

**4finance Holding S.A.**  
*Société anonyme*

**Consolidated  
Annual Report for the year  
ended 31 December 2017**

**Address: 8-10, Avenue de la Gare, L-1610 Luxembourg, Grand Duchy of Luxembourg  
RCS Luxembourg: B171.059**

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## Information on the Company

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Name of the Company	<i>4finance Holding S.A.</i>
Legal status	<i>Public limited liability company</i>
Number, place and date of registration	<i>B171.059, Luxembourg, Luxembourg, August 27, 2012</i>
Legal and postal address	<i>8-10, Avenue de la Gare, L-1610 Luxembourg, Grand Duchy of Luxembourg RCS Luxembourg: B171.059</i>
Board members and their positions	<i>Georgios Georgakopoulos, Chairman of the Board of Directors, category B director (from 30.12.2016 until 30.06.2017) Mark Ruddock, category B director, Chairman of the Board (from 30.06.2017) Paul Goldfinch, category B director (from 30.12.2016) Stephane Sabella, category A director (from 08.02.2016 until 20.11.2017) Philip Cesar Pascual (from 08.02.2016 until 20.11.2017) Fabrice Hablot, category A director (from 20.11.2017) Simon Bouaksa, category A director (from 20.11.2017)</i>
Reporting period	<i>01.01.2017–31.12.2017</i>
Information on shareholders	<i>4finance Group S.A. holding 100%</i>
Auditors	<i>KPMG Luxembourg Société coopérative 39, Avenue John F. Kennedy L-1855 Luxembourg</i>

## **Consolidated Management Report**

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4finance Holding S.A. (the "Company"), one of Europe's largest online and mobile consumer lending groups, active in 16 countries globally, presents its annual report including its audited annual accounts for the twelve month period ending 31 December 2017 .

The share capital of the Company as at 31 December 2017 was EUR 35 750 thousand (31 December 2016: EUR 35 750 thousand), divided into 3 575 000 000 ordinary shares (31 December 2016: 3 575 000 000 shares) with nominal value of EUR 0.01 each (31 December 2016: EUR 0.01), fully paid via contribution-in-kind. As at 31 December 2016, 4finance AS, a subsidiary of 4finance Holding S.A., held one hundred thousand (100 000) non-voting preferred shares with nominal value of one cent of Euro (EUR 0.01) each. During the year 2017 all one hundred thousand (100 000) non-voting preferred shares previously held by 4finance AS were redeemed by 4finance Holding S.A.

The Company is rated B2 by Moody's (following an upgrade from B3 in October 2017) and B+ by Standard & Poor's.

### **Important events in 2017 and future developments**

During the reporting period, the Company and its subsidiaries (collectively, "the Group") achieved strong growth in business volumes which has driven an increase in revenues. The total value of online loans issued by the Group in the reporting period reached EUR 1.28 billion (2016: EUR 1.16 billion), exceeding EUR 5 billion in total since the business was established in 2008.

#### *Significant acquisitions and disposals*

The sale of the TBI Rent business by TBI Bank was completed in July 2017.

The Group acquired a further 10% stake in online SME lender SpotCap Global SARL in July 2017 from Tirona Limited (the Group's ultimate parent company) for approximately EUR 5 million, taking the Group's ownership to 19.9%.

#### *Financing*

The Group completed a series of re-financing transactions on 28 April 2017. This included closing of a new USD 325 million 5 year bond issue with a coupon of 10.75% and a successful consent and tender offer for the old USD 2019 bond with acceptance from 66% of bondholders. This leaves USD 68 million of 2019 Notes outstanding (with the main covenants and the August 2017 put option removed). The Group also called its SEK 2018 bonds for early redemption, with repayment taking place on 31 May 2017.

In August 2017, the Group repaid the PLN 15 million of May 2021 Notes issued by Friendly Finance Poland at par plus accrued interest.

#### *Dividend*

The Group declared and paid dividends totalling EUR 26.0 million during the period.

#### *Balance sheet review*

A thorough balance sheet review was conducted in the fourth quarter of 2017, focused on reassessing the value of the Group's intangible assets (both goodwill and IT-related), its deferred tax assets and the treatment of deferred expenses related to its 2017 bond issue. In summary, the goodwill associated with the Friendly Finance acquisition has been impaired by EUR 22.0 million (see Note 28); IT intangible asset impairments and write-offs have been made totalling EUR 14.4 million (see Note 28); certain costs of EUR 6.3 million related to the bond refinancing have been expensed as a non-recurring finance charge (see Note 30); and a number of deferred tax assets have been derecognized (see Note 17).

## **Consolidated Management Report**

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### *Changes in management*

Reflecting the greater scale and complexity of the Group, new management positions in the areas of Compliance, Data, Strategic Partnerships and People were created during 2017. Together with departures of some of the previous leadership, this resulted in a number of new management team members joining the Group in 2017, as outlined below:

- Roland Schaar took over as Chief Technology Officer in June 2017
- Mark Ruddock, formerly a Supervisory Board member, took over as Chief Executive Officer in July 2017
- Jūlija Lebedinska-Litvinova took over as Chief Risk Officer in September 2017
- Elaine McKinney joined in the new role of Chief Compliance Officer in July 2017
- Robin Jose joined in the new role of Chief Data Officer in July 2017
- Mikah Martin-Cruz took over as Chief Marketing Officer in September 2017
- Andrew Zeller joined in the new role of VP Business Development and Strategic Alliances in November 2017
- Daiga Ērgle joined in the new role of Chief People Officer in December 2017

In addition, representation from key managers (Daniel Stenberg, Regional Manager for Scandinavia & Baltics and Petr Baron, Managing Director, TBIF Financial Services) was added to the Executive Committee of 4finance Group S.A.

### *Future developments*

In 2018, the Group will continue to pursue its strategy of building one of the world's leading digital consumer finance businesses based on providing a convenient, responsible and transparent service to its customers. In particular, the Group aims to:

- Optimise existing business. To reinforce the Group's leadership in existing markets, optimizing its products and adapting to incoming regulation where appropriate.
- Introduce new IT platform. Deploy a combination of best-in-class external technologies and proprietary in-house development in a new IT platform for the Group, to be introduced during 2018.
- Develop future business. Develop next generation of products, including for customers further up the credit curve, and pursue joint-venture partnerships in selected markets.

### **Review and development of the Group's business and financial position**

Interest income for the twelve months ended 31 December 2017 amounted to EUR 447 956 thousand, compared with EUR 393 155 thousand in 2016, which represents an increase of 14%. Growth in interest income from online lending was 3%, reflecting the 7% increase in the average balance of net receivables and a lower average interest yield. The contribution from Georgia and Lithuania was lower by a total of approximately EUR 34.8 million compared to 2016 following regulatory changes in those markets. Updated product offerings have now been launched in both markets. Relatively higher growth in loan issuance continues to be seen in Spain, Denmark and Poland. Those three countries saw an increase in interest income of 25% in Spain, 19% in Denmark and 12% in Poland, contributing an increase of EUR 31 827 thousand for 2017 compared with 2016. Interest income growth was also driven the inclusion of a full year of results from TBI Bank and Friendly Finance acquisitions in 2017. The balance of outstanding net loans at the end of 2017 was EUR 591 177 thousand, a 20% increase compared with EUR 492 311 thousand as of 31 December 2016. Growth in the net loan portfolio was driven by Poland, Spain, Denmark and TBIF Group.

The Group generated profit before tax during the reporting period. Profit before tax for the year ended 31 December 2017 amounted to EUR 10 732 thousand, an 87% decrease compared to EUR 81 039 thousand for the twelve months ended 31 December 2016.

## **Consolidated Management Report**

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The primary reason for the decrease is at year end 2017, following the balance sheet review mentioned earlier, write-downs of intangible assets totalling EUR 42.3 million were made to bond deferred expenses, goodwill associated with the Friendly Finance acquisition and IT intangible assets.

### **Principal risks and uncertainties**

The Group applies Group policies for overall risk management, and there are Group policies covering specific areas such as credit risk, liquidity risk, market risks, operational risks and capital management risks.

A more detailed description of risk management is available in Note (4) Risk management of these Financial Statements.

### **Research and development**

The Group continues to invest in information technology. The total amount invested for the reporting period was EUR 36.8 million, of which EUR 26.8 million was expensed in the income statement. The remaining EUR 10.0 million was capitalized as intangible assets, representing product and platform development.

### **Corporate Governance**

Strong corporate governance is an integral part of building a sustainable business. The Supervisory Board of the Group's parent company, 4finance Group S.A., was significantly strengthened in July 2017 with the appointment of Vladimer (Lado) Gurgenzidze as Chairman and David Geovanis as member of the Board. One of the original Board members, Dr Cornelius Boersch, stepped down in May 2017.

Two new Supervisory Board committees were established during the Period. The establishment of the Asset & Liability Committee (ALCO) recognises the overall group's need to diversify its sources of funding to support future growth. The brief of the Audit Committee has also been expanded, establishing a roadmap for this committee to develop into an Audit & Risk Committee as the business matures. Finally, a Nomination and Remuneration Committee was established at the Supervisory Board level.

The charter of the Supervisory Board was amended to reflect its evolving capabilities and its broader role in setting the strategic direction of the overall group.

The Group has also changed its Luxembourg-based provider of corporate and board services to Centralis. Accordingly, their representatives Fabrice Hablot and Simon Bouaksa have replaced the previous Category A directors on the 4finance Holding S.A. board and the previous Category A management board members on the 4finance S.A. board. These changes were effective as of 20 November 2017.

As demonstrated by the creation of the new Chief Compliance Officer role on the Executive Committee, regulatory compliance is a vital part of the Group's operations and is taken very seriously throughout the business. The Group plays an active role in industry associations in several of its markets to support development of appropriate regulation.

