MANAGEMENT REPORT FOR H1/2019

The mission of IuteCredit is to create the extraordinary experience in the field of personal finance. To that effect, we aim to become the fastest and most comfortable installment loan provider. An installment loan is a loan that must be repaid by the customer according to a predetermined schedule, in equal installments and as part of sustainable personal cashflow. Installment loans create significant positive social impact. We help under-served customers in under-banked markets. We are the company that helps its customers to "installmentize" their needs for better life quality.

IuteCredit serves customers currently in Moldova, Albania, North Macedonia, Kosovo and Bosnia and Herzegovina. By 2020 we aim to expand our business to at least six countries with low GDP per capita, very low level of public and private debt, and limited financial services coverage of the population.

The data contained in this **half-year (H1)** report is compiled by the Management of IuteCredit companies and distributed only to Lenders or Shareholders of IuteCredit Europe AS.

Any questions should be addressed to the CEO of IuteCredit Europe AS*:* tarmo.sild@iutecredit.com.

Statement of the Management Board

The financial and other additional information published in the Interim Report as at 30 June 2019 is true and complete. Consolidated financial statements give a true and fair view of the actual financial position and results of operations of the group.

Consolidated financial statements in this report are not audited.

General overview

AS IuteCredit Europe (**"ICE"**) is a holding company that issues consumer credits and offers other personal finance services via its 100% owned operating subsidiaries in local markets (**"Subsidiaries"**). As at 30 June 2019, ICE had nine subsidiaries: ICS OMF IuteCredit SRL (**"ICM"**) in Moldova, IuteCredit Albania SHA ("**ICA"**), IutePay Albania SH.P.K (**"IutePay Albania"**) in Albania, IuteCredit Macedonia DOOEL–Skopje (**"ICMK"**) in North Macedonia, IuteCredit Kosovo JSC (**"ICKO"**) in Kosovo, IutePay Bulgaria EOOD (**"IutePay Bulgaria"**) and IuteCredit Bulgaria EOOD (**"ICBG"**) in Bulgaria and MKD IuteCredit BH d.o.o. Sarajevo (**"ICBH"**) in Bosnia.

FINAL SHA ("FINAL", direct subsidiary of ICA) was sold during May 2019. For the group, the sale ended up with a profit in the amount of 145 thousand EUR taken also account reclassified unrealized foreign exchange differences from other comprehensive income (OCI).

The Subsidiaries and ICE together form the IuteCredit Group (**"ICG"**). Considering the aforementioned sale of FINAL, as at 30 June 2019, ICG consisted of 9 companies.

In the beginning of July ICG acquired a new shell subsidiary in Luxembourg and renamed it IuteCredit Finance SARL. The new entity was acquired with the aim to issue senior secured bonds and list them in Frankfurt Stock Exchange. By the time of the current report, the project has been completed successfully.

ICE is responsible for strategic and operational management that includes:

- Strategic targeting, planning and implementation
- Organizational structure of the Group and manning of the management teams
- Customer experience and human resources process design, organization design, applied technology and performance targeting
- Marketing and sales process design, organization design, applied technology and performance targeting
- Financial management process design, organization design, applied technology and performance targeting
- Risk management process design, organization design, applied technology and performance targeting
- In-house technology development and implementation
- Data harvesting
- ICG's investor relations

Subsidiaries implement the processes designed by ICE. Subsidiaries offer customers the services and develop the business on the local competition field according to strategic guidance and targets, financing and technology provided by ICE. Subsidiaries own 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, ICA since April 2015, ICMK since September 2017, ICKO since October 2017 and ICBH since 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 during H1/2019.

Key financials of IuteCredit Group

ICG total income of 6 months 2019 amounted to 18,324 thousand EUR (H1/2018: 13,064 thousand EUR).
Net profit of 6 months 2019 amounted to 3,757 thousand EUR (H1/2018: 3,457 thousand EUR).

Consolidated key financial parameters	H1/2019	H1/2018
EBITDA (profit/loss before taxes, foreign exchange gains/losses, depreciation and interest expenses)	9,436	5,568
ROA (profit/assets)	4,7%	10,3%
ROE (profit/equity)	25,4%	52,3%
Capitalization ratio (equity/net loan portfolio)	22,9%	23,8%
Interest coverage ratio (EBITDA/interest expenses)	2,8	3,5
Equity per share (equity/number of outstanding shares)	1,5	153,7
Earnings per share (profit / number of outstanding shares)	0,4	80,4
Dividends paid per share (dividends paid /number of outstanding shares)	0,1	19,5

