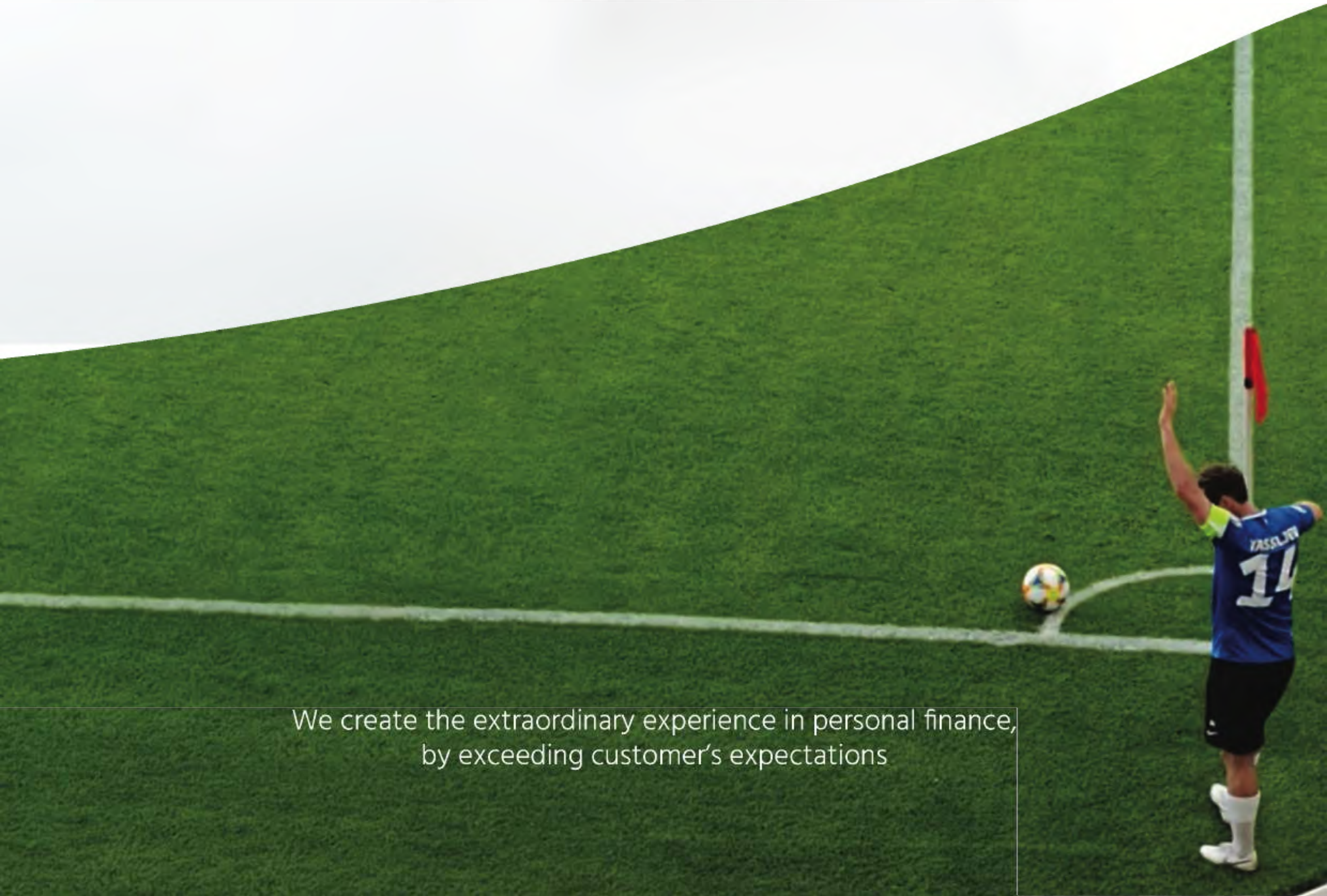
iutecredit

# AS IuteCredit Europe

## 2019 Annual Report



We create the extraordinary experience in personal finance,
by exceeding customer's expectations

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# 2 General information and contacts

| | |
|---|---|
| Address: | Maakri 19/1, corpus A, 13th floor<br>10145 Tallinn<br>Republic of Estonia |
| Registry code: | 11551447 |
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| Main activity: | Holding company |
| Auditor: | Ernst & Young Baltic AS |
| Reporting period: | 1 January 2019 – 31 December 2019 |

# 3 Abbreviations and key

The following styles of abbreviation are used in current Annual Report:

| | |
|---|---|
| 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 |
| APR | Annual Percentage Rate |
| 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) |
| GLP | Gross Loan Portfolio |
| NLP | Net Loan Portfolio |
| NPL | Non-performing loans (defaulted) |

# 4 Management report for 2019

## Introduction by CEO

The mission of IuteCredit is to create the extraordinary experience in personal finance. Customers' experience can become extraordinary if the service is the fastest, most comfortable and empathetic. We help under-served customers in under-banked markets.

2019 was a good year for the most of our customers, for the most of our employees and for our investors. We doubled our balance sheet and revenues. We attracted close to 600,000 customers, seeking an installment loan or a MasterCard. We gave our customers loans that usually exceeded their monthly income and helped them to acquire a beneficial good or service immediately. We disbursed more than 150 million EUR, usually for longer than one-year repayment period. The customers treated us also well, by serving close to 90% of expected repayments in time or with manageable delays. Also defaulted customers showed good performance and good will.

Our employee team increased along with two new countries on the map - Bosnia and Herzegovina and Bulgaria. Besides interesting and challenging job, our people experienced individual salary increase that was offered against the efficiency improvements. As Group, we achieved 146 thousand EUR average annual revenue per employee, as our new financial productivity record.

The Group listed 40 million EUR Eurobond on Frankfurt Stock Exchange in August 2019 and has offered all its debt investors effective return that averages above 12% per annum. Equity return of 45% was adequate, for taking considerably higher risks.

2019 was just a good year and not excellent year - 2019 could have been an excellent year, had we not received the unexpected torpedo fire from Kosovo regulatory authorities that must be addressed adequately during 2020; and had we internally coped with all the technology needs that come with aggressive growth. In Kosovo, we believe that the regulator's decision from December 6 to revoke Kosovo microfinancing license and commence immediate liquidation of our local subsidiary is illegal and will be remedied eventually, and adequately. The situation in Kosovo remains contested, while we are making sure it will not create distraction for the Group's management. We will be focused on growing the business profitably. As regards delays in technology deployment, we made significant organizational changes during the second half of the year and expect those changes to deliver during 2020.

As for 2020 and beyond, one can firmly predict the increasing role of regulations on the business. We are confident that internally, the business is managed firmly and efficiently, but that is not enough anymore. As our business volumes increase, our own awareness of the social impact that we create must improve. Also, the awareness of the regulators' and the public must be increased, as regards the positive change we bring to the underbanked societies. The positive change starts from the accessibility of credit services to everyone who earns salary. As a result, we grow the share of digitalized economy and diminish the grey, cash-based and untaxable economy. Eventually, we produce a lot of tax income, legalized jobs, credit data and positive human experience to every society where we operate.

In growth terms, during 2020 we aim to continue aggressive growth by doubling the balance sheet once again beyond 200 million EUR and by increasing annual revenue by 50% to 75 million EUR, while keeping good quality of the balance sheet and profitability of our business.

## Group overview

AS IuteCredit Europe (**ICE**) is a holding company which issues consumer credits and offers personal finance services via its 100% owned operating subsidiaries in local markets (**Subsidiaries**). As of 31 December 2019, ICE had eight operating subsidiaries:

1. ICS OMF IuteCredit SRL (**ICM**) in Moldova,
2. IuteCredit Albania SHA (**ICA**) in Albania,
3. IutePay Albania SH.P.K (**IutePay Albania**) in Albania,
4. IuteCredit Macedonia DOOEL–Skopje (**ICMK**) in North Macedonia,
5. IutePay Bulgaria EOOD (**IutePay Bulgaria**) in Bulgaria,
6. IuteCredit Bulgaria EOOD (**ICBG**) in Bulgaria,
7. MKD IuteCredit BH d.o.o. Sarajevo (**ICBH**) in Bosnia and Herzegovina,
8. IuteCredit Finance S.a.r.l. (**ICF**) in Luxembourg.

IuteCredit Kosovo JSC (**ICKO**) was also considered as part of the consolidated group until the end of November 2019, but due to the circumstances described hereafter, has been deconsolidated and reclassified as a financial instrument. Financial instruments are not in scope of IFRS 9 and therefore, ICKO is not considered as a discontinued operation. Further, the repayments from custmers continue to be collected for the foreseeable future, in parallel to pursuing the final solution that is satisfactory to the Group.

FINAL SHA (**FINAL**, direct subsidiary of ICA) was sold in May 2019. For the Group, the sale ended up with a profit in the amount of 145 thousand EUR, including the unrealized foreign exchange differences that were reclassified from other comprehensive income (OCI) to profit or loss.

IutePay Albania SH.P.K. incorporated on 2 July 2018 remained in inactive status during 2019, as at 31 December 2019 share capital is not paid in.

At the beginning of July 2019, ICG acquired IuteCredit Finance S.a.r.l. to act as a financing intermediary for the entire Group. In July 2019, IuteCredit Finance S.a.r.l. (Luxembourg), for the first time, issued 40 million EUR of senior secured bonds (hereafter reffered as Eurobond) at Frankfurt Stock Exchange.

The subsidiaries and ICE together form the IuteCredit Group (**ICG**). Considering the aforementioned sale of FINAL, as of 31 December 2019, ICG consisted of 10 entities regardless that one of them was unconsolidated and reclassified.

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 implement the processes designed by ICE and offer customers the services. Furthermore, the individual subsidiaries develop the business in the local competition field according to strategic guidance and targets, financing, and technology provided by ICE. Finally, subsidiaries consist of local teams, local customers, local loan portfolios, and develop local investor relations and relations with regulatory authorities and partners.

ICM is in operation since August 2008 authorized by the National Commission for the Financial Market. ICA started its activity in 2015, licensed from Central Bank of Albania, dated 31.03.2015 as Non-Bank Financial Institution of Microcredit. ICMK acquired the license from the Ministry of finance on 24.07.2017 and on 18.09.2017 approval of loans, issuing and administration of credit cards. ICKO was licensed since October 2017, unfortunately and unexpectedly lost it in December 2019. The circumstances and description of the course of events is given hereafter.

ICBH got the license dated at the end of February 2019 and started business in May 2019. IutePay Bulgaria EOOD performs as technology operations cost center and cards service center. FINAL was acquired as part of the expansion in summer 2018 and was after restructuring sold in May 2019. IuteCredit Bulgaria obtained license dated at the end of April 2019 and is already officially operational but full-scale business activities are launched in February 2020.

We aim to achieve speed and comfort in the operations, including instant response to any submitted loan application. As we depend on our partners (banks, shops, mail, telecom and other associates), we constantly strive to find new and innovative ways to achieve speed and comfort. During 2019 we continued to be the fastest credit provider in the markets even though competition has started to be noticed. We provided answers to our customer loan request within 3...22 minutes, depending on the concrete customer journey and external partner.

We are the first financial company on Macedonian market that offers MasterCard card and with accelerated dynamics and offered services, we created benefits for our customers and their families, we became a real competition on Macedonian microfinance market. In the period when the Macedonian monetary policy facilitated the lending conditions, we exceeded the expectations for fast and comfortable loan disbursements.

## 2019 targets were mostly achieved

During 2019, the Group increased its net income by 70% (30 880 thousand EUR in 2019 vs 18 158 thousand EUR in 2018) while the net profit increased by 15% (8 371 thousand EUR in 2019 vs 7 256 thousand EUR in 2018).

Net income margin (net profit/total income) for 2019 was 16% (2018: 22%), while the set target was 20%, but the Kosovo-related unexpected incident played a role here. Nevertheless, the result is still above expectations.

The target to reach over 500 000 clients in our total customer database was exceeded already during 9 first month.
During 12 months in 2019 we served almost 600 thousand applications and by the end of the year we had almost 222 thousand active loans in the portfolio.

Loans pay out target of 2019 in amount 150 000 thousand EUR was exceeded by more 2 thousand EUR (by amount of 152 217 thousand EUR from which 76 199 thousand EUR was paid out as money and the rest through shop dealers as goods).

We did not however reach to the set net loan portfolio target of 100 000 thousand EUR as for the end of 2019 the total NLP was 79 005 thousand EUR. As main reason, we did not plan to have the license in Kosovo revoked and loss of control over the assets in Kosovo. As a result, the portfolio of ICKO is excluded from the NLP. On the counterweight, we have two new operational country businesses in the Group from which we expect fast growth in new markets during the next periods. The second reason of missing the target is that the loan portfolio amortized slightly faster due to customers' early repayments, and new loans were issued with slightly shorter maturities, than initially expected. In cumulation, those two vectors, while somewhat positive by nature, caused the shortage in reaching the NLP target.

Revenue target over 55 000 thousand EUR was almost reached by the total result of 50 785 thousand EUR. The explanation to the revenue results are similar to the reasons above. Had we been able to keep Kosovo operational, then the annual revenue target had been even exceeded, because customers in Kosovo were repaying well.

Dividend target per share of 25 cents was almost achieved, by reaching 22 cents per share. Dividend payment were kept in line with the Eurobond covenants, on a more conservative basis.

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. We reached our CPI targets set for 2019 (> 88) in almost all the countries by average of 88%. That means, during 2019, more than 88% of expected loan repayments were performed according to the loan agreements, or with a maximum 30 days delay.

We are behind the schedule with implementation of new technologies that extend our range of services or enhance customer experience, but with new team members and organizational restructuring we expect to achieve that point finally during 2020.

