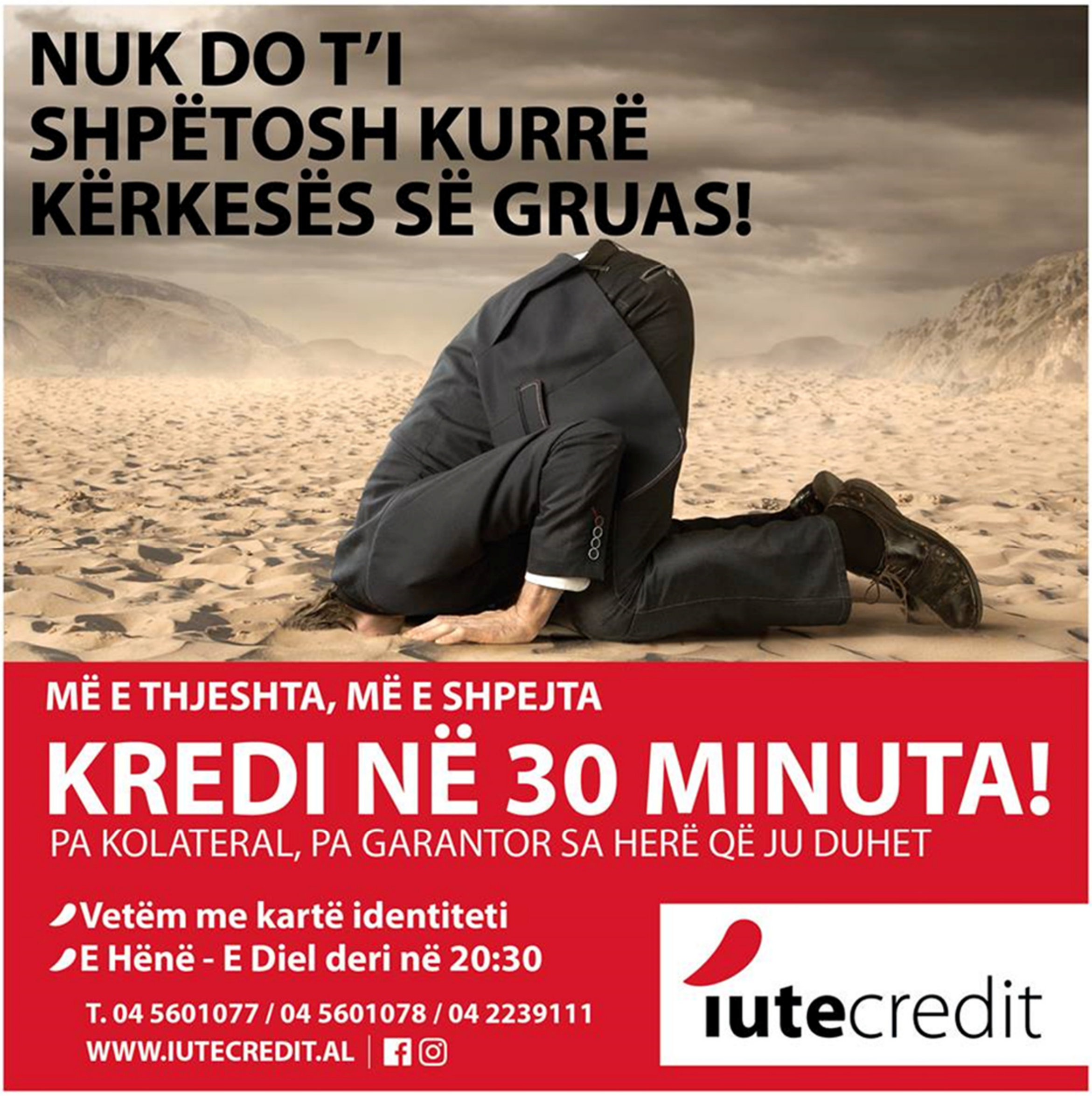
TO BE THE FASTEST AND THE MOST COMFORTABLE CREDIT PROVIDER



* You will never escape from your wife's request

IuteCredit Europe AS

Annual report 2016

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1 General information and contacts

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Main activity:	Consumer lending
Auditor:	Ernst & Young Baltic AS
Reporting period:	01.01.2016 - 31.12.2016

2 Management report for 2016

Introduction

IuteCredit's mission is to be the fastest and most comfortable consumer loan provider.

AS IuteCredit Europe (hereinafter referred to as **„ICE"**) is a holding company, which is specialised in consumer credits, via its sole 100% subsidiaries. By 31 December 2016, ICE had two subsidiaries: ICS OMF IuteCredit SRL (hereinafter referred to as **„ICM"**) in Moldova and "IuteCredit Albania SHA" (hereinafter referred to as **"ICA"**) in Albania. ICE and ICM, ICA together form the **"Group"** or **"IC"**.

ICE administers the strategic management, software development and Group financing & investor relations. Subsidiaries offerthe consumer credit services directly to clients, manage local loan portfolios and develop local investor relations.

ICM is in operation since August 2008. ICA started its business operations after obtaining the license in April 2015.

The Group is actively seeking new markets where to offer its services.

During 2016, the Group increased its net income by 41% (3.2 million euros in 2016 and 2.3 million euros in 2015) while the net profit increased by 48% (1.05 million euros in 2016 and 0.71 million euros in 2015).

CPI, revenue and profit targets set for year 2016 were almost achieved. Group achieved the portfolio target for 2016, the expected amount was 7 million euros, the actual amount is 7.8 million euros; also the revenue target exceeded on 0.9 million euros and margin 19% instead of 15% planned.

Key financial parameters

	2016	2015
ROA (profit/assets)	11,89%	13,24%
ROE (profit/equity)	49,49%	59,33%
Assets / Equity ratio	4,16	4,48

Description of Consumer loan products

IC's loan products are unsecured consumer loans with maturity of not less than 1 month and not longer than 18 months; the loan amounts of not less than approximately 100 EUR and not more than approximately 2 300 EUR; and the annualized percentage rates (APR) in a range between 35 - 400% per annum depending on the loan amount, maturity and type and status of customer.

