iutecredit

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

Skopje, October 2017

IuteCredit Europe AS

2017 Annual Report

Translation of the Estonian original

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1 General information and contacts

Address:	Maakri 19/21 10145 Tallinn Republic of Estonia
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Main activity:	Holding company
Auditor:	Ernst & Young Baltic AS
Reporting period:	1 January 2017 – 31 December 2017

Translation of the Estonian original.

2 Management report for 2017

Introduction

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

AS IuteCredit Europe (**ICE**) is a holding company specialized in consumer credit via its 100% subsidiaries using equity and loan capital. As at 31 December 2017, ICE had five subsidiaries: ICS OMF IuteCredit SRL (**ICM**) in Moldova, „IuteCredit Albania SHA" (**ICA**) in Albania, IuteCredit Macedonia DOOEL–Skopje (**ICMK**) in Macedonia, IuteCredit Kosovo Sha (**ICKO**) in Kosovo and IutePay Bulgaria EOOD (**IutePay**) in Bulgaria. ICE and ICM, ICA, ICMK, ICKO and IutePay together form **the Group** (**IC**).

ICE is responsible for strategic management, including financial management, sales and marketing, technological development and process management, and the Group's financing and investor relations. Subsidiaries offer consumer credit services, manage local loan portfolios and develop local investor relations.

ICM is in operation since August 2008 and ICA since April 2015. ICMK started its business operations after obtaining the license in Macedonia in September 2017 and ICKO after obtaining its license in October 2017. IutePay Bulgaria EOOD was established on 12 December 2017 and did not start its economic activities in the financial year.

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

During 2017, the Group increased its net income by 136% (€7.6 million vs €3.2 million in 2016) while the net profit increased by 179% (€2.93 million vs €1.05 million in 2016).

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. All CPI, revenue and profit targets set for 2017 were achieved. The Group achieved the portfolio target for 2017 (€11.6 million), increasing their loan portfolio to €20.4 million (2016: €7.8 million). The revenue target was exceeded by €1 million and net profit margin was also higher than expected at 24% (target 22%).

Key financial parameters

	2017	**2016**
ROA (profit/assets)	12.72%	11.89%
ROE (profit/equity)	62.43%	49.49%
Assets/equity ratio	4.91	4.16

Consumer loan products

IC's loan products are unsecured consumer loans with maturities between 1 month and 24 months and car-secured loans with maturities of up to 48 months, loan amounts between €50 and €5,000, and annual percentage rates (APR) between 30% and 350% depending on the loan amount, maturity and type and status of customer.

IC aims to serve only clients with a permanent workplace and stable income. Loans are based on personal identification and personal credit rating. For a new applicant, the credit rating depends on comparison of the applicant's relevant parameters with respective parameters of performing and poorly performing statistic client groups and certain databases. 50% of new loan applications in Moldova, 73% in Albania, 68% in Macedonia and 49% in Kosovo have been approved. For returning customers, we apply personal credit rating which is based on individual performance data.

Loans are handled via an agent network (such as shops, money transfer companies, postal agencies) and our own retail offices. By the end of 2017, we had own retail offices in Tirana, Durrës, Fier, Elbasan, Chișinău, Bălți, Comrat, Cahul, Skopje, Tetovo and Pristina. IC handles money only via bank

accounts and does not perform cash operations. Certain IC agents perform also cash operations and assume the related risks.

Revenue base

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

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

Client base and portfolio

As at the end of 2017, IC had more than 209,000 individuals in its database (2016: more than 121,000). Women account for 45% of the client base in Moldova, 39% in Albania and Macedonia and 22% in Kosovo. Approximately half of the clients are returning customers with at least one successfully repaid loan agreement. The age of the customers is representative of the age profile of the respective countries.

The loan portfolio (i.e., the balance of all receivables from customers, adjusted with allowances for loan impairment) increased on a year-on-year (yoy) comparison around 158% and reached a new high of approximately €20.4 million (2016: €7.9 million). As at 31 December 2017, future receivables from commission fees, guarantee fees and administration fees totaled €8.4 million (2016: €3.55 million).

As at the end of 2017, approximately 5% of the normal performing loan portfolio was occupied by loan products with a longer maturity than 12 months (2016: 26%) and approximately 95% of the normal loan portfolio was occupied by loan products with maturity of up to 12 months (2016: 74%). Less than 2% 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 2017 (and until the date of the annual report), more than 88% of expected loan repayments were performed according to the loan agreements, or with a maximum 30 days delay.

Team and team work efficiency

As at the end of 2017, the number of the Group's employees was 133 (2016: 42). Weighted average total income per Group employee exceeded €92,800 (2016: €128,000). This drop in the weighted average income does not indicate, however, a reduction in productivity, as many new employees joined the Group only in the second half of the year and hence did not manage to make their full contribution to the annual results. We continue increasing the efficiency of work processes and measurement of individual performance of team members and are expecting the productivity to reach the €128,000 level again in the near future.

The salary levels (including bonuses) are above local market average and above finance industry benchmarks that the Group is aware of. The personnel expenses for the team amounted to €1,471 million in 2017 (2016: €622,000). 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. In all the countries we operate in, lending is subject to state licensing or recognition and

strict regulations. Recognition by the state and the law enforcement is the only security for the Group and its investors of otherwise unsecured loans.