## Consolidated key financial parameters

| Key parameters of the Group: in thousand EUR | 2019 | 2018 |
|---|---|---|
| EBITDA (profit/loss before taxes, depreciation and interest expense) | 20 164 | 12 913 |
| ROA (profit/assets) | 7,88% | 13,12% |
| ROE (profit/equity) | 45,24% | 57,18% |
| Assets/equity ratio | 5,74 | 4,36 |
| Equity per share (equity/number of outstanding shares) | 1,85 | 1,27 |
| Earnings per share (profit/number of outstanding shares) | 0,84 | 0,73 |
| Dividends paid per share (dividends paid/number of outstanding shares) | 0,22 | 0,20 |

| Key parameters based on the parent company's financials in thousand EUR | 2019 | 2018 |
|---|---|---|
| ROA (profit/assets) | 4,71% | 22,17% |
| ROE (profit/equity) | 19,98% | 55,58% |
| Assets/equity ratio | 4,24 | 2,51 |
| Equity per share (equity/number of outstanding shares) | 1,39 | 1,33 |
| Earnings per share (profit/number of outstanding shares) | 0,28 | 0,74 |
| Dividends paid per share (dividends paid/number of outstanding shares) | 0,22 | 0,20 |

## Consumer loan products

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. Median loan amount is above 400 EUR, whereas loan amounts range between 25 EUR and 10 thousand EUR. Weighted average annual percentage rate (APR) is 60% and effective interest rate (EIR) 92% 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 assessment. For a new applicant, the credit rating depends on comparison of the applicant's relevant parameters with respective statistical parameters of performing and poorly performing customer groups and certain databases. For returning customers, we apply personal credit assessment which is based on individual performance data. By average, 56% of loan applications across the Group have been approved.

Loans are handled via an external partner network (such as shops, money transfer companies, postal agencies) and our own retail branches. By the end of 2019, we had 33 of branches and 2644 shops, and thousands of other points of sale. ICG handles money only via bank accounts and does not perform cash operations. Certain ICG 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 on modifications of loan agreement ("Secondary fees.")

ICG 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. The secondary 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.

Since the beginning of 2019, the management has taken a more conservative approach in estimating future cash-collections from penalties. As a result of this more conservative approach, one can notice significant drop of loan administration fees and penalties during 2019.

## Customer base and portfolio

As at the end of 2019, Group had over 600 thousand individuals in its database (2018: more than 333 thousand). The proportion between women and men account for 43% and 57% respectively. Approximately half of the customers 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 due receivables from customers, adjusted with allowances for loan impairment) increased on a year-on-year (yoy) comparison around 64% and reached a new high of approximately 79 005 thousand EUR (2018: 48 051 thousand EUR).

As at the end of 2019, approximately 48% of the performing loan portfolio was occupied by loan products with a longer maturity than 12 months (2018: 42%) and 52% of the performing loan portfolio was occupied by loan products with maturity of up to 12 months (2018: 58%).

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 2019 (and until the date of the annual report), by average 88% of expected loan repayments were performed according to the loan agreements, or with a maximum 30 days delay.

## Customer satisfaction

We measure customer satisfaction based on different perspectives. Net Promoter Score, which measures the customer satisfaction and if customers will recommend us to friends and family, as the highest appreciation level. Based on that we have the feedback that more than 70% are happy customers (promoters), the rest are neutral 20 % and only 10 % had complaints.

We also make random calls to customer to have their feedback on service and in more than 95% of cases they are very happy with our services, and products.

We are open with our offices every day, including weekends. Also, customer can reach us via many channels of communication, phone, Facebook, email, WhatsApp, Instagram, web chat etc.

We have organized several customer events during the year, in which we invite customer to celebrate national holidays with us. It is a different approach in our market and financial institution. We make customized note, gifts, winning games and rewards. For example, ICA is the first in the market to create the event of "Customer Week", as a week dedicated to our customers, with offers, gifts and open house events. In 2019 they extended the period of Customer Week to 1 month and organized also a "lottery" in a national TV where we selected and rewarded with gifts 13 customers that applied in every channel.

## Team and teamwork efficiency

As at the end of 2019, the number of the Group's employees was 347 (2018: 233). Arithmetic average revenue per Group employee exceeded 146 thousand EUR (2018: 139 thousand EUR). 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 thousand EUR 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 6 296 thousand EUR in 2019 (2018: 3 885 thousand EUR). We are happy that our team makes more money when the company and its profit grow.

## 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 as Non-Bank Financial Institution of Microcredit. ICMK and ICKO were licensed in 2017, although ICKO lost it in December 2019. ICBG and ICBH obtained the licenses in spring 2019.

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 have been rather tailor-made until listing the Eurobond in August 2019, and not described in this annual report. As from the listing of Eurobond on Frankfurt Stock Exchange, the Group continues publishing quarterly reports, as well as ad hoc releases according to the stock market regulations. The Group organized a cross-Europe roadshow to meet individual investor prior to listing the Eurobond and continues the policy of open communication, according to best market practices. 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 2019, the Group raised more than 85 006 thousand EUR new debt capital. Raising additional capital was an important part of growing the portfolio of customers and turnover.

The weighted average interest rate of liabilities to investors exceeded 12% per annum (2018: 14%). The amount of interest paid to investors in 2019 was 5 166 thousand EUR (2018: 3 677 thousand EUR). 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:

- 150 million EUR credit poured into the economies of our countries during 2019 generated at least 14 million EUR, but probably circa 25 million EUR value added tax revenue (assuming that an absolute minimum of 50% of the credit was spent in shops for VAT taxed consumer goods);
- The total amount of employment and income taxes paid in Moldova, Albania, Kosovo, Macedonia and Bosnia together amounted 6 163 thousand EUR (2018: 2 876 thousand EUR), in addition to the taxes paid in Estonia and Bulgaria.
- For the fourth year in a row already ICM was awarded the title of Major Taxpayer of Moldova.

- The goods and services acquired with a credit to our best knowledge improve the life quality of our customers and their families, and in particular their access to information society services (smartphones, tablets), health (healthcare services, such as dental services and surgeries in private sector medicine), social relations (extraordinary family events and cross-border travels for family members where some salary earners work outside the country), transport (cars and car related expenses) and overall life quality and safety (refrigerators and other white goods and entertainment goods).

- ICM launched a national public financial education campaign together with Moldovan Consumer Protection Agency, following the example of the developed European and international countries. The campaign is focused on promoting rational and sustainable financial behavior and planning a short- and long-term budget.

- We give meaningful work and self-realization opportunity to 347 talented and motivated people and the number has growing trend, we would have ended 2019 with more than 400 employees together with Kosovo.

- ICM, ICA and ICBH have promoted healthy lifestyle as being sponsors of „Chisinau Criterium" and „Chisinau Marathon" in Moldova, Tirana Marathon in Albania and Sarajevo Marathon in Bosnia.

- IuteCredit Kosovo is the Grand exclusive Partner of Kosovo Olympic Committee and donates more than 60,000 EUR per annum to KOC

- ICM is declared as an Eco-friendly company by support and participation in maintaining ecology, one good example is launching Iute Park, where was planted more than 130 trees and were carried out sanitation activities.

- ICA has contributed also as CSR through the most famous NGO that "Fundjave Ndryshe" that invited donors to help extremely poor families. ICA contributed in a very poor family by renovating their house.

- During the national emergency related to Earthquake ICA contributed for the families affected, loosing home or sleeping outside for several days. ICA donated and also released our active customers impacted by earthquake from penalties and delayed fees.

- We support different social campaigns ("Back To School", spring and winter campaigns with donated Easter and Christmas gifts) in different countries.

## Motivated employees

We believe that loyal, dedicated, ethical and goal-oriented employees are the cornerstones of success. The aim of Group'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 Group's staff turnover is less than 10% per annum.

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 2020

The Group has set the following targets for 2020:

- Over 850 000 customers in database
- Over 210 000 thousand EUR of loans issued
- Net loan portfolio 140 000 thousand EUR by 31.12.2020
- Revenue over 75 000 thousand EUR
- Net income margin at least 20%
- Dividends per share during 2020: 21 cents
- New technological platform to expand the range of financial services offered
- Reach current breakeven in Bosnia and accelerate in Bulgaria to reach at least 3% weight in the balance sheet
- Maintain the status for the fastest and most comfortable by reducing the "time to money" into less than 8 minutes across the Group

The Group intends to increase its net loan portfolio by the end of 2020 to at least 77% 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.

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 | 2019 in thousand EUR | 2018* in thousand EUR |
|---|---|---|---|
| Interest and similar income | 10 | 46 994 | 22 602 |
| Interest and similar expense | 11 | -8 968 | -3 855 |
| **Net interest income** | | **38 026** | **18 748** |
| | | | |
| Other fees and penalties | 12 | 3 041 | 9 440 |
| **Total other fee income** | | **3 041** | **9 440** |
| | | | |
| Other income | | 749 | 347 |
| Allowances for loan impairment | 13 | -10 937 | -10 376 |
| **Net operating income** | | **30 880** | **18 158** |
| | | | |
| Personnel expenses | 14 | -6 296 | -3 885 |
| Depreciation/amortization charge | 15, 16, 17 | -1 239 | -220 |
| Other operating expenses | 18 | -14 206 | -5 215 |
| **Total operating expenses** | | **-21 741** | **-9 320** |
| | | | |
| Net gains/losses from financial assets measured at fair value | | 964 | 0 |
| Foreign exchange gains/losses | | 365 | 662 |
| **Total finance income** | | **1 328** | **662** |
| | | | |
| **Profit before tax** | | **10 467** | **9 500** |
| Income tax expense | 19 | -2 096 | -2 244 |
| **Profit for the reporting period** | | **8 371** | **7 256** |
| | | | |
| **Other comprehensive income** | | | |
| Other comprehensive income to be classified to profit or loss in subsequent periods: | | | |
| Exchange differences on translation of foreign operations | | -306 | 505 |
| **Total comprehensive income** | | **8 065** | **7 761** |
| | | | |
| **Profit attributable to:** | | | |
| Equity holders of the parent | | 8 065 | 7 761 |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of the parent | | 8 065 | 7 761 |

**Restated - see additional information in Note 9*

Notes on pages 17 to 64 are an integral part of the consolidated financial statements.

## 5.2 Consolidated statement of financial position

| | Notes | 31.12.2019 in thousand EUR | 31.12.2018 in thousand EUR |
|---|---|---|---|
| **Assets** | | | |
| Cash and bank accounts | 20 | 6 734 | 2 628 |
| Loans to customers | 13, 21 | 79 005 | 48 051 |
| Prepayments | 22 | 913 | 251 |
| Trade and other receivables | 22 | 2 489 | 1 283 |
| Assets held for sale | | 5 | 387 |
| Other financial investments | 23 | 9 908 | 1 456 |
| Property, plant and equipment | 15 | 1 025 | 496 |
| Right-of-use assets | 16 | 2 850 | 0 |
| Intangible assets | 17 | 3 326 | 740 |
| **Total assets** | | **106 254** | **55 290** |
| | | | |
| **Liabilities and equity** | | | |
| **Liabilities** | | | |
| Loans and bonds from investors | 24 | 84 073 | 39 178 |
| Trade and other payables | 25 | 1 031 | 618 |
| Current income tax liabilities | 25 | 455 | 1 359 |
| Deffered tax liabilities | 25 | 289 | 489 |
| Other liabilities | 25 | 1 901 | 955 |
| **Total liabilities** | | **87 749** | **42 600** |
| | | | |
| **Equity** | | | |
| Share capital | 26 | 10 000 | 10 000 |
| Legal reserve | | 398 | 28 |
| Unrealized foreign exchange differences | | 72 | 378 |
| Retained earnings | | 8 035 | 2 284 |
| **Total equity** | | **18 506** | **12 690** |
| **Total liabilities and equity** | | **106 254** | **55 290** |

Notes on pages 17 to 64 are an integral part of the consolidated financial statements.

## 5.3 Consolidated statement of changes in equity

| in thousand EUR | Share capital | Legal reserve | Share premium | Unrealized foreign exchange differences | Retained earnings | Total |
|---|---|---|---|---|---|---|
| **01.01.2018** | **275** | **28** | **38** | **-127** | **4 476** | **4 690** |
| Effect of adoption of IFRS9 | 0 | 0 | 0 | 0 | -996 | -996 |
| **01.01.2018 (restated)** | **275** | **28** | **38** | **-127** | **3 480** | **3 694** |
| **Profit for the year** | **0** | **0** | **0** | **0** | **7 256** | **7 256** |
| **Other comprehensive income** | | | | | | |
| Foreign currency translation | 0 | 0 | 0 | 505 | 0 | 505 |
| **Total comprehensive income** | **0** | **0** | **0** | **505** | **7 256** | **7 761** |
| Contribution to share capital | 31 | 0 | 3 169 | 0 | 0 | 3 200 |
| Bonus issue of share capital | 9 694 | 0 | -3 206 | 0 | -6 487 | 0 |
| Dividends | 0 | 0 | 0 | 0 | -1 965 | -1 965 |
| **31.12.2018** | **10 000** | **28** | **0** | **378** | **2 284** | **12 690** |
| | | | | | | |
| **01.01.2019** | **10 000** | **28** | **0** | **378** | **2 284** | **12 690** |
| **Profit for the year** | **0** | **0** | **0** | **0** | **8 371** | **8 371** |
| **Other comprehensive income** | | | | | | |
| Foreign currency translation | 0 | 0 | 0 | -306 | 0 | -306 |
| **Total comprehensive income** | **0** | **0** | **0** | **-306** | **8 371** | **8 065** |
| Allocation to reserves | 0 | 371 | 0 | 0 | -371 | 0 |
| Dividends | 0 | 0 | 0 | 0 | -2 249 | -2 249 |
| **31.12.2019** | **10 000** | **398** | **0** | **72** | **8 035** | **18 506** |

Additional information about share capital is disclosed in Notes 19 and 26.

Notes on pages 17 to 64 are an integral part of the consolidated financial statements.