The Executive Committee works with the senior leaders across the Group to promote and foster a corporate culture of the highest ethical standards, internal controls, and legal compliance.

### **New licenses and establishments**

For the first time in several years, the Group did not commence business in any new countries in 2017, reflecting its focus on optimising existing products and markets prior to further expansion.

### **Important events after the balance sheet date**

#### *Changes in the regulatory framework*

In Romania, a draft bill containing new regulations on Annual Percentage Rate caps for mortgage and consumer lending was introduced in February 2018. The Group is participating in ongoing local consultations, and the final form of the bill and its potential impact on the Group is currently unclear.

## ***Consolidated Management Report***

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### *Supervisory Board*

Nicholas Jordan stepped down from the Supervisory Board in April 2018. Dmitry Babichev is appointed as an additional Supervisory Board member.

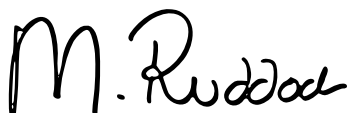
### *Changes in accounting policies*

On 1 January 2018, the Group adopted accounting standard IFRS 9 Financial Instruments, issued by the IASB in July 2014. The standard provides revised principles for classification and measurement of financial instruments, including introducing the expected credit loss impairment model. As part of the adoption of IFRS 9, on 1 January 2018, the Group changed write-off period for loan portfolio from 730 days past due to 360 days past due. Please see Note (3) Significant accounting policies. Based on assessments undertaken to date, the total estimated adjustment (net of tax) of the adoption of IFRS 9 on the opening balance of Group's equity at 1 January 2018 is approximately EUR 58 million.

### *Acquisitions*

An acquisition of the 20% minority stake in Friendly Finance was agreed in the end of 2017, with closing expected in April 2018, subject to regulatory approval.

For other subsequent events please see Note (47) Subsequent events.



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Mark Ruddock

*Chairman of the Board of Directors*



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Paul Goldfinch

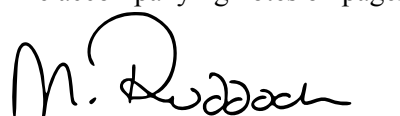
*Member of the Board of Directors*

20 April 2018

## Consolidated Statement of Comprehensive Income

	Note	2017 EUR'000	2016 EUR'000 Restated
Interest income	6	447 956	393 155
Interest expense	7	(61 935 )	(38 684 )
Non-recurring finance cost	8	(6 265 )	—
<b>Net interest income</b>		<b>379 756</b>	<b>354 471</b>
Fee and commission income	9	12 562	3 969
Fee and commission expense	10	(4 065 )	(809 )
Other operating income	11	11 156	8 827
<b>Non-interest income</b>		<b>19 653</b>	<b>11 987</b>
<b>Operating income</b>		<b>399 409</b>	<b>366 458</b>
<b>Operating costs</b>	12	<b>(243 273 )</b>	<b>(192 681 )</b>
Other income	13	3 175	4 419
Non-recurring expense	14	(36 999 )	—
Net trading loss	15	(4 005 )	(7 337 )
<b>Pre-provision operating profit</b>		<b>118 307</b>	<b>170 859</b>
Net impairment losses	16	(107 575 )	(89 820 )
<b>Profit before tax</b>		<b>10 732</b>	<b>81 039</b>
Income tax for the reporting period	17	(27 569 )	(17 832 )
<b>Profit /(loss) for the period</b>		<b>(16 837 )</b>	<b>63 207</b>
<i>Profit or loss attributable to:</i>			
Equity holders of the Group		(14 024 )	62 823
Non-controlling interests	46	(2 813)	384
<b>Profit /(loss)</b>		<b>(16 837 )</b>	<b>63 207</b>
 <i>Other comprehensive income that is or may be transferred to profit or loss</i>			
Net gain /(loss) on available for sale financial assets		(5)	5
Foreign currency translation differences on foreign operations		6 392	(4 373)
<b>Other comprehensive income/(expenses)</b>		<b>6 387</b>	<b>(4 368 )</b>
<b>Total comprehensive income/(expenses) for the period</b>		<b>(10 450 )</b>	<b>58 839</b>
<i>Total comprehensive income or loss attributable to:</i>			
Equity holders of the Group		(7 650 )	58 431
Non-controlling interests		(2 800)	408

The accompanying notes on pages 13 to 102 form an integral part of these consolidated financial statements.



Mark Ruddock

Chairman of the Board of Directors



Paul Goldfinch

Member of the Board of Directors

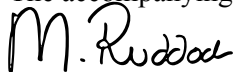
20 April 2018



## Consolidated Statement of Financial Position

	Note	31.12.2017 EUR'000	31.12.2016 EUR'000 Restated
<b>Assets</b>			
Cash and cash equivalents	18	154 946	157 641
Placements with other banks		7 002	4 752
Derivatives	19	406	11 166
<i>Gross receivables due from customers</i>		761 290	663 521
<i>Allowance for impairment</i>		(170 113 )	(171 210 )
Net receivables due from customers	20	591 177	492 311
Net investment in finance leases	21	10 454	13 082
Financial assets available for sale	22	18 435	10 589
Loans to related parties	23	66 561	67 198
Other assets	24	54 961	21 531
Investments in associates	25	1 745	2 080
Prepaid expenses		10 770	5 602
Property and equipment	26	10 061	12 345
Non-current assets held for sale	27	184	8 576
Intangible assets	28	28 641	39 822
Goodwill	28	21 353	43 353
Tax assets		20 737	16 053
Deferred tax assets	29	29 446	23 697
<b>Total assets</b>		<b>1 026 879</b>	<b>929 798</b>
<b>Liabilities</b>			
Loans and borrowings	30	470 216	397 183
Deposits from customers	31	271 024	237 119
Income tax liabilities		19 777	14 633
Derivatives	19	13 845	—
Other liabilities	33	62 608	49 913
Liabilities held for sale	27	—	4 809
<b>Total liabilities</b>		<b>837 470</b>	<b>703 657</b>
Share capital	32	35 750	35 750
Retained earnings		188 283	228 307
Reserves	32	(32 257 )	(38 644 )
<b>Total equity attributable to equity holders of the Company</b>		<b>191 776</b>	<b>225 413</b>
Non-controlling interests	46	(2 367 )	728
<b>Total equity</b>		<b>189 409</b>	<b>226 141</b>
<b>Total shareholder equity and liabilities</b>		<b>1 026 879</b>	<b>929 798</b>

The accompanying notes on pages 13 to 102 form an integral part of these consolidated financial statements.



Mark Ruddock

Chairman of the Board of Directors

20 April 2018



Paul Goldfinch

Member of the Board of Directors

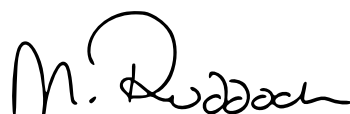
## Consolidated Statement of Cash Flows

	Note	2017 EUR'000	2016 EUR'000 Restated
<b>Cash flows from operating activities</b>			
Profit before taxes		10 732	81 039
Adjustments for:			
Depreciation and amortization		8 259	5 430
Impairment of goodwill and intangible assets		25 933	—
Net (gain) / loss on foreign exchange from borrowings and other monetary items		(30 058 )	2 136
Impairment losses on loans		136 478	105 918
Reversal of provision on debt portfolio sales		(18 921 )	(7 610 )
Write offs and disposal of intangible and property and equipment assets		11 414	1 578
Interest income from non-customers loans		(9 189)	(6 710)
Interest expense on loans and borrowings and deposits from customers		61 935	38 684
Non-recurring finance cost		6 265	—
Equity-settled share-based payment transactions		—	300
Other non-cash items		415	—
Profit or loss before adjustments for the effect of changes to current assets and short term liabilities		203 263	220 765
Adjustments for:			
Increase in loans due from customers		(267 223 )	(126 640 )
Proceeds from sale of portfolio		54 203	30 683
Increase in deposits from customers		33 820	37 011
Deposit interest payments		(4 514 )	(1 825 )
Change in financial instruments measured at fair value through profit or loss		24 605	(3 198 )
Increase in other assets		(16 204 )	(34 095 )
Increase in obligatory reserve		—	152
Increase in accounts payable to suppliers, contractors and other creditors		7 428	17 383
Gross cash flows from operating activities		35 378	140 236
Income tax paid		(33 637 )	(34 012 )
		<b>1 741</b>	<b>106 224</b>
<b>Net cash flows from operating activities</b>			
<b>Cash flows from investing activities</b>			
Purchase of property and equipment and intangible assets		(13 112 )	(21 264 )
Loans issued to related parties		(4 306)	(64 975)
Loans repaid from related parties		10 882	11 000
Interest received from related parties		1 783	1 146
Acquisition of equity investments		(4 440)	(6 980)
Acquisition of Non-controlling interests		—	(2 052)
Acquisition of subsidiaries, net of cash acquired and disposed		(7)	(67 500)
Prepayment for potential acquisition		(20 845 )	—
		<b>(30 045 )</b>	<b>(150 625 )</b>
<b>Net cash flows used in investing activities</b>			

## Consolidated Statement of Cash Flows

	Note	2017 EUR'000	2016 EUR'000
<b>Cash flows from financing activities</b>			
Loans received and notes issued		163 658	175 529
Repayment of loans and notes		(57 994 )	(14 292 )
Interest payments		(51 584 )	(33 129 )
Costs of notes issuance and premium on repurchase of notes		(5 832)	(3 107)
Dividend payments		(26 000)	(678 )
		<u>22 248</u>	<u>124 323</u>
<i>Net cash flows from financing activities</i>			
<b>Net increase in cash and cash equivalents</b>		<u>(6 056 )</u>	<u>79 922</u>
<b>Cash and cash equivalents at the beginning of the period</b>		<u>137 020</u>	<u>56 862</u>
Effect of exchange rate fluctuations on cash held		953	236
<b>Cash and cash equivalents at the end of the period</b>	18	<u>131 917</u>	<u>137 020</u>
Minimum statutory reserve	18	<u>23 029</u>	<u>20 621</u>
<b>Total cash on hand and cash at central banks</b>	18	<u>154 946</u>	<u>157 641</u>

The accompanying notes on pages 13 to 102 form an integral part of these consolidated financial statements.



