AS IuteCredit Europe

2020 Annual Report

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

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2 General information and contacts

Address:	Maakri 19/1, corpus A, 13th floor 10145 Tallinn Republic of Estonia
Registry code:	11551447
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Main activity:	Holding company
Auditor:	KPMG Baltics OÜ
Reporting period:	1 January 2020 – 31 December 2020

3 Abbreviations and key

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

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

4 Management report for 2020

Comments by CEO

In 2020 most of events, thoughts and consequences were circulating around the pandemic. That year is behind us. This is the first thoroughly positive thing to mention. The second and even more important summary is that we grew the business and felt the society's rethink on benefits of digitalization.

As a tall monument to limited human foresight, the management aimed for 2020 "to continue aggressive growth by doubling the balance sheet once again beyond 200 million EUR and by increasing annual revenue by 50% to 75 million EUR, while keeping good quality of the balance sheet and profitability of our business." (see the Annual Report 2019). The management also firmly predicted for 2020 "the increasing role of regulations on the business." That is the part of forecast that we got right - accidentally - but not for the reasons we had in mind at the time. It was the pandemic and governments' reaction to it, that caught us and partially steered us.

It became suddenly obvious since March 2020 that the aggressive growth target will not be met. What followed was a roller-coaster of events. The Group concentrated in Q2 on cashing in the receivables and on disciplined contraction of the balance sheet both assets and liabilities, while feeling free-fall in customer loan repayments and new loan demand. We added buffers for future loan losses and adapted to the hasty government regulations on sanitary measures, lockdowns and financial grace periods. After passing the contraction phase with relatively good results and limited damage, the Group started to accelerate again in Q3 and became optimistic about its growth and reversal of the loan provisions. In Q4, we kept the optimism and believed in Christmas despite the second wave. One has to admit, that Q4 fell short of our expectations in some ways, while exceeding our expectations in some other ways. Our loan disbursement volumes in Q4 were short of targets, while repayments were stronger than expected and while we succeeded to tap 10 million Eurobond on top of the existing 40 million. It was reassuring to get investor confidence vote and incoming cash streams both from customers and from investors.

As the result, we ended the year in an advanced point as compared to the year-end of 2019. Annual revenue comprised of 56 million EUR, which is above 2019 revenue 51 million but significantly below the targeted 75 million. The Balance Sheet reached 117 million EUR which was short of aimed 200 million, but exceeded 2019 level of 106 million. Inside the Balance Sheet, the share of net loans to customers remained at the same 79 million EUR level, but the amount of provisions for potential loan losses has been increased to 16 million EUR from 13 million a year ago. Our liabilities increased y-o-y by 7 million EUR to 95 million (2019: 88 million EUR), while cash position increased y-o-y by more than 13 million EUR and peaked above 19 million EUR. All in all, we ended the year with a larger, stronger and significantly more liquid balance sheet which we aim to use aggressively in 2021.

There is strong internal development that is not instantly visible in the balance sheet. The Group continued investing into financial technology. We released cardless ATM's and MyIute app, next generation omnichannel technology with more efficient and seamless online interaction with customers, and are working in the labs with other exciting developments. As Group, we achieved 152 thousand EUR average annual revenue per employee, as our new financial productivity record. We also created significant social impact as an employer, provider, sponsor, educator and market participant.

We remained true to our mission to offer extraordinary experience to our customers in the field of personal finance, while remained also profitable. By end of year we had more than 130,000 performing loan customers in four countries. Net profit of 2020 was short of the target as we reached 5 million EUR instead of targeted 7 million. Equity return in 2020 was the smallest of last 5 years: only 24%. Then again, we expect to have a growth boost in 2021 and beyond as we believe that we got many things right in 2020.

For 2021, having in mind the ongoing adaptation to the pandemic and other challenges in lending and payments industry, the management remains in affirmative tune. The Group must also benefit from its digitalized value streams, customer self-service solutions, and opportunities on the acquisitions market that can be combined with our know-how on business integration. Business in Bulgaria should be restarted. All elements of balance sheet should be put fully at work. Our expectation is that we will almost double our balance sheet to 200 million EUR, by making total revenue above 70 million EUR with both loans and payment services, and we are expecting at least 10 million EUR net profit. Number of performing customers by end of 2021 should exceed 200,000.

Tarmo Sild
Chief Executive Officer

Group overview

AS IuteCredit Europe (**ICE**) is a holding company which issues consumer credits and offers personal finance services via its 100% owned operating subsidiaries in local markets (**Subsidiaries**). As of 31 December 2020, ICE had eight operating subsidiaries:

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

Subsidiary IutePay Albania S.H.P.K. was liquidated in September 2020. Subsidiary Velox Pay S.H.P.K was established in October 2020 and was inactive.

The subsidiaries and ICE together form the IuteCredit Group (**ICG**). As of 31 December 2020, ICG consisted of 9 entities.

ICE is responsible for strategic management that includes:

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

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

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

ICBH got the license dated at the end of February 2019 and started business in May 2019. IutePay Bulgaria EOOD performs as technology operations cost center and cards service center. IuteCredit Bulgaria obtained license dated at the end of April 2019 and is already officially operational but full-scale business activities were not launched in 2020.

We aim to achieve speed and comfort in the operations, including instant response to any submitted loan application. As we depend on our partners (banks, shops, mail, telecom and other associates), we constantly strive to find new and innovative ways to achieve speed and to be the fastest credit provider in the markets.

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

Consolidated key financial parameters

Key parameters of the Group

in thousand EUR	2020	2019
EBITDA (profit/loss before taxes, depreciation and interest expense	20 873	20 164
ROA (profit/assets)	4,50%	7,88%
ROE (profit/equity)	24,40%	45,24%
Assets/equity ratio	5,43	5,74
Equity per share (equity/number of outstanding shares)	2,15	1,85
Earnings per share (profit/number of outstanding shares)	0,52	0,84
Dividends paid per share (dividends paid/number of outstanding	0,05	0,22

Key parameters based on the parent company's financials

in thousand EUR	2020	2019
ROA (profit/assets)	7,29%	4,71%
ROE (profit/equity)	25,02%	19,98%
Assets/equity ratio	3,43	4,24
Equity per share (equity/number of outstanding shares)	2,14	1,39
Earnings per share (profit/number of outstanding shares)	0,54	0,28
Dividends paid per share (dividends paid/number of outstanding	0,05	0,22

Consumer loan products

Group's loan products are unsecured consumer loans with maturities between 1 month and 36 months and car-secured loans with maturities of up to 60 months. Median loan amount is above 400 EUR, whereas loan amounts range between 25 EUR and 10 thousand EUR. Weighted average annual percentage rate (APR) is 58% and effective interest rate (EIR) 80% depending on the loan amount, maturity and status of customer (new or recurring client with good payment history).

The Group aims to serve only clients with a permanent workplace and stable income. Loans are based on personal identification and personal credit assessment. For a new applicant, the credit rating depends on comparison of the applicant's relevant parameters with respective statistical parameters of performing and poorly performing customer groups and certain databases. For returning customers, we apply personal credit assessment which is based on individual performance data. By average, 62% of loan applications across the Group have been approved.

Loans are handled via an external partner network (such as shops, money transfer companies, postal agencies) and our own retail branches. By the end of 2020, we had 40 of branches and 2 700 shops. ICG handles money only via bank accounts and does not perform cash operations. Certain ICG agents perform also cash operations and assume the related risks.

Revenue base

The Group's revenue consists of

(i) loan agreement commission fees which are charged for receiving, processing the loan application and issuing the loan, or modifying the valid loan conditions,

(ii) interest, which is charged on the outstanding principal amount, and

(iii) various fees applied in case of different breaches or later on modifications of loan agreement ("Secondary fees.")

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

Customer base and portfolio

As at the end of 2020, Group had over 660 thousand individuals in its database (2019: over 600 thousand). The proportion between women and men account for 43% and 57% respectively. Approximately 66% of customers are returning customers with at least one successfully repaid loan agreement. The age of customers is representative of the demographic age tree of the respective countries. The age of the customers is representative of the demographic age tree of the respective countries.

The net loan portfolio (i.e., the balance of all due receivables from customers, adjusted with allowances for loan impairment) is stable at 79 186 thousand EUR.

As at the end of 2020, approximately 23% of the loan portfolio was occupied by loan products with a longer maturity than 12 months (2019: 26%) and 77% of the performing loan portfolio was occupied by loan products with maturity of up to 12 months (2019: 74%).

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 2020 (and until the date of the annual report), by average 85% of expected loan repayments were performed according to the loan agreements, or with a maximum 30 days delay.

Customer satisfaction

We measure customer satisfaction based on Net promoter Score, which measures the customer satisfaction and if customers will recommend us to friends and family, as the highest appreciation level. Based on that we have the feedback that 82% are happy customers (promoters), 8% are neutral and 10% have complaints. Compared to year 2020 the number of promoters have increased 12% (from 70% to 82%) and accordingly the number of neutrals has decreased from 20% to 8%.

We make follow up calls to all dissatisfied customers, in order to understand the reasons and to increase their satisfaction. Based on these calls, we have detailed overview about what areas impact customer satisfaction the most. These help us develop improvement plans and in return we review them on a monthly basis to increase customer satisfaction.

We are open with our offices every day, including weekends. Also we have created a mobile application MyIute, where customers can login and comfortably apply for loan and have overview of their existing loan details, without leaving their homes. We also advise and support customers in many other channels of communication: phone, email, Facebook, WhatsApp, Viber, web chat where we offer seamless customer experience.

Team and teamwork efficiency

As at the end of 2020, the number of the Group's employees was 369 (2019: 347). Arithmetic average revenue per Group employee exceeded 152 thousand EUR (2019: 146 thousand EUR). We continue increasing the efficiency of work processes and measurement of individual performance of team members and are expecting the productivity to reach the 155 thousand EUR level in the near future.

The salary levels (including bonuses) are above local market average and above finance industry benchmarks that the Group is aware of. The personnel expenses for the team amounted to 8 089 thousand EUR in 2019 (2019: 6 296 thousand EUR). We are happy that our team makes more money when the company and its profit grow.

Legal risks

The Group must make sure that its activities and its loan agreements are recognized by the state authorities. In all the countries we operate in, lending is subject to state licencing 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 in August 2008. ICA obtained its license from the Central Bank of Albania in April 2015 as Non-Bank Financial Institution of Microcredit. ICMK was licensed in July 2017. ICBG and ICBH obtained the licenses in spring 2019.,

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

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

Investor relations

As from the listing of Eurobond on Frankfurt Stock Exchange in 2019, the Group publishes quarterly reports, as well as ad hoc releases according to the stock market regulations. The Group organized a cross-Europe roadshow to meet individual investor prior to listing the Eurobond and continues the policy of open communication, according to best market practices. Subsidiaries of ICE also develop relations with local investors and crowdfunding platforms and obtain loans where interest rates are favorable, considering also the exchange rate risks.