EY FOR IDENTIFICATION PURPOSES ONLY 25.02.2020 MS

## 5.4 Consolidated statement of cash flows

| | Notes | 2019<br>in thousand EUR | 2018*<br>in thousand EUR |
|---|---|---|---|
| Prepayments to partners for issuance of loans | | -11 263 | -6 263 |
| Received pre- and overpayments from customers | | 12 754 | 9 312 |
| Paid trade payables | | -10 728 | -5 942 |
| Received debts from buyers and received other claims | | 831 | 68 |
| Received from collection companies | | 13 017 | 7 432 |
| Paid net salaries | | -4 547 | -2 311 |
| Paid tax liabilties, exc. CIT | | -2 907 | -1 473 |
| Corporate income tax paid (CIT) | | -3 256 | -1 403 |
| Paid out to customers | | -76 199 | -39 316 |
| Paid out loans to customers related to MC | | -100 | 0 |
| Change in MasterCard (MC) settlement account | | -1 405 | 0 |
| Principal repayments from customers | | 40 275 | 20 429 |
| Loan principal repayments from customers related to MC | | 476 | 0 |
| Interest, commission and other fees | | 17 362 | 8 761 |
| **Net cash flows from operating activities** | | **-25 690** | **-10 706** |
| Purchase of fixed assets | | -840 | -778 |
| Net cash flow from acquisition or loss of control of subsidiaries | | -212 | -1 057 |
| Received from the sale of subsidiaries | | 159 | 0 |
| Payments for other financial investments | | -1 850 | -1 456 |
| Receipts from other financial investments | | 0 | 10 |
| **Net cash flows from investing activities** | | **-2 743** | **-3 280** |
| Loans received from investors | | 85 006 | 26 081 |
| Repaid loans to investors | | -48 469 | -10 758 |
| Change in overdraft | 24 | 4 168 | 1 974 |
| Principal payments of lease contracts | | -865 | 0 |
| Paid interests | | -5 166 | -3 677 |
| Capital increase | | 0 | 3 200 |
| Paid dividends | | -2 248 | -1 965 |
| Grants received | | 25 | 0 |
| **Net cash flows from financing activities** | | **32 451** | **14 855** |
| **Change in cash and cash equivalents** | | **4 018** | **869** |
| **Cash and cash equivalents at the beginning of the year** | | **2 628** | **1 793** |
| Change in cash and cash equivalents | | 4 018 | 869 |
| Net foreign exchange difference | | 87 | -34 |
| **Cash and cash equivalents at the end of the year** | 20 | **6 733** | **2 628** |

*Restated - see additional information in Note 9
Notes on pages 17 to 64 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 2019 were authorized for issue in accordance with a resolution of the Management Board on 21 February 2020. 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 19/1, Tallinn.

IuteCredit SRL, Iutecredit Albania SHA, IuteCredit Macedonia DOOEL-Skopje, MKD IuteCredit BH d.o.o. Sarajevo, Iutepay Bulgaria EOOD and IuteCredit Bulgaria EOOD are consumer credit providers whose sole shareholder is AS IuteCredit Europe. IuteCredit Kosovo JSC was a member of the Group until 6th of December 2019 when microfinance license has been revoked with immediate effect. The liquidation was initiated by the Central Bank of Kosovo and the Group lost control over the subsidiary once an official liquidator was appointed. Upon loss of control the subsidiary's assets and liabilities were derecognized and the retained investment was recognized as a financial instrument at fair value. IutePay Albania SH.P.K. is considered to start as credit provider during 2020. IuteCredit Finance S.a.r.l. in Luxembourg has different approach as a financing entity for the Group as a whole.

Annual report includes the consolidated financial statements of AS IuteCredit Europe and its subsidiaries. Information on the Group's structure is provided in Note 27. Information on other related party relationships of the Group is provided in Note 30.

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 following amended IFRSs which have been adopted by the Group as of 1 January 2019. In the 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 Prepayment features with negative compensation (Amendments)

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. These amendments had no impact on the consolidated financial statements of the Group.

### IFRS 16 Leases

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 have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.
The nature and effect of the changes as a result of adoption of this new accounting standard are described in Note 16.

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

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 had no impact on the consolidated financial statements of the Group as the Group does not have such long-term interests in associates and joint ventures.

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

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. The amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

### IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

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 assessed the impact of the implementation of this amendment to be immaterial.

### IASB has issued the Annual Improvements to IFRSs 2015-2017 Cycle, which is a collection of amendments to IFRSs.

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. These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

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. Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

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. Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

## 6.3 Standards issued but not yet effective and not early adopted

### Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution 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.

### 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. Management has not yet assessed the impact of the implementation of this amendment.

### Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. Management has not yet assessed the impact of the implementation of this amendment.

### IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU. Management has assessed the impact of application of the amendments to be minimal since the Group presents its assets and liabilities in order of liquidity in its consolidated statement of financial position.

## 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) and as adopted by the EU. 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. Apart from the accounting policy changes resulting from the adoption of IFRS 16 effective from 1 January 2019, 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 31. 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 are measured at equity method.

These financial statements have been prepared under historical cost basis, unless otherwise stated. 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 and IutePay Albania SH.P.K – the Albanian lek (ALL), IuteCredit Macedonia DOOEL-Skopje – the Macedonian denar (MKD), IuteCredit Kosovo JSC – the euro (EUR), IutePay Bulgaria EOOD and IuteCredit Bulgaria EOOD – the Bulgarian lev (BGN), MKD IuteCredit BH d.o.o. Sarajevo – the Bosnian mark (BAM), IuteCredit Europe AS and IuteCredit Finance S.a.r.l. – 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 and translated into the presentation currency using the average exchange rate for the period. 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 | BAM |
|---|---|---|---|---|---|---|
| 31 December 2018 | 19.5212 | 1.1450 | 123.42 | 61.4950 | 1.9558 | 1.9558 |
| 31 December 2019 | 19.2605 | 1.1234 | 121.77 | 61.4856 | 1.9558 | 1.9558 |

| Average period | MDL | USD | ALL | MKD | BGN | BAM |
|---|---|---|---|---|---|---|
| 2018 | 19.8442 | 1.1810 | 127.59 | 61.5111 | 1.9558 | 1.9558 |
| 2019 | 19.6737 | 1.1195 | 123.01 | 61.5038 | 1.9558 | 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 an original 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.

In the following table are given the tax rates on corporate income by countries considering also individual decisions made by local Tax Authorities where appropriate:

| Corporate Income Tax rate | 2019 | | 2018 | |
|---|---|---|---|---|
| Subject to taxation | annual profits earned | distribution of retained earnings | annual profits earned | distribution of retained earnings |
| Moldova | 12% | 6% | 12% | 6% |
| Albania | 15% | 5% | 15% | 5% |
| Macedonia | 10% | 10% | 10% | 10% |
| Kosovo | 10% | 0% | 10% | 0% |
| Bosnia | 10% | 5% | - | - |
| Bulgaria | 10% | 0% | 10% | 0% |
| Luxembourg | 0% | 10% | - | - |
| Estonia* | 0% | 20% | 0% | 20% |

* Estonian Income Tax Act gives the opportunity to reduce the income tax rate according to the average distributed profit of the previous three calendar years to 14%. This is subject to taxation pursuant to Estonian Income Tax Act § 50[1].

Comparative information for Bosnia and Luxembourg is not given because in those regions we started during 2019.

## Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (IuteCredit SRL-i, IuteCredit Albania SHA, IutePay Albania SH.P.K, IuteCredit Macedonia DOOEL-Skopje, IuteCredit Kosovo JSC until the revocation, MKD IuteCredit BH d.o.o. Sarajevo, IutePay Bulgaria EOOD, IuteCredit Bulgaria EOOD, IuteCredit Finance S.a.r.l and also FINAL SHA until the moment of sale). See also Note 27.

The subsidiaries are consolidated from the date when control commences until the date when 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. 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 derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. If the Group loses control of a subsidiary, derecognizes the assets and liabilities of the former subsidiary from the consolidated statement of financial position, recognizes any investment retained in the former subsidiary at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant IFRSs. That fair value shall be regarded as the fair value on initial recognition of a financial asset in accordance with IFRS 9 or the cost on initial recognition of an investment in an associate or joint venture.

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

Investments in subsidiaries in the parent's unconsolidated primary financial statements (Note 31) have been accounted by using the equity method. Under the equity method, the investment is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the investor's share of net assets of the subsidiary since acquisition date.

## 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 29.

## 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 and purchased or originated credit impaired (POCI) financial assets. Financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3' (NPL), the Group calculates interest income by applying the effective interest rate to the net amortized 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. For POCI financial assets, the Group calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortized cost of the financial asset. The credit-adjusted EIR is the interest rate that, at initial recognition, discounts the estimated future cash flows (including credit losses) to the amortized cost of the POCI financial asset.

### The effective interest rate (EIR) method

Under IFRS 9 interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortized cost. 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.

## Recognition of other fees

### Other fee income

The core principle of IFRS 15 is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework:

(i) Identify the contract(s) with a customer
(ii) Identify the performance obligations in the contract
(iii) Determine the transaction price
(iv) Allocate the transaction price to the performance obligations in the contract
(v) Recognize revenue when (or as) the entity satisfies a performance obligation.

Terms and conditions related to the loan contracts set each party's rights and obligations in the credit relation and are approved by both parties; this includes also after-sales services provided by the Group.

## Financial instruments

### Initial recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognized 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 recognized when funds are transferred to the customers' accounts. The Group recognizes balances due to investors when funds are transferred to the Group.

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 29), except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

Group classifies all of its financial assets based on the asset's contractual terms, the Group's business model and SPPI assessments - measured at either:

- Amortized cost
- FVOCI
- FVPL

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied.

## Financial instruments

Financial assets and liabilities, with the exception of loan to customers, are initially recognised on the trade date, i.e., the date on which the Group becomes a party to the contractual provisions of the instrument. Loans to customers are recognized when funds are transferred to the customers' accounts.

### Financial assets

The Group only measures *Loans to customers* and other financial investments at amortized 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 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.

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 asset or
- 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

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 amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR.

A financial liability is derecognized 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 recognized in profit or loss.

## Impairment of financial assets

### Overview of the ECL principles

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 in Note 8.

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, by considering the change in the risk of default occurring over the remaining life of the financial instrument..
Based on the above process, the Group groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognized, the Group recognizes 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.

- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. The ECL allowance is only recognised or released to the extent that there is a subsequent change in the expected credit losses.

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 mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- **PD** — The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. 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.
- **EAD** — The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- **LGD** — The 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. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral or credit enhancements that are integral to the loan and not required to be recognised separately. It is usually expressed as a percentage of the EAD.

Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI receivables. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

The mechanics of the ECL method are summarized 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 (Note 7) 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 recognizes the lifetime expected credit l osses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition.

### Forward looking information

In its ECL models, the Group relies on the following forward-looking information as economic input (Note 7):

- GDP growth
- Unemployment

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.



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### Time horizon

Generally, time horizon used to analyze the information from the past is considered at least 12 month. 12-month-horizon is also used the other way for forward-looking estimates.

### Write-offs

Financial assets are derecognized after 365 days past due (DPD), when collection is no longer considered probable. 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 measured 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 | 20%-50% |
| Furniture | 15%-33% |

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 acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.



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Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete, and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

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.

### Impairment and derecognition of non-financial assets

Fixed assets are derecognized upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

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 Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognized in the statement of profit or loss as "Other operating expenses".

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss on the same line item where the impairment loss was previously recognized.

## Leases

### Group as a lessee

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 transition to IFRS 16 is done on 01.01.2019 and no retrospective restatements of lease agreements are made.

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

### Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, the depreciation rates ranging from 14%-50%.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. At the end of each reporting period, an entity is required to assess whether there is any indication that an asset may be impaired (i.e. its carrying amount may be higher than its recoverable amount). If there is an indication that an asset may be impaired, then the asset's recoverable amount must be calculated. If fair value less costs of disposal or value in use is more than carrying amount, it is not necessary to calculate the other amount. If fair value less costs of disposal cannot be determined, then recoverable amount is value in use. For assets to be disposed of, recoverable amount is fair value less costs of disposal. The impairment loss is recognized as an expense (unless it relates to a revalued asset where the impairment loss is treated as a revaluation decrease).

### Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group's lease liabilities are disclosed as part of the *Right-of-use assets and lease liabilities* (see Note 16), but also included in *Financial liabilities* (see Note 24).

### Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Policy applicable before 1 January 2019

In the comparative period, the Group as a lessee classified leases that transfer substantially all of the risks and rewards of ownership as finance leases and all other leases as operating leases. In case of finance leases, upon initial recognition the leased assets were measured at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset. Assets held under operating leases were not recognized in the Group's statement of financial position. Instead, payments made under such leases were recognized in profit or loss on a straight-line basis over the term of the lease.

### Group as a lessor

As a lessor, the Group determines at lease inception whether the lease is a finance lease or an operating lease. If the Group determines that the lease transfers substantially all of the risks and rewards of ownership of the underlying asset, the lease is a finance lease. Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

The accounting policies applied by the Group as a lessor in the comparative period were not different from IFRS 16.

## 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 in Estonia. 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 recognized in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

### Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in 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 valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values.

If there is no market price for a given financial asset or liability, its fair value is estimated on the basis of the price established in recent transactions involving similar instruments or, in the absence thereof, by using mathematical measurement models that are sufficiently tried and trusted by the international financial community. The estimates used in such models take into consideration the specific features of the asset or liability to be measured and, in particular, the various types of risk associated with the asset or liability. However, the limitations inherent in the measurement models and possible inaccuracies in the assumptions and parameters required by these models may mean that the estimated fair value of an asset or liability does not exactly match the price for which the asset or liability could be exchanged or settled on the date of its measurement.