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

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

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

Investor relations

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

During 2017, the Group raised more than €10.9 million new capital. Raising additional capital was an important part of growing the portfolio of clients and turnover, especially in Albania.

The weighted average interest rate of liabilities to investors exceeded 14% per annum (2016: 14%). The amount of interest paid to investors in 2017 exceeded €1.547 million (2016: €721,000). All obligations by the Group were performed without issues.

Social responsibility

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

- Helping the state to create new jobs and contributing to the state's tax revenues. For the second year in a row already ICM was awarded the title of Major Taxpayer. The total amount of employment and income taxes paid in Moldova, Albania, Kosovo and Macedonia together exceeded €1.5 million in 2017. The subsidiaries of the Group also generated at least €3.5 million in VAT income for the countries by financing consumption.
- Supporting sports through a variety of projects.
- Participation in sponsorship activities and programs (Chișinău Marathon in Moldova and Tirana Marathon in Albania).

Well-being and motivation of employees

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

The individual performance of each employee is measured and monitored.

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

The Group's core HR management principles are the following:

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

Targets for 2018

The Group intends to increase its normal loan portfolio by the end of 2018 to at least €50 million without any decline in customer performance index (CPI > 88%) and without a significant increase in the share of operational costs in relation to interest income.

The Group has set the following targets for 2018:
- Over 400,000 clients in data base
- Over €80 million of loans issued
- Income over €24 million
- Net profit margin at least 24%
- New technological platform to expand the range of financial services offered

Expected equity by end of 2018 should be at least €10 million (after dividend payments). During the year, the Group may adjust its targets in accordance with the ongoing volatility of MDL exchange rates. Currency exchange risk may become an inhibiting factor for business growth.

3 Consolidated financial statements for the year ended 31 December 2017

3.1 Consolidated statement of comprehensive income for the year ended 31 December 2017 (EUR)

	Notes	2017 EUR	2016 EUR
Interest and commission fee income	5	8,755,731	3,763,742
Other income	6	3,588,438	1,635,868
Total income		**12,344,169**	**5,399,610**
Interest expense	7	-1,546,614	-721,084
Allowances for loan impairment	8	-3,238,081	-1,500,079
Total net income		**7,559,474**	**3,178,447**
Salaries and other personnel expenses	9	-1,471,472	-622,238
Other operating expenses	10	-2,182,949	-996,520
Depreciation/amortization charge	11, 12	-68,569	-38,010
Total operating expenses		**-3,722,991**	**-1,656,768**
Foreign exchange gains/losses		162,979	58,657
Total foreign exchange gains/losses		**162,979**	**58,657**
Profit before tax		**3,999,462**	**1,580,336**
Income tax		-1,071,215	-533,049
Profit for the reporting period		**2,928,247**	**1,047,286**
Other comprehensive income			
Exchange differences on translation of foreign operations		117,757	49,011
Total other comprehensive income		**117,757**	**49,011**
Profit attributable to:			
Equity holders		3,046,004	1,096,297
Total comprehensive income attributable to:			
Equity holders		3,046,004	1,096,297

Notes on pages 12 to 36 are an integral part of the consolidated financial statements.

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3.2 Consolidated statement of financial position as at 31 December 2017 (EUR)

	Notes	31 December 2017 EUR	31 December 2016 EUR
Assets			
Cash and bank accounts	13	1,793,258	336,383
Loans to customers	8, 14	20,352,419	7,825,942
Prepayments		32,661	35,404
Other assets	15	244,423	344,349
Other financial investments		10,000	10,000
Property, plant and equipment	11	204,614	85,267
Intangible assets	12	378,647	160,946
Total assets		**23,016,022**	**8,798,291**
Liabilities and equity			
Liabilities			
Loans and bonds from investors	16	17,207,372	6,253,770
Other liabilities	17	1,118,533	430,409
Total liabilities		**18,325,906**	**6,684,179**
Equity			
Share capital		275,200	275,200
Legal reserve		27,520	0
Share premium		37,761	37,761
Unrealized foreign exchange differences		-126,536	-244,293
Retained earnings		1,547,924	998,158
Profit for the reporting period		2,928,247	1,047,286
Total equity		**4,690,116**	**2,114,112**
Total liabilities and equity		**23,016,022**	**8,798,291**

Notes on pages 12 to 36 are an integral part of the consolidated financial statements.

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3.3 Consolidated statement of changes in equity for the year ended 31 December 2017 (EUR)

	Share capital	Legal reserve	Share premium	Unrealized foreign exchange differences	Retained earnings	Total
As at 1 January 2016	**275,200**	0	**37,761**	**-293,304**	**1,175,158**	**1,194,815**
Profit for the financial year	0	0	0	0	1,047,286	1,047,286
Other comprehensive income	0	0	0	49,011	0	49,011
Dividends paid	0	0	0	0	-177,000	-177,000
As at 31 December 2016	**275,200**	**0**	**37,761**	**-244,293**	**2,045,444**	**2,114,112**
As at 1 January 2017	**275,200**	0	**37,761**	**-244,293**	**2,045,444**	**2,114,112**
Profit for the financial year	0	0	0	0	2,928,247	2,928,247
Other comprehensive income	0	0	0	117,757	0	117,757
Established reserves	0	27,520	0	0	-27,520	0
Dividends paid	0	0	0	0	-470,000	-470,000
As at 31 December 2017	**275,200**	**27,520**	**37,761**	**-126,536**	**4,476,171**	**4,690,116**

Additional information about share capital is disclosed in Note 18.

