assets	131 457	147 889
Investments in subsidiaries	14 385 307	6 181 238
Total assets	**33 451 693**	**17 645 166**
Liabilities and equity		
Liabilities		
Loans and bonds	19 896 405	12 797 036
Other liabilities	215 254	158 013
Total liabilities	**20 111 659**	**12 955 049**
Equity		
Share capital	10 000 000	275 200
Legal reserve	27 520	27 520
Share premium	0	37 761
Retained earnings	3 312 514	4 349 635
Total equity	**13 340 034**	**4 690 116**
Total liabilities and equity	**33 451 693**	**17 645 166**

**Restated - see additional information in Note 6.4*

30.3 Statement of changes in equity

EUR	Share capital	Legal reserve	Share premium	Retained earnings	Total
01.01.2017	**275 200**	**0**	**37 761**	**260 999**	**573 960**
Effect of changing the accounting principles	0	0	0	1 540 151	1 540 151
01.01.2017 (restated)	**275 200**	**0**	**37 761**	**1 801 150**	**2 114 111**
Profit for the year*	0	0	0	3 046 005	3 046 005
Statutory reserves	0	27 520	0	-27 520	0
Dividends	0	0	0	-470 000	-470 000
31.12.2017	**275 200**	**27 520**	**37 761**	**4 349 635**	**4 690 116**
01.01.2018	**275 200**	**27 520**	**37 761**	**-217 042**	**123 439**
Effect of changing the accounting principles	0	0	0	4 566 677	4 566 677
01.01.2018 (restated)	**275 200**	**27 520**	**37 761**	**4 349 635**	**4 690 116**
Profit for the year	0	0	0	7 414 988	7 414 988
Contribution to share capital	31 228	0	3 168 702	0	3 199 930
Bonus issue of share capital	9 693 572	0	-3 206 463	-6 487 109	0
Dividends	0	0	0	-1 965 000	-1 965 000
31.12.2018	**10 000 000**	**27 520**	**0**	**3 312 514**	**13 340 034**

**Restated - see additional information in Note 6.4*

As the investments in subsidiaries are included in the unconsolidated financial statements of parent company using the equity method, no adjustments are made.
Difference between consolidated and unconsolidated equity is caused from the negative equity of ICKO and ICMK. See also Note 26.

30.4 Statement of cash flows

	2018 EUR	2017 EUR
Operating activities		
Profit for the year	7 414 988	3 046 005
Adjustments to reconcile profit before tax to net cash flows:		
Depreciation/amortization charge	28 533	17 987
Other income	-730	-6 870
Net foreign exchange difference	27 197	-21 097
Interest income	-2 925 285	-1 549 120
Interest expense	2 588 271	1 318 963
Share of net profit of subsidiaries accounted in the equity method	-8 958 794	-3 536 526
Cash flows from operating activities before changes in assets and liabilities	**-1 825 820**	**-730 658**
Loans received from investors	8 000 693	8 430 075
Repaid loans to investors	-1 001 031	-1 347 495
Issued loans	-7 581 924	-6 470 000
Loan repayments from customers	1 349 990	1 115 633
Change in other assets	-652 162	234 753
Change in other liabilities	57 240	91 279
Interest received	2 238 961	1 448 479
Interest paid	-2 488 564	-1 538 957
Net cash flows from operating activities	**-1 902 618**	**1 233 109**
Investing activities		
Purchase of fixed assets	-43 641	-4 833
Dividends received	1 810 371	510 000
Subsidiary shares (establishment)	-800 000	-863 632
Receipts from other financial investments	10 000	0
Payments for other financial investments	-255 646	0
Net cash flows from investing activities	**721 084**	**-358 465**
Financing activities		
Capital increase	3 199 930	0
Dividends paid	-1 965 000	-470 000
Net cash flows from financing activities	**1 234 930**	**-470 000**
Change in cash and cash equivalents	**53 396**	**404 644**
Cash and cash equivalents at the beginning of the year	**627 479**	**201 738**
Net foreign exchange difference	-27 197	21 097
Change in cash and cash equivalents	53 396	404 644
Cash and cash equivalents at the end of the year	**653 678**	**627 479**

	31.12.2018	31.12.2017
Cash and cash equivalents comprises		
Cash on hand	0	0
Non-restricted current account	653 678	627 479

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31 Profit allocation proposal

The Management Board of IuteCredit Europe AS makes a proposal to the shareholders to allocate profit to retained earnings as follows:

Company's retained earnings	
Retained earnings as at 31.12.2018	2 284 397
Statutory reserves	370 749
Dividend distribution	-2 500 000
Balance of retained earnings after allocations	**155 147**

32 Signatures of the management board to 2018 annual report

The Company's Management Board has approved the management report and financial statements for 2018.

The annual report as compiled by the Management Board consists of the management report, financial statements, profit allocation proposal and independent auditor´s report. The Company's Supervisory Board has reviewed the annual report and has approved it for submission to the general meeting of shareholders.

19th of February 2019

Tarmo Sild

Member of the Management Board

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Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AS IuteCredit Europe

Opinion

We have audited the consolidated financial statements of AS IuteCredit Europe and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the *"Auditor's responsibilities for the audit of the consolidated financial statements"* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (Estonia), and we have fulfilled our other ethical responsibilities in accordance with the requirements of code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unqualified opinion.

Other information

Management is responsible for the other information. Other information consists of management report, but does not consist of the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (Estonia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Tallinn, 19 February 2019

Olesia Abramova
Authorised Auditor's number 561
Ernst & Young Baltic AS
Audit Company's Registration number 58

Liisi Semjonov
Authorised Auditor's number 682