The Group has an investment in a former subsidiary in Kosovo which is classified as a financial instrument as of December 2019 and is measured at fair value through profit or loss from thereon. No observable quoted prices are available for the measurement of such an investment. Instead, management has used unobservable (level 3) inputs in the measurement.

The inputs used in the valuation of ICKO are described in Note 27.

### Sensitivity of fair value measurements to changes in unobservable market data

Sensitivity analysis based on exchange rate and interest rate risks and other forward-looking input in ECL calculation are given hereinafter by showing the effect of changing the significant unobservable inputs to reasonable possible alternatives. All changes except for debt instruments classified as available-for-sale would be reflected in the Income statement. Sensitivity data are calculated using a number of techniques, including analysing price dispersion of different price sources, adjusting model inputs to reasonable changes within the fair value methodology.

The ranges are not comparable or symmetrical as the model inputs are usually not in the middle of the favourable/unfavourable range.

### Impairment losses on financial assets

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.

The Group continuously monitors all assets subject to ECL. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition. The Group considers an exposure to have significantly increased in credit risk when the IFRS 9 lifetime PD has doubled since initial recognition.

The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Group may also consider that events are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets, the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Group used the following classification into stages:

- Stage 1 – all non-defaulted loans with DPD<=30 (DPD - Days Past Due)
- Stage 2 – all non-defaulted loans with 30<DPD<=50
- Stage 3 – all defaulted loans (DPD>50)
- POCI: Purchased or originated credit impaired (POCI) assets

In its ECL models, the Group relies on a broad range of forward-looking information as economic inputs, such as• GDP growth and unemployment.

The inputs and models used for calculating ECL 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.

Before 01.01.2019 the distribution between stage 1 and stage 2 was lined with DPD 5. Due to the reassessment by the Management Board it was considered to be too conservative and was not comparable to the other market indicators. Therefore since 01.01.2019 the line has been raised up to 30 days which is more characteristic to the group's customer behavior. This is considered as change in estimation.

The forward-looking adjustment is performed in a simplified way, by comparing the forecasted GDP growth and unemployment change for one year from reporting date, with the latest GDP growth and unemployment change available. There is also used a correlation factor of 60% between the PD and GDP (set expertly). Table below demonstrates the sensitivity to a reasonably possible change in forward-looking input by +/-1% on that portion of loan portfolio and expected credit loss in response:

| | in thousand EUR | | | Favourable changes | | | Unfavourable changes | | |
|---|---|---|---|---|---|---|---|---|---|
| 31.12.2019 | Gross portfolio in total | Sum of ECL in total | Sum of NLP in total | Gross portfolio in total | Sum of ECL in total | Sum of NLP in total | Gross portfolio in total | Sum of ECL in total | Sum of NLP in total |
| Albania | 32 894 | 4 429 | 28 465 | 32 894 | 4 426 | 28 468 | 32 894 | 4 432 | 28 462 |
| stage 1 | 27 319 | 713 | 26 606 | 27 319 | 711 | 26 608 | 27 319 | 715 | 26 604 |
| stage 2 | 625 | 98 | 527 | 625 | 97 | 528 | 625 | 98 | 527 |
| stage 3 | 4 950 | 3 618 | 1 332 | 4 950 | 3 618 | 1 332 | 4 950 | 3 618 | 1 332 |
| Bosnia | 1 360 | 120 | 1 241 | 1 360 | 119 | 1 241 | 1 360 | 120 | 1 240 |
| stage 1 | 1 169 | 25 | 1 143 | 1 169 | 25 | 1 144 | 1 169 | 25 | 1 143 |
| stage 2 | 64 | 8 | 56 | 64 | 8 | 56 | 64 | 9 | 56 |
| stage 3 | 127 | 86 | 41 | 127 | 86 | 41 | 127 | 86 | 41 |
| Kosovo | 13 067 | 2 265 | 10 802 | 13 067 | 2 263 | 10 804 | 13 067 | 2 268 | 10 800 |
| stage 1 | 10 125 | 447 | 9 678 | 10 125 | 445 | 9 680 | 10 125 | 449 | 9 676 |
| stage 2 | 536 | 85 | 452 | 536 | 84 | 452 | 536 | 85 | 451 |
| stage 3 | 2 406 | 1 734 | 672 | 2 406 | 1 734 | 672 | 2 406 | 1 734 | 672 |
| Macedonia | 9 706 | 1 675 | 8 031 | 9 706 | 1 674 | 8 032 | 9 706 | 1 676 | 8 030 |
| stage 1 | 7 597 | 191 | 7 406 | 7 597 | 190 | 7 407 | 7 597 | 191 | 7 405 |
| stage 2 | 241 | 57 | 184 | 241 | 57 | 184 | 241 | 57 | 183 |
| stage 3 | 1 868 | 1 428 | 441 | 1 868 | 1 428 | 441 | 1 868 | 1 428 | 441 |
| Moldova | 48 144 | 6 876 | 41 267 | 48 144 | 6 873 | 41 271 | 48 144 | 6 880 | 41 264 |
| stage 1 | 39 193 | 941 | 38 252 | 39 193 | 938 | 38 254 | 39 193 | 943 | 38 249 |
| stage 2 | 872 | 114 | 759 | 872 | 113 | 759 | 872 | 114 | 758 |
| stage 3 | 8 079 | 5 822 | 2 257 | 8 079 | 5 822 | 2 257 | 8 079 | 5 822 | 2 257 |
| Total | 105 171 | 15 366 | 89 806 | 105 171 | 15 357 | 89 815 | 105 171 | 15 375 | 89 797 |
| change (+/-) | | | | | -9 | 9 | | 9 | -9 |

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

## Going concern

The Group's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

## Provisions and other contingent liabilities

The Group operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings both in Estonia and in other jurisdictions, arising in the ordinary course of the Group's business.

When the Group can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Group records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Bank is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Bank does not include detailed, case-specific disclosers in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Group takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

## Capitalization of intangible assets

For capitalization of expenses in process of developing Group's system (LES) and other IT systems management uses certain assumptions. Capitalization of salary expenses of IT personnel is based on employee time sheets and personnel involved in development dedicate up to 100% of their time on developing new functionality. Therefore up to 100% of salary expenses of involved personnel are capitalized under intangible assets.

## Determination of the lease term for lease contracts with renewal and termination options (Group as a lessee)

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.
The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

# 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 Bosnia 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, Bosnia and Bulgaria

The economic sustainability of these countries 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, Macedonians, Bosnians and Bulgarians 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.

But, as it turned out, regular monitoring does not save us from unexpected events like what happened in Kosovo, provoked by the regulator. Fortunately, our equity is strong, and we are able to cope with such unexpected events.

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. 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 by keeping it above 15%, supporting business development and to meet the Eurobond covenants. This objective was accomplished in 2019. See also Note 24.
- Secure investors' claims in accordance with agreed terms. This objective was met in 2019.

Equity holders base any decisions regarding the distribution of dividends or increasing or decreasing the share capital on the financial position of the Group.

## 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 table demonstrates the sensitivity to a reasonably possible change in the USD and EUR, MDL and EUR, ALL and EUR, MKD and EUR exchange rates, BGN and EUR exchange rates, BAM 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. Effect on equity applies the same effect on equity. From the calculation is excluded the effect on Group's internal loans and other accruals.

| | Currency | in thousand EUR 31.12.2018 | in thousand EUR 31.12.2019 | Average fluctuation |
|---|---|---|---|---|
| MDL | | 19,5212 | 19,2605 | 19,3909 |
| | Change in exchange (MDL) | 4,35% | 1,34% | 2,84% |
| | Effect on profit before tax(MDL) | 759 | 346 | 553 |
| | Effect on equity(MDL) | 458 | 206 | 332 |
| USD | | 1,1450 | 1,1234 | 1,1342 |
| | Change in exchange (USD) | 4,53% | 1,89% | 3,21% |
| | Effect on profit before tax(USD) | 25 | 3 | 14 |
| | Effect on equity(USD) | 25 | 3 | 14 |
| ALL | | 123,42 | 121,77 | 122,60 |
| | Change in exchange (ALL) | 7,17% | 1,34% | 4,25% |
| | Effect on profit before tax(ALL) | 457 | 192 | 325 |
| | Effect on equity(ALL) | 120 | 99 | 110 |
| MKD | | 61,4950 | 61,4856 | 61,4903 |
| | Change in exchange (MKD) | -0,01% | 0,02% | 0,00% |
| | Effect on profit before tax(MKD) | 0 | 1 | 0 |
| | Effect on equity(MKD) | 0 | 0 | 0 |
| BGN | | 1,9558 | 1,9558 | 1,9558 |
| | Change in exchange (BGN) | 0 | 0 | 0,00% |
| BAM | | 1,9558 | 1,9558 | 1,9558 |
| | Change in exchange (BAM) | 0 | 0 | 0,00% |

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 2019 were 87 749 thousand EUR (2018: 42 600 thousand EUR), weakening of all exchange rates by investment maturity date by 20% would bring a loss of ca 17 550 thousand EUR (2018: 8 520 thousand EUR). 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 8 968 thousand EUR (2018: 3 855 thousand EUR). A 20% decrease of exchange values would therefore cause the financial expenses to increase by 1 794 thousand EUR (2018: 771 thousand EUR). 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 76%), MDL (ca 10%), ALL (ca 14%) and USD (ca 0%).
• Diversification of maturity dates – liabilities are assumed and become mature on different dates. Except for the senior secured bonds (FRA 40, see Note 24), 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.

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:

| | | Loans to customers | | Loans from creditors | |
|---|---|---|---|---|---|
| Currency | Changes in base interest rate, in bps | Effect on profit before tax in 2018 in thousand EUR | Effect on profit before tax in 2019 in thousand EUR | Effect on profit before tax in 2018 in thousand EUR | Effect on profit before tax in 2019 in thousand EUR |
| EUR | +/- 100 | +/-40 | 0 | +/-324 | +/-439 |
| EUR | +/- 300 | +/-120 | 0 | +/-971 | +/-1316 |
| EUR | +/- 500 | +/-200 | 0 | +/-1619 | +/-2193 |
| USD | +/- 100 | 0 | 0 | +/-6 | +/-1 |
| USD | +/- 300 | 0 | 0 | +/-17 | +/-4 |
| USD | +/- 500 | 0 | 0 | +/-28 | +/-6 |
| MDL | +/- 100 | +/-282 | +/-406 | +/-37 | +/-49 |
| MDL | +/- 300 | +/-845 | +/-1219 | +/-111 | +/-148 |
| MDL | +/- 500 | +/-1409 | +/-2032 | +/-185 | +/-247 |
| ALL | +/- 100 | +/-163 | +/-269 | +/-22 | +/-76 |
| ALL | +/- 300 | +/-488 | +/-808 | +/-65 | +/-229 |
| ALL | +/- 500 | +/-814 | +/-1346 | +/-108 | +/-381 |
| MKD | +/- 100 | +/-36 | +/-90 | 0 | +/-31 |
| MKD | +/- 300 | +/-107 | +/-269 | +/-1 | +/-93 |
| MKD | +/- 500 | +/-179 | +/-449 | +/-2 | 0 |
| BAM | +/- 100 | 0 | +/-25 | 0 | 0 |
| BAM | +/- 300 | 0 | +/-74 | 0 | 0 |
| BAM | +/- 500 | 0 | +/-123 | 0 | 0 |
| BGN | +/- 100 | 0 | 0 | 0 | 0 |
| BGN | +/- 300 | 0 | 0 | 0 | 0 |
| BGN | +/- 500 | 0 | 0 | 0 | 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 the Group'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 - Chief Executive Officer, CCO – Chief Commercial Officer, CFO – Chief Financial Officer, COO- Chief Operations Officer and CRO – Chief Rick Officer. The main responsibility to organize, record and communicate Group CreCo's work and decisions carry 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 is using the following classification into stages:

- Stage 1 – all non-defaulted loans with DPD<=30 (DPD - Days Past Due)
- Stage 2 – all non-defaulted loans with 30<DPD<=50
- 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 | 31.12.2019 in thousand EUR | 31.12.2018 in thousand EUR |
|---|---|---|
| Cash and bank accounts | 6 734 | 2 628 |
| Loans to customers | 79 005 | 48 051 |
| Other assets | 2 489 | 1 283 |
| Financial assets | 5 322 | 1 456 |
| **TOTAL** | **93 549** | **53 417** |

See also Notes 20, 21, 22 and 23.

## 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 EUR and 10 thousand EUR, and weighted average annual percentage rate (APR) 60% and effective interest rate

(EIR) 92% 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. By average 55% 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.

Analysis of financial assets and liabilities by contractual maturities continued:

| in thousand EUR | | Up to 1 year | 1 to 5 years | TOTAL |
|---|---|---|---|---|
| **Loans issued, maturity** | 31.12.2019 | 67 886 | 24 219 | **92 104** |
| (Note 21) | 31.12.2018 | 35 132 | 25 384 | **60 516** |
| **Loans received, maturity** | 31.12.2019 | 34 689 | 67 268 | **101 958** |
| | 31.12.2018 | 23 954 | 19 136 | **43 090** |
| **Lease liabilities, maturity** | 31.12.2019 | 953 | 2 131 | **3 084** |
| **Liquidity gap** | 31.12.2019 | 32 243 | -45 180 | **-12 937** |
| | 31.12.2018 | 11 178 | 6 247 | **17 426** |

Undiscounted long-term future cash flows from gross lease liabilities (before deducting finance charges) and gross loan commitments turn gap negative in long-term perspective regarding the end of current reporting year.
Above given table consists claims that have turned collectible by the end of the reporting year but does not include the future receivables from the active loan contracts, that will be collectible between the balance sheet date and contractual term or prognosis of the future receivables what will be collected from the un-activated new contracts or from ICKO.
On the contrary to that, the liabilities are recorded in aggregate as contractually obliged during the whole contractual period.
This allows to assume that Group will not have liquidity problems in the future.
According to the short-term perspective liquidity risk is considered low.