The weighted average interest rate of liabilities to investors exceeded 13% per annum (2019: 12%). The amount of interest paid to investors in 2020 was 7 937 thousand EUR (2019: 5 166 thousand EUR). All obligations by the Group were performed without issues.

Social responsibility

We are a responsible corporate citizen and solid taxpayer in all countries and reduce the environmental impacts of our activities. The Group creates tax revenues to the state budgets and is a strong supporter of local life. IuteCredit supports financial literacy, healthy lifestyle and improvement of the social environment.

IuteCredit is a solid taxpayer

- 117,7 million EUR credit disbursed into the economies of our countries during 2020 generated circa 5,2 million EUR value-added tax revenue from sale of goods that were purchased with IuteCredit.
- IuteCredit paid ca of 4,8 million EUR of employment and income taxes in Moldova, Albania, Macedonia and Bosnia, and Estonia.

We increase financial literacy

- In Moldova, we launched a National Financial Education Campaign in November 2019 and took it online in 2020 due to restrictions of the Covid-19 pandemic. The unique and the first such campaign ever launched in Moldova by a financial institution reached almost half-a-million people through online and social media channels in 2020. The campaign materials were distributed among 83 high schools and 109 gymnasium, 65% of those in rural areas.
- In Macedonia, we sponsored the book "Monetary Economy" by professor Ljube Trpeski and gave a grant for a graduate scholarship for the University of American College in Skopje.

We support healthy lifestyle

- We supported local hospitals. We were the first financial institution during the first week of the Covid-19 pandemic related quarantine in Moldova to donate funds to the National Hospital for the procurement of the lungs ventilation equipment. Our example was later followed by a number of other companies. In Macedonia, we provided protective equipment for a state hospital during Covid-19 pandemic and organized a blood donation action for employees and the IuteCredit brand ambassador with the Red Cross. In Albania, we purchased medical equipment for the "Mother Teresa" Center for the Infectious Diseases Hospital Intensive Care in Albania.

- We sponsored three sports clubs in Macedonia - women's football club SC Istatov 2015 from Nov Dojran, women basketball club Struga 2009 and women handball club Macedonia Gjorche Petrov.
- We educated our customers to apply for loans online to stay safe in their homes during the Covid-19 pandemic. In Bosnia and Herzegovina, we organized a "Stay safe - apply from home" campaign that promoted the benefits of applying for loans online.
- We also recognize the role of culture and art to support mental health, especially during the COVID-19 pandemic. In cooperation with the Public Institution Center of Culture and Youth of the Municipality of Center, Sarajevo, and Public institution of "Family Counseling", we were partners of the project "My family in isolation" in Bosnia and Herzegovina. We presented awards to the most creative participants in the video contest.
- IuteCredit donated equipment for Mountain rescue service for their daily engagement in Bosnia and Herzegovina.

We improve the social environment

- During the Covid-19 related lockdown, we organized the "Granny stay home" campaign in Moldova. The IuteCredit staff delivered the basic necessities for the elderly - food, medicines, household chemicals etc.
- In Macedonia, we provided stands and disinfectants for the local subsidiaries of the Union of Pensioners, where the elderly gather.
- In Albania, we supported the "Fundjavë Ndryshe" foundation initiative to help families in need in the Municipalities of Durrës and Elbasan. 100 families were handed food packages for a month.
- In Albania, we supported the initiative "Adopt a grandma/grandpa" organized by the Municipality of Tirana, which supports the pensioners that live alone and have no one to care for them, by adopting 50 grandparents in Tirana.
- We provided working tools for the Municipality of Memaliaj in Albania to help the team of the Directorate of Public Services in their daily work with the community.
- In Macedonia, we opened a call for applicants for young architects to design urban equipment inspired by the IuteCredit logo and colors which will be displayed in front of our branches or other suitable locations with non-profit Error Collective. IuteCredit will reward the best solutions.

We reduce our environmental impacts

- We reduce the amount of paper that we print out and promote the non-paper interaction channels with the customers - Call Center, Social Networks, Messengers, web, MyIute. In Moldova, we reduced the amount of printed out paper of Loan Agreements and related documents by 30%. We also installed boxes for the collection of the used paper, for further recycling and replaced paper napkins in the bathrooms with air hand-dryers. In Bosnia and Herzegovina, we reduced the amount of printed out paper to customers by 20 per every loan agreement with efforts into abandoning the frame loan agreement from its process, while introducing the new version of single loan agreement.
- In Moldova, we use LED lamps in all premises and outside illumination and adds and we stopped using plastic containers for business lunch deliveries, replacing plastic with eco-friendly packaging.

Motivated employees

- We give meaningful work and self-realization opportunities to 369 talented and motivated people and the number is growing.
- During the Covid-19 pandemic we took the necessary measures to protect our employees - face masks, transparent desk separators, covered taxi costs for employees etc. We offered working from home opportunities and equipped our employees with laptops.
- We offer our employees the opportunity to take English language courses, and team training, professional challenges and contests for the team with attractive bonuses and gifts.

- We offer private health insurance for all Iute employees, and additionally, financial support for various occasions.

Targets for 2021

The Group has set the following targets for 2021:

- More than 200 000 performing loan customers in database
- Over 185 000 thousand EUR of loans issued
- Performing principal portfolio 125 000 thousand EUR by 31.12.2021
- Revenue over 70 000 thousand EUR
- Net income margin at least 20%
- New technological solutions to expand the range of financial services offered

The Group intends to increase its performing principal portfolio by the end of 2021 to at least 58% without any decline in customer performance index (CPI > 87,5%) and without a significant increase in the share of operational costs in relation to interest income.

During the year, the Group may adjust its targets in accordance with the ongoing volatility of local currency exchange rates. Currency exchange risk may become an inhibiting factor for business growth in several countries.

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

5 Consolidated financial statements

5. 1 Consolidated statement of comprehensive income

	Notes	2020 in thousand EUR	2019 in thousand EUR
Interest and similar income	9	44 477	46 994
Interest and similar expense	10	-10 997	-8 968
Net interest and commission fee income		**33 481**	**38 026**
Other fees and penalties	11	7 890	3 041
Total other fee income		**7 890**	**3 041**
Other income		3 723	749
Allowances for loan impairment	12	-18 756	-10 937
Net operating income		**26 338**	**30 880**
Personnel expenses	13	-8 159	-6 296
Depreciation/amortization charge	20,21,22	-1 742	-1 239
Other operating expenses	14	-8 302	-14 206
Total operating expenses		**-18 203**	**-21 741**
Net gains/losses from financial assets measured at fair value		0	964
Foreign exchange gains/losses		-1 958	365
Total finance income		**-1 958**	**1 328**
Profit before tax		**6 176**	**10 467**
Income tax expense	15	-933	-2 096
Profit for the reporting period		**5 243**	**8 371**
Other comprehensive income			
Other comprehensive income to be classified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		-1 761	-306
Total comprehensive income		**3 482**	**8 065**
Profit attributable to:			
Equity holders of the parent		3 482	8 065
Total comprehensive income attributable to:			
Equity holders of the parent		3 482	8 065

Notes on pages 16 to 62 are an integral part of the consolidated financial statements.

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KPMG, Tallinn

5.2 Consolidated statement of financial position

	Notes	31.12.2020 in thousand EUR	31.12.2019 in thousand EUR
Assets			
Cash and bank accounts	16	19 453	6 734
Loans to customers	12,17	79 187	79 005
Prepayments	18	1 297	913
Trade and other receivables	18	2 677	2 489
Assets held for sale		25	5
Other financial investments	19	7 196	9 908
Property, plant and equipment	20	978	1 025
Right-of-use assets	21	2 113	2 850
Intangible assets	22	3 693	3 326
Total assets		**116 619**	**106 254**
Liabilities and equity			
Liabilities			
Loans and bonds from investors	23	91 434	84 073
Trade and other payables	24	1 051	1 031
Current income tax liabilities	24	238	455
Deffered tax liabilities	24	655	289
Other liabilities	24	1 753	1 901
Total liabilities		**95 131**	**87 749**
Equity			
Share capital	25	10 000	10 000
Legal reserve		537	398
Unrealized foreign exchange differences		-1 689	72
Retained earnings		12 640	8 035
Total equity		**21 488**	**18 506**
Total liabilities and equity		**116 619**	**106 254**

The Group has presented lease liabilities within "Loans and bonds from investors".

Notes on pages 16 to 62 are an integral part of the consolidated financial statements.

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5.3 Consolidated statement of changes in equity

in thousand EUR	Share capital	Legal reserve	Unrealized foreign exchange differences	Retained earnings	Total
01.01.2019	**10 000**	**28**	**378**	**2 284**	**12 690**
Profit for the year	**0**	**0**	**0**	**8 371**	**8 371**
Other comprehensive income					
Foreign currency translation	0	0	-306	0	-306
Total comprehensive income	**0**	**0**	**-306**	**8 371**	**8 065**
Allocation to reserves	0	371	0	-371	0
Dividends	0	0	0	-2 249	-2 249
31.12.2019	**10 000**	**398**	**72**	**8 035**	**18 506**
01.01.2020	**10 000**	**398**	**72**	**8 035**	**18 506**
Profit for the year	**0**	**0**	**0**	**5 243**	**5 243**
Other comprehensive income					
Foreign currency translation	0	0	-1 761	0	-1 761
Total comprehensive income	**0**	**0**	**-1 761**	**5 243**	**3 482**
Allocation to reserves	0	138	0	-138	0
Dividends	0	0	0	-500	-500
31.12.2020	**10 000**	**537**	**-1 689**	**12 640**	**21 488**

Additional information about share capital is disclosed in Notes 15 and 25.

As at 31 December 2020 and 31 December 2019, the Company`s legal reserve is not in compliance with Estonian Commercial Code requirements which states that Company`s legal reserve must be at least 10% of the share capital. The Company is resolving the non-compliance annually by increasing legal reserve based on regulation of Estonian Commercial Code.