Mark Ruddock

*Chairman of the Board of Directors*



Paul Goldfinch

*Member of the Board of Directors*

20 April 2018

## Consolidated Statement of Changes in Equity

Group	Share capital EUR'000	Reorganiza- tion reserve EUR'000	Currency translation reserve EUR'000	Share based payment reserve EUR'000	Obligatory reserves EUR'000	Revaluation reserve on available for sale financial instruments EUR'000	Retained earnings EUR'000	Total equity attributable to shareholders of the Company EUR'000	Non- controlling interests EUR'000	Total equity EUR'000
<b>1 January 2016</b>	<b>35 750</b>	<b>(31 104)</b>	<b>(5 137)</b>	<b>1 439</b>	<b>156</b>	<b>—</b>	<b>171 048</b>	<b>172 152</b>	<b>1 111</b>	<b>173 263</b>
Restatement for provisions (Note 33)	—	—	94	—	—	—	(2 512)	(2 418)	—	(2 418)
Restatement of loans due from customers (Note 20)	—	—	(40)	—	—	—	(1 601)	(1 641)	—	(1 641)
<b>1 January 2016 (restated)</b>	<b>35 750</b>	<b>(31 104)</b>	<b>(5 083)</b>	<b>1 439</b>	<b>156</b>	<b>—</b>	<b>166 935</b>	<b>168 093</b>	<b>1 111</b>	<b>169 204</b>
<b>Total comprehensive income</b>										
Profit for the reporting period	—	—	—	—	—	—	62 823	62 823	384	63 207
Other comprehensive income (OCI)	—	—	(4 373)	—	—	5	—	(4 368)	24	(4 344)
Other reserves	—	(136)	—	—	—	—	—	(136)	—	(136)
<b>Transactions with shareholders recorded directly in equity</b>										
Share based payment reserve	—	—	—	300	—	—	—	300	—	300
Increase in obligatory reserve	—	—	—	—	152	—	—	152	—	152
Acquisition of additional shares in subsidiaries (Note 34)	—	—	—	—	—	—	—	—	488	488
Acquisition of additional share in subsidiaries (Note 34)	—	—	—	—	—	—	(1 451)	(1 451)	(601)	(2 052)
Dividends	—	—	—	—	—	—	—	—	(678)	(678)
<b>1 January 2017 (restated)</b>	<b>35 750</b>	<b>(31 240)</b>	<b>(9 456)</b>	<b>1 739</b>	<b>308</b>	<b>5</b>	<b>228 307</b>	<b>225 413</b>	<b>728</b>	<b>226 141</b>
<b>Total comprehensive income</b>										
Loss for the reporting period	—	—	—	—	—	—	(14 024)	(14 024)	(2 813)	(16 837)
Other comprehensive income (OCI)	—	—	6 392	—	—	(5)	—	6 387	13	6 400
<b>Transactions with shareholders recorded directly in equity</b>										
Dividends	—	—	—	—	—	—	(26 000)	(26 000)	(295)	(26 295)
<b>31 December 2017</b>	<b>35 750</b>	<b>(31 240)</b>	<b>(3 064)</b>	<b>1 739</b>	<b>308</b>	<b>—</b>	<b>188 283</b>	<b>191 776</b>	<b>(2 367)</b>	<b>189 409</b>

The accompanying notes on pages 13 to 121 form an integral part of these consolidated financial statements.



Mark Ruddock

Chairman of the Board of Directors



Paul Goldfinch

Member of the Board of Directors

20 April 2018

## **Notes to the Consolidated Financial Statements**

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### **(1) Reporting entity**

4finance Holding S.A. (the "Company") is registered in Luxembourg. The Company, which does not have any operating activities, is the holding company for several subsidiaries in Europe and South America (together referred to as the "Group"). The Group entities provide consumer loans to millions of customers. Currently, the Group operates in Argentina, Armenia, Bulgaria, the Czech Republic, Denmark, the Dominican Republic, Finland, Georgia, Latvia, Lithuania, Mexico, Poland, Romania, Spain, Slovakia and Sweden.

The Group holds banking subsidiaries in Bulgaria and Romania (together referred to as the "TBIF Group") that pursues investment opportunities in the field of financial services, focusing on banking and retail lending (financial leases, mortgage and consumer financing) with a key focus on servicing individuals and small and medium-sized enterprises.

In 2016 the Group acquired Friendly Finance OÜ and its subsidiaries (together referred to as "Friendly Finance") which provides IT-based business solutions for the finance sector and short-term credits to individuals in the Czech Republic, Slovakia, Poland, Spain, Georgia and Argentina.

The Group companies, excluding TBIF Group and Friendly Finance subsidiaries, together are referred to as "4finance Group". Details of 4finance Group, TBIF Group and Friendly Finance are disclosed separately in these financial statements where appropriate, in-line with how the management of the Group analyses information.

The consolidated financial statements of the Group as at and for the year ended 31 December 2017, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), are available upon request at the Group's registered office at 8-10, Avenue de la Gare, L-1610 Luxembourg, Grand Duchy of Luxembourg.

The Group financial statements will form part of the parent company, 4finance Group S.A., consolidated financial statements. The consolidated financial statements of the parent company, 4finance Group S.A., are available at 8-10, Avenue de la Gare, L-1610 Luxembourg, Grand Duchy of Luxembourg.

### **(2) Basis of preparation**

#### ***(a) Statement of Compliance***

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (further "IFRSs").

These consolidated financial statements were approved by the Company's Board of Directors on 20 April 2018. The shareholders have the power to reject the financial statements prepared and presented by the Board of Directors, and the right to request that new financial statements be prepared.

The Company prepares separate financial statements for statutory purposes in accordance with the relevant Luxembourg legislation.

#### ***(b) Basis of Measurement***

The financial statements have been prepared on an historical cost basis, except for the following:

- Available for sale financial assets and financial assets and liabilities measured through profit or loss (including derivative instruments), and;
- Assets held for sale - measured at fair value less cost of disposal.

## Notes to the Consolidated Financial Statements

### (2) Basis of preparation (continued)

#### (c) Functional and presentation currency

The consolidated financial statements are presented in thousands of Euro (EUR), unless stated otherwise. EUR is chosen as the presentation currency since most of the Group's operational activities are based in the European Union. Group companies operate in the functional currencies of Euro (EUR), United States Dollar (USD), Swedish Krona (SEK), Danish Krone (DKK), Polish Zloty (PLN), Georgian Lari (GEL), Czech Koruna (CZK), Bulgarian Lev (BGN), Romanian New Lev (RON), Argentine Peso (ARS), Mexican Peso (MXN), Dominican Peso (DOP) and Armenian Dram (AMD) respectively. The Company's functional currency is EUR.

#### (d) Reclassification of comparatives

The comparative figures in the consolidated financial statements are presented as restated. Consolidated Statement of Comprehensive Income for 2016 is reclassified and shown according to 2017 classification, with no impact of Profit/(loss) for the period.

	2016 EUR'000	Reclassification	2016 EUR'000 Restated
Interest income	393 155	—	393 155
Interest expense	(38 684 )	—	(38 684 )
Non-recurring finance cost	—	—	—
<b>Net interest income</b>	<b>354 471</b>	<b>—</b>	<b>354 471</b>
Fee and commission income	2 901	1 068	3 969
Fee and commission expense	(809 )	—	(809 )
Other operating income	—	8 827	8 827
<b>Non-interest income</b>	<b>2 092</b>	<b>9 895</b>	<b>11 987</b>
<b>Operating income</b>	<b>356 563</b>	<b>9 895</b>	<b>366 458</b>
General administrative expenses	(190 383 )	190 383	—
<b>Operating costs</b>	<b>—</b>	<b>(192 681 )</b>	<b>(192 681 )</b>
Other income	14 314	(9 895 )	4 419
Other expense	(2 446 )	2 446	—
Net trading loss	(7 337 )	—	(7 337 )
<b>Pre-provision operating profit</b>	<b>170 711</b>	<b>148</b>	<b>170 859</b>
Net impairment losses	(89 672 )	(148 )	(89 820 )
<b>Profit before tax</b>	<b>81 039</b>	<b>—</b>	<b>81 039</b>
Income tax for the reporting period	(17 832 )	—	(17 832 )
<b>Profit for the period</b>	<b>63 207</b>	<b>—</b>	<b>63 207</b>

## Notes to the Consolidated Financial Statements

### (2) Basis of preparation (continued)

The Consolidated Statement of Financial Position as at 31 December 2016 has been restated due to recognition of balance sheet effects related to certain Polish loan portfolios dating from 2013. Firstly, a provision for potential liability for historic Polish tax of EUR 2 418 thousand was recognised related to CDS transactions in 2013. Secondly, an adjustment to gross and net receivables of EUR 1 641 thousand was made to reflect the write-off of the loan portfolio associated with first of those CDS transactions, which had not previously been recognised.

Restatement was made on the 1st January 2016. Impact on Consolidated Statement of Financial Position are shown in tables below.