Notes on pages 12 to 36 are an integral part of the consolidated financial statements.

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3.4 Consolidated statement of cash flows for the year ended 31 December 2017 (EUR)

	Notes	2017	2016
Operating activities			
Profit/loss for the financial year		2,928,247	1,047,286
Adjustments to reconcile profit/loss for the financial year to net cash flows:			
Depreciation and amortization of property, plant and equipment and intangible assets	11, 12	68,569	38,010
Allowance for doubtful receivables	8, 14	3,238,081	1,500,079
Net foreign exchange difference		-162,979	-58,657
Interest and commission fee income	5, 6	-12,344,169	-5,396,926
Interest expense	7	1,542,329	717,532
Income tax expense		1,071,215	533,049
Cash flows from operating activities before changes in assets and liabilities		**-3,658,706**	**-1,619,627**
Change in receivables from customers	8, 14	-15,285,976	-3,989,152
Change in loan and bonds liabilities	16	10,847,472	2,056,903
Change in other assets	15	99,927	1,731
Change in other liabilities	17	688,124	-134,625
Interest, commission fees received		11,021,216	5,114,784
Interest paid		-1,440,483	-819,197
Net cash flows from operating activities		**2,271,573**	**610,817**
Investing activities			
Purchase of property, plant and equipment and intangible assets	11, 12	-400,507	-174,271
Net cash flows from investing activities		**-400,507**	**-174,271**
Financing activities			
Dividends paid		-470,000	-177,000
Net cash flows from financing activities		**-470,000**	**-177,000**
Change in cash and cash equivalents		**1,401,066**	**259,546**
Cash and cash equivalents at the beginning of the year	13	**336,383**	**74,084**
Change in cash and cash equivalents		1,401,066	259,546
Net foreign exchange difference		55,809	2,753
Cash and cash equivalents at the end of the year	13	**1,793,258**	**336,383**

	31 December 2017	31 December 2016
Cash and cash equivalents comprises		
Cash on hand	470	22
Non-restricted current account	1,792,789	336,361

Notes on pages 12 to 36 are an integral part of the consolidated financial statements.

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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: the Group) were authorized for issue in accordance with a resolution of the Management Board on 3 May 2018. Company's owners have the power to amend the financial statements after issue.

IuteCredit SRL, Iutecredit Albania SHA, IuteCredit Macedonia DOOEL-Skopje and IuteCredit Kosovo Sha are consumer credit providers whose sole shareholder is IuteCredit Europe AS. The annual report includes the 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 historical cost basis, except as disclosed in some of the accounting policies below. The Group classifies its expenses by their nature.

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (IuteCredit SRL-i, IuteCredit Albania SHA, IuteCredit Macedonia DOOEL-Skopje, IuteCredit Kosovo Sha and IutePay Bulgaria EOOD) as at 31 December 2017. 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 financial statements, intra-group transactions and balances, along with unrealized gains and losses on transactions between group entities, 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 currencies of group companies are as follows: IuteCredit SRL – the Moldovan leu (MDL), IuteCredit Albania SHA – the Albanian lek (ALL), IuteCredit Macedonia DOOEL-Skopje – the Macedonian denar (MKD), IuteCredit Kosovo Sha – the euro (EUR), IutePay Bulgaria EOOD – the Bulgarian lev (BGN), IuteCredit Europe AS – the euro (EUR).

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Fair value measurement

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

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

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 and expense is recognized in income statement 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 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 taxation at the rate of 20/80 on the amount paid out as net dividends. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

Tax variances

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

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

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According to the Income Tax Act of the Republic of Albania, the annual profits earned by companies (Iutecredit Albania SHA) are taxed in 2017 at the rate of 15%. Also, the distribution of retained earnings is subject to taxation at the rate of 15% on the amount paid out as dividends.

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

According to the Income Tax Act of Kosovo, the annual profits earned by companies (IuteCredit Kosovo Sha) are taxed in 2017 at the rate of 10%. The distribution of retained earnings is not subject to taxation.

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 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 OCI.

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

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

Reporting date	MDL	USD	ALL	MKD
31 December 2015	21.4779	1.0887	137.28	61.5947
31 December 2016	20.8895	1.0541	135.23	61.4812
31 December 2017	20.4099	1.1993	132.95	61.4907

Average period	MDL	USD	ALL	MKD
1 January 2015 – 31 December 2015	20.8980	1.1043	139.74	61.4913
1 January 2016 – 31 December 2016	22.0548	1.1069	137.37	61.5895
1 January 2017 – 31 December 2017	20.8282	1.1297	134.15	61.4812

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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

i) Initial recognition and measurement
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 recognized 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

Loans to customers 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.

The Group determines impairment of 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).

In 2017, the Group established allowances for credit losses incurred using the net present value (NPV) method. This method is based on the estimated number of years during which debts will be collected, the discount rate and the estimated percentage of defaulted loans that will be reclassified to loss.

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

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation.