IC aims to serve only clients with a permanent workplace and stable income. Loans are based on personal identification and personal credit rating. For a new applicant, the credit rating depends on automated comparison of the applicant's relevant parameters with respective parameters of performing and poorly performing statistic client groups and certain databases. More than 60% of new loan applications in Moldova and more than 67% in Albania have been approved. For returning customers, we apply personal credit rating which is based on individual performance data.

Loans are handled via IC's agent network (such as shops, money transfer companies, postal agencies) and our own retail offices. By the end of 2016 we had retail offices in Tirana, Durres, Chisinau, Balti, Comrat and Cahul. IC handles money only via bank accounts and does not perform cash operations. Certain IC agents perform also cash operations and assume the related risks.

Description of 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 of loan agreement.

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

Description of client base and portfolio

As at the end of 2016, IC had more than 121,000 individuals in its database (more than 70, 000 in 2015). More than 90% of clients in Moldova and more than 93% in Albania are employed. Women represent more than 50% of the client base in Moldova and more than 38% in Albania. Approximately half of the clients are returning customers with at least one successfully repaid loan agreement.

The loan portfolio (ie the balance of all receivables from customers, adjusted with provisions for impairment of loans and guarantees) increased on a year-on-year (yoy) comparison by more than 54% and reached a new high of approximately 7.9 million EUR (2015: 5.0 million EUR). Loan portfolio does not include future receivables regarding commission fees, that customers are legally bound to pay when they sign the loan agreement, but with the maturity date in the future, based on the loan agreement. The future receivable that are from commission fee, quarantee fee and admistration fee is 3.55 million EUR as of 31. December 2016 (2015: 1.4 million EUR).

As at the end of 2016, approximately 26% of the normal performing loan portfolio was occupied by loan products with longer maturity than 12 months (2015: 28%) and approximately 74% of the normal loan portfolio was occupied by loan products with maturity of up to 12 months (2015: 72%). Less than 1.5% of the normal loan portfolio represented loan products with maturity of less than 2 months.

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 2016 (and until Annual Report Date), are more than 87% of expected loan repayments were actually performed according to the loan agreements, or with a maximum 30 days delay.

Description of the team and team work efficiency

As at the end of 2016, the number of Group's employees was 42 (2015: 36). Weighted average total income per Group employee exceeded 128,000 EUR (2015: 100,000 EUR). We continue increasing the efficiency of work processes and measurement of individual performance of team members. Many new employees joined during the year and we will see their productivity growth in 2017.

The salary levels (including bonuses) are above local market average and above finance industry benchmarks that the Group is aware of. The labor costs for the team amounted to 622 thousand EUR (2015: 335 thousand EUR). We are happy that our team makes more money, if the company and its profit grows.

Legal risks

The Group must make sure that its activities and its loan agreements are recognized by the state authorities. 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 Moldovan Government for micro financing activities. ICA obtained its licence from Central Bank of Albania in April 2015.

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 standards, as adopted by 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

Group's Investor products are rather tailor-made and not described in this Annual Report. The Group works exclusively via private placement (Estonian Securities Act § 12 Section 2) by issuing either bonds or taking loans, and has seen increasing demand of various institutions and well established businesses to place certain amount of their free cash into relatively flexible, transparent and high yield financial product. Investors receive Quarterly Reports. Subsidiaries of ICE also develop local investor relations and obtain local loans where interest rates are favourable, considering also the exchange rate risks.

During 2016 the Group raised more than 2.3 million EUR in fresh capital. Capital raise was important part of raising the portfolio of clients and turnover, especially in Albania. Further, the Group was also focused on internal improvements of the work process, CRM and team training, as significant element of business and technical support.

Weighted average interest rate of liabilities towards Investors exceeded 14% p.a (2015: 14%). The amount of interest paid out to Investors in 2016 exceeded 721 thousand EUR (2015: 526 thousand Euros). All obligations by the Group were performed without issues.

Targets for 2017

The Group intends to increase its normal loan portfolio by end of 2017 to at least 11.6 million EUR without any decline in customer performance index (CPI > 90%) and without significant increase in operational costs share to the interest incomes.

Expected amount of loans issued (paid-out) during 2017 should exceed 31.5 million euros and expected revenues should exceed 6.6 million euros with a net profit margin of at least 22%. Expected equity by end of 2017 should be at least 3.8 million euros (after dividend payments). During the year we may adjust our targets in accordance with the ongoing volatility of MDL exchange rate. Currency exchange risk may become an inhibiting factor for business growth.

The management believes that IuteCredit is a sustainable ongoing business.

3 Consolidated financial statements for the year ended 31 December 2016

3.1 Consolidated statement of comprehensive income for the year ended 31 December 2016 (EUR)

	Notes	2016 EUR	2015 EUR
Interest and commission income	5	3 763 742	2 572 319
Other income	6	1 635 868	1 089 866
Total income		**5 399 610**	**3 662 185**
Interest expenses	7	-721 084	-525 818
Allowance /(reversal of allowance) for loan impairment	8	-1 500 079	-883 835
Total net income		**3 178 447**	**2 252 532**
Salaries and other personnel expenses	9	-622 238	-334 705
Other operating expenses	10	-996 520	-692 557
Depreciation expense	11,12	-38 010	-32 065
Total operating expenses		**-1 656 768**	**-1 059 326**
Foreign exchange gains and losses		58 657	-294 770
Total foreign exchange gains and losses		**58 657**	**-294 770**
Profit before taxes		**1 580 336**	**898 436**
Income tax expense		-533 049	-189 511
Profit of reporting period		**1 047 286**	**708 925**
Other comprehensive income			
Other comprehensive income to be classified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		49 011	-208 602
Other comprehensive income total		**49 011**	**-208 602**
Profit attributable to:			
Equity holders		1 096 297	500 323
Total comprehensive income attributable to:			
Equity holders		1 096 297	500 323

Notes on pages 11 to 34 are integral part of the consolidated financial statements.