	<b>01.01.2016</b>		<b>01.01.2016</b>
	<b>EUR'000</b>	<b>Restatement</b>	<b>EUR'000</b>
			<b>Restated</b>
<b>Assets</b>			
Net receivables due from customers	308 288	(1 641 )	306 647
<b>Total assets</b>	<b>438 206</b>	<b>(1 641 )</b>	<b>436 565</b>
<b>Liabilities</b>			
Other liabilities	19 002	2 418	21 420
<b>Equity</b>			
Retained earnings	171 048	(4 113 )	166 935
Reserves	(34 646 )	54	(34 592 )
<b>Total shareholder equity and liabilities</b>	<b>438 206</b>	<b>(1 641 )</b>	<b>436 565</b>
	<b>31.12.2016</b>		<b>31.12.2016</b>
	<b>EUR'000</b>	<b>Restatement</b>	<b>EUR'000</b>
			<b>Restated</b>
<b>Assets</b>			
Net receivables due from customers	493 897	(1 586 )	492 311
<b>Total assets</b>	<b>931 384</b>	<b>(1 586 )</b>	<b>929 798</b>
<b>Liabilities</b>			
Other liabilities	47 495	2 418	49 913
<b>Equity</b>			
Retained earnings	232 420	(4 113 )	228 307
Reserves	(38 753 )	109	(38 644 )
<b>Total shareholder equity and liabilities</b>	<b>931 384</b>	<b>(1 586 )</b>	<b>929 798</b>

Restatement in Consolidated Statement of Financial Position made on the 1st January 2016 did not impact Consolidated Statement of Cash Flows for 2016.

### (3) Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except for the new standards and pronouncements of the International Accounting Standards Board which are applied when they become effective.

## **Notes to the Consolidated Financial Statements**

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### **(3) Significant accounting policies (continued)**

#### **(i) Basis of Consolidation**

##### **(i) Subsidiaries**

Subsidiaries are those enterprises controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

##### **(ii) Transactions eliminated on consolidation**

Intra-Group balances and transactions, and any unrealised gains/losses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements.

##### **(iii) Business combinations**

Business combinations are accounted for using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises as the difference between consideration transferred and the fair value of identifiable net assets acquired is tested annually for impairment. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Any contingent consideration is measured at fair value at the date of acquisition.

##### **(ii) Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate/joint venture at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the associates or joint venture.

Goodwill is allocated to cash-generating units and is stated at cost less impairment losses.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Negative goodwill arising on an acquisition is recognised immediately in profit or loss.

##### **(iii) Foreign currency**

##### **(i) Foreign currency transactions**

Transactions in foreign currencies are translated into the respective functional currency of the operation at the exchange rate published by the Central Bank of the country of operation or the European Central Bank or Bloomberg for euro zone countries at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in the statement of comprehensive income.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into EUR using the following exchange rates:



## Notes to the Consolidated Financial Statements

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### (3) Significant accounting policies (continued)

31 December 2017		31 December 2016	
SEK	0.10159	SEK	0.10468
DKK	0.13432	DKK	0.13451
PLN	0.23941	PLN	0.22674
GBP	1.12710	GBP	1.16798
CZK	0.03916	CZK	0.03701
GEL	0.32083	GEL	0.35944
BGN	0.51130	BGN	0.51130
GIP	1.12710	GIP	1.16798
USD	0.83382	USD	0.94868
CAD	0.66494	CAD	0.70482
RON	0.21466	RON	0.22031
AMD	0.00174	AMD	0.00195
ARS	0.04461	ARS	0.05970
MXN	0.04226	MXN	0.04593
DOP	0.01730	DOP	0.02035

The Bulgarian Lev is pegged to the Euro.

#### (ii) Foreign operations

The assets and liabilities of foreign operations are translated into EUR, the Group's presentation currency, at exchange rates set by the European Central Bank at the reporting date. The income and expenses of foreign operations are translated into the Company's functional currency at exchange rates at the transaction date. Foreign currency retranslation differences are recognized in other comprehensive income.

Foreign exchange gains or losses arising from a monetary item receivable from, or payable to, a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognised directly in the foreign currency translation reserve.

#### (iv) Share-based payment transactions

The grant date fair value of share-based payment awards granted to senior management of subsidiaries is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on a number of awards that meet the related service and non-market conditions at the vesting time.

#### (v) Cash and cash equivalents

4finance Group cash and cash equivalents comprise call deposits in banks that are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

For the purposes of the cash flow statement, TBIF Group's cash and cash equivalents comprise cash on hand, cash held with central banks, cash in nostro accounts held with other banks, as well as term deposits with banks with original maturity of less than three months.

## **Notes to the Consolidated Financial Statements**

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### **(3) Significant accounting policies (continued)**

#### ***Financial Instruments***

##### *(i) Recognition*

Financial assets and liabilities are recognized in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular purchases of financial assets are accounted for at the settlement date.

##### *(ii) Measurement*

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables that are measured at amortized cost using the effective interest method, and;
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss, are measured at amortised cost. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

##### *(iii) Derecognition*

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Group transfers substantially all of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

##### *(iv) Fair value measurement principles*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

Where applicable, the Group measures the fair value of an instrument using a quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Where there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The key financial instruments of the Company and the Group are cash, trade receivables, loans to customers, loans to related parties, equity investments, bonds issued, trade payables, deposits from customers and other creditors arising from the business activities.

## **Notes to the Consolidated Financial Statements**

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### **(3) Significant accounting policies (continued)**

#### *(v) Derivative financial instruments*

Derivative financial instruments include foreign exchange swaps, options and forward instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in the profit or loss.

The Group is engaged in hedging activities of its foreign exchange risk. The Group does not apply hedge accounting. Given the low level of trading activity, the Group has estimated that any credit valuation adjustment or debit valuation adjustment would be immaterial and has not incorporated these into the fair value of derivatives due to materiality.

#### *(vi) Loans and advances*

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

For the purposes of these consolidated financial statements, trade receivables and loans to customers are measured at amortized cost using the effective interest rate method. An impairment loss allowance for credit losses is established. The Group's policy is described in Note 5.

#### *(vii) Financial assets available for sale*

Available-for-sale investments are those that are to be held over an indefinite period of time and that may be disposed of in response to liquidity needs or changes in interest rates, exchange rates or prices of securities. Purchases and sales of financial assets held-for-trading, held-to-maturity and available-for-sale are recognised on the trade date - the date when the Group has committed to purchase or sell the asset.

Financial assets not carried at fair value through profit or loss, are initially recognised at fair value plus the related transaction costs. Available-for-sale financial assets are subsequently carried at fair value, and when they cannot be measured reliably - at the cost of equity instruments or at the amortised cost of debt instruments.

Gains and losses arising on revaluation are recognised directly in other comprehensive income and in revaluation reserves, except impairment losses. Interest income determined under the effective interest rate method and foreign exchange gains and losses are recognised in the current financial result. Upon disposal of available-for-sale investments, the Group includes the accumulated revaluation reserve in the financial result for the current period.

Equity investments of 4finance Group (that are not associates) that are traded in an active market are measured at fair values. Equity investments that are not traded in an active market and whose fair value cannot be reliably measured are carried at cost less any impairment loss, if it exists. Dividends are recognised in the statement of comprehensive income in the period in which the Group becomes entitled to receive them.

#### *(vii) Investment in associates*

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of the associated entity. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounting basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the Group's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

## **Notes to the Consolidated Financial Statements**

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### **(3) Significant accounting policies (continued)**

#### **(viii) Property and equipment**

##### *(i) Owned assets*

Items of property and equipment are stated at acquisition cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

##### *(ii) Depreciation*

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings	25 years
Computer equipment	3 years
Long-term leasehold improvements	5 years
Other property and equipment	5 years
Motor Vehicle	4-10 years

##### *(viii) Intangible assets*

The Group has a detailed Intangible Assets Capitalisation Policy covering accounting for development projects. The Group incurs costs for development of computer software and similar items, which may be capitalized. Capitalized expenditure can be either external (for example, IT subcontractors) or generated internally within the entity (for example, employees developing IT software).

Only those assets are capitalised that are separately identifiable, for which the entity has control, and for which probable future economic benefits shall be recognized. No intangible asset costs arising from the research phase of a project are capitalized. Expenditure on research is expensed when incurred.

Amortisation commences once the item is in the location and conditions necessary for it to be capable of operating in the manner intended by management and has been accepted by the business owner.

Intangible assets, other than goodwill, are stated at cost less accumulated amortization and impairment losses.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

Licenses, trademarks and similar rights	5 years
Software and other intangible assets	3 years

##### *(ix) Non-current assets classified as held-for-sale*

TBIF Group classifies non-current assets as held-for-sale if their carrying amount is to be recovered through a sale transaction rather than continuing use. There must exist an active plan to sell the assets and it is expected that the plan will result in a complete sale of the asset in the near future. This group of assets is measured at the lower of the asset's fair value less the costs to make the sale and their carrying amounts. The assets are measured at cost upon initial recognition, which is the fair value as at the acquisition date. Each reporting year, the Group assesses, whether the value of the non-current assets classified as held-for-sale is impaired. The impairment loss, if any, or reversal of such loss, is recognized in the statement of comprehensive income.

## Notes to the Consolidated Financial Statements

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### (3) Significant accounting policies (continued)

#### (x) *Repossessed assets*

TBIF Group repossesses certain assets serving as collateral for non-performing loans. These assets are not held for capital appreciation or rental income, but are expected to be sold in the ordinary course of business, and therefore are classified as inventories. Inventories mainly consist of real estate such as land, buildings purchased and held-for-sale in the future. Inventories are accounted at cost. The cost of inventories comprises all purchase costs, costs of conversion and other costs incurred in bringing the inventories to their present condition. Inventories are held at the lower of purchase cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. The amount of write-down of inventories to net realizable value is recognized as expense in the period the write-down occurs. When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

#### (xi) *Impairment*

##### (i) *Financial assets*

##### *4finance Group and Friendly Finance*

At each reporting date, the 4finance Group and Friendly Finance assess whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

In assessing collective impairment, the 4finance Group and Friendly Finance use statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate. Specific impairment testing is not undertaken since the loan portfolio consists of a large number of small exposure loans that would make individual impairment testing impractical.