Non-balance sheet items

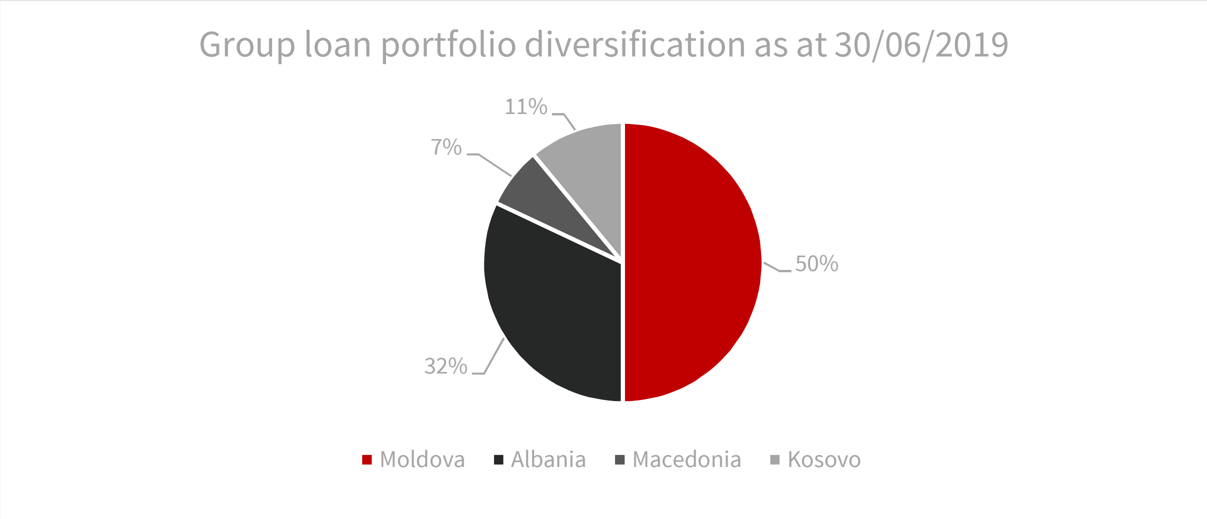
Future receivable commission fees, guarantee fees, administration fees, collaterals of car loan credit and penalties (penalties are also called: secondary receivables) are not accounted in the Group's balance sheet, although the customers have legally binding, irreversible obligation to pay those receivables in full according to the terms of signed loan agreements.

Interest costs, liabilities and diversification

The calculated interest expense of ICG for all its liabilities during six months of 2019 amounted to 3,346 thousand EUR (H1/2018: 1,590 thousand EUR). Group's liabilities increased by 22,550 thousand EUR (by 53%) during H1. A fraction of liability growth was caused by the implementation of IFRS 16 principles to Group's leased office space and other significant leases, starting at 1 January 2019. By the end of June, Group has capitalized lease assets in the residual value of 2,830 thousand EUR and corresponding liabilities on the other hand in amount 2,837 thousand EUR. The remaining part of liability growth was caused by issuing bonds and taking loans, to finance loan portfolio growth.

Loan portfolios

Loan portfolio is diversified between Moldova, Albania, North Macedonia, Kosovo and Bosnia as follows:



ICBH started its business in June 2019, so as at 30 June 2019 its share in Group's loan portfolio had yet immaterial impact.

H1/2019: Management comments to the results

The Group continues its expansion, in line with its targets. Key challenges remain the same as commented in the reports.

For one, it is time for fast growth. We think we are in the period of making the market and in conquering the customers across our home markets. That means full throttle, with occasional braking, and never thrifting along. We have more than 500,000 customers in our database and process more than 40,000 installment loan applications per month.

For two, fast growth requires strong internal fire discipline. Sometimes our own learning curve follows the hard facts of life too slow. So far we have managed the risk and reward ratio profitably and have made money, yet the challenge to find the right balance between quick and comfortable customer experience process, sufficiently high loan application approval rate, efficient OPEX to revenue ratio, and strong customer repayment discipline is constant. As at this moment, we think the OPEX to revenue ratio is a bit too high an should be improved.

For three, competition is increasing from every direction. On the one hand, there are the progressive banks that have entered or are preparing entry into consumer finance, on a mass scale, following our concept of speed and comfort. On the other hand, the microfinance and fintech companies that so far have focused on payday loans are extending their loan maturities and sale network to overlap with IuteCredit. (Payday in our definition is a smallish loan with maturity measured in weeks, with APR typically exceeding 100%, and where principal repayment by customers is not encouraged. The customers are rather solicited to pay the loan fees on an ongoing basis and roll over the principal repayment, until next payday).

Finally, number four, the regulations are becoming tighter in every of our home markets.

Challenges three and four above result in decreasing returns on loans (APR's decrease) and higher operating expenses related to marketing, customer experience, and complying with the regulatory requirements.

All in all, we can forecast relative revenue and profitability decreases (ration decreases), as the business (loan portfolio, loans disbursements) volume grows.