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

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

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

Financial liabilities

All financial liabilities are initially recorded at acquisition cost, which includes all expenses directly attributable to its acquisition. Financial liabilities are subsequently measured at amortized cost. The purchase price for short-term financial liabilities is generally equal to their nominal value, which is why short-term financial liabilities are carried in the statement of financial position at their net realizable value. During the following periods, interest expenses from the obligation is calculated using the 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 Company does not have an unconditional right to postpone the fulfillment 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 recognized 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 recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the income statement 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 recognized under financial expenses.

Related parties

For the purposes of the Group's annual report, related parties include:

- Owners (parent company and owners of the parent company)
- Executive and senior management
- Close family members of the aforementioned persons and companies connected with them

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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 income and expenses for the reporting period. Although these estimates are based on management's best knowledge and judgment of current events and transactions, the actual outcome and the results ultimately may significantly differ from those estimates. A 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, allowances for impairment are established quarterly, according to estimation of future losses from unpaid loans and receivables (related interest, commissions and penalties), which are recognized as non-performing loans (more than 70 days 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 accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs, which have been adopted as of 1 January 2017:

- **IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)**
  The objective of the amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. These amendments did not have any impact on the Group.

- **IAS 7: Disclosure Initiative (Amendments)**
  The objective of the amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments specify that one way to fulfill the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The amendments did not have significant impact on the financial statements of the Group.

- The IASB has issued the **Annual Improvements to IFRSs 2014–2016 Cycle**, which is a collection of amendments to IFRSs. This improvement did not have an effect on the Company's financial statements.

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.

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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: Classification and Measurement**
  The standard is effective for annual periods beginning on or after 1 January 2018 with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

  The main requirements of the new standard are as follows:
    - Financial assets are to be classified into three measurement categories: assets measured at amortized cost, assets measured at fair value through other comprehensive income and assets measured at fair value through profit or loss.
    - All equity instruments are to be measured at fair value. However, the management can make an irrevocable election to measure changes in fair value through other comprehensive income, provided the instrument is not held for trading. If the equity instrument is not held for trading, changes in its fair value are to be recognized in profit or loss.
    - Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward to IFRS 9 unchanged. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
    - IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a three-stage approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit-impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
    - Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

  The Group is of the opinion that the implementation of IFRS 9 will not materially change the classification of assets and the measurement of loans and receivable will be recorded at amortized cost.
  For meeting the changed impairment requirements, the Group is currently in the process of developing new impairment methods and models. As at the date of approval of this report, the impact assessment is still ongoing.
  The preliminary results of the impact assessment indicate a 5–10% increase in allowances for loan impairment.

- **IFRS 15 Revenue from Contracts with Customers**
  The standard is effective for annual periods 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 (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Group has not yet evaluated the impact of the implementation of this amendment.

- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**
  The clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. 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

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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. The Group has not yet evaluated the impact of the implementation of this amendment.

- **IFRS 16: Leases**

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e., the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Group has not yet evaluated the impact of the implementation of this amendment.

- **IFRS 17: Insurance Contracts**

The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The standard has not yet been endorsed by the EU. The Group has not yet evaluated the impact of the implementation of this amendment.

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

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

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

The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. 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. These amendments have not yet been endorsed by the EU. The Group has not yet evaluated the impact of the implementation of this amendment.

- **IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2018. The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach, which would permit entities that issue contracts within the scope of IFRS 4 to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets. The Group has not yet evaluated the impact of the implementation of this amendment.

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- **IAS 40: Transfers to Investment Property (Amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. 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 amendments have not yet been endorsed by the EU. The Group has not yet evaluated the impact of the implementation of this amendment.

- **IFRS 9: Prepayment Features with Negative Compensation (Amendment)**

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

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

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

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

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

- **IFRIC INTERPRETATION 22: Foreign Currency Transactions and Advance Consideration**

The interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. 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. This interpretation has not yet been endorsed by the EU. The Group has not yet evaluated the impact of the implementation of this amendment.

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 2018. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. The Group has not yet evaluated the impact of the implementation of this amendment.

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.

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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.

- **IFRIC INTERPRETATION 23: Uncertainty over Income Tax Treatments**
  The interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This interpretation has not yet been endorsed by the EU. The Group has not yet evaluated the impact of the implementation of this amendment.

- The IASB has issued the **Annual Improvements to IFRSs 2015–2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU. The Group has not yet evaluated the impact of the implementation of this amendment.

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

IAS 12 Income Taxes: The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.

IAS 23 Borrowing Costs: The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

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 to operations, credit policy or finance management:

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

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

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External risks

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

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

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

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

Capital management

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

- Maximize the utilization of capital and keep available capital below 10% of the Group's total assets. The Group failed to meet the 10% target in 2017 due to the volatility of their growth.
- Maintain a strong capital base and an equity ratio of 1:5, supporting business development. This objective was accomplished in 2017.
- Secure investors' claims in accordance with agreed terms. This objective was met in 2017.

The Group monitors the equity ratio (assets/equity) on a regular basis to keep it below 5.
Equity holders base any decisions regarding the distribution of dividends, or increasing or decreasing the share capital on the financial position of the Company.