## 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.

### 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 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 customers.

## 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 Corrections in classification, changes in accounting principles and presentation

## Corrections in classification

During the past financial year, the misstatement in recognition of revenue has been determined due to the dealer bonuses, which were previously recognized as an advertising expense, but should be part of the revenue. Extraordinary income related to the collected written off claims are moved under other income. Therefore, in 2019, also in the comparative period, dealer bonuses are classified as a reduction in income and collected written off claims as other income. Due to the fact that this reclassification took place only between three rows in the income statement, the effect on the result for the comparative period was zero (all figures shown in thousand EUR):

| Impact on Consolidated Statement of Comprehensive Income | Initial amounts of 2018 | Correction | Corrected amounts of 2018 |
|---|---|---|---|
| Loan and administration fees and penalties | 10 549 | -1 109 | 9 440 |
| Other income | 1 | 346 | 347 |
| Other operating expenses | -5 978 | 763 | -5 215 |
| Total impact on the profit for the reporting period | 4 572 | 0 | 4 572 |

Received and repaid loans, change in overdraft and paid interests are reclassified under financing activities because of the nature of these cash flows. The impact for the total change in cash and cash equivalents of 2018 is zero (all figures shown in thousand EUR):

| Impact to Consolidated Statement of Cash Flows | Initial amounts of 2018 | Correction | Corrected amounts of 2018 |
|---|---|---|---|
| Loans received from investors | 26 081 | 0 | 26 081 |
| Repaid loans to investors | -10 758 | 0 | -10 758 |
| Change in overdraft | 1 974 | 0 | 1 974 |
| Interest paid | -3 677 | 0 | -3 677 |
| Net cash flows from operating activities | 2 914 | -13 620 | -10 706 |
| Net cash flows from financing activities | 1 235 | 13 620 | 14 855 |
| Total impact for the change in cash flows | 17 769 | 0 | 17 769 |

## Changes in accounting principles

To improve the presentation of the statement of cash flows and increase comparability to the financial reporting of peer entities the Group has implemented direct method, instead of indirect regarding the net cash flows from operating activities. The impact for the total change in cash and cash equivalents of 2018 is zero (all figures shown in thousand EUR):

| Impact to Consolidated Statement of Cash Flows | Initial amounts of 2018 | Correction | Corrected amounts of 2018 |
|---|---|---|---|
| Profit for the financial year | 7 256 | -7 256 | 0 |
| Depreciation of property and equipment | 115 | -115 | 0 |
| Amortisation of intangible assets | 105 | -105 | 0 |
| Allowances for loan impairment | 10 376 | -10 376 | 0 |
| Losses from asset disposals | 279 | -279 | 0 |
| Net foreign exchange difference | -662 | 662 | 0 |
| Interest and commission fee income | -22 602 | 22 602 | 0 |
| Fee income | -10 549 | 10 549 | 0 |
| Interest expense | 3 855 | -3 855 | 0 |
| Income tax expense | 2 244 | -2 244 | 0 |
| Paid out to customers | -81 722 | 81 722 | 0 |
| Total principal repayments from customers | 51 301 | -51 301 | 0 |
| Interest, commission fees received | 27 499 | -27 499 | 0 |
| Change in other assets | -466 | 466 | 0 |
| Change in other liabilities | 3 669 | -3 669 | 0 |
| Prepayments to partners for issuance of loans | 0 | -6 263 | -6 263 |
| Received pre- and overpayments from customers | 0 | 9 312 | 9 312 |
| Paid trade payables | 0 | -5 942 | -5 942 |
| Received debts from buyers and received other claims | 0 | 68 | 68 |
| Received from collection companies | 0 | 7 432 | 7 432 |
| Paid net salaries | 0 | -2 311 | -2 311 |
| Paid tax liabilties, exc. CIT | 0 | -1 473 | -1 473 |
| Paid out to customers | 0 | -39 316 | -39 316 |
| Principal repayments from customers | 0 | 20 429 | 20 429 |
| Interest, commission and other fees | 0 | 8 761 | 8 761 |
| Total impact for the change in cash flows | -9 302 | 0 | -9 302 |



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# 10 Interest income

| Interest and similar income | 2019 in thousand EUR | 2018 in thousand EUR |
|---|---|---|
| Interest on loans to customers and commission | 46 987 | 22 602 |
| Other interest | 7 | 0 |
| **TOTAL** | **46 994** | **22 602** |

See also Notes 12 and 28.

# 11 Interest expenses

| Interest expense | 2019 in thousand EUR | 2018 in thousand EUR |
|---|---|---|
| Interest on amounts due to creditors | -5 005 | -2 257 |
| Interest on amounts due to lease liabilities (Note 16) | -80 | 0 |
| Interest on bonds | -3 883 | -1 598 |
| **TOTAL** | **-8 968** | **-3 855** |

See also Notes 16 and 24.

# 12 Other fees and penalties

| Other fees and penalties | 2019 in thousand EUR | 2018 in thousand EUR |
|---|---|---|
| Penalties under loans and delay interests | 3 720 | 8 702 |
| Dealer bonuses* | -1 456 | -763 |
| Resigns under customer loans | 778 | 1 501 |
| **TOTAL** | **3 041** | **9 440** |

See also Notes 10 and 28.

*Since the beginning of 2019, dealer bonuses are recognized as a revenue component, which has also retrospective effect on Group's incomes and operating expenses (see Notes 9 and 18).

# 13 Allowance for impairment of loans to customers

| **Allowance for impairment of loans to customers** | **2019 in thousand EUR** | **2018 in thousand EUR** |
|---|---|---|
| **At the beginning of the year** | **-12 465** | **-3 594** |
| IFRS 9 adjustment to opening balances | 0 | -996 |
| **Adjusted opening balance at the beginning of the year** | **-12 465** | **-4 590** |
| Arising during the year | -10 937 | -10 376 |
| Other changes | 1 692 | -287 |
| Utilized | 8 853 | 3 226 |
| Exchange differences | -243 | -437 |
| **At the end of the year** | **-13 100** | **-12 465** |

The Group has taken into account historical information, but the estimates are made on forward-looking basis.

On the row "Other changes" is reflected the impact on allowance for impairment related to the revocation process of IuteCredit Kosovo JSC (in 2018 the acquisition process of Final Sh.a.).
Despite significant growth in the gross loan portfolio quite stable change of allowances of current period was influenced by the implementation of cash-based method in secondary revenue approach (see Note 12), drawing the estimation line between stage 1 and stage 2 from 5 days to 30 days (DPD) and adjusting also written off procedures (>365 days past due), which in total raised the quality and transparency of the total loan portfolio.

See also Notes 21 and 28.

| **Credit loss expense 2019** | **stage 1** | **stage 2** | **stage 3** | **Net impairment charges** |
|---|---|---|---|---|
| **Loans to customers** | 920 | 1 911 | -13 768 | -10 937 |
| **Total** | **920** | **1 911** | **-13 768** | **-10 937** |

| **Credit loss expense 2018** | **stage 1** | **stage 2** | **stage 3** | **Net impairment charges** |
|---|---|---|---|---|
| **Loans to customers** | 3 061 | 2 240 | -15 678 | -10 376 |
| **Total** | **3 061** | **2 240** | **-15 678** | **-10 376** |

# 14 Personnel expenses

| **Personnel expenses** | **2019 in thousand EUR** | **2018 in thousand EUR** |
|---|---|---|
| Salaries and bonuses | -4 693 | -2 853 |
| Social security expenses | -1 207 | -729 |
| Medical insurance expenses | -39 | -59 |
| Other expenses | -357 | -245 |
| **TOTAL** | **-6 296** | **-3 885** |
| | | |
| Number of employees adjusted to full-time as at the end of the period | 347 | 233 |

On the row "Other expenses" are among other expenses recognized changes in vacation reserves.



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From the number of employees in 2019 the staff of IuteCredit Kosovo JSC has been excluded, since by the end of the period this entity is not consolidated anymore.

See also Note 28.

# 15 Property, plant and equipment

| **Furniture and equipment** | **2019 in thousand EUR** | **2018 in thousand EUR** |
|---|---|---|
| *Acquisition cost* | | |
| **At the beginning of the year** | **760** | **307** |
| Additions | 832 | 320 |
| Other changes | -83 | 96 |
| Prepayments | 33 | 13 |
| Disposals and write-offs | -214 | -1 |
| Exchange differences | 13 | 24 |
| **At the end of the year** | **1 341** | **760** |
| *Depreciation and impairment* | | |
| **At the beginning of the year** | **-263** | **-103** |
| Depreciation charge for the year | -213 | -103 |
| Other changes | 23 | -48 |
| Disposals and write-offs | 140 | 0 |
| Exchange differences | -3 | -10 |
| **At the end of the year** | **-316** | **-263** |
| **Net book value at 31.12.** | **1 025** | **496** |

"Other changes" reflects the effects of loss of control of IuteCredit Kosovo JSC (in 2018 the acquisition process of Final Sh.a.).

# 16 Right-of-use-assets and lease liabilities

| **Right-of-use assets (offices)** | **2019 in thousand EUR** | **2018 in thousand EUR** |
|---|---|---|
| *Acquisition cost* | | |
| **At the beginning of the year** | **0** | **0** |
| IFRS 16 adjustment to opening balances | 908 | 0 |
| **Adjusted opening balance at the beginning of the year** | **908** | **0** |
| Additions | 3 177 | 0 |
| Exchange rate differences | 19 | 0 |
| Loss of control of subsidiary | -577 | 0 |
| **At the end of the year** | **3 527** | **0** |
| *Depreciation* | | |
| **At the beginning of the year** | **0** | **0** |
| Depreciation charge for the year | -777 | 0 |
| Exchange rate differences | -4 | 0 |
| Loss of control of subsidiary | 104 | 0 |
| **At the end of the year** | **-677** | **0** |
| **Net book value 01.01.** | **908** | **0** |
| **Net book value 31.12.** | **2 850** | **0** |

| **Lease liabilities (office rent)** | **2019 in thousand EUR** | **2018 in thousand EUR** |
|---|---|---|
| *Short-term* | | |
| **At the beginning of the year** | **0** | **0** |
| IFRS 16 adjustment to opening balances | 220 | 0 |
| **Adjusted opening balance at the beginning of the year** | **220** | **0** |
| Additions | 3 150 | 0 |
| Accretion of interest | 80 | 0 |
| Repayments | -865 | 0 |
| Reclassifications and periodization | -1 608 | 0 |
| Exchange rate differences | 11 | 0 |
| Loss of control of subsidiary | -126 | 0 |
| **At the end of the year** | **863** | **0** |
| *Long-term* | | |
| **At the beginning of the year** | **0** | **0** |
| IFRS 16 adjustment to opening balances | 658 | 0 |
| **Adjusted opening balance at the beginning of the year** | **658** | **0** |
| Reclassifications and periodization | 1 608 | 0 |
| Loss of control of subsidiary | -335 | 0 |
| **At the end of the year** | **1 931** | **0** |
| **Lease liabilities in total 01.01.** | **879** | **0** |
| **Lease liabilities in total 31.12.** | **2 794** | **0** |

| Recognised in profit or loss | 2019 in thousand EUR | 2018 in thousand EUR |
|---|---|---|
| Depreciation expense of right-of-use assets | -777 | 0 |
| Loss of control of subsidiary | -12 | 0 |
| Interest expense on lease liabilities | -80 | 0 |
| Exchange rate differences | 3 | 0 |
| Expense relating to leases of low-value assets | -20 | 0 |
| Expense relating to leases of short-term leases | -76 | 0 |
| **Total amount recognised in profit or loss** | **-962** | **0** |

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

| | in thousand EUR |
|---|---|
| Operating lease commitments as at 31.12.2018 | 1 005 |
| Weighted average incremental borrowing rate as at 01.01.2019 | 10,75% |
| Discounted operating lease commitments as at 01.01.2019 | 964 |
| *Less:* | |
| Commitments relating to leases of low value assets | -93 |
| Commitments relating to short-term leases | -135 |
| *Add:* | |
| Commitments relating to leases previously classified as finance leases | 143 |
| **Lease liabilities as at 01.01.2019** | **879** |

The Group has adopted IFRS 16 using the modified retrospective approach of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard is recognized in retained earnings at the date of initial application and comparative information is not restated.
The Group elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application, i.e. 1 January 2019. The right-of-use assets were measured at an amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized – the Group applied this approach to all leases.

Discount rates used for to a portfolio of leases varied from 8%-12% (average 10%), portfolios segregated on country-basis. The maturity analysis is provided in Note 8. Maximum lease term is estimated as 84 months.

"Loss of control of subsidiary" relates to the right-of-use assets and lease liabilities derecognized upon the revocation of license of IuteCredit Kosovo JSC.



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# 17 Intangible assets

| Computer software | 2019<br>EUR | 2018<br>EUR |
|---|---|---|
| *Acquisition cost* | | |
| **At the beginning of the year** | **1 020** | **505** |
| Additions | 67 | 407 |
| Other changes | -1 | 62 |
| Prepayments and work-in progress | 2 681 | 38 |
| Disposals and write-offs | -41 | -25 |
| Exchange differences | 8 | 33 |
| **At the end of the year** | **3 734** | **1 020** |
| | | |
| *Depreciation and impairment* | | |
| **At the beginning of the year** | **-280** | **-126** |
| Depreciation charge for the year | -164 | -115 |
| Other changes | 0 | -59 |
| Disposals and write-offs | 40 | 25 |
| Exchange differences | -3 | -5 |
| **At the end of the year** | **-408** | **-280** |
| | | |
| **Net book value at 31.12.** | **3 326** | **740** |

On the rows "Other changes" is reflected the impact on intangible assets in their acquisition costs and depreciation related to the revocation process of IuteCredit Kosovo JSC (in 2018 the acquisition process of Final Sh.a.).