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5.4 Consolidated statement of cash flows

	Notes	2020 in thousand EUR	2019 in thousand EUR
Prepayments to partners for issuance of loans		-11 444	-11 263
Received pre- and overpayments from customers		36 164	12 754
Paid trade payables		-12 384	-10 728
Received debts from buyers and received other claims		862	831
Received from collection companies		22 561	13 017
Paid net salaries		-5 308	-4 547
Paid tax liabilties, exc. CIT		-2 977	-2 907
Corporate income tax paid (CIT)		-1 861	-3 256
Paid out to customers		-47 401	-76 199
Paid out loans to customers related to MC		0	-100
Change in MasterCard (MC) settlement account		-8 206	-1 405
Principal repayments from customers		29 435	40 275
Loan principal repayments from customers related to MC		4 484	476
Interest, commission and other fees		15 001	17 362
Net cash flows from operating activities		**18 926**	**-25 690**
Purchase of fixed assets		540	-840
Net cash flow from acquisition or loss of control of subsidiaries		0	-212
Received from the sale of subsidiaries		0	159
Payments for other financial investments		-7 280	-1 850
Receipts from other financial investments		6 457	0
Net cash flows from investing activities		**-284**	**-2 743**
Loans received from investors		51 413	85 006
Repaid loans to investors		-42 341	-48 469
Change in overdraft	23	-5 162	4 168
Principal payments of lease contracts		-873	-865
Paid interests		-7 937	-5 166
Paid dividends		-500	-2 248
Grants received		0	25
Payments for other financing activities		-38	0
Receipts from other financing activities		4	0
Net cash flows from financing activities		**-5 434**	**32 451**
Change in cash and cash equivalents		**13 208**	**4 018**
Cash and cash equivalents at the beginning of the year		**6 733**	**2 628**
Change in cash and cash equivalents		13 208	4 018
Net foreign exchange difference		-488	87
Cash and cash equivalents at the end of the year	16	**19 453**	**6 733**

The Group has classified: cash payments for the principal portion of lease payments as financing activities; cash payments for the interest portion as operating activities consistent with the presentation of interest payments chosen by the Group and short-term lease payments and payments for low-value assets as operating activities.

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Notes on pages 16 to 62 are an integral part of the consolidated financial statements.

6 Notes to the consolidated financial statements

6.1 Corporate information

The accompanying consolidated financial statements of AS IuteCredit Europe (the Company) and its subsidiaries (collectively the Group) for the year ended 31 December 2020 were authorized for issue in accordance with a resolution of the Management Board on 17 February 2021. According to the Estonian Commercial Code, the annual report including the consolidated financial statements prepared by the Management Board must first be approved by the Supervisory Board and ultimately by the shareholders' general meeting. Shareholders have the power not to approve the annual report prepared and presented by the Management Board and the right to request that a new annual report is prepared.

AS IuteCredit Europe (the Company or the Parent) is a limited company incorporated and domiciled in Estonia. The registered office is located Maakri 19/1, Tallinn.

IuteCredit SRL, Iutecredit Albania SHA, IuteCredit Macedonia DOOEL–Skopje, MKD IuteCredit BH d.o.o. Sarajevo, Iutepay Bulgaria EOOD and IuteCredit Bulgaria EOOD are consumer credit providers whose sole shareholder is AS IuteCredit Europe. IuteCredit Finance S.a.r.l. in Luxembourg has different business operations and is acting as a financing entity for the Group as a whole.

Subsidiary IutePay Albania S.H.P.K. was liquidated in September 2020. Subsidiary Velox Pay S.H.P.K was established in October 2020 and was inactive.

Annual report includes the consolidated financial statements of AS IuteCredit Europe and its subsidiaries. Information on the Group's structure is provided in Note 26. Information on other related party relationships of the Group is provided in Note 28.

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

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

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2020. In the reporting period the Group has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IAS 1 and IAS 8 – Definition of materiality

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments did not have a material impact on the Group.

Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform

The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other interbank offered rates ('IBORs'). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform. The amendments did not have a material impact on the Group.

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6.3 Standards issued but not yet effective and not early adopted

The following new standards, interpretations and amendments are not yet effective for the annual reporting period ended 31 December 2020 and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform (IBOR) (Phase two)

(Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively. Early application is permitted.)

The amendments address issues that might affect financial reporting as a result of the interest rate benchmark reform, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to:

• changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities; and
• hedge accounting.

Change in basis for determining cash flows

The amendments will require a group to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability.

Disclosure

The amendments will require the group to disclose additional information to enable users to understand the effect of interest rate benchmark reform on a group`s financial instruments, including information about the group's exposure to risks arising from interest rate benchmark reform and related risk management activities.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied

Amendments to IAS 1 Presentation of Financial Statements

(Effective for annual periods beginning on or after 1 January 2023; to be applied retrospectively. Early application is permitted)

The amendments clarify that the classification of liabilities as current or non-current is based solely on the entity's right to defer settlement at the end of the reporting period. The company's right to defer settlement for at least 12 months from the reporting date need not be unconditional but must have substance. The classification is not affected by management's intentions or expectations about whether and when the entity will exercise its right. The amendments also clarify the situations that are considered settlement of a liability. These amendments has not yet endorsed by the EU.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied.

Amendments to IFRS 3 Business Combinations

(Effective for annual periods beginning on or after 1 January 2022. Early application is permitted)

The amendments to IFRS 3 update a reference in IFRS 3 to the 2018 Conceptual Framework for Financial Reporting instead of the 1989 Framework. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. These amendments has not yet endorsed by the EU.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied.

Amendments to IAS 16 Property, Plant and Equipment

(Effective for annual periods beginning on or after 1 January 2022; to be applied retrospectively. Early application is permitted)

The amendments to IAS 16 require that the proceeds from selling items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended must be recognised, together with the cost of those items, in profit or loss and that the entity must measure the cost of those items applying the measurement requirements of IAS 2.

The amendments must be applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The cumulative effect of initially applying the amendments will be recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented (if necessary). These amendments has not yet endorsed by the EU.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets

(Effective for annual periods beginning on or after 1 January 2022; to be applied retrospectively. Early application is permitted)

In determining costs of fulfilling a contract, the amendments require an entity to include all costs that relate directly to a contract. The amendments clarify that the cost of fulfilling a contract comprises both: the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

An entity must apply those amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). The entity will not restate comparative information. Instead, the entity will recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied.

Annual improvements to IFRS standards 2018-2020

(Effective for annual periods beginning on or after 1 January 2022. Early application is permitted)

Improvements to IFRS (2018-2020) include three amendments to the standards:

- the amendments to IFRS 9 Financial instruments clarify that, when assessing whether an exchange of debt instruments between an existing borrower and lender is on terms that are substantially different, the fees to include together with the discounted present value of the cash flows under the new terms include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
- the amendments IFRS 16 Leases remove illustrative example 13 accompanying IFRS 16, which in practice creates confusion in accounting for leasehold improvements for both lessee and lessor. The purpose of the amendment is to remove the illustrative example that creates confusion.
- the amendments to IAS 41 Agriculture removes the requirement to use pre-tax cash flows to measure fair value of agriculture assets. Previously, IAS 41 had required an entity to use pretax cash flows when measuring fair value but did not require the use of a pre-tax discount rate to discount those cash flows.

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6.4 Summary of significant accounting policies

Basis of preparation

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

In accordance with the Estonian Accounting Act, the parent company's unconsolidated financial statements (statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity) are disclosed in the notes to the consolidated financial statements. The financial statements of AS IuteCredit Europe are presented in note 29. Unconsolidated statements of parent company as a separate entity. The parent company's financial statements are prepared using the same accounting policies and measurement bases as those applied on the preparation of the consolidated financial statements except that in the unconsolidated financial statements investments in subsidiaries are measured at equity method.

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

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

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

Reporting currency

The consolidated financial statements are presented in euros and all values are rounded to the nearest euro (EUR), except when otherwise indicated. The functional currencies of group companies are as follows: IuteCredit SRL – the Moldovan leu (MDL), IuteCredit Albania SHA, IutePay Albania S.H.P.K and Velox Pay S.H.P.K – the Albanian lek (ALL), IuteCredit Macedonia DOOEL-Skopje – the Macedonian denar (MKD), IuteCredit Kosovo JSC – the euro (EUR), IutePay Bulgaria EOOD and IuteCredit Bulgaria EOOD – the Bulgarian lev (BGN), MKD IuteCredit BH d.o.o. Sarajevo – the Bosnian mark (BAM), IuteCredit Europe AS and IuteCredit Finance S.a.r.l. – the euro (EUR).

Foreign currencies

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

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates and translated into the presentation currency using the average exchange rate for the period. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.
Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

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

Transactions denominated in foreign currencies are recorded in euros at actual rates of exchange of the European Central

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

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

Reporting date	MDL	USD	ALL	MKD	BGN	BAM
31 December 2019	19.2605	1.1234	121.77	61.4856	1.9558	1.9558
31 December 2020	21.1266	1.2271	123.70	61.694	1.9558	1.9558

Average period	MDL	USD	ALL	MKD	BGN	BAM
2019	19.6737	1.1195	123.01	61.5038	1.9558	1.9558
2020	19.7414	1.1422	123.7659	61.6768	1.9558	1.9558

Cash and cash equivalents

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

Corporate income tax and deferred income tax

Deferred income tax is recognised on all temporary differences arising between the carrying amounts and tax bases of the Group's assets and liabilities (the tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes).

Due to the nature of the taxation system, neither deferred income assets nor liabilities arise for the companies registered in Estonia, other than the potential income tax liability on their investments in subsidiaries, associates, and joint ventures.

The Group's deferred income tax liability arises in relation to the companies in the countries where the profit for the financial year is taxable. The Group's deferred income tax liability also arises on investments in Estonian subsidiaries, associates and joint ventures except where the timing of the reversal of taxable temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future. The examples of the reversal of taxable temporary differences are payment of dividends, sale or liquidation of an investment, and other transactions.

Since the Group controls the dividend policy of its subsidiaries, it is also able to control the timing of the reversal of temporary differences related to this investment. When the parent company has made a decision not to distribute the subsidiary's profit in the foreseeable future, it shall not recognise the deferred income tax liability. If the parent company expects to pay out dividends in the foreseeable future, the deferred income tax liability shall be measured to the extent of the planned dividend payment under the assumption that as of the reporting date there will be sufficient funds and equity available for the payment of dividends from which to distribute profits in the foreseeable future.

Tax variances

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

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

Corporate Income Tax rate	2020		2019	
Subject to taxation	annual profits earned	distribution of retained earnings	annual profits earned	distribution of retained earnings
Moldova	12%	6%	12%	6%
Albania	15%	5%	15%	5%
Macedonia	10%	10%	10%	10%
Bosnia	10%	5%	10%	5%
Bulgaria	10%	0%	10%	0%
Luxembourg	0%	10%	0%	10%
Estonia*	0%	20%	0%	20%

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

The maximum income tax liability which would accompany the distribution of Company's retained earnings is disclosed in Note 15 to the consolidated financial statements.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (IuteCredit SRL-i, IuteCredit Albania SHA, IutePay Albania S.H.P.K (till 30 September 2020), Velox Pay S.H.P.K (starting from 01 October 2020), IuteCredit Macedonia DOOEL-Skopje, IuteCredit Kosovo JSC until the revocation, MKD IuteCredit BH d.o.o. Sarajevo, IutePay Bulgaria EOOD, IuteCredit Bulgaria EOOD and IuteCredit Finance S.a.r.l. See also Note 26.