3.2 Consolidated statement of financial position as at 31 December 2016 (EUR)

	Notes	31.12.2016 EUR	31.12.2015 EUR
Assets			
Cash and bank accounts	13	336 383	74 084
Loans to customers	8,14	7 825 942	5 073 174
Prepayments		35 404	11 600
Other assets	15	344 349	81 267
Other financial investments		10 000	10 000
Property, plant and equipment	11	85 267	67 488
Intangible assets	12	160 946	38 382
Total assets		**8 798 291**	**5 355 995**
Liabilities and equity			
Liabilities			
Loans and bonds from investors	16	6 253 770	4 048 756
Other liabilities	17	430 409	112 424
Total liabilities		**6 684 179**	**4 161 180**
Equity			
Share capital	18	275 200	275 200
Unrealised foreign exchange differences		-244 293	-293 304
Retained earnings		1 035 919	503 994
Profit of reporting period		1 047 286	708 925
Total equity		**2 114 112**	**1 194 815**
Total liabilities and equity		**8 798 291**	**5 355 995**

Notes on pages 11 to 34 are integral part of the consolidated financial statements.

3.3 Consolidated statement of changes in equity for the year ended 31 December 2016 (EUR)

	Share capital	Unrealised foreign exchange difference	Retained ernings	Total equity
At 1 January 2015	**275 200**	**-84 702**	**683 994**	**874 492**
Profit for the year	0	0	708 925	708 925
Other comprehensive income	0	-208 602	0	-208 602
Total comprehensive income	0	-208 602	708 925	500 323
Paid out dividends	0	0	-180 000	-180 000
At 31 December 2015	**275 200**	**-293 304**	**1 212 919**	**1 194 815**
At 1 January 2016	**275 200**	**-293 304**	**1 212 919**	**1 194 815**
Profit for the year	0	0	1 047 286	1 046 263
Other comprehensive income	0	49 011	0	49 011
Total comprehensive income	0	49 011	1 047 286	1 096 297
Paid out dividends	0	0	-177 000	-177 000
At 31 December 2016	**275 200**	**-244 293**	**2 083 205**	**2 114 112**

Additional information about share capital is pointed out in note 18.

Notes on pages 11 to 34 are integral part of the consolidated financial statements.

3.4 Consolidated statement of cash flows for the year ended 31 December 2016 (EUR)

	Notes	2016	2015
Operating activities			
Profit (loss) for the year		1 047 286	708 925
Adjustments to reconcile profit (loss) for the year to net cash flows:			
Depreciation and amortization of property and equipment and intangible assets	11,12	38 010	32 065
Provisions for doubtful debts	8,14	1 500 079	883 835
Net foreign exchange differences		-58 657	294 770
Interest, commission income	5	-5 396 926	-2 572 319
Interest expenses	7	717 532	525 818
Income tax expenses		533 049	189 511
Cash flow from operating activities before changes in assets and liabilities		**-1 619 627**	**62 605**
Increase/decrease in receivables from customers	8,14	-3 989 152	-2 112 678
Increase/decrease loan and bonds liabilities	16	2 056 903	764 847
Increase/decrease in other assets	15	1 731	1 239
Increase/decrease in other liabilities	17	-134 625	-207 396
Interest, commission received		5 114 784	2 137 900
Interest paid		-819 197	-546 053
Net cash flows from operating activities		**610 817**	**100 464**
Investing activities			
Purchase of property, plant and equipment and intangible assets	11,12	-174 271	-61 320
Shares of Eesti Ühistupank		0	-10 000
Net cash flows used in investing activities		**-174 271**	**-71 320**
Financing activities			
Dividends paid		-177 000	-180 000
Net cash flows from/(used in) financing activities		**-177 000**	**-180 000**
Net increase/decrease in cash and cash equivalents		**259 546**	**-150 856**
Cash and cash equivalents at the beginning of the year	13	**74 084**	**177 997**
Net increase/decrease in cash and cash equivalents		259 546	-101 013
Net foreign exchange difference		2 753	-2 900
Cash and cash equivalents at the end of the year	13	**336 383**	**74 084**

	31.12.2016	**31.12.2015**
Cash and Cash equivalents comprises		
Cash on hand	22	142
Non-restricted current account	336 361	73 942

Notes on pages 11 to 34 are integral part of the consolidated financial statements.

EY 28.04.2017
FOR IDENTIFICATION PURPOSES ONLY

4 Notes to the consolidated financial statements

1 Summary of significant accounting policies

Corporate Information

The accompanying consolidated financial statements of IuteCredit Europe AS (the "Company") and its subsidiaries (together referred to as the "Group") were authorized for issue in accordance with a resolution of the Management Board on 28 April 2017. Company's owners have the power to amend the financial statements after issue.

IuteCredit SRL and Iutecredit Albania SHA are consumer credit providers whose sole shareholder is IuteCredit Europe AS. In the current annual report Group refers to consolidated financial statements of IuteCredit Europe AS and its subsidiaries and their consolidated annual report.

Basis of preparation

These consolidated financial statements of AS IuteCredit Europe are prepared in accordance with International Financial Reporting Standards (IFRS) 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.

These financial statements have been prepared under the historical cost basis, except as disclosed in some of the accounting policies below. The Group classifies its expenses by nature of expenses.

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 referred differently in specific accounting principle.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (IuteCredit SRL and Iutecredit Albania SHA) as at 31 December 2016. 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

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 accounts, intra-group transactions and balances, along with unrealized gains and losses on transactions between group units, are eliminated.

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 currency of Iute Credit SRL is MDL, the functional currency of IuteCredit Albania SHA is ALL, and the functional currency of IuteCredit Europe is euro.

Fair values 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 categorised 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

Interest income and expense

Interest income is recognized to the extent that it is probable that the economic benefits will flow to the Group and the interest income can be reliably measured.

Interest income is recognized in profit or loss for all interest-bearing financial instruments carried at amortized cost using the effective interest rate method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. The calculation includes all significant fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Commission fee income is recognized in the fair value of the consideration received or receivable for the services provided in the ordinary course of the Group's activities. Fees and commissions are recognized on an accrual basis when the service has been provided.

Other income is recognized on an accrual basis at the moment of executing the respective transactions.

Interest expenses are recognized in profit or loss using the effective interest method.

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 the 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.

In Estonia income tax (that is accounted for as income tax cost in profit and loss statement) is accounted for only in cases when the taxable event occurs (like payment of dividends and payments decreasing the equity).

For 2016 Iute Credit SRL, according to the Income Tax Act/code the annual profits earned by Moldovan companies are taxed in Moldova at the rate 12%. Also the distribution of retained earnings is subject to the taxation at the rate 6% on the amount paid out as dividends.