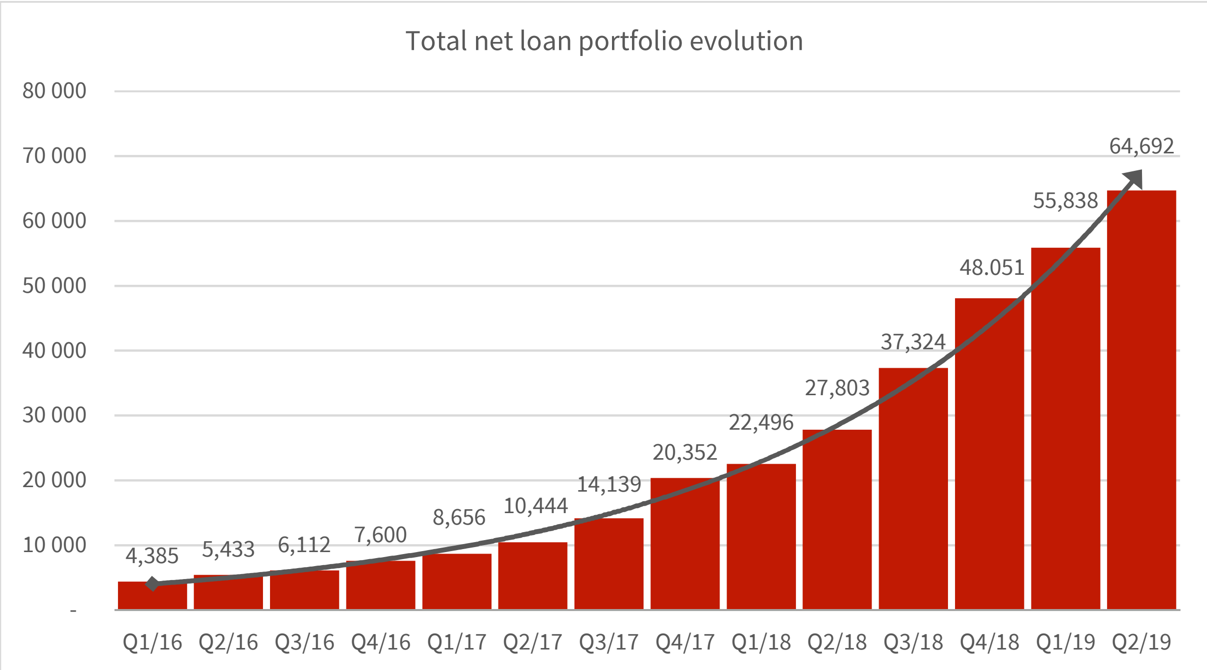
For full 2019, the Group aims to issue more than 150 million EUR worth loans to more than 200,000 customers. Net loan portfolio (total principal receivables and accrued fees receivables, minus provisions for impairments) should grow past 100 million EUR mark. The Group's revenue should exceed 55 million EUR and net profit margin at least 20%.

The loan products

ICG's loan products are unsecured consumer loans with a maturity range between 1 month and 36 months and pledge-secured loans (car) with maturities of up to 60 months. Weighted average loan maturity exceeds 12 months. Theoretical loan amounts are between 25 EUR and 10,000 EUR, whereas the vast majority of loans are saturated in the range of 300 to 700 EUR. Annual percentage rates (APR) range between 30% and 100% depending on the customer income, repayment history, loan maturity and other factors.

ICG aims to serve only clients with a permanent workplace and stable income. Loan underwriting is based on personal identification, personal income assessment and personal loan performance data. More than 60% of loan applications by individual customers across the Group have been approved.

Loans are handled via established partners network (such as shops, money transfer companies, postal agencies), web portals and other online channels, and IuteCredit branches (retail offices). By the end of H1/2019, we had 38 of IuteCredit branches and 1069 shops, and thousands of other points of sale. ICG handles money only via bank accounts or over the counter through its agents and does not perform cash operations. Certain IC partners also perform cash operations and assume the related risks.



Reporting currency

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. All values are rounded to the nearest euro (EUR), except when otherwise indicated.

The functional currencies of Subsidiaries are as follows: IuteCredit SRL – the Moldovan leu (MDL), IuteCredit Albania SHA, FINAL SHA and IutePay Albania SH.P.K – the Albanian lek (ALL), IuteCredit Macedonia DOOEL–Skopje – the North 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 (ICBH) – the Bosnia and Herzegovina's convertible mark (BAM), IuteCredit Europe AS and IuteCredit Finance SARL – the euro (EUR).

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.
On consolidation, the assets and liabilities of foreign operations are translated into euros at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in other comprehensive income.

Transactions denominated in foreign currencies are recorded in euros at actual rates of exchange of the European Central Bank at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into euros at the rate of exchange prevailing at the end of the period. Any gain or loss resulting from a change in rates of exchange after the date of the transaction is included in the income statement as a profit or loss from revaluation of foreign currency positions.

The principal rates of exchange (EUR to 1 foreign currency unit) set by the European Central Bank, the National Bank of Moldova, the Bank of Albania, the National Bank of the Republic of North Macedonia and the Central Bank of Bosnia and Herzegovina used in the preparation of the Group's current report were as follows:

Reporting date	MDL	USD	ALL	MKD	BGN	BAM
30 June 2019	20.6484	1.1380	122.65	61.5700	1.9558	1.9558
30 June 2018	19.5261	1.1658	125.93	61.4939	1.9558	1.9558
Average period	MDL	USD	ALL	MKD	BGN	BAM
01/01/ - 30/06/2019	19.8134	1.1437	123.88	61.5126	1.9558	1.9558
01/01/ - 30/06/2018	19.6989	1.1641	129.96	61.5293	1.9558	1.9558

Volatility of currency

The volatility of local currencies causes changes of the value of outstanding portfolio and revenues, against changes of relative value of interest payments and liabilities that are nominated in EUR or USD.

MDL has performed historically as by far the worst currency against EUR and as such poses the most significant external risk to our business. The exchange rate of the last half-year has again been quite volatile compared to the previous few years. The reasons for volatility can historically always be associated with changes in the country's political situation.

Revenue base

The Group's revenue consists of:

- loan agreement commission fees which are charged for receiving, processing the loan application and issuing the loan, or modifying the valid loan conditions;
- interest, which is charged on the outstanding principal loan amount;
- other primary fees ("primary fee" is a fee that is agreed with the customer in the loan agreement) for different services; and
- various penalty fees applied in case of breach by customers to perform repayments according to the terms of loan agreements. Penalty fees are also referred to as "secondary fees," because they are derivative fees to the primary fees. Secondary fees are applied as a result of breach of obligation to repay the primary fees and the principal. Secondary fees are accounted as collected, whereas primary fees are accounted as accrued.