The subsidiaries are consolidated from the date when control commences until the date when control ceases. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

Profit or loss and each component are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting

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policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

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

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

Business combinations and goodwill

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

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

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

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

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

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

Investment in subsidiaries

Investments in subsidiaries in the parent's unconsolidated primary financial statements (Note 26) have been accounted by using the equity method. Under the equity method, the investment is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the investor's share of net assets of the subsidiary since acquisition date.

Fair value measurement

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

• Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

• Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

• Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Fair value hierarchy for financial instruments is disclosed in Note 27.

Recognition of interest income

Interest and similar income

The Group calculates interest income by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired assets and purchased or originated credit impaired (POCI) financial assets. Financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3' (NPL), the Group calculates interest income by applying the effective interest rate to the net amortized cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis. For POCI financial assets, the Group calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortized cost of the financial asset. The credit-adjusted EIR is the interest rate that, at initial recognition, discounts the estimated future cash flows (including credit losses) to the amortized cost of the POCI financial asset.

The effective interest rate (EIR) method

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

Recognition of other fees

Other fee income

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

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

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

Financial instruments

Initial recognition

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

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value (as defined in Note 27), except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

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

- Amortized cost
- FVOCI
- FVPL

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

Financial instruments

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

Financial assets

The Group only measures *Loans to customers* and other financial investments at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;

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

The Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group acquires, disposes of, or terminates a business line.

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

The Group has transferred the financial asset if, and only if, either:

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

Financial liabilities

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

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

Impairment of financial assets

Overview of the ECL principles

The Group has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, in this section all referred to as 'financial instruments'.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Group's policies for determining if there has been a significant increase in credit risk are set out in Note 8.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.
Both LTECLs and 12mECLs are calculated on collective basis.

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

- Stage 1: When loans are first recognized, the Group recognizes an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3.

- Stage 3: Loans considered credit-impaired. The Group records an allowance for the LTECLs.

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

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

Impairment losses and releases are accounted for as an adjustment of the financial asset's gross carrying value.

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The main parameters the Group uses in assessing credit risk are the probability of default (PD), loss given default (LGD) and exposure at default (EAD). The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

• PD	The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The probability of default reflects how high is the probability that the loan customer will experience a settlement default of more than 50 days by the 12th month after the assessment.
• EAD	The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
• LGD	The Loss given default reflects the economic loss that may occur in the event of default of more than 50 days on the basis of country specific loss rates identified using historical loss statistics. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral or credit enhancements that are integral to the loan and not required to be recognised separately. It is usually expressed as a percentage of the EAD.

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

The mechanics of the ECL method are summarized below:

· Stage 1:	The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD (Note 7) and multiplied by the expected LGD and discounted by an approximation to the original EIR.
· Stage 2:	When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
· Stage 3:	For loans considered credit-impaired, the Group recognizes the lifetime expected credit l osses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
· POCI:	Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition.

Forward looking information

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

- GDP growth
- Unemployment

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

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Time horizon

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

Write-offs

Financial assets are derecognized after 365 days past due (DPD), when collection is no longer considered probable. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Fixed assets

Property, plant and equipment

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

Category	Annual rate
Network and computer equipment	20%–50%
Furniture	15%–33%

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

Intangible assets

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

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

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

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

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

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

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

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

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

Impairment and derecognition of non-financial assets

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

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

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

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

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

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

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

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Leases

Group as a lessee

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor').

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

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

Right-of-use assets

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

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

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

Lease liabilities

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

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

The Group's lease liabilities are disclosed as part of the *Right-of-use assets and lease liabilities* (see Note 21), but also included in *Financial liabilities* (see Note 23).

Short-term leases and leases of low-value assets

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

Group as a lessor

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

Legal reserve

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

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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7 Significant accounting judgements, estimates and assumptions

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

Fair value of financial instruments

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

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

The Group has an investment in a former subsidiary in Kosovo which is classified as a financial instrument as of December 2020 and is measured at fair value through profit or loss from thereon. No observable quoted prices are available for the measurement of such an investment. Instead, management has used unobservable (level 3) inputs in the measurement. The inputs used in the valuation of subsidiary in Kosovo are described in Note 27.

Sensitivity of fair value measurements to changes in unobservable market data

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

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

Impairment losses on financial assets

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

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

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

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

Group used the following classification into stages:

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

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

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

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

The forward-looking adjustment is performed in a simplified way, by comparing the forecasted GDP growth and unemployment change for one year from reporting date, with the latest GDP growth and unemployment change available. There is also used a correlation factor of 60% between the PD and GDP (set expertly). The sensitivity of the forward looking adjustments is presented in Note 12.

The Group reviews its models in the context of actual loss experience on a regular basis.

Going concern

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

Capitalization of intangible assets

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

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Provisions and other contingent liabilities

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

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

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

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

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

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

8 General risk management policies

The management constantly observes the following ratios, and if necessary, makes adjustments to operations, credit policy or finance management:

• CPI – customer performance index – is the ratio of actually duly rep
aid 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 not less than 87,5% but it actually varies by loan product, customer group and even issuing offices (Moldova, Albania, Macedonia and Bosnia regions).

• Group's liabilities versus loan portfolio, where the target is to have the loan portfolio increase faster than the Group's liabilities
• Debt collection rates
• Number of operations performed by each employee, and time spent on various operations – to increase work efficiency
• Group's actual performance versus the budgeted performance.

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

External risks

Macroeconomic and legal situation in Moldova, Albania, Macedonia, Bosnia and Bulgaria

The economic sustainability of these countries is the key to the Group's sustainability and profitability. The Group observes on a daily basis the media, exchange rates and developments related to important macroeconomic aspect in its domestic markets, such as:

(i) GDP and GDP per capita;
(ii) quarterly export volumes,
(iii) quarterly internal consumption volumes;
(iv) quarterly volume of money transfers home by Moldovans, Albanians, Macedonians, Bosnians and Bulgarians working abroad,
(v) monthly unemployment and average salary rates;
(vi) quarterly data on banks' loan and deposits portfolios and
(vii) changes in legislation or in the government.

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

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

Changes in macroeconomic situation affect the Group's lending policy. Due to overall macroeconomic instability in the Balkans and Southern Europe region, the Group has limited the maximum maturity of its loan products.

Capital management

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

- Maximize the utilization of capital and keep available capital below 10% of the Group's total assets.

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- Maintain a strong capital base by keeping it above 15%, supporting business development and to meet the Eurobond covenants. This objective was accomplished in 2020. See also Note 23.
- Secure investors' claims in accordance with agreed terms. This objective was met in 2020.

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

Exchange rate volatility

Calculation of exchange rate volatility is made based on evolution of exchange rate of foreign currency with which the Company operates, this evolution is estimated in percentage for certain reporting period and recorded in the gains and losses.

The following table demonstrates the sensitivity to a reasonably possible change in the USD and EUR, MDL and EUR, ALL and EUR, MKD and EUR exchange rates, BGN and EUR exchange rates, BAM and EUR exchange rates with all other variables held constant. The effect on profit before tax is reflecting the proportion of untaxed profit considering exchange rate changes during reporting period. Effect on equity applies the same effect on equity. From the calculation is excluded the effect on Group's internal loans and other accruals.

	Currency	in thousand EUR 31.12.2019	in thousand EUR 31.12.2020	Average fluctuation
MDL		19,2605	21,1266	20,1936
	Change in exchange (MDL)	1,34%	-9,69%	-4,18%
	Effect on profit before tax(MDL)	346	-2 171	-912
	Effect on equity(MDL)	206	-1 681	-738
USD		1,1234	1,2271	1,1753
	Change in exchange (USD)	1,89%	-9,23%	-3,67%
	Effect on profit before tax(USD)	3	-14	-6
	Effect on equity(USD)	3	-14	-6
ALL		121,77	123,70	122,7350
	Change in exchange (ALL)	1,34%	-1,58%	-0,12%
	Effect on profit before tax(ALL)	192	-212	-10
	Effect on equity(ALL)	99	-188	-44
MKD		61,4856	61,6940	61,5898
	Change in exchange (MKD)	0,02%	-0,34%	-0,16%
	Effect on profit before tax(MKD)	1	-27	-13
	Effect on equity(MKD)	0	-1	0
BGN		1,9558	1,9558	1,9558
	Change in exchange (BGN)	0	0	0,00%
BAM		1,9558	1,9558	1,9558
	Change in exchange (BAM)	0	0	0,00%

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

The Group is sensitive to exchange rate volatility only if the exchange rate of the value dates of

(i) lending to the Group the principal investment amount and
(ii) redemption of the Group of the principal investment amount (bullet payment) differ.

Given that the Group's liabilities as at 31 December 2020 were 95 131 thousand EUR (2019: 87 749 thousand EUR), weakening of all exchange rates by investment maturity date by 20% would bring a loss of ca 19 026 thousand EUR (2019: 17 550 thousand EUR). The Group's equity is enough to cover that loss, but exchange rate weakening by more than 25% 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 10 997 thousand EUR (2019: 8 968 thousand EUR). A 20% decrease of exchange values would therefore cause the financial expenses to increase by 2 199 thousand EUR (2019: 1 794 thousand EUR). Given the Group's margin on its products, it can easily be absorbed.

To mitigate the foreign exchange volatility risks, the Group has taken the following measures:

• Diversification of liability currencies – liabilities have been assumed in EUR (ca 76%), MDL (ca 10%), ALL (ca 14%) and USD (ca 0%).
• Diversification of maturity dates – liabilities are assumed and become mature on different dates. Except for the senior secured bonds (FRA 50, see Note 23), no single liability exceeds 30% of the total liabilities and becomes mature within 3 months from the other liabilities. The short- or even mid-term fluctuations are counterbalanced with different maturity dates.