# 18 Other operating expenses

| Other operating expenses | 2019<br>in thousand EUR | 2018<br>in thousand EUR |
|---|---|---|
| Advertising expenses* | -2 620 | -999 |
| Office lease expenses (Note 16) | -96 | -325 |
| Outsource services | -2 061 | -1 286 |
| Repair, maintenance of property and equipment | -168 | -193 |
| Utilities | -190 | -53 |
| Telecommunication and IT | -537 | -293 |
| Small items of equipment | -199 | -246 |
| Transportation | -369 | -244 |
| Withheld taxes | -314 | -190 |
| Net loss from investments | -6 038 | 0 |
| Other operating expenses | -1 616 | -1 389 |
| **TOTAL** | **-14 206** | **-5 215** |

*Since the beginning of 2019, dealer bonuses are recognized as a revenue component, which has also retrospective effect Group's incomes and operating expenses. Advertising expenses of 2018 have been decreased correspondingly (see Notes 9 and 12).

Net loss from investments includes among other costs also gain from the sale of Final Sh.a. in amount of 145 thousand EUR and loss from the IuteCredit Kosovo JSC in amount of 6 183 thousand EUR.

# 19 Income tax expense

| Income tax expense | 2019 in thousand EUR | 2018 in thousand EUR |
|---|---|---|
| Consolidated profit before tax | 10 467 | 9 500 |
| Current income tax expense from foreign jurisdictions | -2 106 | -2 255 |
| Change in deffered income tax (Note 22) | 11 | 11 |
| **Income tax expense reported in statement of comprehensive income** | **-2 096** | **-2 244** |

In 2019, shareholders declared and paid dividends in the amount of 2 248 thousand EUR (2019: 1 965 thousand EUR). As at 31 December 2019 1 thousand EUR remained unpaid.

As at 31 December 2019, the Group's retained earnings amounted to 8 035 thousand EUR (31.12.2018: 2 284 thousand EUR). The distribution of these retained earnings as dividends would be subject to income tax at the maximum 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 1 412 thousand EUR (31.12.2018: 1 503 thousand EUR). When calculating the maximum income tax liability that may arise if all retained earnings were distributed, the Group also considers the profits already taxed in foreign locations. Therefore, after allocation to statutory reserves (see Note 33) it is possible to distribute 6 600 thousand EUR (31.12.2018: 1 832 thousand EUR) of the retained earnings as at the balance sheet date as net dividends.

The corporate income tax on the payment of dividends would amount to 1 297 thousand EUR (31.12.2018: 82 thousand EUR).

# 20 Cash and bank accounts

| Cash and bank accounts | | 31.12.2019 in thousand EUR | 31.12.2018 in thousand EUR |
|---|---|---|---|
| Cash on hand | | 53 | 1 |
| Bank accounts | | 6 681 | 2 627 |
| **TOTAL** | | **6 734** | **2 628** |
| **Due from banks and cash by ECL charges** | | | |
| | Stage 1 | 6 734 | 2 628 |
| | Stage 2 | 0 | 0 |
| | Stage 3 | 0 | 0 |

# 21 Loans to customers

Table on the next sheet 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.

| in thousand EUR<br>31.12.2019 | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **According to IFRS 9** | | | | |
| Gross loans to customers | 67 618 | 1 617 | 13 463 | **82 698** |
| Accrued interest from loans | 7 886 | 185 | 1 335 | **9 406** |
| Allowances for loan impairment | -1 870 | -277 | -10 953 | **-13 100** |
| **TOTAL** | **73 634** | **1 526** | **3 845** | **79 005** |
| Total share in loans to customers | 93% | 2% | 5% | 100% |
| Gross NPL ratio | | | 16% | |
| Impairment coverage ratio | | | 89% | |

| 31.12.2018 | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **According to IFRS 9** | | | | |
| Gross loans to customers | 38 771 | 4 728 | 9 238 | **52 737** |
| Accrued interest from loans | 5 753 | 724 | 1 301 | **7 779** |
| Allowances for loan impairment | -3 061 | -2 240 | -7 163 | **-12 465** |
| **TOTAL** | **41 462** | **3 212** | **3 377** | **48 051** |
| Total share in loans to customers | 86% | 7% | 7% | 100% |
| Gross NPL ratio | | | 17% | |
| Impairment coverage ratio | | | 118% | |

Additional information regarding provisions has been disclosed in Notes 13 and 28.

Gross NPL ratio - non-performing loan portfolio (including accrued interest) with a delay of over 50 days / gross loan portfolio (including accrued interest).
Impairment coverage ratio - Total impairment (see Note 13)/ Gross NPL.

## 22 Other assets and prepayments

| Prepayments and other receivables | 31.12.2019<br>in thousand EUR | 31.12.2018<br>in thousand EUR |
|---|---|---|
| Deffered tax assets | 22 | 11 |
| Prepayments of rent | 18 | 9 |
| Prepayment of taxes | 700 | 19 |
| Prepayments to suppliers and deffered expenses | 174 | 212 |
| **Prepayments in total** | **913** | **251** |
| Receivables from collection companies | 452 | 207 |
| Receivables from parent company (Note 29) | 0 | 425 |
| Other receivables | 23 | 436 |
| Deposit receivables from partners | 2 013 | 215 |
| **Trade and other receivables in total** | **2 489** | **1 283** |
| **TOTAL** | **3 402** | **1 533** |



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# 23 Other financial investments

| Other financial investments | 31.12.2019 in thousand EUR | 31.12.2018 in thousand EUR |
|---|---|---|
| Other shares and securities (Note 27) | 4 587 | 0 |
| Prepayments for future investments (Note 27) | 0 | 256 |
| Deposit account (Note 24) | 5 322 | 1 200 |
| **TOTAL** | **9 908** | **1 456** |

On the row of "Other shares and securities" is recognized the fair value of the reclassified and unconsolidated investment of IuteCredit Kosovo JSC.

Deposits in sum 5 020 thousand EUR are set to guarantee for the overdrafts and are due in December 2020, deposit amount 302 thousand EUR is set on long-term purposes by the regulatory demand.

# 24 Financial liabilities

| In thousand EUR | 31.12.2019 | Maturity Up to 1 year | 1 to 5 years | Currency | Interest |
|---|---|---|---|---|---|
| Loans from investors and banks | 32 879 | 20 588 | 12 291 | EUR, MDL, USD, ALL, MKD | 1-20% |
| Overdraft | 9 076 | 4 810 | 4 266 | MDL, ALL | 3-14% |
| Lease liabilities (IFRS 16) | 2 794 | 863 | 1 931 | EUR, MLD, ALL, MKD, BAM, BGN | 8%-12% |
| Bonds in Albania | 550 | 0 | 550 | ALL | 12% |
| Convertible bonds | 16 | 0 | 16 | EUR | 5% |
| Eurobonds | 36 401 | 0 | 36 401 | EUR | 13% |
| Accrued interest | 2 357 | 2 357 | 0 | EUR, MDL, USD, ALL, MKD | |
| **TOTAL** | **84 073** | **28 618** | **55 455** | | |

| | 31.12.2018 | Maturity Up to 1 year | 1 to 5 years | Currency | Interest |
|---|---|---|---|---|---|
| Loans from investors and banks | 22 122 | 15 282 | 6 840 | EUR, MDL, USD, ALL, MKD | 3-17% |
| Overdraft | 4 907 | 3 157 | 1 750 | MDL, ALL | 3-14% |
| Bonds A11 | 1 816 | 0 | 1 816 | EUR | 12-14% |
| Bonds A10 | 3 550 | 0 | 3 550 | EUR | 14–16% |
| Bonds A9 | 3 414 | 0 | 3 414 | EUR | 14–16% |
| Bonds A9 | 437 | 0 | 437 | USD | 14% |
| Bonds A8 | 1 285 | 1 285 | 0 | EUR | 14% |
| Bonds A7 | 1 287 | 1 287 | 0 | EUR | 14–15% |
| Accrued interest | 361 | 361 | 0 | EUR, MDL, USD, ALL, MKD | |
| **TOTAL** | **39 178** | **21 372** | **17 807** | | |

Overdrafts in Moldova and Albania are all together limited in sum 9 078 thousand EUR (6 385 thousand EUR as at 31 December 2018). Short-term deposit amounts in Albania are set to guarantee the credit lines (see also Note 23).

ICF issued 40 000 thousand EUR of senior secured bonds at Frankfurt Stock Exchange with fixed coupon rate 13% as at 7th of August 2019 and with 4-year-maturity. Interest will be payable semi-annually on 7th of February and 7th of August of each year, commencing on 7th of February 2020. Interest will accrue from the issue date by actual days. The obligations of the issuer are guaranteed and pledged on a senior secured basis by AS IuteCredit Europe, the holding company of the group, and its subsidiaries taking into consideration all present and future receivables and bank accounts.

In addition to the statutory audit services, in 2019 our auditors at Ernst & Young Baltics AS provided us the service of issuance of comfort letter with agreed upon procedures in relation to the Offering Memorandum of the Eurobonds.

Due to the bond issue the Group's activity is a subject to the financial covenants on quarterly basis upon submission of the annual audited consolidated reports and interim unaudited quarterly consolidated reports: interest coverage ratio should not be less than 1.5 and capitalization ratio should not be less than 15%.
Eurobond covenant ratios:

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| **Capitalization** | | |
| Capitalization ratio (CR) - Equity/Net finance loans and advances to customers | 23,4% | 26,4% |
| | **2019** | **2018** |
| **Profitability** | | |
| Interest coverage ratio (ICR) - adjusted EBITDA/interest expenses | 2,2 | 3,3 |

The dividends and similar distributions are not allowed to be made to shareholders, unless they do not exceed 25% of the distributable profit, the interest coverage ratio for the period ending on the last day of the period covered by the most recent financial report is not less than 2.00 and the capitalization ratio of ICE on a consolidated basis is not less than 20.00%, determined on a pro forma-basis (including a pro forma-application of the net proceeds there from).

## 25 Other liabilities

| Other liabilities | 31.12.2019 thousand EUR | 31.12.2018 thousand EUR |
|---|---|---|
| Trade payables | 1 031 | 618 |
| Payables to employees | 601 | 560 |
| Corporate Income Tax payables | 455 | 1 359 |
| Deffered Tax payables | 289 | 489 |
| Unpaid dividends | 1 | 0 |
| Allocations and other provisions | 205 | 0 |
| Other liabilities | 1 093 | 396 |
| **TOTAL** | **3 676** | **3 421** |

"Other liabilities" consist of deferred revenues, advanced funds, customer over-/wrong payments and liabilities related to dealer loans.

## 26 Share capital

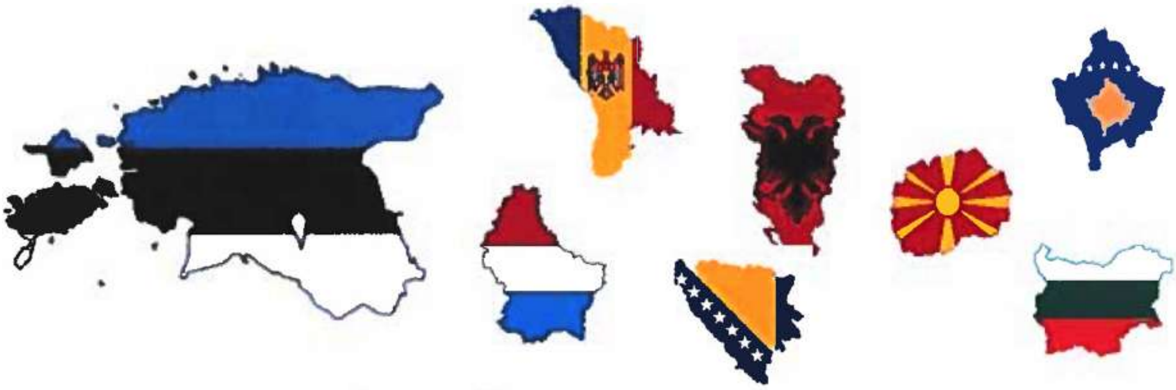
| Share capital | 31.12.2019 EUR | 31.12.2018 EUR |
|---|---|---|
| Share capital | 10 000 000 | 10 000 000 |
| Number of shares | 10 000 000 | 10 000 000 |
| Nominal value of share | 1,00 | 1,00 |

During the year some changes in minority shareholders' list have occurred, but majority shareholder and the distribution between majority's and minority's interest 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.

## 27 Investments in subsidiaries

| Subsidiary | Country | Acquisition date | 31.12.2019 | 31.12.2018 |
|---|---|---|---|---|
| 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 | 0% | 100% |
| IutePay Albania SH.P.K | Albania | 02.07.2018 | 100% | 100% |
| IuteCredit Bulgaria EOOD | Bulgaria | 11.03.2019 | 100% | 0% |
| MKD IuteCredit BH d.o.o. Sarajevo | Bosnia and Herzegovina | 29.03.2019 | 100% | 0% |
| IuteCredit Finance S.a.r.l. | Luxembourg | 01.07.2019 | 100% | 0% |



IuteCredit Albania SH.A acquired direct ownership in subsidiary Final SH.A in 2018. This entity was sold in May 2019. For the group, the sale by price of 366 thousand EUR ended up with a profit in the amount of 145 thousand EUR taking also into account reclassified unrealized foreign exchange differences from other comprehensive income (OCI) in amount of 37 thousand EUR.

AS IuteCredit Europe has registered ownership in IutePay Albania SH.P.K in 2018. As at 31.12.2019 and 31.12.2018 parent company has not contributed any payment for the equity. Local legislation does not prevent an enterprise from starting up and opening a bank account without making equity contributions. Therefore, even in such situation, the parent company has control over the registered company. Licensed business operations have not been started and the impact of the activities so far on the entire Group has been insignificant and only related to start-up costs. The interim liquidation plans have been postponed and as of 31.12.2019 the company plans to start its business in 2020.