Exchange rate volatility

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

Exchange rate volatility

Currency	Exchange rate		
	EUR	EUR	EUR
	As at 31 December 2015	As at 31 December 2016	As at 31 December 2017
MDL	21.4779	20.8895	20.4099
USD	1.0887	1.0541	1.1993
ALL	137.28	135.23	132.95
MKD	61.5947	61.4812	61.4907

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Currency	Change in exchange rates	Effect on profit before tax
2017		
MDL	2.35%	274,547
USD	-12.11%	-63,837
ALL	1.71%	67,454
MKD	-0.02%	-141
2016		
MDL	2.82%	157,747
USD	3.28%	-2,573
ALL	1.52%	29,381
MKD	0.18%	0

Exchange rate volatility poses significant risks of loss, because all subsidiaries loan products are nominated, issued and repaid according to domestic laws in the national currency (MDL, ALL, MKD), whereas the Group's major liabilities before investors are assumed in euros. Between 2008 and 2017, the average MDL exchange rate fluctuations have been 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 December 2017 were €18.3 million, weakening of MDL exchange rate versus USD and EUR by investment maturity date by 20% would bring a loss of ca €3.66 million. The Group's equity is enough to cover that loss, but exchange rate weakening by more than 30% would already cause significant difficulties.

The Group is relatively insensitive to regular interest payments, because interest payments (interest expense) account for 30% of the overall cost base of the Group, an amount of approx. €1.55 million per year. A 20% decrease of MDL value would therefore cause the financial expenses to increase by approximately €310,000. Given the Group's margin on its products, it can easily be absorbed.

To mitigate the foreign exchange volatility risks, the Group has taken the following measures:
• Diversification of liability currencies – liabilities have been assumed in EUR (ca 72%), MDL (ca 14%), ALL (ca 11%) and USD (ca 3%).
• Diversification of maturity dates – liabilities are assumed, and become mature on different dates. No single liability exceeds 25% of the total liabilities and becomes mature within 3 months from the other liabilities. The short- or even mid-term fluctuations are counterbalanced with different maturity dates.
• Limitation of loan (products) repayment periods to 24 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

2017	Changes in base interest rate, in bps	Effect on profit before tax, EUR
MDL	+/- 100	143,907
MDL	+/- 300	431,720
MDL	+/- 500	719,533

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2017	Changes in base interest rate, in bps	Effect on profit before tax, EUR
ALL	+/- 100	63,584
ALL	+/- 300	190,751
ALL	+/- 500	317,918

2017	Changes in base interest rate, in bps	Effect on profit before tax, EUR
MKD	+/- 100	6,892
MKD	+/- 300	20,676
MKD	+/- 500	34,460

2017	Changes in base interest rate, in bps	Effect on profit before tax, EUR
EUR	+/- 100	1,921
EUR	+/- 300	5,763
EUR	+/- 500	9,605

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

Loans from creditors

2017	Changes in base interest rate, in bps	Effect on profit before tax, EUR
EUR	+/- 100	122,720
EUR	+/- 300	368,160
EUR	+/- 500	613,600

USD	+/- 100	5,236
USD	+/- 300	15,709
USD	+/- 500	26,182

MDL	+/- 100	23,135
MDL	+/- 300	69,406
MDL	+/- 500	115,677

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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

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily from issued loan agreements).

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 December 2017**	**31 December 2016**
Cash and bank accounts	1,793,258	336,383
Loans to customers	20,352,419	7,825,942
Prepayments	32,661	35,404
Other assets	244,423	344,349
Financial assets	10,000	10,000
Total:	**22,432,761**	**8,552,079**

Liquidity risk

Liquidity risk is managed separately by each subsidiary. The Group's loan products are unsecured consumer loans with maturities between 1 month and 24 months and car-secured loans with maturities of up to 48 months, loan amounts between €50 and €5,000, and annual percentage rates (APR) between 30% and 350% depending on the loan amount, maturity and status of customer (new or recurring client with good payment history).

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

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

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

Loans issued, maturity

	Up to 1 year	1 to 5 years	Total
Year ended 31 December 2017	12,501,206	7,851,213	20,352,419
Year ended 31 December 2016	7,763,891	62,051	7,825,942

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Loans received, maturity

	Up to 1 year	1 to 5 years	Total
Year ended 31 December 2017	5,256,695	11,950,678	17,207,372
Year ended 31 December 2016	2,821,176	3,432,594	6,253,769

Liquidity gap

	Up to 1 year	1 to 5 years	Total
Year ended 31 December 2017	7,244,511	-4,099,465	3,145,046
Year ended 31 December 2016	4,942,716	-3,370,543	1,572,173

Liquidity gap for non-current assets and liabilities is negative, however, the Group has enough available funds in the form of received loan repayments to cover the gap.

Operational risk

Damage to physical assets or data

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

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

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

Main physical assets are also insured at their replacement value.

Client fraud or incapability

A client with original fraud intention, or inability to repay is the second biggest possible source of financial loss.

Measures to mitigate that risk belong to the Group`s knowhow and are not disclosed in the notes to the annual report.

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

Internal risks

Internal user fraud or incapability

An internal user with authority to execute loan agreements, payments out or enter false data into system is the first possible source of financial loss.
Measures to prevent internal fraud are manifold and constantly under development:
• Selection of employees. The characteristics required include honesty and punctuality. Whereas honesty is a subjective criteria (until a fraud may be discovered), punctuality and correctness of individual performance are observed by CRM.