Interest rate risk

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

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

		Loans to customers		Loans from creditors	
Currency	Changes in base interest rate, in bps	Effect on profit before tax in 2019 in thousand EUR	Effect on profit before tax in 2020 in thousand EUR	Effect on profit before tax in 2019 in thousand EUR	Effect on profit before tax in 2020 in thousand EUR
EUR	+/- 100	0	0	+/-439	+/-463
EUR	+/- 300	0	0	+/-1316	+/-1388
EUR	+/- 500	0	0	+/-2193	+/-2314
USD	+/- 100	0	0	+/-1	+/-1
USD	+/- 300	0	0	+/-4	+/-4
USD	+/- 500	0	0	+/-6	+/-6
MDL	+/- 100	+/-406	+/-352	+/-49	+/-55
MDL	+/- 300	+/-1219	+/-1056	+/-148	+/-165
MDL	+/- 500	+/-2032	+/-1759	+/-247	+/-278
ALL	+/- 100	+/-269	+/-291	+/-76	+/-22
ALL	+/- 300	+/-808	+/-874	+/-229	+/-65
ALL	+/- 500	+/-1346	+/-1457	+/-381	+/-108
MKD	+/- 100	+/-90	+/-114	+/-31	+/-1
MKD	+/- 300	+/-269	+/-343	+/-93	+/-4
MKD	+/- 500	+/-449	+/-572	0	+/-7
BAM	+/- 100	+/-25	+/-33	0	0
BAM	+/- 300	+/-74	+/-98	0	0
BAM	+/- 500	+/-123	+/-163	0	0
BGN	+/- 100	0	0	0	0
BGN	+/- 300	0	0	0	0
BGN	+/- 500	0	+/-1	0	0

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Credit risk

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

To manage the Group's credit policy and portfolio risks Group has Credit Committee (CreCO). Credit Committee defines which loans are issued and to which customer groups. There are two levels of CreCo:

(i) Group Credit Committee and
(ii) Subsidiary Credit Committee.

Group Credit Committee (Group CreCo) has authority over following decisions:

a) to determine the competence of Subsidiary Credit Committee (Subsidiary CreCo);
b) to determine loan parameters (Loan Parameters);
c) to determine loan application checking and approval procedure (Checking Procedure);
d) to determine overdue procedure (Overdue Procedure).

Group CreCo members are CEO - Chief Executive Officer, CCO – Chief Commercial Officer, CFO – Chief Financial Officer, COO- Chief Operations Officer and CRO – Chief Rick Officer. The main responsibility to organize, record and communicate Group CreCo's work and decisions carry Group CRO. Group CreCo makes decisions at request of local subsidiary's management or on its own if necessary. Subsidiary CreCo consists of local management team or other relevant positions.

The Group consider a financial asset in default when:

a) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
b) the borrower is more than 50 days past due on any material credit obligation to the Group.;
c) it is becoming probable that the borrower will restructure the asset as a result of financial difficulties due to the borrower`s inability to pay its credit obligations.

Group is using the following classification into stages:

- Stage 1 – all non-defaulted loans with DPD<=30 (DPD - Days Past Due)
- Stage 2 – all non-defaulted loans with 30<DPD<=50
- Stage 3 – all defaulted loans (DPD>50)

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

Max exposure to credit risk before collateral held:

Credit risk exposures relating to on-balance sheet assets	31.12.2020 in thousand EUR	31.12.2019 in thousand EUR
Cash and bank accounts	19 453	6 734
Loans to customers	79 187	79 005
Other assets	2 677	2 489
Financial assets	197	5 322
TOTAL	**101 514**	**93 549**

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See also Notes 16, 17, 18 and 19.

Concentration risk

Concentration risk, as an integral part of credit risk, arises from large exposures to individual counterparty which might result from inadequate diversification of the credit exposures. This risk is managed by actively measuring, reporting and monitoring on a regular and ongoing basis, risk concentration levels against reasonable thresholds for counterparties and products.

In its everyday business activities, the Group avoids taking a concentration risk, focusing mainly on small and medium loans to avoid large exposure.

Liquidity risk

Liquidity risk is managed separately by each subsidiary. The Group's loan products are unsecured consumer loans with maturities between 1 month and 36 months and car-secured loans with maturities of up to 60 months, loan amounts between 25 EUR and 10 thousand EUR, and weighted average annual percentage rate (APR) 58% and effective interest rate (EIR) 80% depending on the loan amount, maturity and status of customer (new or recurring client with good payment history).

The Group aims to serve only clients with a permanent workplace and stable income. Loans are based on personal identification and personal credit rating. For a new applicant, the credit rating depends on automated comparison of the applicant's relevant parameters with respective parameters of performing and poorly performing statistic client groups and certain databases. By average 62% of new loan applications have been approved. For returning customers, Group applies personal credit rating which is based on individual performance data (see Credit risk above).

In section "Loan receivables and allowances for loan impairment" is discussed how the impairment analysis is performed by the Group. Liquidity risk regarding loans received is managed by the Group.

Analysis of financial assets and liabilities by contractual maturities continued:

in thousand EUR		**Up to 1 year**	**1 to 5 years**	**TOTAL**
Loans issued, maturity	31.12.2020	73 787	21 259	**95 046**
	31.12.2019	67 886	24 219	**92 105**
Loans received, maturity	31.12.2020	35 507	71 433	**106 940**
	31.12.2019	34 689	67 268	**101 957**
Lease liabilities, maturity	31.12.2020	860	1 261	**2 121**
Lease liabilities, maturity	31.12.2019	953	2 131	**3 084**
Liquidity gap	31.12.2020	37 419	-51 434	**-14 015**
	31.12.2019	32 244	-45 180	**-12 936**

Undiscounted long-term future cash flows from gross lease liabilities (before deducting finance charges) and gross loan commitments turn gap negative in long-term perspective regarding the end of current reporting year.

Above given table consists claims that have turned collectible by the end of the reporting year but does not include the future receivables from the active loan contracts, that will be collectible between the balance sheet date and contractual term or prognosis of the future receivables what will be collected from the un-activated new contracts.

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On the contrary to that, the liabilities are recorded in aggregate as contractually obliged during the whole contractual period. This allows to assume that Group will not have liquidity problems in the future. According to the short-term perspective liquidity risk is considered low.

Operational risk

Damage to physical assets or data

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

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

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

Client fraud or incapability

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

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

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

Internal risks

Internal user fraud or incapability

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

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System design errors

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

Workplace safety and efficiency

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

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

Impact of COVID-19

Starting from the COVID -19 coronavirus pandemic, the Group has implemented actions to mitigate the pandemic impact to the Group operations.

The actions taken are:

1. Shift from growth to strengthening and controlled contraction of the balance sheet. Cashflow as decisive function, to steering, for example, the volume and price of loans issued and our operating expenses.

2. Operating expenses (OPEX) cut during Q2/2020 by more than 25% with an almost unchanged staff size -most significant reductions relate to salaries, marketing and sales, R&D, and leases. Expenses strictly controlled in line with cash inflow.

3. New loan issuance significantly restricted - Credit risk requirements for customers increased while the maximum exposure per customer reduced.

4. Loan provisions increased in anticipation of future impairments.

5. Operations of start-up subsidiary IuteCredit Bulgaria frozen to a minimum.

6. Discounted buyback of short-term loans offered on Mintos P2P platform. Low demand speaks for investor confidence in IuteCredit.

7. Assistance for COVID-19 affected customers beyond the emergency provisions. Three-month grace period offers for repayment of loans in all markets - even without a legal obligation. At the same time, interest and commission fees continue to accrue. In addition, customers receive offers to restructure the maturities; early repayment is rewarded with a discount on fees.

Due to such actions taken at the beginning of the pandemic, the Company has been able to mitigate the significant losses arising from outstanding loans to customers. As new loans issuance was restricted starting from the pandemic and the Company focused on returning customers with good credit discipline, then the pandemic impact to loan portfolio quality was minimal.

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9 Interest income

Interest and similar income	2020 in thousand EUR	2019 in thousand EUR
Interest on loans to customers and commission	44 477	46 987
Other interest	0	7
TOTAL	**44 477**	**46 994**

See also Note 11.

10 Interest expenses

Interest expense	2020 in thousand EUR	2019 in thousand EUR
Interest on amounts due to creditors	-5 369	-5 005
Interest on amounts due to lease liabilities	-95	-80
Interest on bonds	-5 533	-3 883
TOTAL	**-10 997**	**-8 968**

See also Notes 21 and 23.

11 Other fees and penalties

Loan and administration fees and penalties	2020 in thousand EUR	2019 in thousand EUR
Penalties under loans and delay interests	8 396	3 720
Dealer bonuses	-1 046	-1 456
Resigns under customer loans	540	778
TOTAL	**7 890**	**3 041**

See also Notes 9 and 27.

*Since the beginning of 2019, dealer bonuses are recognized as a revenue component.

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12 Allowance for impairment of loans to customers

Allowance for impairment of loans to customers	2020 in thousand EUR	2019 in thousand EUR
At the beginning of the year	**-13 100**	**-12 465**
Arising during the year	-18 756	-10 937
Other changes	0	1 692
Utilized	15 767	8 853
Exchange differences	229	-243
At the end of the year	**-15 859**	**-13 100**

"Other changes" in 2019 reflects the effects of loss of control of IuteCredit Kosovo JSC.

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

Table below demonstrates the sensitivity to a reasonably possible change in forward-looking input by +/-1% on that portion of loan portfolio and expected credit loss in response:

	in thousand EUR			Favourable changes			Unfavourable changes		
31.12.2020	Gross portfolio in total	Sum of ECL in total	Sum of NLP in total	Gross portfolio in total	Sum of ECL in total	Sum of NLP in total	Gross portfolio in total	Sum of ECL in total	Sum of NLP in total
Albania	34 778	4 741	30 037	34 778	4 747	30 032	34 778	4 735	30 043
stage 1	26 986	1 752	25 234	26 986	1 757	25 229	26 986	1 748	25 238
stage 2	639	172	467	639	173	466	639	171	468
stage 3	7 154	2 817	4 337	7 154	2 817	4 337	7 154	2 817	4 337
Bosnia	3 721	1 030	2 691	3 721	1 032	2 689	3 721	1 028	2 693
stage 1	2 611	336	2 274	2 611	337	2 273	2 611	335	2 276
stage 2	224	130	94	224	131	93	224	130	95
stage 3	886	563	323	886	563	323	886	563	323
Macedonia	12 954	1 639	11 315	12 954	1 642	11 312	12 954	1 635	11 319
stage 1	10 644	609	10 034	10 644	612	10 032	10 644	607	10 037
stage 2	381	110	271	381	110	270	381	109	272
stage 3	1 930	920	1 010	1 930	920	1 010	1 930	920	1 010
Moldova	43 581	8 441	35 140	43 581	8 436	35 146	43 581	8 447	35 134
stage 1	30 701	3 449	27 252	30 701	3 439	27 262	30 701	3 442	27 259
stage 2	566	189	377	566	195	372	566	203	363
stage 3	12 314	4 803	7 512	12 314	4 803	7 512	12 314	4 803	7 512
Total	95 035	15 851	79 184	95 035	15 857	79 178	95 035	15 846	79 189
change (+/-)					5	-6		-5	5

See also Note 17.