Impairment losses on portfolios of assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated discounted future cash flows. Impairment losses are recognized in the statement of comprehensive income and reflected in an allowance account against loans and advances. Interest on impaired assets is recognized indirectly through a change in net impairment allowance when repayments are received from impaired loans. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement of comprehensive income.

##### *TBIF Group*

##### (a) *Assets carried at amortised cost*

At the date of the financial statements, TBIF Group assesses whether there is any objective evidence that a financial asset or a group of financial assets are impaired. A financial asset or group of financial assets are impaired and impairment loss exists if, and only if, objective evidence for impairment exists as a result of one or more events occurring after the asset's initial recognition (impairment loss event), and this event (or events) impacts the estimated future cash flows from the asset or the group of financial assets which can be measured reliably. Objective evidence that a financial asset or group of assets is impaired may include objective data that the TBIF Group becomes aware of in respect of the following circumstances leading to a loss:

- non-performance of contractual payments on principal or interest;
- financial difficulties of the debtor;
- breach of clauses or provisions of the contract;
- filing of bankruptcy procedures;
- deterioration of the competitive positions of the debtor;
- decrease in the value of the loan collateral;

## ***Notes to the Consolidated Financial Statements***

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### **(3) Significant accounting policies (continued)**

- deterioration of the credit rating below the investment level.

TBIF Group initially estimates whether objective evidence for impairment exists separately for individually significant financial assets, and individually or on a portfolio basis for financial assets that are not significant individually. If TBIF Group assesses that no objective evidence for impairment exists for a financial asset, whether individually significant or not, it includes this asset in a group of financial assets with similar risk features and assesses the whole group for impairment on a portfolio basis. Assets that are reviewed for impairment individually and for which impairment loss is recognised and continues to be recognised, are excluded from the assessment of the impairment on a portfolio basis.

If there is objective evidence that impairment loss exists for loans and receivables, the loss is calculated as the difference between the carrying amount of the asset and the present value of the estimated cash flows (except future losses that are not accumulated), discounted at the original effective interest rate of the financial asset. The carrying amount of the asset is written down using an allowance account and the impairment loss is recognised in the profit or loss account.

If a loan bears a floating interest rate, the discount rate used to determine the impairment loss is the current effective interest rate set out in the agreement.

The calculation of the present value of the expected future cash flows of secured financial assets takes into account the cash flows which may be received upon disposal of collateral, less costs of acquisition or costs to sell.

When consumer loans are extended to individuals, TBIF Group accrues collective impairment which reflects the expectations of management regarding the future cash flows from the consumer portfolio. When applying collective impairment, the loan portfolio is assessed on a portfolio basis, taking into account the homogeneous nature of the exposure's risk profile. Impairment is based on contractual cash flows and historical experience regarding the losses of assets with similar characteristics of credit risk, adjusted for any data to reflect any current conditions that were not present in the periods of historical information.

Future cash flows for a group of financial assets that are collectively reviewed for impairment are determined based on the contractual cash flows related to the assets and the historical loss experience on credit risk bearing assets similar to those at TBIF Group. The loss assessed, based on historical experience, is adjusted based on current data, in order to reflect the influence of the present conditions which did not impact the period in which the loss assessment was made, as well as to eliminate the effect of conditions in the historical period, which no longer exist.

If in a subsequent period the impairment loss decreases and this decrease may be objectively attributed to an event occurring after the recognition of the loss (i.e. improvement of the credit rating of the debtor), the impairment loss already recognised is reversed through the allowance account. The amount of the adjustment is recognised in the profit or loss account.

#### *(b) Available-for-sale financial assets*

At the date of the financial statements, TBIF Group assesses whether there is any objective evidence that a financial asset or a group of financial assets are impaired. For equity investments classified as investments available for sale, a prolonged or significant decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

#### *(c) Renegotiated loans*

Loans which are subject to collective impairment review or which are individually significant and their terms have been renegotiated, are considered performing as of the time of the renegotiation. In subsequent periods the asset is considered in default and is disclosed as such only if the new terms and conditions have been breached.

## **Notes to the Consolidated Financial Statements**

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### **(3) Significant accounting policies (continued)**

#### *(ii) Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the statement of comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### *(xi) Provisions*

A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### *(xii) Share Capital and reserves*

##### *(i) Currency revaluation reserve*

The currency revaluation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations into the presentation currency.

##### *(ii) Obligatory reserves*

Under Luxembourg corporate law, the Company must allocate at least 5% of the statutory annual net profit, based on the stand alone financial statements, to a legal reserve until this reserve reaches 10% of the issued share capital. The legal reserve is not available for dividend distributions.

Under Lithuanian law, an annual allocation to the legal reserve must be made of at least 5% of net profit until the reserve comprises 10% of the share capital. The reserve cannot be distributed, but rather only be used to cover losses.

Under Bulgarian law in accordance with the requirements of the Commercial Act, TBIF Group is required to provide into a reserve fund equalling at least 1/10 of profit, until the fund reaches 1/10 or more of the share capital. If the amount in the reserve fund falls below the minimum, it is obliged to fill the gap so as to recover the minimum level over a period of two years. Under the provisions of the banking legislation, banks are not allowed to pay dividends before they make the required contributions.

##### *(iii) Revaluation Reserve on Available for Sale financial instruments*

The revaluation reserve on available for sale financial instruments includes unrealised gains and losses on fair value movements of the instruments.

## **Notes to the Consolidated Financial Statements**

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### **(3) Significant accounting policies (continued)**

#### *(iv) Reorganization Reserve*

The reorganization reserve relates to a number of legal reorganizations. The entity accounted for these reorganizations as common control transactions using net asset values. This reserve arises on consolidation and is not distributable to shareholders.

#### *(v) Share based payment reserves*

The Group is part of wider group share-based payment arrangements where settlement for the services received is performed by the parent company. The Group accounts for such transactions as equity-settled share-based payment transactions and recognizes expenses for services received, unless the services received qualify for recognition as an asset, and an increase in its equity for the contribution received from the parent.

#### **(xiii) Leases**

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset, even if that right is not explicitly specified in the arrangement.

##### *(i) The Group as a lessee*

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

##### *(ii) TBIF Group as a lessor for operating lease transactions*

Leases where the TBIF Group does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. The leased assets are included in "Property and equipment". Initial direct costs incurred in negotiation of operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

##### *(iii) TBIF Group as a lessor for finance lease transactions*

TBIF Group lease contracts are classified as finance leases when all material risks and rewards associated with the leased assets are transferred to the lessee. Finance lease receivables are disclosed as Loans to customers in the balance sheet. TBIF Group applies its accounting policies for impairment of financial assets when finance lease contracts are impaired.

#### **(xiv) Financial guarantee contracts**

Financial guarantee contracts are relevant for TBIF Group units within the Group. Financial guarantee contracts are contracts that require the issuer to make specified payment to reimburse the holder for a loss the holder incurs because a specified debtor fails to make payments when they fall due in accordance with the terms of the debt instrument. Such financial guarantees are issued to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other bank facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date of issuance of the guarantee. Following initial recognition, the Group's liabilities related to such guarantees are measured at the higher of: (a) the initial measurement less the amortisation calculated to recognise commission income earned on a straight-line basis over the life of the guarantee and (b) the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are based on experience of similar transactions and history of past losses, supplemented by the judgement of management.

#### **(xv) Dividends**

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period in which they are declared.



## ***Notes to the Consolidated Financial Statements***

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### **(3) Significant accounting policies (continued)**

#### ***(xvi) Fiduciary assets in custody***

The TBIF Group keeps assets on behalf of its customers and in its capacity as an investment intermediary. These assets are not presented in the statement of financial position as they do not represent TBIF Group's assets.

#### ***(xvii) Taxation***

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### ***(xviii) Income and expense recognition***

All significant income and expense categories including interest income and expenses are recognized in the statement of comprehensive income on an accrual basis.

##### ***(i) Interest income and expense***

Interest income and expense are recognised in the statement of comprehensive income using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

Revenue is not recognized when there is doubt whether the cost of services will be covered.

##### ***(ii) Fee and commission income and expenses***

Fees and commissions are recognised based on the accruals principle upon the rendering of the service. Fee and commission income comprises mainly money agent's commissions, transfer fees in Bulgarian levs and foreign currency, and treasury transactions, and are recognised under the current accruals principle or on the transfer date, as appropriate.

##### ***(iii) Penalty fee income***

Income from penalty fees is recognized as received.

## **Notes to the Consolidated Financial Statements**

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### **(3) Significant accounting policies (continued)**

#### *(iv) Other income*

Rent income is the income from operating leases and rent-a-car activities from TBIF Group in Bulgaria (TBI Rent) and Romania (TBI Fleet Management). The income is recognized using the general rules of IFRS and in particular the accrual principle.

Income from Insurance broker activities from TBIF Group includes income whereby the bank acts as an agent selling insurance issued from third party companies to the banks' clients. TBI Group does not bear the insurance risk on these transactions. The income is recognized in line with the above paragraph.

#### *(xix) Staff costs and related contributions*

The Group pays social security contributions to state-funded insurance and pension schemes as required by the laws and regulations of the various jurisdictions in which the Group operates. The Group is not party to any defined benefit pension scheme.

#### *(xx) Operating segments*

The Group determines and presents operating segments based on the information that is internally provided to the Group's management board, which is the Group's Chief Operating Decision Maker (CODM).

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the CODM to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the CODM include items directly attributable to the segment as well as those that can be allocated on a reasonable basis.

#### *(xxi) Embedded derivatives*

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss, the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract, and the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. If the economic characteristics and risks of the embedded derivative are closely related to those of the host contract, then the embedded derivative is not separated and accounted for separately.