IC business is built on the concept that we need performing customers and we want to avoid situations with poorly performing or defaulting customers. Therefore, the majority of the Group's fee income should come from performing customers and from primary fees. Secondary fees are targeted to compensate the lost money that we should have otherwise received duly, according to the original loan agreements. Secondary revenue is recorded on cash-received method from the moment of receiving the payment.

Moldova

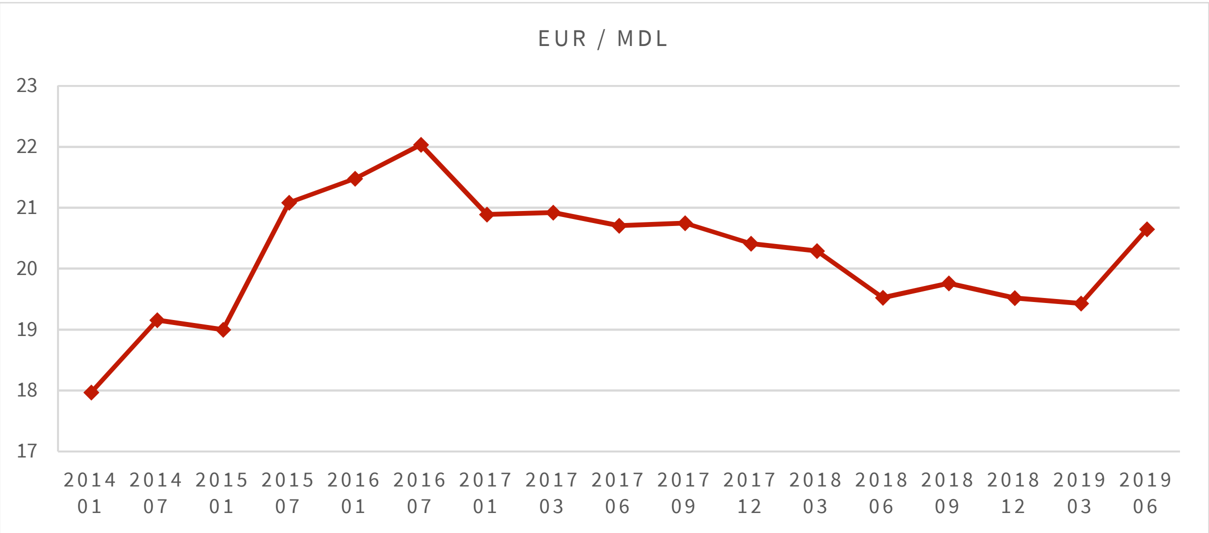
During H1/2019 ICM processed 128,701 loan applications (H1/2018: 90,122) of which 62,325 loans were granted (H1/2018: 42,882). As of 30 June 2019, ICM has 95,451 active loans in total (30 June 2018: 55,979).

The ICM gross loan portfolio (total outstanding principal and accrued primary fees amount, excluding any future receivable fees and provision) reached the level of 33,452 thousand EUR as of 30 June 2019 (30 June 2018: 18,949 thousand EUR).

The weighted average APR of loans issued in H1/2019 was 59%. The target APR was 58%.

Customer Performance Index (CPI30) - the % ratio of actual loan repayments compared to expected repayments according to loan repayment schedules, plus 30 days tolerance, was over 87%. The CPI target remains above 88%.

The local currency in Moldova was quite unstable throughout the H1/2019 and devaluated by 6.3% for 1 EUR by average 19.8134 MDL for 1 EUR in H1/2019. The fluctuation was generated by political change, which was again stabilized by the election of a new Government in July 2019.



Albania

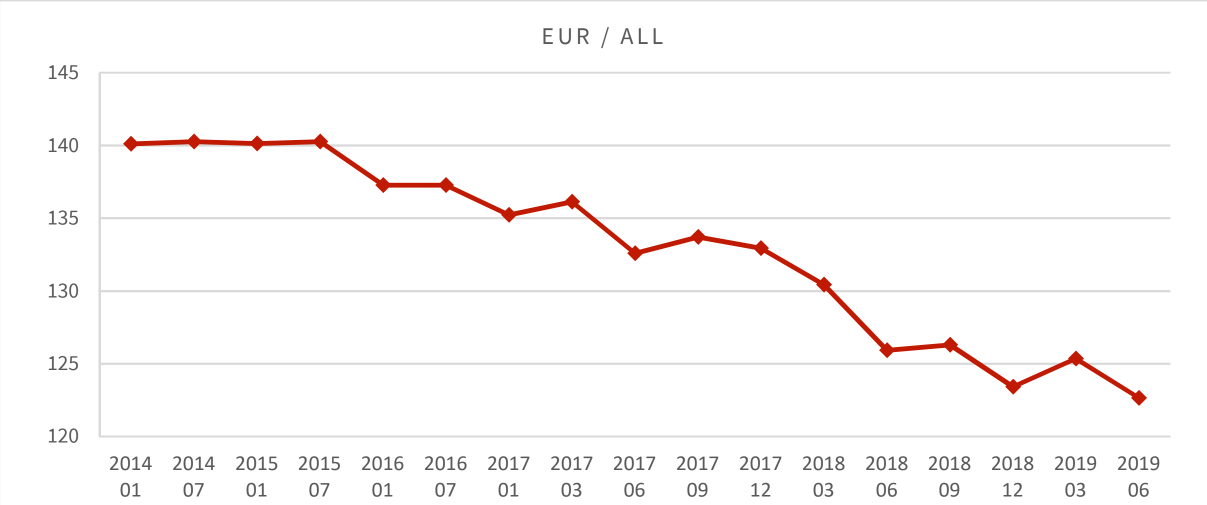
In H1/2019, ICA processed 78,330 loan applications (H1/2018: 33,597) of which 49,219 loans were granted (H1/2018: 22,624). As of 30 June 2019, ICA has 60,991 active loans (30 June 2018: 30,114).