For 2016 Iutecredit Albania SHA, according to the Income Tax Act/code the annual profits earned by Albanian companies are taxed in Albania at the rate 15%. Also the distribution of retained earnings is subject to the taxation at the rate 15% on the amount paid out as dividends. During 2016, according to the Tax code Iutecredit Albania SHA paid prepaid income tax, the amount was calculated based on the cathegory of the business, called Simple Income Tax, which is applicable for small businesses.

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.

i) Transactions and balances
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.
ii) Group companies
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 statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI.

Transactions denominated in foreign currencies are recorded in euro at actual rates of exchange set forth by the European Central Bank at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into euro at the rate of exchange prevailing at the end of the period. Any gain or loss resulting from a change in rates of exchange subsequent to 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, National Bank of Moldova and Central Bank of Albania, used in the preparation of the Group's annual report were as follows:

Reporting date	MDL	USD	ALL
31.12.2015	21,4779	1,0887	137,28
31.12.2016	20,8895	1,0541	135,23

Average period	MDL	USD	ALL
01.01.15 – 31.12.15	20,8980	1,1043	139,74
01.01.16 – 31.12.16	22,0548	1,1069	137,37

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.
For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

Financial assets

Initial recognition and measurement
i) Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets or held-to-maturity investments. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset. The Group has only such financial assets that are recognized as loans and receivables.

ii) Subsequent measurement

For purposes of subsequent measurement, financial assets are classified as Loans and receivables.

Loan receivables and allowances for loan impairment

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

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

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

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

If the Group determines that no loss event has occurred for specific loan, it is included in a group of loans with similar credit risk characteristics and collectively assessed for impairment (using statistical approach, where provisions amount is based on historical loss rate for specific group and probability of becoming impaired).

For 2016 the Group calculated the provision under estimation of future losses using net present value method (NPV). This method is based on estimation of years during which the debts will be collected (t) the discount rate (r) and estimation of percentages from defaulted loans that will be accounted to loss (Co). The discount rate was established by management of the board at 17%.

The IBNR methodology is based on historical loan performance and is calculated based on the loans net present value.

Property, plant and equipment

Property and equipment and other assets are recorded at cost less accumulated depreciation.
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 provided 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%

Intangible assets

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 each software description/benefits. Amortization is calculated on a straight-line basis over 3-10 years.

Financial liabilities

All financial liabilities are initially accounted in acquisition cost, which also includes all expenses related directly with the purchase. Amortized cost shall be used for all further reflections. The purchase price for short-term financial liabilities is generally equal to their nominal value, which is why short-term financial liabilities are reflected in the statement of financial position in the sum deemed to be paid. During the following time periods, the interest expenses from the obligation is calculated on the basis of effective interest rate method.

A financial liability is categorized as being short-term, if the liability is due within twelve months from the date of the statement of financial position; or if the undertaking does not have an unconditional right to postpone the fulfilment of the payment liability for longer than twelve months from the date of the statement of financial position. Obligations that stem from a loan agreement with a repayment term of up to twelve months from the date of the statement of financial position are reflected as short-term, on the condition that the term of the repayment lapses prior to the approval of the annual report.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.
If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2 Critical accounting estimates and judgments

The preparation of the consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the EU requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of interest incomes and expenses for the reporting period. Although these estimates are based on management's best knowledge and judgment of current events and actions, the actual outcome and the results ultimately may significantly differ from those estimates. More detailed overview of the estimates made is provided under accounting principles or disclosures set out below.

Impairment losses on loans

Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under these circumstances. Changes in assumptions may have a significant impact on the financial statements in the period assumptions change. Management believes that the underlying assumptions are appropriate and the Group's financial statements therefore present the financial position and results fairly.

At the moment the provisions are created monthly, according to estimation of future losses from unpaid loans and receivables (related interest, commissions and penalties), which are recognized as non-performing loans (70th day overdue).

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

Adoption of new and/or changed IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations

The following new and/or amended IFRSs have been adopted by the group as of 1 January 2016:

- **Amendments to IAS 1** ***Presentation of financial statements: Disclosure Initiative***
  The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The amendments are effective for annual periods beginning on or after 1 January 2016. The implementation of this amendment did not have impact on the financial statements of the group.

- **Amendments to IAS 16 *Property, Plant & Equipment* and IAS 38 *Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortization***
  The amendment is effective for annual periods beginning on or after 1 January 2016 and provides additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. It is clarified that a revenue-based method is not considered to be an appropriate manifestation of consumption. The implementation of this amendment did not have impact on the financial statements of the group, as the group does not use revenue-based depreciation and amortization methods.

- **Amendments to IAS 19 *Employee Benefits***
  The amendment is effective for annual periods beginning on or after 1 February 2015. The amendment addresses accounting for the employee contributions to a defined benefit plan. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The Group does not have any plans that fall within the scope of this amendment.

- **Amendment to IFRS 11 *Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations***
  The amendment is effective for annual periods beginning on or after 1 January 2016. IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The Group had no transactions in scope of this amendment.

- The IASB has issued the **Annual Improvements to IFRSs 2010 – 2012 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 February 2015. None of these had an effect on the Company's financial statements.
  - IFRS 2 *Share-based Payment*;
  - IFRS 3 *Business Combinations*;
  - IFRS 8 *Operating Segments;*
  - IFRS 13 *Fair value Measurement;*
  - IAS 16 *Property, Plant and Equipment*;
  - IAS 24 *Related Party Disclosures;*
  - IAS 38 *Intangible Assets.*

- The IASB has issued the **Annual Improvements to IFRSs 2012 – 2014 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016. None of these had an effect on the Company's financial statements.
  - IFRS 5 *Non-current Assets Held for Sale and Discontinued Operation*;
  - IFRS 7 *Financial Instruments: Disclosures*;
  - IAS 19 *Employee Benefits*;
  - IAS 34 *Interim Financial Reporting*.

Standards issued but not yet effective

The Group has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorization of these financial statements for issue, but which are not yet effective:

IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 01.01.2018)

IFRS 9 replaces IAS 39 and introduces new requirements for classification and measurement, impairment and hedge accounting. The group has begun to evaluate the impact of the implementation of this standard.

IFRS 15 *Revenue from Contracts with Customers* (effective for financial years beginning on or after 1 January 2018)

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. Management has not yet assessed the impact of this amendment.

IFRS 15: ***Revenue from Contracts with Customers (Clarifications)*** (effective for annual periods beginning on or after 1 January 2018, once endorsed by the EU).