New subsidiaries IuteCredit Bulgaria EOOD (ICBG) and MKD IuteCredit BH d.o.o. Sarajevo (ICBH) were established as at 11.03.2019 and as at 29.03.2019 correspondingly. MKD IuteCredit BH d.o.o. Sarajevo obtained the license to conduct business from market regulator on 29.03.2019 and IuteCredit Bulgaria EOOD obtained its license on 02.05.2019.

IuteCredit Finance S.a.r.l. (ICF) was acquired at the beginning of July 2019 as an empty shell company. This company issued 40 000 thousand EUR of senior secured bonds at Frankfurt Stock Exchange.

IuteCredit Kosovo (ICKO), received as of 6th of December 2019 without prior notice a notification from the Central Bank of Kosovo (CBK) that the ICKO microfinance license has been revoked with immediate effect and the liquidation has been started. According to the CBK decision, the reasons for the revocation of the license indicated to the background of shareholders and contradiction to the initial business plan at the time of submission in 2017. Management Board of the group is convinced that these complaints are legally ungrounded and may indicate to the malicious behavior by competitors. Regarding the assumed non-compliance with its business plan, ICKO had submitted a revised business plan to CBK on 14th of November 2019, which reflected ICKO's adjusted business operations. Until the date of revocation no feedback or other reaction has been received from CBK on the new business plan. The Management Board of the group makes every effort to resolve this situation positively, to restore the license and to control the subsidiary as soon as possible. As the event took place straight at the end of the financial year and the amount and probability of future litigation costs by the moment of composing current report is virtually impossible to predict, no provisions for litigation has been established as at 31.12.2019. However, as at 30th of November 2019, as a result of losing control over subsidiary, the assets and liabilities of that subsidiary have been derecognized and the retained investment has been classified as a financial instrument, measured at fair value. Parent company keeps the record of the portfolio and liabilities of ICKO off-balance sheet and the probability of realization is taken into account through fair value of financial investment. Liabilities are covered by ICE.

Remaining GLP of ICKO as at 31.12.2019 was 13 067 thousand EUR and NLP after impairment amounted to 4 207 thousand EUR, the balance of other assets in amount of 1 817 thousand EUR. The residual of liabilities amounted 3 717 thousand EUR, of which 3 113 thousand EUR was in majority related to Mintos. Expected and impaired in average by 59% future cash flows are valued in amount 2 610 thousand EUR. The present value of ICKO as at 31.12.2019 is found by WACC 9.32% and the period of 9 next month resulted in amount of 4 587 thousand EUR (see also Note 23). Description of the implemented discounted projected cash flow method is given in Note 7. Fair value of current investment qualifies in fair value hierarchy on level 3 (see Note 29). The most sensitive components in this assessment might be recovery rates due to the unprecdictable customer behavior. Nevertheless, considering above described circumstances the scope and full impact of this sensitivity is unmeasurable.

Investments to subsidiaries in unconsolidated statements composed using equity method:

| | | Investment in subsidiaries | | | | | |
|---|---|---|---|---|---|---|---|
| **In thousand EUR** | **31.12.2018** | **Dividends received** | **Contribution to share capital** | **Aquisition** | **Profit/loss using equity method** | **Sale** | **31.12.2019** |
| ICM | 11 306 | -1 770 | 0 | 0 | 6 895 | 0 | 16 431 |
| ICA | 1 622 | -386 | 0 | 0 | 4 218 | 0 | 5 454 |
| Iutepay Albania | 0 | 0 | 0 | 0 | 1 | 0 | 1 |
| ICKO | 0 | 0 | 540 | 0 | -540 | 0 | 0 |
| ICMK | 0 | 0 | 600 | 0 | -144 | 0 | 456 |
| IUTEPAY | 86 | 0 | 0 | 0 | -86 | 0 | 0 |
| ICBG | 0 | 0 | 1 023 | 0 | -142 | 0 | 881 |
| ICBH | 0 | 0 | 1 278 | 0 | -923 | 0 | 355 |
| ICF | 0 | 0 | 0 | 17 | 130 | 0 | 147 |
| FINAL | 1 116 | 0 | 0 | 0 | 34 | -1 150 | 0 |
| **Investments in subsidiaries** | **14 130** | **-2 156** | **3 441** | **17** | **9 443** | **-1 150** | **23 726** |

See also Notes 31.1 and 31.2.

# 28 Segment information

As at 31 December 2019, ICE had 8 subsidiaries: ICS OMF IuteCredit SRL (ICM) in Moldova, IuteCredit Albania SHA (ICA) and IutePay Albania SH.P.K (IutePay Albania) in Albania, IuteCredit Macedonia DOOEL-Skopje (ICMK) in North Macedonia, IutePay Bulgaria EOOD (IutePay Bulgaria) and IuteCredit Bulgaria EOOD (ICBG) in Bulgaria, MKD IuteCredit BH d.o.o. Sarajevo (ICBH) in Bosnia and IuteCredit Finance S.a.r.l. (ICF) in Luxembourg. Since the moment of the loss of control IuteCredit Kosovo JSC (ICKO) is considered to be an investment and therefore is not consolidated anymore.

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.

**In thousand EUR** — **Consolidated segment info**

| 31.12.2019 | ICE | ICM | ICA | ICMK | ICKO | Iutepay Bulgaria | FINAL | Iutepay Albania | ICBH | ICBG | ICF | In total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Loans to customers | 0 | 43 068 | 29 395 | 8 977 | 0 | 0 | 0 | 0 | 1 258 | 1 | 0 | 82 698 |
| Accrued receivables | 0 | 5 076 | 3 499 | 729 | 0 | 0 | 0 | 0 | 102 | 0 | 0 | 9 406 |
| Income | 33 | 24 932 | 15 685 | 4 914 | 4 896 | 0 | 71 | 0 | 253 | 0 | 0 | 50 785 |
| Allowances for loan impairment | 0 | -6 876 | -4 429 | -1 675 | 0 | 0 | 0 | 0 | -120 | 0 | 0 | -13 100 |
| Number of employees | 27 | 106 | 117 | 58 | 0 | 5 | 0 | 2 | 27 | 5 | 0 | 347 |
| Personnel expenses | -1 133 | -1 359 | -1 920 | -723 | -505 | -198 | -49 | 0 | -320 | -87 | 0 | -6 296 |

| 31.12.2018 | ICE | ICM | ICA | ICMK | ICKO | Iutepay Bulgaria | FINAL | Iutepay Albania | ICBH | ICBG | ICF | In total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Loans to customers | 0 | 28 180 | 16 279 | 3 573 | 3 994 | 0 | 710 | 0 | 0 | 0 | 0 | 52 737 |
| Accrued receivables | 0 | 3 451 | 3 786 | 432 | 102 | 0 | 9 | 0 | 0 | 0 | 0 | 7 779 |
| Income | 0 | 18 926 | 9 767 | 2 069 | 1 352 | 0 | 275 | 0 | 0 | 0 | 0 | 32 389 |
| Allowances for loan impairment | 0 | -5 266 | -4 616 | -1 447 | -971 | 0 | -165 | 0 | 0 | 0 | 0 | -12 465 |
| Number of employees | 15 | 77 | 76 | 30 | 28 | 7 | 0 | 0 | 0 | 0 | 0 | 233 |
| Personnel expenses | -661 | -1 232 | -1 071 | -358 | -308 | -131 | -124 | 0 | 0 | 0 | 0 | -3 885 |

See also Notes 10, 12, 13, 14 and 21.

# 29 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 2019, the fair value of interest-bearing loans to customers and loans, bonds from investors amounted to 79 005 thousand EUR and 84 073 thousand EUR respectively, other financial assets and investments in total 9 908 thousand EUR and other financial liabilities 2 124 thousand EUR. As at 31 December 2018, these values amounted to 48 051 thousand EUR, 39 178 thousand EUR, 3 125 thousand EUR and 1 014 thousand EUR 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. 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. The fair values of "Loans to customers" and "Financial liabilities at amortized cost" have been estimated by discounting estimated future cash flows using the market interest rates prevailing at each year-end. There have been no transfers between levels during the period and comparing market no significant distinctions in discount rates. 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 2019 and 31 December 2018 (in thousand 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 | 31.12.2019 | 0 | 0 | 79 005 | **79 005** |
| Other assets | 31.12.2019 | 0 | 0 | 2 489 | **2 489** |
| Other financial investments | 31.12.2019 | 0 | 0 | 9 908 | **9 908** |
| **Liabilities for which fair values are disclosed** | | | | | |
| Loans, bonds and accrued interest payables | 31.12.2019 | 0 | 0 | 84 073 | **84 073** |
| Trade payables | 31.12.2019 | 0 | 0 | 1 031 | **1 031** |
| Other liabilities | 31.12.2019 | 0 | 0 | 1 093 | **1 093** |
| **Assets for which fair values are disclosed** | | | | | |
| Loans and interest receivables to customers | 31.12.2018 | 0 | 0 | 48 051 | **48 051** |
| Other assets | 31.12.2018 | 0 | 0 | 1 669 | **1 669** |
| Other financial investments | 31.12.2018 | 0 | 0 | 1 456 | **1 456** |
| **Liabilities for which fair values are disclosed** | | | | | |
| Loans, bonds and accrued interest payables | 31.12.2018 | 0 | 0 | 39 178 | **39 178** |
| Trade payables | 31.12.2018 | 0 | 0 | 618 | **618** |
| Other liabilities | 31.12.2018 | 0 | 0 | 396 | **396** |

See also Notes 20, 21, 22, 23 and 24.

## 30 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. Other shares belong to minority shareholders owning no more than 3% of each.

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 24). 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:

| in thousand EUR | | Received loans | Repaid loans | Receivables | Liabilities |
|---|---|---|---|---|---|
| Senior management and majority shareholders with significant influence over undertakings | 2019 | 8 038 | 7 904 | 2 | 2 301 |
| Close family members of the management with significant shareholdings and undertakings in their dominant or significant influence | 2019 | 479 | 432 | 0 | 504 |
| Senior management and majority shareholders with significant influence over undertakings | 2018 | 356 | 0 | 425 | 5 |
| Close family members of the management with significant shareholdings and undertakings in their dominant or significant influence | 2018 | 0 | 0 | 0 | 436 |

| | | Purchases | Provided services | Calculated interests from | Interest paid on loans |
|---|---|---|---|---|---|
| Senior management and majority shareholders with significant influence over undertakings | 2019 | 905 | 29 | 224 | 133 |
| Close family members of the management with significant shareholdings and undertakings in their dominant or significant influence | 2019 | 0 | 0 | 51 | 30 |
| Senior management and majority shareholders with significant influence over undertakings | 2018 | 40 | 8 | 0 | 31 |
| Close family members of the management with significant shareholdings and undertakings in their dominant or significant influence | 2018 | 0 | 0 | 26 | 23 |

| Remuneration of Group's Key Management Persons | 2019 in thousand EUR | 2018 in thousand EUR |
|---|---|---|
| Member of the Council | 0 | 18 |
| Remuneration according to labor agreements | 217 | 140 |
| **TOTAL** | **217** | **158** |

Group's Key Management Persons are considered to be Board Members + Chief Financial Officer.

# 31 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".

## 31.1 Statement of comprehensive income

| | 2019<br>in thousand EUR | 2018<br>in thousand EUR |
|---|---|---|
| Interest income | 4 325 | 2 925 |
| Interest expense | -4 358 | -2 588 |
| **Net interest income** | **-32** | **337** |
| | | |
| Other income | 665 | 1 |
| **Net operating income** | **633** | **338** |
| | | |
| Personnel expenses | -1 773 | -661 |
| Depreciation/amortization charge | -103 | -29 |
| Other operating expenses | -4 351 | -1 165 |
| **Total operating expenses** | **-6 226** | **-1 854** |
| | | |
| Foreign exchange gains/losses | 68 | -27 |
| Net income from subsidiaries using equity method | 8 294 | 8 959 |
| **Total finance income** | **8 362** | **8 932** |
| | | |
| **Profit before tax** | **2 769** | **7 415** |
| | | |
| **Profit for the reporting period** | **2 769** | **7 415** |
| | | |
| **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:** | | |
| Equity holders | 2 769 | 7 415 |
| **Total comprehensive income attributable to:** | | |
| Equity holders | 2 769 | 7 415 |



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## 31.2 Statement of financial position

| | 31.12.2019 in thousand EUR | 31.12.2018 in thousand EUR |
|---|---|---|
| **Assets** | | |
| Cash and bank accounts | 1 980 | 654 |
| Loans and receivables | 26 570 | 17 747 |
| Prepayments | 212 | 34 |
| Other receivables | 983 | 462 |
| Other financial investments | 4 587 | 0 |
| Property, plant and equipments | 279 | 39 |
| Right-of-use assets | 343 | 0 |
| Intangible assets | 115 | 131 |
| Investments in subsidiaries | 23 726 | 14 385 |
| **Total assets** | **58 796** | **33 452** |
| | | |
| **Liabilities and equity** | | |
| **Liabilities** | | |
| Loans and bonds | 43 562 | 19 896 |
| Other liabilities | 1 374 | 215 |
| **Total liabilities** | **44 936** | **20 112** |
| | | |
| **Equity** | | |
| Share capital | 10 000 | 10 000 |
| Legal reserve | 398 | 28 |
| Retained earnings | 3 462 | 3 313 |
| **Total equity** | **13 860** | **13 340** |
| **Total liabilities and equity** | **58 796** | **33 452** |

## 31.3 Statement of changes in equity

| In thousand EUR | Share capital | Legal reserve | Share premium | Retained earnings | Total |
|---|---|---|---|---|---|
| **01.01.2018** | **275** | **28** | **38** | **-217** | **123** |
| Profit for the year | 0 | 0 | 0 | 7 415 | 7 415 |
| Other comporehensive income | 0 | 0 | 0 | 0 | 0 |
| **Total comprehensive income** | **0** | **0** | **0** | **7 415** | **7 415** |
| Contribution to share capital | 31 | 0 | 3 169 | 0 | 3 200 |
| Bonus issue of share capital | 9 694 | 0 | -3 206 | -6 487 | 0 |
| Dividends | 0 | 0 | 0 | -1 965 | -1 965 |
| **31.12.2018** | **10 000** | **28** | **0** | **3 313** | **13 340** |
| | | | | | |
| **01.01.2019** | **10 000** | **28** | **0** | **3 313** | **13 340** |
| Profit for the year | 0 | 0 | 0 | 2 769 | 2 769 |
| Other comporehensive income | 0 | 0 | 0 | 0 | 0 |
| **Total comprehensive income** | **0** | **0** | **0** | **2 769** | **2 769** |
| Allocation to reserves | 0 | 371 | 0 | -371 | 0 |
| Dividends | 0 | 0 | 0 | -2 249 | -2 249 |
| **31.12.2019** | **10 000** | **398** | **0** | **3 462** | **13 860** |

As the investments in subsidiaries are included in the unconsolidated financial statements of parent company using the equity method, no adjustments are made.