The ICA gross loan portfolio (total outstanding principal and accrued primary fees amount, excluding any future receivable fees and provisions) reached the level of 22,445 thousand EUR as of 30 June 2019 (30 June 2018: 9,234 thousand EUR).

The weighted average APR of loans issued in H1/2019 was 69%. The target APR was 67%.

Customer Performance Index (CPI30) - the % ratio of actual loan repayments compared to expected repayments according to loan repayment schedules plus 30 days for H1/2019 was 90%. The CPI target remains at 88%.

The local currency (ALL) was quite stable with small depreciations throughout the H1/2019 and evaluated by average 123.88 for 1 EUR.



Kosovo

During H1/2019 ICKO processed 59,188 loan applications (H1/2018: 10,355), of which 20,231 loans were granted (H1/2018: 4,895). As 30 June 2019, ICKO has 35,822 active loans in total (30 June 2018: 5,356).

The ICKO gross loan portfolio (total outstanding principal and accrued primary fees amount, excluding any future receivable fees and provisions) reached 7,855 thousand EUR as of 30 June 2019 (30 June 2018: 1,719 thousand EUR).

The weighted average APR of loans issued in H1/2019 was 59%. The target APR was 59%.

Customer Performance Index (CPI30) - the % ratio of actual loan repayments compared to contractual repayments according to loan repayment schedules plus 30 days was over 86%. The CPI target remains above 87%.

There is no currency risk in Kosovo.

North Macedonia

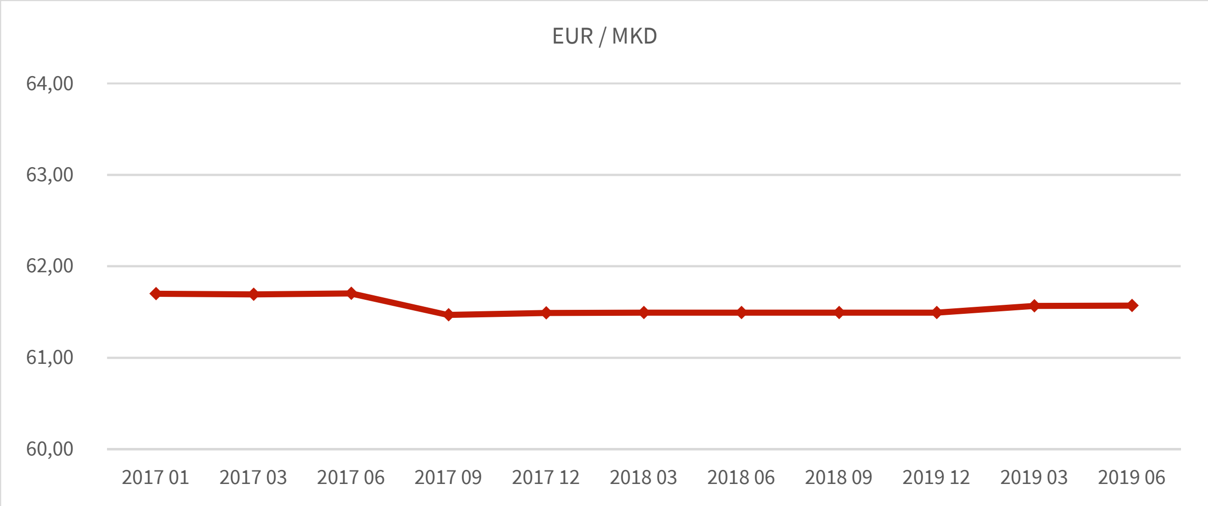
During H1/2019, ICMK processed 40,020 loan applications (H1/2018: 17 647), of which 18,759 loans were granted (H1/2018: 8,338). As of 30 June 2019, ICMK has 17,770 active loans in total (30 June 2018: 7,775).

The ICMK loan portfolio (total outstanding principal and accrued primary fees amount, excluding any future receivable fees and provisions) reached 6,288 thousand EUR as at 30 June 2019 (30 June 2018: 1,913 thousand EUR).

The weighted average APR of loans issued in H1/2019 was 62%. The target APR was 63%.

Customer Performance Index (CPI30) - the % ratio of actual loan repayments compared to contractual repayments according to loan repayment schedules plus 30 days was 86%. The CPI target remains above 88%.

The local currency (MKD) was quite stable throughout the H1/2019 and evaluated by average 61.5126 MKD for 1 EUR.



Bosnia and Herzegovina

In H1/2019 ICBH processed 1,249 loan applications (H1/2018: 0), of which 613 loans were granted (H1/2018: 0). As of 30 June 2019, ICBH has 221 active loans in total.

The ICBH gross loan portfolio (total outstanding principal and accrued primary fees amount, excluding any future receivable fees and provisions) reached 87 thousand EUR as of 30 June 2019.