Credit loss expense 2020	stage 1	stage 2	stage 3	Net impairment charges
Loans to customers	-6 145	-601	-9 113	-15 859
Total	**-6 145**	**-601**	**-9 113**	**-15 859**

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

13 Personnel expenses

Personnel expenses	**2020 in thousand EUR**	**2019 in thousand EUR**
Salaries and bonuses	-6 927	-4 693
Social security expenses	-1 096	-1 207
Medical insurance expenses	-95	-39
Other expenses	-41	-357
TOTAL	**-8 159**	**-6 296**
Number of employees adjusted to full-time	369	347

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

Please see also Note 28 for remuneration paid to key management persons.

14 Other operating expenses

Other operating expenses	**2020 in thousand EUR**	**2019 in thousand EUR**
Advertising expenses	-1 219	-2 620
Office lease expenses	-28	-96
Outsource services	-1 915	-2 061
Repair, maintenance of property and equipment	-75	-168
Utilities	-211	-190
Telecommunication and IT	-1 480	-537
Small items of equipment	-170	-199
Transportation	-285	-369
Withheld taxes	-373	-314
Loss from investments	0	-6 038
Other operating expenses	-2 548	-1 616
TOTAL	**-8 302**	**-14 206**

Net loss from investments in 2019 includes among other costs also gain from the sale of subsidiary Final Sh.a. in amount of 145 thousand EUR and loss from the IuteCredit Kosovo JSC in amount of 6 183 thousand EUR.

Since the beginning of 2019, dealer bonuses are recognized as a revenue component.

The other operating expenses includes also purchases from related parties. See also Note 28.

15 Income tax expense

Income tax expense	2020 in thousand EUR	2019 in thousand EUR
Consolidated profit before tax	6 176	10 467
Current income tax expense from foreign jurisdictions	-1 015	-2 106
Change in deffered income tax	82	11
Income tax expense reported in statement of comprehensive inco	**-933**	**-2 096**

In 2020, shareholders declared and paid dividends in the amount of 500 thousand EUR (2019: 2 248 thousand EUR). As at 31 December 2019 1 thousand EUR (31.12.2019: 1 thousand EUR) remained unpaid.

As at 31 December 2020, the Group's retained earnings amounted to 12 640 thousand EUR (31.12.2019: 8 035 thousand EUR). The distribution of these retained earnings as dividends would be subject to income tax at the maximum rate of 20/80 on the net distribution. As at the reporting date, the Group had received pre-taxed dividends and the balance of the dividends under tax exemption was to 1 497 thousand EUR (31.12.2019: 1 412 thousand EUR). When calculating the maximum income tax liability that may arise if all retained earnings were distributed, the Group also considers the profits already taxed in foreign locations. Therefore, after allocation to statutory reserves (see Note 31) it is possible to distribute 10 197 thousand EUR (31.12.2019: 6 600 thousand EUR) of the retained earnings as at the balance sheet date as net dividends.

The corporate income tax on the payment of dividends would amount to 2 175 thousand EUR (31.12.2019: 1 297 thousand EUR).

16 Cash and bank accounts

Cash and bank accounts		31.12.2020 in thousand EUR	31.12.2019 in thousand EUR
Cash on hand		223	53
Bank accounts		19 230	6 681
TOTAL		**19 453**	**6 734**
Due from banks and cash by ECL charges			
	Stage 1	19 453	6 734
	Stage 2	0	0
	Stage 3	0	0

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17 Loans to customers

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

31.12.2020	Stage 1	Stage 2	Stage 3	Total
According to IFRS 9				
Gross loans to customers	62 197	1 531	15 301	**79 029**
Accrued interest from loans	8 744	279	6 995	**16 018**
Allowances for loan impairment	-6 145	-601	-9 113	**-15 859**
TOTAL	**64 796**	**1 209**	**13 182**	**79 187**
Total share in	82%	2%	17%	100%
Gross NPL ratio			23%	
Impairment coverage ratio			71,13%	

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

Additional information regarding provisions has been disclosed in Note 12.

Gross NPL ratio - non-performing loan portfolio (including accrued interest) with a delay of over 50 days / gross loan portfolio (including accrued interest).
Impairment coverage ratio – Total impairment (see Note 12)/ Gross NPL.

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18 Other assets and prepayments

Other assets and prepayments	31.12.2020 in thousand EUR	31.12.2019 in thousand EUR
Deffered tax assets	104	22
Prepayments of rent	77	18
Prepayment of taxes	1 011	700
Prepayments to suppliers and deffered expenses	105	174
Prepayments in total	**1 297**	**913**
Receivables from collection companies	292	452
Other receivables	47	23
Deposit receivables from partners	2 337	2 013
Trade and other receivables in total	**2 677**	**2 489**
TOTAL	**3 974**	**3 402**

19 Other financial investments

Other financial investments	31.12.2020 in thousand EUR	31.12.2019 in thousand EUR
Other shares and securities	6 999	4 587
Deposit account	197	5 322
TOTAL	**7 196**	**9 908**

On the row of "Other shares and securities" is recognized the fair value of IuteCredit Kosovo JSC. See also Note 27.

In financial year 2020, the deposit in the amount 5 020 thousand EUR was ended based on maturity date set in agreement.

Deposit amount 197 thousand EUR (31.12.2019: 302 thousand EUR) is set on long-term purposes by the regulatory demand.

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20 Property, plant and equipment

Furniture and equipment	2020 in thousand EUR	2019 in thousand EUR
Acquisition cost		
At the beginning of the year	**1 341**	**760**
Additions	345	832
Other changes	0	-83
Prepayments	0	33
Disposals and write-offs	-24	-214
Exchange differences	-20	13
At the end of the year	**1 641**	**1 341**
Depreciation and impairment		
At the beginning of the year	**-316**	**-263**
Depreciation charge for the year	-346	-213
Other changes	0	23
Disposals and write-offs	7	140
Exchange differences	-8	-3
At the end of the year	**-663**	**-316**
Net book value at 31.12.	**978**	**1 025**

"Other changes" in 2019 reflects the effects of loss of control of IuteCredit Kosovo JSC.

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21 Right-of-use-assets and lease liabilities

Right-of-use assets (offices)	2020 in thousand EUR	2019 in thousand EUR
Acquisition cost		
At the beginning of the year	**3 527**	**908**
Additions	595	3 177
Disposals and write-offs	-761	0
Exchange rate differences	179	19
Loss of control of subsidiary	0	-577
At the end of the year	**3 540**	**3 527**
Depreciation		
At the beginning of the year	**-677**	**0**
Depreciation charge for the year	-789	-777
Disposals and write-offs	165	0
Exchange rate differences	-126	-4
Loss of control of subsidiary	0	104
At the end of the year	**-1 426**	**-677**
Net book value 01.01.	**2 850**	**908**
Net book value 31.12.	**2 113**	**2 850**

Lease liabilities (office rent)	2020 in thousand EUR	2019 in thousand EUR
Short-term		
At the beginning of the year	**863**	**220**
Additions	615	3 150
Accretion of interest	95	80
Repayments	-873	-865
Reclassifications and periodization	160	-1 608
Exchange rate differences	0	11
Loss of control of subsidiary	0	-126
At the end of the year	**860**	**863**
Long-term		
At the beginning of the year	**1 931**	**658**
Reclassifications and periodization	-670	1 608
Loss of control of subsidiary	0	-335
At the end of the year	**1 261**	**1 931**
Lease liabilities in total 01.01.	**2 794**	**879**
Lease liabilities in total 31.12.	**2 121**	**2 794**

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Recognised in profit or loss	2020 in thousand EUR	2019 in thousand EUR
Depreciation expense of right-of-use assets	-924	-777
Loss of control of subsidiary	0	-12
Interest expense on lease liabilities	-95	-79
Exchange rate differences	3	3
Expense relating to leases of low-value assets	0	-20
Expense relating to leases of short-term leases	-28	-76
Total amount recognised in profit or loss	**-1 043**	**-961**

Discount rates used for to a portfolio of leases varies between 8%-12% (average 10%), portfolios segregated on country-basis.

The maturity analysis is provided in Note 8. Maximum lease term is estimated as 84 months.

"Loss of control of subsidiary" relates to the right-of-use assets and lease liabilities derecognized upon the revocation of license of IuteCredit Kosovo JSC in 2019.

22 Intangible assets

Computer software	2020 in thousand EUR	2019 in thousand EUR
Acquisition cost		
At the beginning of the year	**3 734**	**1 020**
Additions	10	67
Additions - internally developed	2 908	0
Other changes	-2 681	-1
Prepayments and work-in progress	536	2 681
Disposals and write-offs	-138	-41
Exchange differences	70	8
At the end of the year	**4 440**	**3 734**
Amortisation and impairment		
At the beginning of the year	**-408**	**-280**
Amortisation charge for the year	-163	-164
Amortisation charge for the year of internally developed asset	-240	0
Other changes	0	0
Disposals and write-offs	138	40
Exchange differences	-75	-3
At the end of the year	**-747**	**-408**
Net book value at 31.12.	**3 693**	**3 326**

On the rows "Other changes" in 2020 is reflected the reclassification of loan implementation system (LES) from work in progress to internally developed intangible asset. Additionally, the internal development costs in 2020 amounted to 226 thousand EUR which were recognized as addition to internally developed intangible asset. The total net book value of internally developed intangible asset is 2 907 thousand EUR as at 31 December 2020 (31.12.2019: 0 EUR). LES is the sole internally developed intangible asset as at 31 December 2020.

23 Financial liabilities

in thousand EUR	31.12.2020	Residual maturity		Currency	Interest
		Up to 1 year	1 to 5 years		
Loans from investors and banks	**37 559**	21 566	15 994	EUR, MDL, USD, ALL, MKD	1-20%
Overdraft	**4 293**	0	4 293	MDL	3-14%
Lease liabilities (IFRS 16)	**2 121**	860	1 261	EUR, MLD, ALL, MKD, BAM	8%-12%
Bonds in Albania	**542**	0	542	ALL	12%
Convertible bonds	**14**	0	14	EUR	5%
Eurobonds	**44 040**	0	44 040	EUR	13%
Accrued interest	**2 866**	2 866	0	EUR, MDL, USD, ALL, MKD	
TOTAL	**91 434**	**25 291**	**66 143**		

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

In 2020, the overdraft in Albania was terminated. The overdraft limit was 5 020 thousand EUR. As at 31 December 2020 the overdraft balance includes the credit line opened in Moldova. The overdraft is guaranteed with the liquid assets of the subsidiary.