## 31.4 Statement of cash flows

| | 2019<br>in thousand EUR | 2018<br>in thousand EUR |
|---|---|---|
| Paid prepayments | -184 | -245 |
| Received pre- and overpayments | 2 174 | 2 |
| Paid trade payables | -3 772 | -1 015 |
| Received debts from buyers and received other claims | 3 789 | 267 |
| Paid net salaries | -1 185 | -412 |
| Paid tax liabilties, exc. CIT | -433 | -300 |
| Paid out to customers | -16 948 | -8 687 |
| Principal repayments from other group entities | 3 761 | 1 925 |
| Interest, commission and other fees | 3 167 | 2 049 |
| **Net cash flows from operating activities** | **-9 631** | **-6 414** |
| Purchase of fixed assets | -273 | -44 |
| Net cash flow from aquisition of subsidiaries | -3 202 | -800 |
| Received dividends | 2 156 | 1 810 |
| Payments for other financial investments | -1 850 | -256 |
| Receipts from other financial investments | 0 | 10 |
| **Net cash flows from investing activities** | **-3 169** | **721** |
| Loans received from investors | 31 960 | 8 001 |
| Repaid loans to investors | -13 165 | -1 001 |
| Principal payments of lease contracts | -50 | 0 |
| Paid interests | -2 438 | -2 489 |
| Capital increase | 0 | 3 200 |
| Paid dividends | -2 248 | -1 965 |
| **Net cash flows from financing activities** | **14 058** | **5 746** |
| | | |
| **Change in cash and cash equivalents** | **1 259** | **53** |
| | | |
| **Cash and cash equivalents at the beginning of the year** | **654** | **627** |
| Change in cash and cash equivalents | 1 259 | 53 |
| Net foreign exchange difference | 68 | -27 |
| **Cash and cash equivalents at the end of the year** | **1 980** | **654** |

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| **Cash and cash equivalents comprises** | | |
| Cash on hand | 0 | 0 |
| Non-restricted current account | 1 980 | 654 |



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## 32 Subsequent events

The situation regarding Kosovo case is unclear. Information is being collected, but no final decisions have been made. Management Board of the Group is not aware of any other subsequent event that might have significant negative impact on the financial statements of the Group as of 31.12.2019 and until the moment of disclosure of this report.

The Management Board of the Group declares the sustainability of the Group within next 12 months.

## 33 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** | **in thousand EUR** |
|---|---|
| Retained earnings as at 31.12.2019 | 8 035 |
| Statutory reserves | -138 |
| Dividend distribution | -2 009 |
| **Balance of retained earnings after allocations** | **5 888** |

## 34 Signatures of the management board to 2019 annual report

The Company's Management Board has approved the management report and financial statements for 2019.

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.

21th of February 2020

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**

***Qualified 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 2019, 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, except for the possible effect of the matter described in the Basis for qualified opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

***Basis for Qualified Opinion***

As described in Note 27 of consolidated financial statements of AS IuteCredit Europe, on 6th of December 2019, IuteCredit Kosovo JSC received a notice from the Central Bank of Kosovo that its microfinance license has been revoked with immediate effect and a liquidator had been appointed to close the business in Kosovo. The event resulted in the Group losing control over the subsidiary and accordingly, the Group derecognized the assets and liabilities of the subsidiary and recognized the retained investment as a financial instrument at fair value through profit or loss. The fair value at time of loss of control was estimated as EUR 3 623 thousand. As at 31 December 2019 a new valuation was performed by the management and an increase of EUR 964 thousand was recognized as financial income in the consolidated statement of comprehensive income, resulting in the financial instrument amounting to EUR 4 587 thousand as at 31 December 2019.

Due to no access to reliable evidence to support management's assumptions in the estimation of fair value and future cash-flows of equity investment as well uncertainty associated with liquidation process of IuteCredit Kosovo JSC we are unable express our opinion on the fair value of IuteCredit Kosovo JSC amounting to EUR 4 587 thousand as at 31 December 2019 as well as the related other operating expense (write-off) of EUR 6 183 thousand and finance income of EUR 964 thousand for the period then ended.

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 qualified opinion.

***Key audit matters***

In addition to the matter described in the Basis for qualified opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated annual report of the current period. These matters were addressed in the context of our audit of the consolidated annual report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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| *Key Audit Matter* | *How our audit addressed the key audit matter* |
|---|---|
| *Impairment allowance for loans to customers*<br><br>As disclosed in Note 21 *Loans to customers* to the consolidated financial statements, the carrying amount of loan receivables as at 31 December 2019 amounts to EUR 79 005 thousand which corresponds to 73% of the Group's assets.<br><br>The Group is applying the expected credit loss model as required by IFRS 9. The Group's impairment allowance policy is presented in the accounting policies section in Note 6.4 sub-section *Impairment of financial assets* to the consolidated financial statements. Critical accounting estimates and judgments are set out in Note 7 *Significant accounting judgments, estimates and assumptions* to the consolidated financial statements.<br><br>Given the complexity and judgements related particularly to the calculation of expected credit losses, the impairment allowance for loans to customers is considered a key audit matter. | Our audit procedures included, amongst others:<br><br>• We gained understanding and tested the key controls over the loan issuance, booking and monitoring and loan impairment provisioning processes.<br><br>• We obtained and read the Group's impairment provisioning policy that is based on IFRS 9 and involved our internal IFRS 9 specialists to assess its compliance with the requirements of IFRS 9.<br><br>• We also assessed the methodology developed by the management to calculate loss allowance under IFRS 9, concentrating on such aspects as factors for determining a 'significant increase in credit risk' and allocating the loans to customers to stages, estimation of key impairment allowance calculation input parameters and forward-looking information.<br><br>• We reviewed the Group's accounting policies and the management's assumptions relating to the estimation of expected credit loss. For a sample of the loans we assessed the significant expected credit loss model components: staging, Loss Given Default (LGD), Probability of Default (PD), Exposure at Default and assessed whether the Group has calculated estimated expected credit loss in line with the provisioning policy.<br><br>• We performed analytical procedures, such as a comparison of loan loss impairment allowance balances to industry levels, comparison to prior year, movements between stages.<br><br>• We tested the mathematical accuracy of the impairment allowance calculations. On sample basis we tested the data flow in the models and verified the correctness of parameters subject to estimation for the purposes of testing information prepared by the entity (IPE).<br><br>• Finally, we also assessed the adequacy of the related disclosures contained in 13 *Allowance for impairment of loans to customers*, 21 *Loans to customers* and 7 *Significant accounting judgments, estimates and assumptions* to the consolidated financial statements. |
| *Interest income recognition*<br><br>As disclosed in the Group's accounting policies outlined in Note 6.4 subsection *Recognition of interest income*, interest income from financial instruments measured at amortized cost is recognized at the effective interest rate ("EIR"). During the financial year in the consolidated statement of comprehensive income the Group | Our audit procedures included, amongst others:<br><br>• We gained understanding of the loans to customers' issuance, accounting and income recognition process and tested key controls.<br><br>• We assessed whether the Group's accounting policies in relation to the interest income recognition are following IFRS 9 and reviewed Group's calculation of the effective interest rate. |

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| | |
|---|---|
| recognized interest income from loans to customers amounting to EUR 46 994 thousand.<br><br>The calculation of the EIR includes commissions paid or received between the Group and its customers, which are an integral part of the EIR. Correct interest income recognition is highly dependent on appropriate design of the interest income recognition process.<br><br>Accounting for all EIR components is inherently more complex in the finance services sector when compared to some other industries due to the large number of customers, various contractual terms with customers, modification of those terms, as well as the amount of commissions included in the EIR calculation, including top-side adjustments at the Group level.<br><br>Therefore, interest income recognition is considered to be relatively complex area of accounting. Due to the above circumstances, the interest income recognition is a key audit matter for the 31 December 2019 audit. | • We tested a sample of agreements related to the issued loans to customers. For the selected sample of agreements, we recalculated accrued interest income, commissions forming part of the EIR and principal outstanding at the financial year end compared results of our calculations with the amounts recognized by the Group. We also reviewed respective agreement terms, agreement modifications and other supporting data.<br><br>• We performed testing of the underlying customer master data, by assessing mandatory fields and critical segregation of duties. Additionally, we identified transactions that deviated from the standard process for further investigation. We also tested the operating effectiveness of controls over EIR calculation.<br><br>• We also considered the accuracy of the Group's description of the accounting policy related to revenue, and whether revenue is adequately disclosed in Note *10 Interest and similar income* to the consolidated financial statements. |
| *Issuance of public bonds, covenants and going concern*<br><br>In summer 2019, ICE's Luxembourg subsidiary luteCredit Finance S.à r.l ("ICF") issued bonds (40 MEUR, 13% secured bonds) that are listed on Frankfurt Stock Exchange and will be available for active trading as of March 2020.<br><br>After bond issuance the Group became a subject to additional regulatory requirements and financing covenants, which among all can trigger going concern risk. Namely, one of the covenants in the bond agreement ("FRA40") relates to liquidation of a material subsidiary, i.e. in such instance the investors have a right to recall the bond. A material subsidiary is defined as one with the net loan portfolio above 5 MEUR.<br><br>As described above under *'Basis for Qualified Opinion'* on 6th of December 2019, luteCredit Kosovo JSC (ICKO) received a notice from the Central Bank of Kosovo that the ICKO microfinance license has been revoked with immediate effect. ICKO's loan portfolio at the time amounted to 12.3 million EUR (11% of the group's total balance sheet). After losing the license, ICKO wrote down the portfolio to 4.9 million EUR, since the recognition amount and timing of the collection of receivables were uncertain. | Our audit procedures included, amongst others:<br><br>• We have reviewed terms and conditions of FRA40 bond agreement to understand the financing covenants as of 31.12.2019.<br><br>• We have obtained management assessment on the the implications of the revocation of the license of luteCredit Kosovo JSC and the possible implications in the financing covenants of FRA40 arrangement, including communication with the Security Agent on the matter. We have assessed underlying information and management estimates.<br><br>• We have obtained a copy of the waiver from the Security Agent confirming no intention to recall the bonds because of the matter described in the *'Basis for Qualified Opinion'*.<br><br>• Further, we have inquired legal advisors of the Group to comment upon recent communication with the local regulators in material components of the Group (Moldova and Albania) to assess potential impact, if any, of license revocation in Kosovo to other geographies.<br><br>• We have obtained going concern assessment of the Group prepared by the management as well as regulatory compliance assessment for Moldova and Albania prepared by the management.<br><br>• We assessed the assumptions applied by the management for preparing the covenant and liquidity forecasts prepared in this context for the 2020 and also related to Group's mid-term plan. We have reviewed the assumptions made with respect to the liquidity position |

| | |
|---|---|
| The management of the Group has prepared going concern assessment which is based on the expectations and the estimates for the coming years regarding future developments of the Group in the selected markets.<br><br>Assessment of whether the Group will be able to continue meeting its obligations under the financing covenants is fundamental for the going concern assumption and, as such, is key audit matter. | of the Group and future cash flows to assess the Group's ability to continue meeting its payment obligations and financing covenants in the year ahead.<br><br>• We also considered the accuracy of the Group's disclosures on going concern assumption and financing requirements in Notes 7 *Significant accounting judgments, estimates and assumptions* and 24 *Financial Liabilities* of the consolidated financial statements respectively. |

*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 except for the possible effect of the matter described in *'Basis for Qualified Opinion'*.

*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.

*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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated annual report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

**Report on other legal and regulatory requirements**

*Other requirements of the auditor's report in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council.*

*Appointment and approval of the auditor*

In accordance with the decision made by the shareholder we have been chosen to carry out the audit of Group's consolidated financial statements the first time in 2010. Our appointment to carry out the audit of Group's consolidated financial statements in accordance with the decision made by shareholder has been renewed annually and the period of total uninterrupted engagement is 10 years.

***Consistence with Additional Report to Supervisory Board and Audit Committee***

Our audit opinion on the annual financial statements expressed herein is consistent with the additional report to the Supervisory Board and Audit Committee of the Group, which we issued in accordance with Article 11 of the Regulation (EU) No. 537/2014 on the same date as the date of this report.

***Non audit services***

We confirm that in light of our knowledge and belief, services provided to the Group are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

In addition to statutory audit services and services disclosed in the financial statements, no other services were provided by us to the Company and its controlled undertakings.

The responsible certified auditor on the audit resulting in this independent auditors' report is Olesia Abramova.

Tallinn, 25 February 2020

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

Riina Alt
Authorised Auditor's number 618