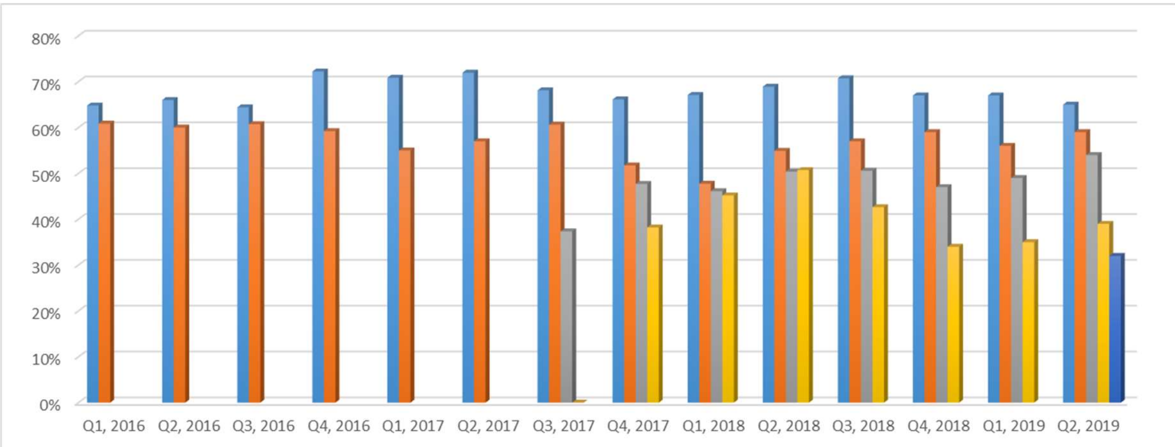
The local currency BAM was stable throughout the H1/2019 and evaluated by 1.95583 BAM for 1 EUR.

The weighted average APR of loans issued in H1/2019 was 85%. The target APR was 66%.

Customer Performance Index (CPI30) - the % ratio of actual loan repayments compared to contractual repayments according to loan repayment schedules plus 30 days was over 74%. The CPI forecast remains above 87%.

Approval rate

The approval rate is the ratio between approved loans against total loan applications received during the period and expresses the risk appetite of the Group. Essentially, the graph below demonstrates that ICM (orange column) and ICA (blue column) have bigger customer pools, possess long and extensive repayments history and demonstrate a higher approval rate. ICMK (grey column), ICKO (yellow column) and ICBH (dark blue) have smaller customer pools, relatively high shares of first-time customers, and less data on repayment history and accordingly the approval rate is lower.



CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of comprehensive income

	Notes	H1/2019 thousand EUR	H1/2018 thousand EUR
Interest and similar income	1	17,818	8,383
Interest and similar expense	2	-3,346	-1,590
Net interest and commission fee income		**14,471**	**6,793**
Other fees and penalties	3	503	4,667
Loan administration fees and penalties in total		**503**	**4 667**
Other income		3	14
Allowances for loan impairment	4	-1,121	-4,444
Net operating income		**13,857**	**7,030**
Personnel expenses	5	-2,822	-1,363
Depreciation/amortization charge	6,7,8	-402	-82
Other operating expenses	9	-4,945	-1,690
Total operating expenses		**-8,169**	**-3,135**
Foreign exchange gains/losses		-810	551
Total foreign exchange gains/losses		**-810**	**551**
Profit before tax		**4,877**	**4,446**
Income tax expense	10	-1,120	-989
Profit for the reporting period		**3,757**	**3,457**
Other comprehensive income			
Other comprehensive income to be classified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		-414	296
Other comprehensive income total		**3,343**	**3,753**
Profit attributable to:			
Equity holders		3,343	3,753
Total comprehensive income attributable to:			
Equity holders		3,343	3,753

Consolidated statement of financial position

	Notes	30/06/19 thousand EUR	30/06/18 thousand EUR
Assets			
Cash and bank accounts	11	5,345	3,133
Loans to customers	12	64,692	27,803
Prepayments	13	1,182	477
Other assets	13	1,989	1,117
Other financial investments	14	2,376	0
Financial lease objects	6	2,830	0
Property, plant and equipment	7	820	372
Intangible assets	8	721	508
Total assets		**79,954**	**33,410**
Liabilities and equity			
Liabilities			
Loans and bonds from investors	15	60,997	25,123
Other liabilities	16	4,153	1,679
Total liabilities		**65,150**	**26,802**
Equity			
Share capital	17	10,000	275
Legal reserve		398	28
Share premium		0	38
Unrealized foreign exchange differences		-36	170
Retained earnings		4,442	6,097
Total equity		**14,804**	**6,607**
Total liabilities and equity		**79,954**	**33,410**

Consolidated statement of changes in equity

thousand EUR	Share capital	Legal reserve	Share premium	Unrealized foreign exchange differences	Retained earnings	Total
01/01/18	**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**	**3,457**	**3,457**
Other comprehensive income						
Foreign currency translation	0	0	0	296	0	296
Total comprehensive income	**0**	**0**	**0**	**296**	**3,457**	**3,753**
Dividends	0	0	0	0	-840	-840
30/06/18	**275**	**28**	**38**	**170**	**6,097**	**6,607**
01/01/19	**10,000**	**28**	**0**	**378**	**2,284**	**12,690**
Profit for the period	**0**	**0**	**0**	**0**	**3,757**	**3,757**
Other comprehensive income						
Foreign currency translation	0	0	0	-414	0	-414
Total comprehensive income	**0**	**0**	**0**	**-414**	**3,757**	**3,343**
Allocation to reserves	0	371	0	0	-371	0
Dividends	0	0	0	0	-1,229	-1,229
30/06/19	**10,000**	**398**	**0**	**-36**	**4,442**	**14,804**

Additional information in Note 17.