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

On 3rd of December 2020, ICF issued additionally 10 000 thousand EUR of senior secured bonds at Frankfurt Stock Exchange under the same conditions as for issued senior secured bonds in August 2019. As a result, the total outstanding amount of senior secured bonds is 50 000 thousand EUR.

In December 2020, the bonds were also listed on the Regulated Market (general standard) of Frankfurt Stock Exchange.

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

Eurobond covenant ratios:

	31.12.2020	31.12.2019
Capitalization		
Equity/Net finance loans and advances to customers	27,1%	23,4%

	2020	2019
Profitability		
Interest coverage ratio (ICR) - EBITDA/interest expenses	1,9	2,2

The dividends and similar distributions are not allowed to be made to shareholders, unless they do not exceed 25% of the distributable profit, the interest coverage ratio for the period ending on the last day of the period covered by the most recent financial report is not less than 1.5 and the capitalization ratio of ICE on a consolidated basis is not less than 15%, determined on a pro forma-basis (including a pro forma-application of the net proceeds there from).

24 Other liabilities

Other liabilities	**31.12.2020 thousand EUR**	**31.12.2019 thousand EUR**
Trade payables	1 051	1 031
Payables to employees	529	601
Corporate Income Tax payables	238	455
Deffered Tax payables	655	289
Unpaid dividends	0	1
Allocations and other provisions	438	205
Other liabilities	786	1 093
TOTAL	**3 697**	**3 676**

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

25 Share capital

Share capital	**31.12.2020 EUR**	**31.12.2019 EUR**
Share capital	10 000 000	10 000 000
Number of shares	10 000 000	10 000 000
Nominal value of share	1,00	1,00

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

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

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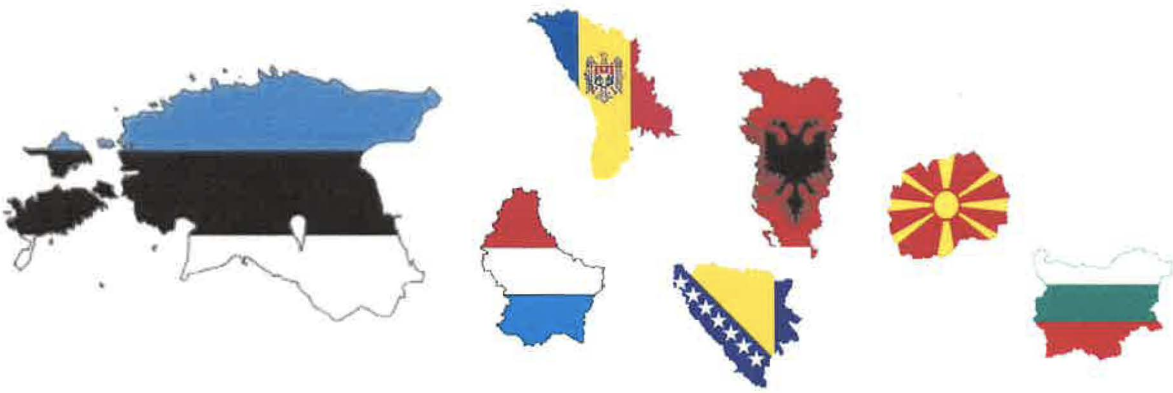
26 Investments in subsidiaries

Subsidiary	Country	Acquisition date	31.12.2020	31.12.2019
IuteCredit SRL	Moldova	28.11.2008	100%	100%
IuteCredit Albania SH.A	Albania	04.08.2014	100%	100%
IuteCredit Macedonia DOOEL	Macedonia	24.07.2017	100%	100%
IutePay Bulgaria EOOD	Bulgaria	12.12.2017	100%	100%
Velox Pay S.H.P.K	Albania	09.10.2020	100%	0%
IutePay Albania SH.P.K	Albania	02.07.2018	0%	100%
IuteCredit Bulgaria EOOD	Bulgaria	11.03.2019	100%	100%
MKD IuteCredit BH d.o.o. Sarajevo	Bosnia and Herzegovina	29.03.2019	100%	100%
IuteCredit Finance S.a.r.l.	Luxembourg	01.07.2019	100%	100%



Investments to subsidiaries in unconsolidated statements composed using equity method:

		Investment in subsidiaries			
in thousand EUR	**31.12.2019**	**Dividends received**	**Contribution to share capital**	**Profit/loss using equity method**	**31.12.2020**
ICM	16 431	-500	0	4 129	19 975
ICA	5 454	0	0	4 591	10 044
Iutepay Albania	1	0	0	-1	0
Velox Pay	0	0	405	0	405
ICMK	456	0	0	-211	245
IUTEPAY	0	0	0	0	0
ICBG	881	0	0	-203	678
ICBH	355	0	2 260	-2 102	513
ICF	147	0	0	-59	88
Investments in subsidiaries	**23 725**	**-500**	**2 665**	**6 144**	**31 948**

See also Notes 29.1 and 29.2.

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27 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 2020, the fair value of interest-bearing loans to customers and loans, bonds from investors amounted to 79 187 thousand EUR and 91 434 thousand EUR respectively, other financial assets and investments in total 7 916 thousand EUR and other financial liabilities 1 837 thousand EUR. As at 31 December 2019, these values amounted to 79 005 thousand EUR, 84 073 thousand EUR, 9 908 thousand EUR and 2 124 thousand EUR respectively. The fair values of financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. The fair values of "Loans to customers" and "Financial liabilities at amortized cost" have been estimated by discounting estimated future cash flows using the market interest rates prevailing at each year-end. There have been no transfers between levels during the period and comparing market no significant distinctions in discount rates. Loans and interest are recorded in level 3 as there are significant unobservable inputs.

Fair value hierarchy for financial instruments not measured at fair value as at 31 December 2020 and 31 December 2019 (in thousand EUR):

		Fair value measurement using			
	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets for which fair values are disclosed					
Loans and interest receivables to customers	31.12.2020	0	0	79 187	**79 187**
Other assets	31.12.2020	0	0	2 677	**2 677**
Other financial investments	31.12.2020	0	0	7 196	**7 196**
Liabilities for which fair values are disclosed					
Loans, bonds and accrued interest payables	31.12.2020	0	0	91 434	**91 434**
Trade payables	31.12.2020	0	0	1 051	**1 051**
Other liabilities	31.12.2020	0	0	786	**786**
Assets for which fair values are disclosed					
Loans and interest receivables to customers	31.12.2019	0	0	79 005	**79 005**
Other assets	31.12.2019	0	0	2 489	**2 489**
Other financial investments	31.12.2019	0	0	9 908	**9 908**
Liabilities for which fair values are disclosed					
Loans, bonds and accrued interest payables	31.12.2019	0	0	84 073	**84 073**
Trade payables	31.12.2019	0	0	1 031	**1 031**
Other liabilities	31.12.2019	0	0	1 093	**1 093**

Other financial investmenst includes among others, the investment in IuteCredit Kosovo (ICKO) at fair value in the amount of total 6 999 thousand EUR (31.12.2019: 4 587 thousand EUR).

ICKO received as of 6th of December 2019 without prior notice a notification from the Central Bank of Kosovo (CBK) that it`s microfinance license has been revoked with immediate effect and the liquidation has been started. According to the CBK decision, the reasons for the revocation of the license indicated to the background of shareholders and contradiction to the initial business plan at the time of submission in 2017. Management Board of the group is convinced that these complaints are legally ungrounded and may indicate to the malicious behavior by competitors. Regarding the assumed non-compliance with its business plan, ICKO had submitted a revised business plan to CBK on 14th of November 2019, which reflected ICKO's adjusted business operations. Until the date of revocation no feedback or other reaction has been received from CBK on the new business plan. The assets and liabilities of ICKO were derecognized as at 31 December 2019 and the retained investment was classified as a financial instrument, measured at fair value in the amount of 4 587 thousand EUR.

The fair value of ICKO was measured by using following inputs:

Remaining GLP of ICKO as at 31.12.2019 in amount 13 067 thousand EUR was impaired and as a result, the NLP amounted to 4 207 thousand EUR, the balance of other assets amounted to 1 817 thousand EUR. The residual value of liabilities amounted to 3 717 thousand EUR, of which 3 113 thousand EUR was in majority related to Mintos. Expected and impaired in average by 59% future cash flows were valued in amount 2 610 thousand EUR. The present value of ICKO as at 31.12.2019 was found by WACC 9.32% and discounting next 9 month period. The most sensitive components in the assessment were the recovery rates due to the unprecdictable customer behavior.

As at 31 December 2020, the Management Board has performed new fair value measurement for investment in ICKO. As no financial information was and is available for ICKO as at 31 december 2020, then fair value was measured by taking into account the fair value of the investment as at 31 December 2019 and all information available for the investment to the Management Board as at 31 December 2020. The main impact to fair value change in 2020 was related to repayment of liabilities of ICKO by Iute Credit Europe AS, which also influenced initially estimated cash flow of ICKO.

Description of the implemented discounted projected cash flow method is given in Note 7.

In December 2020, ICE submitted its Statement of Claim, specifying the legal argumentation of its claim against the Republic of Kosovo and the amount of damages the Company is demanding.

See also Notes 17, 18, 19 and 23.

28 Related parties

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

The main shareholder of IuteCredit Europe AS with 89,81% of shares is still Alarmo Kapital OÜ, registered in Estonia. Other shares belong to minority shareholders owning no more than 3% of each.

The Group's management has not identified significant transfer pricing risks as the Group's main income and expenses are related to lending activities. The margin on investor loans can be declared at market price (see Note 24). The transactions made inside the Group are related to loan installments in the ordinary course of business and are rated by market price. The effect of such transactions are eliminated from the consolidated financials. Management believes that there are no significant price and tax risks arising from transactions between the Group and related parties.

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

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in thousand EUR		Received loans	Repaid loans	Receivables	Liabilities
Senior management and majority shareholders with significant influence over undertakings	2020	0	17	0	2 767
Close family members of the management with significant shareholdings and undertakings in their dominant or significant influence	2020	0	0	0	556
Senior management and majority shareholders with significant influence over undertakings	2019	8 038	7 904	2	2 301
Close family members of the management with significant shareholdings and undertakings in their dominant or significant influence	2019	479	432	0	504

		Purchases	Provided services	Calculated interests from received loans	Interest paid on loans
Senior management and majority shareholders with significant influence over undertakings	2020	245	27	272	265
Close family members of the management with significant shareholdings and undertakings in their dominant or significant influence	2020	0	0	64	62
Senior management and majority shareholders with significant influence over undertakings	2019	905	29	224	133
Close family members of the management with significant shareholdings and undertakings in their dominant or significant influence	2019	0	0	51	30

As at 31 December 2020 and 31 December 2020, the Company does not have any receivables from or payables to main shareholder Alarmo Kapital OÜ. Purchases related to senior management and majority shareholders with significant influence over undertakings includes also purchases from Alarmo Kapital OÜ in the amount 24 thousand EUR in 2020 and in same amount purchases in 2019.