The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. Management has not yet assessed the impact of this amendment.

IFRS 16 ***Leases*** (effective for financial years beginning on or after 1 January 2019, once endorsed by the EU)

IFRS 16 replaces IAS 17 and specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting is substantially unchanged. Management has not yet assessed the impact of this amendment.

Amendments to IAS 7 ***Statement of Cash Flows: Disclosure Initiative*** (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

The amendments improve information provided to users of financial statements about an entity's financing activities. Entities are required to disclose changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, for example, by providing reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The implementation of these amendments will not have any impact on the financial position or performance of the Group but may result in changes in disclosures.

Amendments to IAS 12 ***Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses*** (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

The amendments clarify how to account for deferred tax assets for unrealized losses on debt instruments measured at fair value. The Group has not yet evaluated the impact of the implementation of this standard.

IFRS 2: ***Classification and Measurement of Share based Payment Transactions (Amendments)*** (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The group has not yet evaluated the impact of the implementation of this standard.

Amendments to IFRS 10 and IAS 28 – ***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*** (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 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 recognised when a transaction involves a business and partial gain or loss is recognised when a transaction involves assets that do not constitute a business. The Group has not yet evaluated the impact of the implementation of this standard.

Amendments to IAS 40: Transfers to Investment Property (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

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

IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The Group has not yet evaluated the impact of the implementation of this standard.

The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities and on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU.

- ***IFRS 1 First-time Adoption of International Financial Reporting Standards:*** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
- ***IAS 28 Investments in Associates and Joint Ventures:*** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
- ***IFRS 12 Disclosure of Interests in Other Entities:*** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

The Group plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

4 General risk management policies

The management constantly observes the following ratios, and if necessary, makes adjustments into operations, into credit policy or in finance management according to:
• 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 90 but it actually varies by loan product, customer group and even issuing offices (Moldovan and Albanian regions).

- Group's liabilities versus loan portfolio, where the target is to have loans 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.

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.

Fair values of financial instruments

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 2016, the fair value of interest-bearing loans to customers and loans, bonds from investors amounted to EUR 7.826 million and EUR 6.254 million, correspondingly comparing to the respective carrying amounts of EUR 7.826 million and EUR 6.254 million.
The fair value of the 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. For additional information regarding fair value of financial instruments please refer to note 20.

External risks

<u>Moldova's and Albania's macroeconomic and legal situation</u>

Group loans are repaid by employees of several thousand Moldovan and Albanian employers (companies). The economic sustainability of employers is the key to Group's sustainability and profitability. The Group observes on a daily basis Moldovan and Albanian media, exchange rates and the developments related to important macroeconomic aspect, such as (i) Moldovan and Albanian GDP and GDP per capita; (ii) quarterly export volumes, (iii) quarterly internal consumption volumes; (iv) quarterly volume of money transfers home by Moldovans and Albanians 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.
Group is an active member of American Chamber of Commerce (AmCham), 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 Groups major competitors participate in AmCham.
Changes in macroeconomic situation affect Group's lending policy. For example, due to relatively good tax collection results, we have encouraged lending to employees of public sector. Due to overall macroeconomic instability in the Balkans and Southern Europe region, the Group has limited the maximum maturity of its loan products with 18 months.

<u>Exchange rate volatility</u>

Calculation of exchange rate volatility is made based on evolution of exchange rate of foreign currency with which company operates, this evolution is estimated in percentage for certain reporting period and are reflected in statement of profit or loss, as the loss/profit.
The following tables demonstrate the sensitivity to a reasonably possible change in the USD and EUR; MDL and EUR; ALL and EUR exchange rates, with all other variables held constant.

Exchange rate volatility

Currency	Exchange rate		
	EUR	EUR	
	At 31 Dec 2014	At 31 Dec 2015	At 31 Dec 2016
MDL	18,9966	21,4779	20,8895
USD	1,2141	1,0887	1,0541
ALL	140,14	137,28	135,23

Currency	Deviation	Effect on profit before taxation
2016		
MDL	2,82%	157 747
USD	3,28%	-2 573
ALL	1,52%	29 381
2015		
MDL	-11,55%	-530 408
USD	11,52%	-8 589
ALL	2,08%	11 180

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 and ALL), whereas Group's major liabilities before Investors are assumed in euros. Between 2008 – 2016 the MDL exchange rate fluctuations have been more than 20% in relation to both EUR and USD.

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 31.12.2016 were 6.7 mln EUR, weakening of MDL exchange rate versus USD and EUR by investment maturity date by 20% would bring a loss of ca 1.34 mln EUR. The Group's equity is enough to cover that loss, but exchange rate weakening by more than 20% would cause significant difficulties.

The Group is relatively insensitive as regards regular interest payments, because the interest payments (interest expense) amount is 30% of the overall cost base of the group, an amount of approx. 0.72 mln EUR per year. A 20% decrease of MDL value would therefore cause the financial costs to increase to approximately by 144 thousand EUR. Given the Groups margin on its products, it can easily be absorbed.

To mitigate the foreign exchange volatility risks, the Group has taken following measures:
• Diversification of liability currencies – liabilities have been assumed in EUR (ca 96%), MDL (ca 3%), USD (ca 1%) and also;
• Diversification of maturity dates – liabilities are assumed, and become mature in different dates. No single liability exceeds 25% of the total liabilities and becomes mature within 3 months from the other liabilities. The short- or even middle term fluctuations are counterbalanced with different maturity dates;
• Limitation of loan (products) repayment periods to 18 months which makes the Group's loan portfolio relatively dynamic and the loan fees can be adapted to changing market conditions.