Notes to the consolidated financial statements

The accompanying consolidated financial statements of AS IuteCredit Europe (hereinafter also as **"the Company"**) and its subsidiaries (collectively **"ICG"** or **"the Group"**) for the half-year ended 30 June 2019 authorized for issue in accordance with a resolution of the Management Board. Company's owners have the power to amend the financial statements after issue.

AS IuteCredit Europe is a limited company incorporated and domiciled in Estonia. The registered office is located Maakri 19/2, Tallinn.

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).

<u>Basis of consolidation</u>

The consolidated financial statements comprise the financial statements of reporting periods of the Company and its subsidiaries (ICM, ICA, IutePay Albania, ICMK, ICKO, IutePay Bulgaria, ICBG, ICBH and statements of FINAL up to the sale moment). The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

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

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

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

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

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

1 Interest and similar income

Interest and similar income	H1/2019 thousand EUR	H1/2018 thousand EUR
Interest on loans to customers and commission	17,816	8,311
Other interest	2	73
TOTAL	**17,818**	**8,383**

2 Interest expenses

Interest expenses	H1/2019 thousand EUR	H1/2018 thousand EUR
Interest on amounts due to creditors	-2,485	-840
Interest on financial lease liabilities	-116	0
Interest on bonds	-744	-750
TOTAL	**-3,346**	**-1,590**

3 Other fees and penalties

Other fees and penalties	H1/2019 thousand EUR	H1/2018 thousand EUR
Penalties under loans and delay interests	2,387	3,949
Reappraisal of secondary revenue	-2,084	0
Resigns under customer loans	354	782
Dealer bonuses	-331	-210
Other secondary fees	177	146
TOTAL	**503**	**4,667**

The revenue of the current period is influenced by the reappraisal of penalties and delay interest, which gives a more conservative approach. Assessment is done on the cash-based method since 2019 according to what penalties are recorded from the moment of receiving the cash. The retrospective effect to the previous periods is unmeasurable.
Dealer bonuses are recognized as a revenue component.

4 Allowance for impairment of loans to customers

Allowance for impairment of loans to customers	H1/2019 thousand EUR	H1/2018 thousand EUR
At the beginning of the period	**-12,465**	**-3,594**
IFRS 9 adjustment to opening balances	0	-996
Adjusted opening balance at the beginning of the period	**-12,465**	**-4,590**
Change in allowances for loan impairment	-1,121	-4,444
Other changes	490	0
Utilized	280	102
Exchange differences	293	-169
At the end of the period (Note 12)	**-12,523**	**-9,1010**

Group has taken into account historical information, but the judgements are done on forward looking basis.

IFRS 9 replaced IAS 39 for reporting periods starting 1 January 2018. The implementation of the new standard had no retrospective approach. Disclosures relating to the impact of the adoption of IFRS 9 is set out above in the row of adjustments.

The expected credit loss model follows a “three-stage” approach based on changes in the credit quality of the financial instruments since their initial recognition.
Group used the next classification into stages:

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

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

Positive result in changes of allowances of the current period is strongly influenced by the implementation of cash-based method in secondary revenue approach, after what the quality of the total loan portfolio has overall improved compared to H1/2018 and the average impairment rate has decreased -3.83% during H1/2019 down to 21.09% (average of H1/2018 24.92%).

On the row of other changes is reflected the effect on loan provisions from the disposal of FINAL.

5 Salaries and other personnel expenses

Salaries and other personnel expenses	H1/2019 thousand EUR	H1/2018 thousand EUR
Salaries and bonuses	-2,136	-917
Social security expenses	-522	-263
Medical insurance expenses	-19	-17
Other expenses	-146	-166
TOTAL	**-2,822**	**-1,363**
Average number of employees adjusted to full-time	*317*	*157*

6 Financial lease objects

OFFICE (IFRS 16)	30/06/19 thousand EUR	30/06/18 thousand EUR
Acquisition cost		
At the beginning of the period	**0**	**0**
Adjustment according to IFRS16	*893*	*0*
Adjusted opening balance at the beginning of the period	**893**	**0**
Additions	2,168	0
At the end of the period	**3,061**	**0**
Depreciation and impairment		
At the beginning of the period	**0**	**0**
Depreciation charge for the period	-231	0
At the end of the period	**-231**	**0**
Net book value at the end of the period	**2,830**	**0**

The Group has capitalized objects with present value (NPV) of rental payments more than 5 thousand EUR and lease period more than 12 months. Other rental contracts have an insignificant impact on the financials and are considered as operational lease.
The implementation of the new standard had no retrospective approach.

See also Note 15.