Please see also Notes 13 and 14.

Remuneration of Group's Key Management Persons	2020 in thousand EUR	2019 in thousand EUR
Member of the Council	0	0
Remuneration according to labor agreements	201	217
TOTAL	**201**	**217**

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

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29 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“.

29.1 Correction of prior year misstatement

During 2020, the Company discovered that the development costs of internally developped loan implementation system (LES) were not recognized as work in progress under intangible assets in parent company`s unconsolidated financial statements. Therefore, the assets of the Company and profit for the period were understated. The misstatement has been corrected by restating each of the affected financial statement line items for prior period. The following tables summarizes the impacts on the parent company`s unconsolidated financial statements.

Impact on Statement of Comprehensive Income	Initial balance of 2019 in thousand EUR	Correction	Corrected balance of 2019 in thousand EUR
Personnel expenses	-1 773	662	-1 111
Other operating expenses	-4 351	2 019	-2 332
Others	8 893	0	8 893
Profit for the reporting period	**2 769**	**2 681**	**5 450**

Impact to Statement of financial position	Initial balance of 2019 in thousand EUR	Correction	Corrected balance of 2019 in thousand EUR
Intangible assets	115	2 681	2 796
Others	58 681	0	58 681
Total assets	**58 796**	**2 681**	**61 477**
Total liabilities	**44 936**	**0**	**44 936**
Retained earnings	3 462	2 681	6 142
Others	10 398	0	10 398
Total equity	**13 860**	**2 681**	**16 541**
Total liabilities and equity	**58 796**	**2 681**	**61 477**

Impact to Statement of Cash Flows	Initial balance of 2019 in thousand EUR	Correction	Corrected balance of 2019 in thousand EUR
Paid net salaries	-1 185	421	-764
Paid tax liabilities, exc. CIT	-433	241	-192
Paid trade payables	-3 772	2 019	-1 753
Others	-4 241	0	-4 241
Net cash flows from operating activities	**-9 631**	**2 681**	**-6 950**
Purchase of fixed assets	-273	-2 681	-2 954
Others	-2 896	0	-2 896
Net cash flows from investing activities	**-3 169**	**-2 681**	**-5 850**

29.2 Statement of comprehensive income

	2020 in thousand EUR	2019* in thousand EUR
Interest and similar income	12 691	4 325
Interest and similar expense	-6 294	-4 358
Net interest income	**6 397**	**-32**
Other income	0	665
Net operating income	**6 397**	**633**
Personnel expenses	-3 410	-1 111
Depreciation/amortization charge	-442	-103
Other operating expenses	-3 362	-2 332
Total operating expenses	**-7 213**	**-3 546**
Foreign exchange gains/losses	-154	68
Net income from subsidiaries using equity method	6 147	8 294
Total finance income	**5 994**	**8 362**
Profit before tax	**5 177**	**5 450**
Profit for the reporting period	**5 177**	**5 450**
Other comprehensive income		
Other comprehensive income (classified profit or loss in subsequent period)	0	0
Exchange differences on translation of foreign operations	0	0
Other comprehensive income total	**0**	**0**
Profit attributable to:		
Equity holders	5 177	5 450
Total comprehensive income attributable to:		
Equity holders	5 177	5 450

*The comperative information is restated. See note 29.1.

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29.3 Statement of financial position

	31.12.2020 in thousand EUR	31.12.2019* in thousand EUR
Assets		
Cash and bank accounts	11 704	1 980
Loans and receivables	17 450	26 570
Prepayments	127	212
Other receivables	1 223	983
Other financial investments	6 999	4 587
Property, plant and equipments	238	279
Right-of-use assets	260	343
Intangible assets	3 303	2 796
Investments in subsidiaries	31 949	23 726
Total assets	**73 253**	**61 477**
Liabilities and equity		
Liabilities		
Loans and bonds	49 124	43 562
Other liabilities	2 911	1 374
Total liabilities	**52 035**	**44 936**
Equity		
Share capital	10 000	10 000
Legal reserve	537	398
Retained earnings	10 681	6 142
Total equity	**21 218**	**16 541**
Total liabilities and equity	**73 253**	**61 477**

*The comperative information is restated. See note 29.1.

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29.4 Statement of changes in equity

in thousand EUR	Share capital	Legal reserve	Retained earnings	Total
01.01.2019	**10 000**	**28**	**3 313**	**13 340**
Profit for the year	0	0	5 450	5 450
Other comporehensive income	0	0	0	0
Total comprehensive income	**0**	**0**	**5 450**	**5 450**
Allocation to reserves	0	371	-371	0
Dividends	0	0	-2 249	-2 249
31.12.2019*	**10 000**	**398**	**6 142**	**16 541**
01.01.2020	**10 000**	**398**	**6 142**	**16 541**
Profit for the year	0	0	5 177	5 352
Other comporehensive income	0	0	0	0
Total comprehensive income	**0**	**0**	**5 177**	**5 177**
Allocation to reserves	0	0	-138	-138
Dividends	0	138	-500	-362
31.12.2020	**10 000**	**537**	**10 681**	**21 218**

*The comperative information is restated. See note 29.1.

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

As at 31 December 2020 and 31 December 2019, the Company`s legal reserve is not in compliance with Estonian Commercial Code requirements which states that Company`s legal reserve must be at least 10% of the share capital. The Company is resolving the non-compliance annually by increasing legal reserve based on regulation of Estonian Commercial Code.

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29.5 Statement of cash flows

	2020 in thousand EUR	2019* in thousand EUR
Paid prepayments	-14	-184
Received pre- and overpayments	0	2 174
Paid trade payables	-7 463	-1 753
Received debts from buyers and received other claims	12 159	3 789
Paid net salaries	-1 923	-764
Paid tax liabilties, exc. CIT	-651	-192
Paid out to customers	-5 650	-16 948
Principal repayments from other group entities	14 244	3 761
Interest, commission and other fees	2 065	3 167
Net cash flows from operating activities	**12 767**	**-6 950**
Purchase of fixed assets	-787	-2 954
Net cash flow from aquisition of subsidiaries	-2 662	-3 202
Received dividends	586	2 156
Payments for other financial investments	-7 280	-1 850
Receipts from other financial investments	6 457	0
Net cash flows from investing activities	**-3 686**	**-5 850**
Loans received from investors	11 440	31 960
Repaid loans to investors	-5 976	-13 165
Principal payments of lease contracts	-77	-50
Paid interests	-4 169	-2 438
Paid dividends	-500	-2 248
Net cash flows from financing activities	**718**	**14 059**
Change in cash and cash equivalents	**9 799**	**1 259**
Cash and cash equivalents at the beginning of the year	**1 981**	**654**
Change in cash and cash equivalents	9 799	1 259
Net foreign exchange difference	-76	68
Cash and cash equivalents at the end of the year	**11 704**	**1 981**

	31.12.2020	31.12.2019
Cash and cash equivalents comprises		
Cash on hand	0	0
Non-restricted current account	11 704	1 980

*The comperative information is restated. See note 29.1.

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30 Subsequent events

There have been no such event subsequently to reporting period till signing of the annual report which would cause corrections in reported financial information on which should be separately disclosed as subsequent event.

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

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31 Profit allocation proposal

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

Company's retained earnings	**in thousand EUR**
Retained earnings as at 31.12.2020	12 640
Statutory reserves	-268
Dividend distribution	-2 500
Balance of retained earnings after allocations	**9 872**

32 Signatures of the management board to 2020 annual report

The Company's Management Board has approved the management report and financial statements for 2020.

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.

17th of February 2021

Tarmo Sild

Tarmo Sild

Member of the Management Board

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Independent Auditors' Report

To the Shareholders of AS IuteCredit Europe

Qualified Opinion

We have audited the consolidated financial statements of AS IuteCredit Europe and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, except for the possible effect of the matter described in the Basis for Qualified Opinion section of our report, the consolidated financial statements presented on pages 12 to 62, present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Qualified Opinion

The Group's investment in IuteCredit Kosovo JSC, a former foreign subsidiary, which is accounted for under the fair value method is carried at EUR 6,999 thousand on the consolidated statement of financial position as at 31 December 2020 (EUR 4,587 thousand as at 31 December 2019). As described in Note 27 to the accompanying consolidated financial statements, on 6 December 2019 IuteCredit Kosovo JSC received a notice from the Central Bank of Kosovo that its microfinance licence had been revoked with immediate effect and a liquidator had been appointed to close the business in Kosovo. The event resulted in the Group losing control over the subsidiary and accordingly, the Group derecognised the assets and liabilities of the subsidiary and recognised the retained investment as a financial asset at fair value through profit or loss.

Due to the fact that we were unable to obtain reliable evidence to support management's assumptions used in the estimation of the fair value and future cash flows of the investment as well as the uncertainty associated with the liquidation process of IuteCredit Kosovo JSC, we are unable to express our opinion on the fair value of the investment in IuteCredit Kosovo JSC and related adjustments in the consolidated statement of comprehensive income. We were not able to satisfy ourselves concerning the amount by which the recoverable amount of the investment is lower than its carrying amount and the amount in which an impairment loss should have been recognised by alternative means either. Accordingly, we are unable to conclude whether and to what extent the Group's consolidated comprehensive income for the reporting period and the comparative period may be overstated and the Group's consolidated assets and equity as at 31 December 2020 and 31 December 2019 may be overstated for the above reason.

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Estonia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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Other Matter

The Group's consolidated financial statements for the year ended 31 December 2019 were audited by another auditor who expressed a qualified opinion on those consolidated financial statements on 25 February 2020 due to the inability to obtain sufficient appropriate audit evidence regarding the fair value of IuteCredit Kosovo JSC as at 31 December 2019 of EUR 4,587 thousand.

Other Information

Management is responsible for the other information. The other information comprises the management report, but does not include the consolidated financial statements and our auditors' report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard except for the possible effect of the matter described in Basis for Qualified Opinion section of our report.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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.

Auditors' 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 auditors' 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 scepticism 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 auditors' 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 auditors' 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, 26 February 2021

Eero Kaup
Certified Public Accountant, Licence No 459

KPMG Baltics OÜ
Licence No 17