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• Individual responsibility and traceability. All important work operations at the Group (entering new loan application, application data checking, application approval, loan agreement execution, loan issue, accounting the loan repayments and debt collection process) are individually traceable by name, date, time and content.
• System design. Several important operations are double-checked by CRM and the user cannot proceed to the next operation unless the prior operation has been completed up to the parameters required by CRM.
• Task diversification in loan issue process. Normally, it will take the input of at least three different employees to issue a loan. A single internal user cannot pursue fraudulent objectives.
• Task diversification in management. The Group's finances are managed by different persons, local CFO, CEO and also the Group`s CFO, under direct supervision of shareholders.

System design errors

The Group`s 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 before putting them into production.
General system design and performance is also counterchecked against randomly selected individual work processes and randomly selected system reports.

Workplace safety and efficiency

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

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

5 Interest and commission fee income

	2017	2016
	EUR	EUR
Interest and commission fee income		
Interest on loans to customers	2,042,639	856,029
Commission fees	6,712,390	2,907,496
Other interest	702	218
Total	**8,755,731**	**3,763,742**

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

	2017	2016
Other income	EUR	EUR
Penalties under loans to customers	2,759,497	1,260,387
Resigns under customer loans	508,490	291,889
Other fees	320,451	83,592
Total	**3,588,438**	**1,635,868**

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7 Interest expenses

	2017	2016
Interest expense	**EUR**	**EUR**
Interest on amounts due to creditors	-1,546,614	-721,084
Total	**-1,546,614**	**-721,084**

8 Allowance for impairment of loans to customers

	Loans	Notes
	EUR	
As at 1 January 2015	**-962,910**	
Arising during the year	-1,500,079	
Utilized	958,066	
Exchange differences	-109,889	
As at 31 December 2016	**-1,614,813**	14
As at 1 January 2017	**-1,614,813**	
Arising during the year	-3,238,081	
Utilized	1,340,091	
Exchange differences	-81,483	
As at 31 December 2017	**-3,594,286**	14

For 2016 and 2017, the Group calculated the provision statistically based on historical information.

9 Salaries and other personnel expenses

	2017	2016
	EUR	**EUR**
Salaries and bonuses	-1,120,423	-487,854
Social security expenses	-302,381	-110,611
Medical insurance expenses	-26,999	-13,386
Other expenses	-21,669	-10,387
Total	**-1,471,472**	**-622,238**

10 Other operating expenses

	2017	2016
	EUR	**EUR**
Advertising expenses	-747,738	-381,309
Office lease expenses	-141,176	-107,899
Outsource services	-736,329	-439,213
Other operating expenses	-557,706	-137,129
Total	**-2,182,949**	**-1,065,550**

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11 Property, plant and equipment

	Furniture and equipment	TOTAL
	EUR	EUR
Acquisition cost		
As at 31 December 2015	**111,831**	**111,831**
Additions	31,840	31,840
Exchange differences	7,326	7,326
As at 31 December 2016	**150,998**	**150,998**
Additions	149,439	149,439
Exchange differences	6,728	6,728
As at 31 December 2017	**307,165**	**307,165**
Depreciation and impairment		
As at 31 December 2015	**-44,343**	**-44,343**
Depreciation charge for the year	-17,850	-17,850
Exchange differences	-3,538	-3,538
As at 31 December 2016	**-65,731**	**-65,731**
Depreciation charge for the year	-32,647	-32,647
Exchange differences	-4,174	-4,174
As at 31 December 2017	**-102,552**	**-102,552**
Net book value		
As at 31 December 2017	204,613	204,613
As at 31 December 2016	85,267	85,267

12 Intangible assets

	Computer software	Total
	EUR	EUR
Acquisition cost or valuation		
As at 31 December 2015	**106,138**	**106,138**
Additions	142,431	142,431
Exchange differences	773	773
As at 31 December 2016	**249,342**	**249,342**
Additions	251,068	251,068
Exchange differences	4,386	4,386
As at 31 December 2017	**504,796**	**504,796**
Amortization and impairment		
As at 31 December 2015	**-67,756**	**-67,756**
Amortization charge for the year	-20,160	-20,160
Exchange differences	-479	-479
As at 31 December 2016	**-88,395**	**-88,395**
Amortization charge for the year	-37,116	-37,116
Exchange differences	-637	-637
As at 31 December 2017	**-126,148**	**-126,148**
Net book value		
As at 31 December 2017	378,647	378,647
As at 31 December 2016	160,946	160,946

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13 Cash and bank accounts

	31 December 2017	31 December 2016
	EUR	EUR
Cash on hand	470	22
Bank accounts	1,792,789	336,361
Total	**1,793,258**	**336,383**

14 Receivables from customers

As at 31 December 2017	Neither past due nor impaired	Past due, but not impaired	Impaired	Total
Gross loans to customers	18,261,095	1,288,103	2,137,660	**21,686,858**
Other loans to customers	0	0	0	**0**
Accrued interest from loans	4,957	505,850	1,749,041	**2,259,848**
Allowances for loan impairment	0	0	-3,594,287*	**-3,594,287**
Total	**18,299,052**	**1,793,953**	**292,414**	**20,352,420**

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 interest from loans	155,443	83,535	697,919	**936,896**
Allowances for loan impairment	0	0	-1,614,813*	**-1,614,813**
Total	**7,414,667**	**210,964**	**200,312**	**7,825,942**

* Includes IBNR

Additional information regarding provisions has been disclosed in Note 8.