Interest rate risk

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

Interest rate sensitivity

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

Loans to customers

2016	Changes in base interest rate, in bps	Effect on profit before tax EUR
MDL	+/- 100	64 019
MDL	+/- 300	192 056
MDL	+/- 500	320 094

2016	Changes in base interest rate, in bps	Effect on profit before tax EUR
ALL	+/- 100	21 020
ALL	+/- 300	63 059
ALL	+/- 500	105 099

2015	Changes in base interest rate, in bps	Effect on profit before tax EUR
MDL	+/- 100	48 751
MDL	+/- 300	146 253
MDL	+/- 500	243 754

2015	Changes in base interest rate, in bps	Effect on profit before tax EUR
ALL	+/- 100	5 041
ALL	+/- 300	15 123
ALL	+/- 500	25 206

Loans from creditors

2016	Changes in base interest rate, in bps	Effect on profit before tax EUR
EUR	+/- 100	59 010
EUR	+/- 300	177 030
EUR	+/- 500	295 050

USD	+/- 100	773
USD	+/- 300	2 320
USD	+/- 500	3 866

MDL	+/- 100	1 769
MDL	+/- 300	5 306
MDL	+/- 500	8 844

2015	Changes in base interest rate, in bps	Effect on profit before tax EUR
EUR	+/- 100	38 513
EUR	+/- 300	115 539
EUR	+/- 500	192 564

USD	+/- 100	735
USD	+/- 300	2 204
USD	+/- 500	3 674

MDL	+/- 100	792
MDL	+/- 300	2 375
MDL	+/- 500	3 958

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. Group is exposed to credit risk from its operating activities (primarily for issued loan agreements).

Max exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to on-balance sheet assets are as follows:	**31.12.2016**	**31.12.2015**
Cash and bank accounts	336 383	74 084
Loans to customers	7 825 942	5 073 174
Prepayments	35 404	11 600
Other assets	344 349	81 265
Financial assets	10 000	10 000
Total:	**8 552 079**	**5 250 123**

Liquidity risk

Liquidity risk is managed by each subsidiary separately. Group loan products are unsecured consumer loans with maturity of not less than 1 month and not longer than 18 months; the loan amounts of not less than approximately 100 EUR and not more than approximately 2 300 EUR; and the annualized percentage rates (APR) in a range between 35 - 400% per annum depending on the loan amount, maturity and client status (new or recurring client with good payment history).

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

Please refer to Notes, sections "Loans and receivables and allowances for loan impairment" and "Provisions" where we have discussed how the impairment analysis is performed by the Group.

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

Loans issued, maturity

	Up to 1 year	1 to 5 years	Total
Year ended 31 December 2016	7 763 891	62 051	7 825 942
Year ended 31 December 2015	4 081 080	992 093	5 073 173

Loans received, maturity

	Up to 1 year	1 to 5 years	Total
Year ended 31 December 2016	2 821 176	3 432 594	6 253 769
Year ended 31 December 2015	1 692 756	2 356 000	4 048 756

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Liquidity gap

	Up to 1 year	1 to 5 years	Total
Year ended 31 December 2016	4 942 716	-3 370 543	1 572 173
Year ended 31 December 2015	2 388 324	-1 363 907	1 024 417

Liquidity gap for non-current assets and liabilities is negative, however Group has available currentassets to cover the gap.

Operational Risk

Damage to Physical Assets or Data

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

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

All Group`s work process is supported by CRM in such a manner that a team member can perform its tasks from any computer which 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 specific Group`s knowhow and are not disclosed in Annual Report Annex.

We use 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 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 or products increases, depending on their individual performance. The APR is reduced and the maturity can also be lengthened for up to 18 months.

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. One of the characteristics required is honesty and punctuality. Whereas honesty is a subjective criteria (until a fraud may be discovered), punctuality and correctness of individual performance are observed by CRM.
• Individual responsibility and traceability. All important work operations at 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, and time and content.

• System design. Several important operations are double-checked by CRM and the user cannot proceed to next operation unless the prior operation has not been completed up to the parameters required by CRM;
• Task diversification in loan issue process. Normally, it will take input of at least three different employees, to issue a loan. A single internal user cannot pursue fraudulent objectives.
• Task diversification in management. Group's finance is managed by different persons, local CFO, CEO and also group`s CFO, under direct supervision of Shareholders.

System design errors

Group`s CRM automatically generates tasks and other outputs for its users. A mistake in CRM 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, and then putting 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.

5 Interest and commission income

	2016	2015
	EUR	**EUR**
Interest and commission fee income		
Interest on loans to customers	856 029	540 337
Fee and Commission income	2 907 496	2 028 589
Other interest	218	3 393
Total	**3 763 742**	**2 572 319**

Commission fees include administration fees of loan, lease or other credit enhancement contracts of a short-term nature and are considered to be part of effective interest rate calculation.

6 Other income

	2016	2015
Other income	**EUR**	**EUR**
Penalties under loans to customers	1 260 387	723 771
Resigns under customer loans	291 889	196 516
Other fees income	83 592	169 578
Total	**1 635 868**	**1 089 866**

7 Interest expenses

	2016	2015
Interest expenses	**EUR**	**EUR**
Interest on amounts due to creditors	-721 084	-525 818
Total	**-721 084**	**-525 818**

8 Allowance for impairment of loans to customers

	Loans	Note
	EUR	
At 1 Jan 2015	**-869 191**	
Arising during the year	-883 835	
Utilised	673 890	
Exchange differences	116 225	
At 31 Dec 2015	**-962 910**	14
At 1 Jan 2016	**-962 910**	
Arising during the year	-1 500 079	
Utilised	958 066	
Exchange differences	-109 889	
At 31 Dec 2016	**-1 614 813**	14

For 2016 and 2015 the Group calculated the provision statistically based on historical information.

9 Salaries and other personnel expenses

	2016	2015
	EUR	**EUR**
Salaries and bonuses expenses	-487 854	-262 684
Social security expenses	-110 611	-63 461
Medical insurance expenses	-13 386	-7 410
Other expenses	-10 387	-1 150
Total	**-622 238**	**-334 705**

10 Other operating expenses

	2016	2015
	EUR	**EUR**
Advertising expenses	-381 309	-147 066
Office rent expenses	-107 899	-55 772
Outsource services	-439 213	-355 255
Other operating expenses	-137 129	-134 464
Total	**-1 065 550**	**-692 557**

11 Property, plant and equipment

	Furniture and equipment	TOTAL
	EUR	**EUR**
Cost		
At 31 Dec 2014	**67 845**	**67 845**
Additions	59 224	59 224
Exchange differences	-15 238	-15 238
At 31 Dec 2015	**111 831**	**111 831**
Additions	31 840	31 840
Exchange differences	7 326	7 326
At 31 Dec 2016	**150 998**	**150 998**
Depreciation and impairment		
At 31 Dec 2014	**-46 835**	**-46 835**
Depreciation charge for the year	-8 365	-8 365
Exchange differences	10 857	10 857
At 31 Dec 2015	**-44 343**	**-44 343**
Depreciation charge for the year	-17 850	-17 850
Exchange differences	-3 538	-3 538
At 31 Dec 2016	**-65 731**	**-65 731**
Net book value		
At 31 Dec 2016	85 267	85 267
At 31 Dec 2015	67 488	67 488