#### *(xxii) Changes in accounting policies*

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 3 for all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with the date of initial application on 1 January 2017.

##### *(i) Amendments to IAS 7: Statement of Cash Flows*

The amendments require new disclosures that help the users of the financial statements to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value). In line with these new amendments, the Group has disclosed all required information in the note financial statements. For details see Note 30.

## Notes to the Consolidated Financial Statements

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### (3) Significant accounting policies (continued)

The following guidance with effective date of 1 January 2017 did not have any material impact on these financial statements:

- (ii) *Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*
- (iii) *Annual Improvements to IFRSs*

#### **New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2018, and have not been applied in preparing these financial statements.

- (i) *IFRS 9 Financial Instruments (2014) (effective for annual periods beginning on or after 1 January 2018)*

On 1 January 2018, 4finance Group has adopted IFRS 9 Financial Instruments issued. The standard provides revised principles for classification and measurement of financial instruments, introduces the expected credit loss impairment model and the new general hedge accounting model. Group does not apply hedge accounting therefore there are no effects identified related to the new general hedge accounting model.

Group is working on the necessary processes, systems, models and capabilities for implementation of IFRS 9. Certain refinements are still ongoing. These are expected to be evolving for the foreseeable future.

The Group is working on direct accounting and presentation aspects of the new standard as well as related aspects like IT requirements, necessary procedures and instructions. Testing and validation is still ongoing.

The Group's assessment of major assets, which currently are accounted at amortised cost, is to be finalised for held to collect business model and 'solely payment of principal and interest (SPPI)' principle for amortised cost classification under the new standard. Business model was assessment by identifying business objective and distinguishing objective to held to collect contractual cash flows or both to held to collect contractual cash flows and to sell financial asset or nether of both and to manage and evaluate the financial asset on a fair value basis. Based on preliminary re-assessment of business models and subject to finalization of the SPPI assessment Group expects no changes in the classification of financial assets and financial liabilities. Certain detailed procedures on estimating the modification effect for loans and receivables measured at amortised cost are ongoing. It is expected that deposits from customers will continue to be measured at amortised cost under IFRS 9. The Group's investment in the equity shares currently accounted at cost due to lack of unavailable liquid market prices will be accounted at fair value. At reclassification there are expected no changes in the value. There was calculated modification gain of EUR 5 million for Loans and borrowings measured at amortised costs. The modification effect appears due to discounting the future cash flows with original effective interest rate for USD 2019 Notes rolled over into the new USD 2022 Notes.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised. The new expected credit loss model under IFRS 9 accelerates the recognition of impairment losses and leads to higher impairment allowances at the date of initial application. The expected credit loss is calculated as a function of the probability of default (PD), the exposure at default (EaD) and the loss given default (LGD). New models and calculations have been developed especially for IFRS 9 purposes, including models for lifetime PD, prepayment and LGD.

#### *4finance Group and Friendly Finance*

The loans with maturity more than 30 days are grouped into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

- Stage 1 – Performing loans: when loans are first recognised, the Group recognises an allowance based on twelve months expected credit losses. Under IAS 39, the Group has been recording an allowance for Incurred But Not Identified (IBNI) impairment losses. The change is increasing the impairment allowance compared to the previous approach.

## Notes to the Consolidated Financial Statements

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### (3) Significant accounting policies (continued)

- Stage 2 – Loans with significant increase in credit risk (delay days >30 days but less than 90 days): when a loan shows a significant increase in credit risk since initial recognition, the Group records an allowance for the lifetime expected credit loss. Since this is a new concept compared to IAS 39, it results in an increase in the allowance as most such assets are not considered to be credit-impaired under IAS 39.

- Stage 3 – Defaulted loans: Financial assets are recognized in Stage 3 when there is objective evidence that the loan is impaired (delay days >90 days). The Group recognizes the lifetime expected credit losses for these loans and in addition, the Group accrues interest income on the amortised cost of the loan net of allowances. 4finance Group uses for LGD calculation discounted cash inflows from defaulted loans. The amount of the expected credit losses is measured as the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e., all cash shortfalls), discounted at the original effective interest rate (EIR).

The carrying amount of the asset shall be reduced through use of allowance account and recognition of the loss in Statement of Comprehensive Income. As part of adoption of IFRS 9 accounting standard the write-off period for past due loans shortened to 360 days (from 730 days) that is caused by more debt sales in earlier period leading to more significant recoveries sooner. Allowances for credit losses on loans and receivables are assessed collectively. Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired financial assets, but the individual impaired items cannot yet be identified.

For assessment of expected credit loss for Loans to related parties there was used available credit rating information of default risks for similar companies.

#### *TBIF Group*

The TBIF Group risk exposures are classified into three stages according to the following criteria:

- Stage 1 – the following criteria will be met simultaneously for:
  - exposures with up to 30 Days past due
  - exposures with no evidence for financial distress
  - exposures that are not determined as forborne.
- Stage 2 – the following criteria will be met simultaneously for:
  - exposures with 31-90 Days past due
  - exposures with no evidence for financial distress
  - forborne exposure where either of the following conditions is met: that extension has not led the exposure to be classified as non-performing or the exposure was not considered to be a non-performing exposure at the date the forbearance measures were extended.
- Stage 3 – any of the following criteria must be met for:
  - exposures that meet criteria for Stage 3 exposures consistent with existing IFRS 9 impairment triggers that are assessed as resulting in loss for the TBIF Group
  - all defaulted exposures (NPLs) as per Bank's definition of default, when the obligor is past due more than 90 days on any material credit obligation towards the TBIF Group
  - the base scenario for Individual assessment model shows that the obligor is unlikely to pay its credit obligations to the TBIF Group in full, without recourse by the institution to actions such as realising security
  - forborne exposures fulfilling the conditions to be classified as non-performing.

Impairment models:

For Business Banking loans impairment are based on individual assessment of the financial standing and projection of future cash flows. For Retail loans the impairment is calculated using PD, LGD derived models. For other assets (placements in other banks, securities and pledged assets) the impairment is calculated based on PD and related to the long-term credit rating of the counterparty, assigned by a registered external credit assessment institution (ECAI) and mapped to Moody's Investor Services long-term credit rating scale and PD and recoveries database.

## Notes to the Consolidated Financial Statements

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### (3) Significant accounting policies (continued)

#### *Group Transitional impact*

Based on assessments undertaken to date, the total estimated adjustment (net of tax) of the adoption of IFRS 9 on the opening balance of Group's equity at 1 January 2018 is approximately EUR 58 million as estimate representing a reduction of approximately EUR 63 million related to impairment requirements (net of tax) and an increase of approximately EUR 5 million related to Loans and borrowings.

#### *(ii) IFRS 15 Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018)*

This Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Group's financial statements, the Group management does not expect that the new standard, when initially applied, will have a material impact on the Group's financial statements. The timing and measurement of the Group's revenues are not expected to change materially under IFRS 15 because of the nature of the Group's operations and the types of revenues it earns.

#### *(iii) IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019)*

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current classification of rent agreements into operating and finance lease for lessees and instead requires companies to bring the agreements that classify as a lease on-balance sheet under a single model.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The Group has not yet prepared an analysis of the expected quantitative impact of the new standard, however, as the Group has several rent agreements then there will be impact from applying IFRS 16 where assessment will be made.

## Notes to the Consolidated Financial Statements

### (4) Risk management

Key financial and non-financial risks related to the Group's financial instruments and operating activities are:

- Credit risk
- Liquidity risk
- Market risk, including
  - Interest rate risk
  - Currency risk
  - Price risk
- Operational risk
- Capital management risk

Management has implemented procedures to control the key risks.

#### (a) Credit risk

Credit risk is the risk of a financial loss to the Group if a counterparty/customer fails to meet its contractual obligations, and arises primarily from the Group's loans due from customers.

The table below shows the maximum exposure to credit risk for the components of the Statement of Financial Position. Exposures are based on net carrying amounts as reported in the Statement of Financial Position.

The Group's maximum credit exposures are shown gross, i.e. without taking into account any collateral or other credit enhancement.

<b>As of 31 December</b>	<b>Maximum exposure</b>	
	<b>2017</b>	<b>2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Cash and cash equivalents	154 946	157 641
Placements with other banks	7 002	4 752
Loans to customers:	591 177	492 311
Corporate clients	44 670	44 940
Corporate client impairment	(2 315)	(1 842)
Individual clients	716 620	618 581
Individual client impairment	(167 798)	(169 368)
Investment in finance leases	10 454	13 082
Gross investment in finance leases	10 964	13 812
Finance lease impairment	(510)	(730)
Loans to related parties	66 561	67 198
Other assets	54 961	21 531
Derivatives	406	11 166
Financial assets available for sale	18 435	10 589
<b>Credit risk exposures related to contingent liabilities and irrevocable commitments are as follows:</b>		
Contingent liabilities*	16 394	9 588
<b>Total maximum exposure to credit risk</b>	<b>920 336</b>	<b>787 858</b>

\*For more details on contingent liabilities see Note 35

## Notes to the Consolidated Financial Statements

### (4) Risk management (continued)

The table below presents the maximum credit risk exposure of the 4finance Group, TBIF Group and Friendly Finance as at 31 December 2017 without taking into account collateral:

	Maximum exposure			
	4finance Group EUR'000	TBIF Group EUR'000	Friendly Finance EUR'000	Total EUR'000
Cash and cash equivalents	63 829	89 193	1 924	154 946
Placements with other banks	—	7 002	—	7 002
Loans to customers:	341 272	224 567	25 338	591 177
Corporate clients	—	44 670	—	44 670
Corporate client impairment	—	(2 315)	—	(2 315)
Individual clients	469 288	200 923	46 409	716 620
Individual client impairment	(128 016)	(18 711)	(21 071)	(167 798)
Investment in finance leases	—	10 454	—	10 454
Gross investment in finance leases	—	10 964	—	10 964
Finance lease impairment	—	(510)	—	(510)
Loans to related parties	65 955	—	606	66 561
Other assets	51 184	1 979	1 798	54 961
Derivatives	401	5	—	406
Financial assets available for sale	9 900	8 535	—	18 435
<b>Total credit risk exposure*</b>	<b>532 541</b>	<b>341 735</b>	<b>29 666</b>	<b>903 942</b>

\* Excluding contingent liabilities. For more details on contingent liabilities see Note 35

For additional details on loans refer to Note 20 and on finance leases to Note 21.