15 Other assets

	31 December 2017	31 December 2016
	EUR	EUR
Receivables of collection companies	82,888	69,730
Receivables from parent company (Note 21)	2,070	268,000
Other assets	159,465	6,619
Total	**244,423**	**344,349**

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16 Loans and bonds

	31 December 2017	Residual maturity		Currency	Interest
		Up to 1 year	1 to 5 years		
Loans from investors	**8,584,759**	5,051,991	3,532,768	EUR, MDL, USD, ALL	10-16%
Bonds A10	**2,083,367**	0	2,083,367	EUR	14-16%
Bonds A9	**3,364,477**	0	3,364,477	EUR	14-16%
Bonds A9	**416,910**	0	416,910	USD	14%
Bonds A8	**1,273,787**	0	1,273,787	EUR	14%
Bonds A7	**1,279,368**	0	1,279,368	EUR	14-15%
Accrued interest	**204,704**	204,704	0	EUR, MDL, USD, ALL	
Total	**17,207,373**	**5,256,695**	**11,950,678**		

	31 December 2016	Residual maturity		Currency	Interest
		Up to 1 year	1 to 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%
Accrued interest	**98,573**	98,573	0	EUR, MDL	
Total	**6,253,770**	**2,821,176**	**3,432,594**		

In January and February 2018, loans in the amount of €450,000 were prolonged for a period of 1-2 years. Group has a credit line in Moldovan banks from which €1,952,704 had not been used as at 31 December 2017.

17 Other liabilities

	31 December 2017	31 December 2016
	EUR	**EUR**
Trade payables	330,668	62,155
Payables to employees	41,106	57,940
Tax payables	617,551	261,774
Other liabilities	129,209	48,541
Total	**1,118,533**	**430,409**

18 Share capital

	31 December 2017	31 December 2016
	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 2017, shareholders declared and paid dividends in the amount of €470,000 (2016: €177,000).

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As at 31 December 2017, the Company's retained earnings amounted to €4,476,171. The distribution of these retained earnings as dividends would be subject to income tax at the rate of 20/80 on the net distribution. It is therefore possible to distribute €3,580,937 of the retained earnings as at the balance sheet date as dividends. The corporate income tax on the payment of dividends would amount to €895,234.

19 Investments in subsidiaries

Name	Country	Holding	
		31 December 2017	31 December 2016
IuteCredit SRL	Moldova	100%	100%
IuteCredit Albania SHA	Albania	100%	100%
IuteCredit Macedonia DOOEL	Macedonia	100%	
IuteCredit Kosovo SHA	Kosovo	100%	
IutePay Bulgaria EOOD	Bulgaria	100%	

IuteCredit SRL was bought on 28 November 2008.
IuteCredit Albania SHA was established on 4 August 2014.
IuteCredit Macedonia DOOEL–Skopje was established on 24 July 2017.
IuteCredit Kosovo SHA was established on 7 February 2017.
IutePay Bulgaria EOOD was established on 12 December 2017.

20 Fair value measurement

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

The carrying amounts of financial instruments, consisting of cash and cash equivalents, loan receivables and other accounts receivable and loans and other payables with a maturity of less than one year (less estimated credit adjustments) corresponds to their fair value.

As at 31 December 2017, the fair value of interest-bearing loans to customers and loans, bonds from investors amounted to €20.352 million and €17.207 million respectively. As at 31 December 2016, these values amounted to €7.826 million and €6.254 million respectively.

The fair values of financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. In assessing the fair value of financial instruments, the Group uses a variety of methods and makes assumptions based on market conditions existing at the reporting date. The fair values of interest-bearing loans granted and long-term receivables are estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

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

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Fair value hierarchy for financial instruments not measured at fair value as at 31 December 2017 and 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 December 2017				
Loan and interest receivables from customers		0	0	20,352,419	**20,352,419**
Liabilities for which fair values are disclosed	31 December 2017				
Loan and accrued interest payables		0	0	17,207,372	**17,207,372**
Assets for which fair values are disclosed	31 December 2016				
Loan and interest receivables from customers		0	0	7,825,942	**7,825,942**
Liabilities for which fair values are disclosed	31 December 2016				
Loan and accrued interest payables		0	0	6,253,770	**6,253,770**

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

The 100% shareholder of IuteCredit Europe AS is the 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 as follows:

		Loans from related parties	Other receivables from parent company	Amounts owed to related parties
Shareholders	2017	173,000	2,070	258,246
	2016	50,000	268,000	70,200

		Purchases from related parties	Services to related parties	Interest paid on loans to related parties
Shareholders	2017	80,047	6,870	25,001
	2016	46,964	2,730	15,712

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22 Unconsolidated financial statements of parent company as a separate company