12 Intangible assets

	Computer software	Total
	EUR	**EUR**
Cost or valuation		
At 31 Dec 2014	**131 110**	**131 110**
Additions	2 096	2 096
Exchange differences	-27 068	-27 068
At 31 Dec 2015	**106 138**	**106 138**
Additions	142 431	142 431
Exchange differences	773	773
At 31 Dec 2016	**249 342**	**249 342**
Amortization and impairment		
At 31 Dec 2014	**-55 176**	**-55 176**
Amortization charge for the year	-23 700	-23 700
Exchange differences	11 120	11 120
At 31 Dec 2015	**-67 756**	**-67 756**
Amortization charge for the year	-20 160	-20 160
Exchange differences	-479	-479
At 31 Dec 2016	**-88 395**	**-88 395**
Net book value		
At 31 Dec 2016	160 946	160 946
At 31 Dec 2015	38 382	38 382

13 Cash and bank accounts

	31.12.2016	**31.12.2015**
	EUR	**EUR**
Cash on hand	22	142
Bank accounts	336 361	73 943
Total	**336 383**	**74 084**

14 Receivables from customer

As at 31 December 2016	Neither past due nor impaired	Past due, but not impaired	Impaired	Total
Gross loans to customers	7 259 224	127 429	1 117 206	**8 503 859**
Other loans to customers	0	0	0	**0**
Accrued receivables from loans	155 443	83 535	697 919	**936 896**
Provision for loan impairments	0	0	-1 614 813*	**-1 614 813**
Total	**7 414 667**	**210 964**	**200 312**	**7 825 942**

As at 31 December 2015	Neither past due nor impaired	Past due, but not impaired	Impaired	Total
Gross loans to customers	4 577 574	229 517	514 265	**5 321 356**
Other loans to customers	4 327	0	0	**4 327**
Accrued receivables from loans	51 349	191 955	467 097	**710 401**
Provision for loan impairments	0	0	-962 910*	**-962 910**
Total	**4 633 250**	**421 472**	**18 472**	**5 073 174**

*Includes IBNR
Additional information regarding provisions has been disclosed in note 8.

15 Other assets

	31.12.2016	31.12.2015
	EUR	EUR
Receivables of collection companies	69 730	69 447
Receivables from parent company (Note 21)	268 000	0
Other assets	6 619	11 818
Total	**344 349**	**81 267**

16 Loans and bonds

	31.12.2016	Residual maturity		Currency	Interest
		Up to 1 year	1-5 years		
Loans from investors	**3 214 693**	1 501 603	1 713 090	EUR, MDL, USD	10-16%
Bonds A4	**210 000**	210 000	0	EUR	16%
Bonds A5	**506 000**	506 000	0	EUR	16%
Bonds A6	**505 000**	505 000	0	EUR	16%
Bonds A7	**1 270 424**	0	1 270 424	EUR	14-15%
Bonds A8	**449 080**	0	449 080	EUR	14%
Accured interest	**98 573**	98 573	0	EUR, MDL	
Total	**6 253 770**	**2 821 176**	**3 432 594**		

	31.12.2015	Residual maturity		Currency	Interest
		Up to 1 year	1-5 years		
Loans from investors	**2 727 927**	1 647 927	1 080 000	EUR, MDL, USD	10-16%
Bonds A4	**240 000**	0	240 000	EUR	16%
Bonds A5	**506 000**	0	506 000	EUR	16%
Bonds A6	**530 000**	0	530 000	EUR	16%
Accured interest	**44 829**	44 829	0	EUR, MDL	
Total	**4 048 756**	**1 692 756**	**2 356 000**		

In January and February 2017 loans in amount of 495 000 euros were prolonged to 1 – 2 years period. Group has a credit line in a bank, from which 55 thousand EUR had not been used as at 31.12.2016.

17 Other liabilities

	31.12.2016	31.12.2015
	EUR	EUR
Trade payables	62 155	26 897
Debt to personel	57 940	8 637
Tax payables	261 774	73 622
Deferred revenues	0	1 801
Other payables	48 541	1 467
Total	**430 409**	**112 424**

18 Share capital

	31.12.2016	31.12.2015
	EUR	EUR
Share capital	275 200	275 200
Number of shares	43 000	43 000
Nominal value of share	6,40	6,40

All issued shares are authorized and fully paid.

In 2016, the shareholders declared and paid a dividend in the amount of EUR 177 thousand (180 thousand EUR in 2015).

19 Investments in subsidiaries

Name	Country	Portion	
		31.12.2016	31.12.2015
IuteCredit SRL	Moldova	100%	100%
IuteCredit Albania SHA	Albania	100%	100%

IuteCredit SRL was bought on November 28, 2008.
IuteCredit Albania SHA was established on August 04, 2014.

20 Fair value measurement

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

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. For the purposes of current financial statements, mentioned techniques were not used extensively as no such financial assets and financial liabilities exist in the statement of financial position of the Group. There have been no transfers between Levels during the period. Loans and accrued receivables 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 2016 (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	31.12.2016				
Loan and accrued receivables from customers		0	0	7 825 942	**7 825 942**
Liabilities for which fair values are disclosed	31.12.2016				
Loan and accrued interest payables		0	0	6 253 770	**6 253 770**
Assets for which fair values are disclosed	31.12.2015				
Loan and accrued receivables from customers		0	0	5 073 174	**5 073 174**
Liabilities for which fair values are disclosed	31.12.2015				
Loan and accrued interest payables		0	0	4 048 756	**4 048 756**

21 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 Council and the Management Board, key management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies.

IuteCredit Europe AS 100% shareholder is company Alarmo Kapital OÜ, registered in Estonia.

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 follows:

		Loans received from related parties	Other recevables from parent company	Amounts owed to related parties
Shareholders	2016	50 000	268 000	70 200
	2015	76 000	0	169 756

		Purchases from related parties	Services to related parties	Interest paid on loans to related parties
Shareholders	2016	46 964	2 730	15 712
	2015	46 000	0	12 132

22 Unconsolidated financial statements of parent company as a separate company

The parent company´s unconsolidated financial statements have been prepared in accordance with 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".