#### 4finance Group

The 4finance Group's Credit Policy defines lending guidelines according to its business strategy and efficient risk management, protecting assets as well as complying with local regulatory requirements. Loan credit risk is managed by the Risk department. Lending rules and scorecards (the "Credit Scoring Models") are implemented for all products, and the customer's risk profile is analysed prior to a loan being issued. The Credit Scoring Models use multiple triggers including, but not limited to, customer credit history checks and income levels. The use of the Credit Scoring Models reduces judgemental input, as scoring is done automatically and based on statistical evidence. Specific Credit Scoring Models are adjusted to specific country requirements and tendencies. The Credit Scoring Models are periodically reviewed and if necessary adjusted to follow market and specific client group tendencies. A Debt Collection policy is established. 4finance Group has implemented country-specific debt collection procedures to ensure the smooth collection of debts. Performance of different customer groups is analysed on a regular basis by the Debt Collection department. Management believes that current procedures are sufficient to effectively monitor the credit risk of customer groups. In addition, the structure of the loan portfolio is based on many small value loans, and consequently separate customer exposures cannot individually cause material losses to the 4finance Group. The calculation methodology for loan impairments is described in Note 5. Quantitative information on 4finance Group's credit risk is disclosed in the table below.

**Notes to the Consolidated Financial Statements****(4) Risk management (continued)**

Credit quality of loan portfolio (4finance Group):

	Gross receivables 31.12.2017 EUR'000	Allowance for doubtful debts 31.12.2017 EUR'000	Net receivables 31.12.2017 EUR'000	Gross receivables 31.12.2016 EUR'000	Allowance for doubtful debts 31.12.2016 EUR'000	Net receivables 31.12.2016 EUR'000
Not overdue	254 932	(7 062 )	247 870	201 580	(5 674 )	195 906
Overdue less than 90 days	64 048	(22 807 )	41 241	49 306	(18 393 )	30 913
Overdue more than 90 days	150 308	(98 147 )	52 161	177 968	(116 209 )	61 759
	<b>469 288</b>	<b>(128 016)</b>	<b>341 272</b>	<b>428 854</b>	<b>(140 276)</b>	<b>288 578</b>

When reviewing the portfolio and the respective provisions, management concentrates on the quality by ageing buckets as outlined above.

*TBIF Group*

The TBIF Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when they fall due. Significant changes in the individual counterparty, the economy or in the situation in a particular industry segment could result in losses other than the losses for which impairment loss allowances are identified by TBIF Group's management as at the balance sheet date.

To manage credit risk, the TBIF Group has developed strict potential borrower analysis and assessment procedures, including scoring procedures and detailed verification of data provided. Loans to corporate clients are mainly secured by collateral. Collateral is valued by obtaining a market value and then further reduced to take into account various risks. They are monitored on a regular basis and the underlying collateral is subject to re-appraisal on an annual basis. For impairment purposes, loans are monitored for Days Past Due ("DPD"), and other impairment triggers. For loans to groups of related party SME's, exposures are assessed collectively. Loans to individuals are not secured. In addition, the TBIF Group has developed an effective payment monitoring system as well as a procedure for measuring the collection of receivables. Preliminary analysis and subsequent monthly monitoring are in place to detect the concentration of related parties by sectors of the economy and other cross-sections in compliance with TBIF Group's internal rules.

TBIF Group structures the level of credit risk it is exposed to by placing limits on its exposure to one borrower or group of borrowers, geographical region and industry segment. Such risks are monitored regularly and are subject to annual or more frequent review.

TBIF Group's risk exposures are classified in four groups based on the criteria of credit risk level, Standard, Watch, Non-Performing and Loss.

Loans extended to individuals are monitored as per the overdue payments indicator.

The exposure to each borrower, including banks and intermediaries, is further restricted by: sub-limits covering on-balance sheet and off-balance sheet exposures and commitments, and daily delivery risks in relation to trading items such as forwards. The actual exposures against the respective limits are monitored on a daily basis.



## Notes to the Consolidated Financial Statements

### (4) Risk management (continued)

#### Collateral

The TBIF Group employs a set of policies and practices to mitigate credit risk. A requirement of the TBIF Group to borrowers (other than consumer loans to individuals), is to provide suitable collateral prior to the disbursement of loans approved. The main types of collateral for loans are as follows:

- cash in Bulgarian levs and foreign currencies;
- mortgages on real estate;
- pledges on business assets such as receivables, inventory, plant and equipment;
- pledges over financial instruments, and;
- guarantees issued in favour of the TBIF Group.

In order to minimise credit loss, TBIF Group requires additional collateral from counterparties as soon as impairment indicators are observed. Collateral held as a pledge for financial assets, other than loans and advances, is determined by the nature of the financial instrument.

In view of the specifics of the TBIF Group's business and the increasing portfolio of small consumer loans, the share of unsecured loans within the TBIF Group's portfolio is growing. These types of loans are mostly average-term (the median term of the portfolio is approximately 33 months) and have low limits (the average receivable amount is approximately BGN 1 thousand / around EUR 634).

The table below shows the total amount of loans to customers before provisions and impairment losses by type of collateral at 31 December 2017:

	Loans to customers		
	Gross amount	Collateral*	Coverage**
	EUR'000	EUR'000	
Mortgages	74 641	71 341	95.6%
Cash collateral	925	921	99.6%
Other collateral	8 437	1 820	21.6%
Unsecured	400 493	—	N/A
<b>Total</b>	<b>484 496</b>	<b>74 082</b>	

\* For all collateral, market value is obtained from external appraisers and then further reduced to take into account various risks. Not more than 80% of market value is counted towards the recoverable amount in case of default.

\*\* Coverage of credit risk via collateral, as a percentage of the loan's carrying amount per type of collateral. Collateral values are considered up to the exposures to which these relate.

#### Contingent liabilities and irrevocable commitments

Guarantees and letters of credit, which represent an irrevocable commitment by the TBIF Group to make the respective payment if the customer fails to discharge its liability to a third party, gives rise to the same type of risk as loans. Documentary and commercial letters of credit, that represent written commitments of the TBIF Group on behalf of a customer, are secured with cash deposits or other pledges in favour of the TBIF Group. Consequently, TBIF Group is exposed to minimal risk.

Commitments to grant loans represents the unutilised portion of the allowed loan amount, guarantees or letters of credit. The TBIF Group controls the maturity of credit commitments since in most cases long-term commitments bear higher credit risk compared to short-term ones.

For more details on TBIF Group's contingent liabilities and irrevocable commitments see Note 35.

## Notes to the Consolidated Financial Statements

### (4) Risk management (continued)

For details regarding loans and leases at 31 December 2017 see the table below:

	<b>Loans to corporate clients</b>	<b>Loans to individual clients</b>	<b>Financial leases</b>
	<b>EUR'000</b>	<b>EUR'000</b>	<b>EUR'000</b>
Neither past due nor impaired	16 111	135 114	2 818
Past due less than 30 days*	4 695	35 229	1 233
Past due 31 to 60 days*	2 877	9 551	359
Past due 61 to 90 days*	1 371	3 449	94
Past due over 91 days*	4 404	17 581	1 240
Collective provisions	(1 022)	(18 712)	(348)
Past due and individually impaired	15 211	—	5 220
Individual impairment	(1 292)	—	(162)
<b>Net of loan loss provisions</b>	<b>42 355</b>	<b>182 212</b>	<b>10 454</b>

\* Not individually impaired, collective provisioning used

As at 31 December 2017, the carrying amount of financial assets that would otherwise be past due whose terms have been renegotiated is EUR 12 155 thousand (31 December 2016: 4 658 thousand) net of impairment.

#### *Loans to customers that are neither past due, nor impaired*

According to its internal rules and policies, TBIF Group individually assesses all corporate loans in its portfolio and books an impairment allowance if objective evidence for impairment exists. Consumer loans are reviewed for indicators of impairment on a portfolio basis. Credit quality is determined based on an analysis of the number of days past due and the amount overdue.

#### *Past due but not impaired*

Corporate past due but not impaired loans include past due loans where the recoverable amount of the collateral fully covers the exposure to the respective borrower.

#### *Loans to customers which are past due and are impaired*

For individually assessed accounts, loans are treated as impaired as soon as objective evidence indicates that an impairment loss will be incurred.

#### *Deposits, placements with other banks and available for sale financial assets*

The table on the next page presents an analysis of deposits with other banks and available for sale financial assets at 31 December 2017 based on criteria set by rating agencies as a result of their credit assessments.

## Notes to the Consolidated Financial Statements

### (4) Risk management (continued)

Rating	Available for sale financial assets	Placements with other banks
	EUR'000	EUR'000
Aa3 (Moody's)	—	2 750
BBB+ (Fitch)	—	65
Baa1 (Moody's)	—	1 437
BBB (Fitch)	—	5 066
Baa2 (Moody's)	—	—
Baa3 (Moody's)	—	383
BBB- (Fitch)	8 484	5
BBB- (BCRA)	—	614
BB+ (Fitch)	—	15
BB+ (BCRA)	—	—
BB (Fitch)	—	409
BB- (Fitch)	—	11
Ba3 (Moody's)	—	—
B2 (Moody's)	5 029	—
B- (Fitch)	—	71
RD (Fitch)	—	—
Unrated	46	—
	<b>13 559</b>	<b>10 826</b>

The unrated placements with other banks and financial institutions are rated internally based on an analysis of quantitative and qualitative factors.