7 Property, plant and equipment

FURNITURE AND EQUIPMENT	30/06/19 thousand EUR	30/06/18 thousand EUR
Acquisition cost		
At the beginning of the period	**760**	**307**
Additions	449	208
Disposals and write-offs	-103	0
Exchange differences	-2	5
At the end of the period	**1,104**	**520**
Depreciation and impairment		
At the beginning of the period	**-263**	**-103**
Depreciation charge for the period	-92	-44
Disposals and write-offs	68	0
Exchange differences	3	-2
At the end of the period	**-284**	**-148**
Net book value at the end of the period	**820**	**372**

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Depreciation is calculated using the straight-line method to expense the cost of each asset to their residual value over the estimated useful life of the asset. The following depreciation rates are applied:

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

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

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. A test is performed at least once a year at the balance sheet date when signs of possible changes in value occur. Impairment of assets is recognized as an expense in the reporting period.

8 Intangible assets

COMPUTER SOFTWARE	30/06/19 thousand EUR	30/06/18 thousand EUR
Acquisition cost		
At the beginning of the period	**1,020**	**505**
Additions	65	161
Disposals and write-offs	-41	0
Exchange differences	-4	9
At the end of the period	**1,040**	**675**
Depreciation and impairment		
At the beginning of the period	**-280**	**-126**
Depreciation charge for the period	-79	-39
Disposals and write-offs	39	0
Exchange differences	1	-3
At the end of the period	**-319**	**-167**
Net book value at the end of the period	**721**	**508**

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

9 Other operating expenses

Other operating expenses	H1/2019 thousand EUR	H1/2018 thousand EUR
Advertising expenses	-1,515	-460
Office lease expenses	-29	-136
Outsource services	-714	-250
Repair, maintenance of property and equipment	-156	-71
Utilities	-96	-19
Telecommunication and IT	-1,446	-349
Small items of equipment	-82	-66
Transportation	-198	-19
Withheld taxes	-155	-92
Other operating expenses	-673	-228
TOTAL	**-5,064**	**-1,690**

10 Income tax expense

Income tax expense	H1/2019 thousand EUR	H1/2018 thousand EUR
Consolidated profit before tax	4,877	4,446
Current income tax expense from foreign jurisdictions	-1,120	-989
Income tax expense reported in statement of comprehensive income	**-1,120**	**-989**

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 and 14/86 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.

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

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

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

According to the Income Tax Act of North Macedonia, the annual profits earned by companies (IuteCredit Macedonia DOOEL–Skopje) are taxed at the rate of 10%. Also, the distribution of retained earnings is subject to taxation at the rate of 10% on the amount paid out as dividends.

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

11 Cash and bank accounts

Cash and bank accounts	30/06/19 thousand EUR	30/06/18 thousand EUR
Cash on hand	6	2
Bank accounts	5,339	3,131
TOTAL	**5,345**	**3,133**

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

12 Loans to customers

Loans to customers	30/06/19 thousand EUR	30/06/18 thousand EUR
Gross loans to customers	70,126	31,815
Accrued interest from loans	7,089	5,090
Allowances for loan impairment (Note 4)	-12,523	-9,101
TOTAL	**64,692**	**27,803**
weighted average APR	*67%*	*78%*
currency	*EUR, MDL, ALL, MKD*	*EUR, MDL, ALL, MKD*

13 Other assets and prepayments

Other assets and prepayments	30/06/19 thousand EUR	30/06/18 thousand EUR
Receivables of collection companies	218	167
Receivables from parent company	425	525
Assets held for sale	178	27
Other claims	161	183
Prepayments	1,182	477
Deposit receivables from MasterCard International and other partners	1,007	215
TOTAL	**3,171**	**1,594**

Receivables of collection companies have an immaterial impact on the business model and consequently, the measurement of loans.

14 Other financial investments

Other financial investments	30/06/19 thousand EUR	30/06/18 thousand EUR
Deposit account	2,376	0
TOTAL	**2,376**	**0**

Deposit in sum 2,120 thousand EUR is set to guarantee for the overdrafts and is due in December 2019. The rest is long-term and set to cover one of the subsidiaries' share capital according to the local regulator demand.

15 Loans and bonds from investors

Loans and bonds from investors		30/06/19 thousand EUR	30/06/18 thousand EUR
Loans from investors		**42,550**	**13,974**
	Due date during next 12 month	32,715	6,382
	Due date after 12 month	9,835	7,395
Bond liabilities		**15,011**	**10,854**
	Due date during next 12 month	5,120	1,283
	Due date after 12 month	9,890	9,570
Lease liabilities		**2,837**	**0**
	Due date during next 12 month	418	0
	Due date after 12 month	2,418	0
Accrued interest		**599**	**295**
TOTAL		**60,997**	**25,123**
	interest rate gap	*3-17%*	*10-16%*
	currency	*EUR, MDL, USD, ALL, MKD*	*EUR, MDL, USD, ALL*

Lease liabilities are related to the implementation of standard IFRS 16 (see also Note 6).

16 Other liabilities

Other liabilities	30/06/2019 thousand EUR	30/06/2018 thousand EUR
Trade payables	644	351
Payables to employees	383	144
Corporate Income Tax payables	811	668
Other Tax payables	205	208
Dealer loan liabilities	1,395	93
Over-/wrong payments from customers	422	215
Other liabilities	293	0
TOTAL	**4,135**	**1,679**

17 Share capital

Share capital	30/06/19	30/06/18
Share capital (thousand EUR)	10,000	275
Number of shares, pc	10,000,000	43,000
Nominal value of share (EUR)	1.00	6.40

As a result of the share subscription in September 2018, the number of shareholders was increased up to 12, and as a result of the share issue in December 2018, the share capital was increased up to 10 million EUR from retained earnings and share premium. Majority shareholder remained unchanged.

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