22.1 Statement of comprehensive income for the year ended 31 December 2016 (EUR)

	2016	2015
Interest income	743 928	218 691
Interest expenses	-698 301	-517 599
Net interest income	**45 627**	**-298 908**
Other income	143 407	7
Net other operating income	**143 407**	**7**
Total income	**189 034**	**-298 901**
Salaries and other personnel expenses	-117 630	-75 821
Other operating expenses	-150 275	-124 466
Depreciation expense	-3 173	-3 855
Total operating expenses	**-271 078**	**-204 142**
Foreign exchange gains and losses	-10 694	14 640
Total foreign exchange gains and losses	**-10 694**	**14 640**
Dividends received	1 449 000	188 000
Profit before taxes	**1 356 263**	**-300 403**
Income tax expense	0	0
Profit of reporting period	**1 356 263**	**-300 403**
Other comprehensive income		
Other comprehensive income to be classified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	0	0
Other comprehensive income total	**0**	**0**
Profit attributable to:		
Equity holders	1 356 263	-300 403
Total comprehensive income attributable to:		
Equity holders	1 356 263	-300 403

22.2 Statement of financial position as at 31 December 2016 (EUR)

	31.12.2016	31.12.2015
Assets		
Cash and bank accounts	201 738	1 763
Loans to customers	5 146 799	2 973 584
Prepayments	5 789	2 258
Other receivables	268 000	0
Other financial investments	10 000	10 000
Property, plant and equipments	3 919	2 645
Intangible assets	164 321	2 133
Investment in subsidiaries	750 929	383 581
Total assets	**6 551 495**	**3 375 964**
Equity and liabilities		
Loans and bonds	5 934 602	3 968 029
Other liabilities	42 933	13 237
Total liabilities	**5 977 535**	**3 981 266**
Share capital	275 200	275 200
Share premium	37 761	37 761
Retained earnings	260 999	-918 263
Total equity	**573 960**	**-605 302**
Total liabilities and equity	**6 551 495**	**3 375 964**

22.3 Statement of changes in equity for the year ended 31 December 2016 (EUR)

	Share capital	Share premium	Retained ernings	Total
At 1 January 2015	**275 200**	**37 761**	**-437 860**	**-124 899**
Loss for the year	0	0	-300 403	-300 403
Other comprehensive income	0	0	0	0
Total comprehensive income	0	0	-300 403	-300 403
Paid out dividends			-180 000	-180 000
At 31 December 2015	**275 200**	**37 761**	**-918 263**	**-605 302**
At 1 January 2016	**275 200**	**37 761**	**-918 263**	**-605 302**
Profit for the year	0	0	1 356 262	1 356 262
Other comprehensive income	0	0	0	0
Total comprehensive income	0	0	1 356 262	1 356 262
Paid out dividends	0	0	-177 000	-177 000
At 31 December 2016	**275 200**	**37 761**	**260 999**	**573 960**

The adjusted unconsolidated equity of parent company (the calculation of what would the parent's equity be if they would account for their subsidiary using the equity method) at 31.12 is:

	31.12.2016	31.12.2015
Parent Company separate owner's equity	573 960	-605 302
Affiliated company's value in parent company's separate statement of financial position (minus)	- 750 929	-383 581
Affiliated company's value calculated based on equity method (plus)	2 222 050	2 183 698
Total	**2 045 082**	**1 194 815**

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22.4 Statement of cash flow for the year ended 31 December 2016 (EUR)

	2016	2015
Operating activities		
Profit/losses before taxes	1 356 262	-300 403
Adjustments to reconcile profit before tax to net cash flows:		
Depreciation and amortization of property and equipment and intangible assets	3 173	3 855
Other income	-140 670	0
Net foreign exchange differences	-10 693	-14 640
Interest income	-743 928	-218 691
Interest expenses	698 301	517 599
Income tax expenses	0	0
Dividends from subsidiaries	-1 449 000	-188 000
Cash flow from operating activities before changes in assets and liabilities	**-265 169**	**-200 280**
Increase/decrease in loans and other assets	-2 704 150	-256 576
Increase/decrease loan and bonds liabilities	1 916 021	710 559
Increase/decrease in other liabilities	29 694	8 517
Interest received	967 879	236 118
Interest paid	-646 639	-516 102
Net cash flows from operating activities	**-437 195**	**182 516**
Investing activities		
Purchase of property, plant and equipment and intangible assets	-2 313	-1 430
Dividends received	1 449 000	188 000
Subsidiary shares (establishment)	-367 348	0
Shares of Eesti Ühistupank	0	-10 000
Net cash flows used in investing activities	**1 079 339**	**176 570**
Financing activities		
Dividends paid	-177 000	-180 000
Net cash flows from/(used in) financing activities	**-177 000**	**-180 000**
Net increase/decrease in cash and cash equivalents	**199 975**	**-21 194**
Cash and cash equivalents at the beginning of the year	**1 763**	**22 957**
Net increase/decrease in cash and cash equivalents	199 975	-21 194
Cash and cash equivalents at the end of the year	**201 738**	**1 763**

	31.12.2016	31.12.2015
Cash and Cash equivalents comprises		
Cash on hand	0	0
Non-restricted current account	201 738	1 763

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23 Profit allocation proposal

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

Company retained earnings:	
Retained earnings as at 31.12.2015	1 212 919
Paid out dividends year 2016	-177 000
Profit of the financial year 2016	1 047 286
Retained earnings as at 31.12.2016	
Dividend distribution	-262 000
Allocation to Statutory Reserve	-27 520
Balance of retained earnings after allocations	1 793 685

24 Signature of the management board to the Annual report 2016

The Company's Management Board has approved the Management Report and Annual Accounts for the year 2016.

The Annual Report as compiled by the Management Board consists of the Management Report, Annual Accounts, Profit allocation proposal and 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.

April 28, 2017

Tarmo Sild

Member of the board

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Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of IuteCredit Europe AS

Opinion

We have audited the consolidated financial statements of IuteCredit Europe AS and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

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

Other information

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

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

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

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

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

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

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

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

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

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conducted in accordance with International Standards on Auditing (Estonia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

Tallinn, 28 April 2017

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