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

22.1 Statement of comprehensive income for the year ended 31 December 2017 (EUR)

	2017	2016
Interest income	1,549,156	743,928
Interest expense	1,318,963	-698,301
Net interest income	**230,192**	**45,627**
Other income	6,870	143,407
Net other operating income	**6,870**	**143,407**
Total income	**237,062**	**189,034**
Salaries and other personnel expenses	-191,548	-117,630
Other operating expenses	-539,146	-150,275
Depreciation/amortization charge	-17,987	-3,173
Total operating expenses	**-748,680**	**-271,078**
Foreign exchange gains/losses	21,097	-10,694
Total foreign exchange gains/losses	**21,097**	**-10,694**
Dividends received	510,000	1,449,000
Profit before tax	**19,479**	**1,356,263**
Income tax	0	0
Profit for the reporting period	**19,479**	**1,356,263**
Other comprehensive income		
Exchange differences on translation of foreign operations	0	0
Total other comprehensive income	**0**	**0**
Profit attributable to:		
Equity holders	19,479	1,356,263
Total comprehensive income attributable to:		
Equity holders	19,479	1,356,263

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22.2 Statement of financial position as at 31 December 2017 (EUR)

	31 December 2017	31 December 2016
Assets		
Cash and bank accounts	627,479	201,738
Loans to customers	10,643,128	5,146,799
Prepayments	1,035	5,789
Other receivables	27,200	268,000
Other financial investments	10,000	10,000
Property, plant and equipment	7,197	3,919
Intangible assets	147,889	164,321
Investments in subsidiaries	1,614,561	750,929
Total assets	**13,078,488**	**6,551,495**
Equity and liabilities		
Loans and bonds	12,797,036	5,934,602
Other liabilities	158,013	42,933
Total liabilities	**12,955,049**	**5,977,535**
Share capital	275,200	275,200
Legal reserve	27,520	0
Share premium	37,761	37,761
Retained earnings	-236,521	-1,095,264
Profit for the reporting period	19,479	1,356,263
Total equity	**123,439**	**573,960**
Total liabilities and equity	**13,078,488**	**6,551,495**

22.3 Statement of changes in equity for the year ended 31 December 2017 (EUR)

	Share capital	Legal reserve	Share premium	Retained earnings	Total
As at 1 January 2016	**275,200**	0	**37,761**	**-918,263**	**-605,302**
Profit for the financial year	0	0	0	1,356,262	1,356,262
Dividends paid	0	0	0	-177,000	-177,000
As at 31 December 2016	**275,200**	**0**	**37,761**	**260,999**	**573,960**
As at 1 January 2017	**275,200**	0	**37,761**	**260,999**	**573,960**
Profit for the financial year	0	0	0	19,479	19,479
Established reserves	0	27,520	0	-27,520	0
Dividends paid	0	0	0	-470,000	-470,000
As at 31 December 2017	**275,200**	**27,520**	**37,761**	**-217,042**	**123,439**

The adjusted unconsolidated equity of the 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 December is the following:

	31 December 2017	31 December 2016
Parent company's unconsolidated equity	123,439	573,960
Subsidiaries' value in parent company's separate statement of financial position (minus)	- 1,614,561	- 750,929
Subsidiaries' value calculated based on equity method (plus)	6,181,237	2,222,050
Total	**4,690,116**	**2,045,082**

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22.4 Statement of cash flows for the year ended 31 December 2017 (EUR)

	2017	2016
Operating activities		
Profit/loss before tax	19,479	1,356,262
Adjustments to reconcile profit before tax to net cash flows:		
Depreciation and amortization of property, plant and equipment and intangible assets	17,987	3,173
Other income	0	-140,670
Net foreign exchange difference	-21,097	-10,693
Interest income	-1,549,120	-743,928
Interest expense	1,318,963	698,301
Dividends from subsidiaries	-510,000	-1,449,000
Cash flows from operating activities before changes in assets and liabilities	**-723,788**	**-265,169**
Change in loans and other assets	-5,136,484	-2,704,150
Change in loan and bonds liabilities	6,866,186	1,916,021
Change in other liabilities	9,673	29,694
Interest received	1,448,479	967,879
Interest paid	-1,209,861	-646,639
Net cash flows from operating activities	**1,977,992**	**-437,195**
Investing activities		
Purchase of property, plant and equipment and intangible assets	-4,833	-2,313
Dividends received	510,000	1,449,000
Subsidiary shares (establishment)	-863,632	-367,348
Net cash flows from investing activities	**-358,464**	**1,079,339**
Financing activities		
Dividends paid	-470,000	-177,000
Net cash flows from financing activities	**-470,000**	**-177,000**
Change in cash and cash equivalents	**425,740**	**199,975**
Cash and cash equivalents at the beginning of the year	**201,738**	**1,763**
Change in cash and cash equivalents	425,740	199,975
Cash and cash equivalents at the end of the year	**627,479**	**201,738**

	31 December 2017	31 December 2016
Cash and cash equivalents comprises		
Cash on hand	0	0
Non-restricted current account	627,479	201,738

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23 Profit allocation proposal

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

Company's retained earnings:

Retained earnings as at 31 December 2017	4,513,932
Dividend distribution	-1,500,000
Balance of retained earnings after allocations	3,013,932

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24 Signatures of the management board to 2017 annual report

The Company's Management Board has approved the management report and financial statements for 2017.

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

3 May 2018

Tarmo Sild

Member of the Management 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 2017, 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 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

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

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

Tallinn, 03 May 2018

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

Liisi Semjonov
Authorised Auditor's number 682