#### *Friendly Finance*

To manage credit risk, Friendly Finance has established procedures to ensure that services are provided and loans are issued to customers with an appropriate credit history only. The most important factor is the customer's ability to adhere to settlement terms. Friendly Finance provides loans to all reliable customers to the extent of the credit limit assigned to the customer. Loans provided which have been recognised are not secured by collateral.

The carrying amount of loans to customers and cash and cash equivalents represents the maximum amount exposed to credit risk.

	Gross	Allowance	Net	Gross	Allowance	Net
	receivables	for doubtful	receivables	receivables	for doubtful	receivables
	31.12.2017	debt	31.12.2017	31.12.2016	debt	31.12.2016
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Not overdue	19 087	(1 166)	17 921	15 165	(628)	14 537
Overdue less than 90 days	6 301	(3 568)	2 733	8 662	(2 985)	5 677
Overdue more than 90 days	21 021	(16 337)	4 684	19 742	(13 736)	6 006
	<b>46 409</b>	<b>(21 071)</b>	<b>25 338</b>	<b>43 569</b>	<b>(17 349)</b>	<b>26 220</b>

## **Notes to the Consolidated Financial Statements**

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### **(4) Risk management (continued)**

Friendly Finance's loan portfolio is made up of a large number of small loans that have been provided to a large number of individuals. Accordingly, there are no significant concentrations of credit risk. However, general economic factors may affect the borrowers' ability to discharge their obligations. In newer markets, management's professional judgement is used due to lack of available historical statistical information. A statistical provisioning approach is used whenever sufficient historic data becomes available.

4finance Group's provisioning methodology is being introduced into Friendly Finance in 2017.

#### **(b) Liquidity risk**

##### *4finance Group and Friendly Finance*

Liquidity risk is the risk that 4finance Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial assets when due. The liquidity position is managed by the Treasury department. The 4finance Group manages and controls its liquidity position on a day-to-day, short-, medium- and long-term basis by implementing and following relevant procedures, policies and processes. The 4finance Group has established the following processes and procedures - 4finance Group cash flow management procedures, 4finance Group bank account management procedures, and an intra-4finance Group financing process. Management believes that the current processes and procedures are sufficient to effectively monitor and manage the liquidity risk of the 4finance Group. 4finance Group's maturity structure of financial assets and liabilities is presented in Note 42. Treasury department manages also Friendly Finance's liquidity position.

##### *TBIF Group*

The Management Board of the TBIF Group assigns the Asset and Liabilities Management Committee as the primary responsible unit to advise the Management Board on liquidity management strategy. The legal requirement for the bank is to maintain a liquidity ratio of at least 20%. For more details see Note 42.

The TBIF Group monitors the liquidity of assets and liabilities by type of currency, amount and interest rates on a daily basis. With respect to the large portion of liabilities comprising term deposits from individuals and legal entities, active measures are taken to encourage customers to renew their deposits. Deposits from legal entities are primarily in large amounts and historical experience shows that typically the terms and conditions are re-reviewed and agreed immediately prior to their maturity. For more details see Note 31.

#### **(c) Market risk**

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Group's income or the value of its portfolios. The Group's market risk arises from open positions in interest rate and currency financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

## Notes to the Consolidated Financial Statements

### (4) Risk management (continued)

#### Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect the Group's income or the value of its portfolios of financial assets. Management believes that for the Group, with the exception of TBIF Group, interest rate risk is not material since all loans are issued and received at fixed rates and most of the borrowings are long term. Interest rate risk for loans to customers arising from short-term-pricing is not considered part of interest rate risk since an immaterial proportion of the interest rates charged relate directly to interest rate variance risk. All of 4finance Group's borrowings have been received at fixed rates. Re-pricing of interest-bearing liabilities is not expected to take place within the next 12 months. TBIF Group is subject to floating interest rates (Euribor, Soifbor and Robor) and actively manages this risk. Based on analysis, a 100 bp increase/ (100) bp decrease change in interest rates would result in EUR 15/(15) thousand effect on the Statement of Comprehensive Income.

#### Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

The Group's currency risk is managed centrally by the Group's Treasury Department. The Group has established a Currency risk monitoring and management policy. It is the policy of the Group to hedge its open positions where practical and economically sensible to do so. To manage the Group's open position in foreign currencies, the Group has entered into cross currency swap, forward and option agreements. The purpose of the financial instruments is to limit the Group's exposure to foreign currency fluctuations.

An analysis of sensitivity of the Group's net income for the year and equity to changes in foreign currency exchange rates based on positions existing as at 31 December 2017 and 31 December 2016 and a simplified scenario of a 10% change in PLN, USD, CZK, GEL, SEK and RON to EUR exchange rates is as follows:

	31.12.2017		31.12.2016	
	Net income EUR'000	Equity EUR'000	Net income EUR'000	Equity EUR'000
Appreciation of PLN against EUR	269	269	2 921	2 921
Depreciation of PLN against EUR	(269)	(269)	(29)	(29)
Appreciation of USD against EUR	(57 417)	(57 417)	(17 707)	(17 707)
Depreciation of USD against EUR	32 658	32 658	44 977	44 977
Appreciation of CZK against EUR	—	—	513	513
Depreciation of CZK against EUR	—	—	(66)	(66)
Appreciation of GEL against EUR	809	809	52	52
Depreciation of GEL against EUR	(555)	(555)	(52)	(52)
Appreciation of SEK against EUR	(43)	(43)	(4 142)	(4 142)
Depreciation of SEK against EUR	43	43	4 142	4 142
Appreciation of RON against EUR	5 828	5 828	3 625	3 625
Depreciation of RON against EUR	(5 828)	(5 828)	(3 625)	(3 625)

The currency risk analysis above illustrates the effect of an isolated appreciation/depreciation of each significant operating currency at 10% change. The above analysis does not include any assumptions about correlation between these currencies. Refer to Note (44) Currency analysis for further information on the Group's exposure to foreign currency risk.

## **Notes to the Consolidated Financial Statements**

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### **(4) Risk management (continued)**

#### **Price risk**

##### *4finance Group and Friendly Finance*

Price risk is the risk that the value of a financial instrument carried at fair value will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the 4finance Group or Friendly Finance takes a long or short position in a financial instrument.

##### *TBIF Group*

In performing its activities, TBIF Group is exposed to price risk as Romanian government treasury bonds are held. TBIF Group's risk management policies are designed to identify and analyse price risks, to set appropriate risk limits and controls, and to monitor adherence to risk limits by means of a reliable and up-to-date information system. TBIF Group regularly reviews its risk management policies and systems to reflect changes in the markets, products and emerging best practice.

#### **(d) Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness, and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

The Group is also subject to reputational risk in relation to the lending practices undertaken by each of its operations. Management is fully aware of the scrutiny and interest in the operations of short-term finance institutions by regulators and members of the public. Management seeks to be transparent in the way it markets its business, takes steps to ensure that all operations comply with all relevant legislation and cooperates intensively with regulators, when requested.

## **Notes to the Consolidated Financial Statements**

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### **(4) Risk management (continued)**

#### **(h) Capital management risk**

The objectives of the Group's management of capital include:

- compliance with the capital requirements set by regulators as applicable, including the banking markets in which TBIF Group operates;
- ensuring the Group's ability to continue as a going concern so that it can continue to provide returns for the shareholders; and
- maintaining a strong capital base which is the basis for the development of the Group's activity.

#### *4finance Group and Friendly Finance*

Capital management of the 4finance Group and Friendly Finance is not governed by any requirements set by regulatory institutions or international bodies. Management reviews its capital position on a regular basis to ensure positive equity in all subsidiaries of the 4finance Group and to maintain sufficient funds in order to support its medium- and long-term strategic goals.

#### *TBIF Group*

Capital adequacy and the use of equity are monitored by TBIF Group's management, employing techniques based on the guidelines developed by the Basel Committee, as well as EU Directives, adopted by the Bulgarian National Bank ("Regulatory Authority") for supervisory purposes. The information required is filed with the Regulatory Authority on a regular basis.

The Regulatory Authority requires each bank or group of banks: (a) to hold minimum level of equity of BGN 10 000 thousand and (b) to maintain a ratio of total regulatory capital to risk-weighted assets of 13.5%, comprising of a total capital adequacy requirement of 8%, protective capital buffer of 2.5% and systemic risk buffer of 3%. TBIF Group's capital adequacy ratio as 31 December 2017 was 23.22% (31 December 2016: 22.38%).

The TBIF Group's equity is divided into two tiers in accordance with the definitions and requirements of Regulation No 575 of the European Parliament and of the Council of 26 June 2013.

### **(5) Use of estimates and judgements**

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

#### *The 4finance Group and Friendly Finance*

In preparing these consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements of the Group for the year ended 31 December 2016. These included determination of the consolidation group and whether embedded derivatives within financial liabilities require separation. It was determined that embedded derivatives do not require separation. Key sources of estimation uncertainty within Group are:

- Allowances for credit losses on loans and receivables (see Note 20)

## Notes to the Consolidated Financial Statements

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### (5) Use of estimates and judgements (continued)

Total allowances for impairment on loans and advances are assessed collectively. Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired financial assets, but the individual impaired items cannot yet be identified. Collectively assessed impairment allowances also cover credit losses for portfolios of defaulted loans which are defined as past due 90 days or more. In assessing the need for collective loss allowances, management considers factors such as probability of default, loss given default (“LGD”), portfolio size, delay concentration and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. To assess collective impairment allowances, the loan portfolio is grouped based on delay days. The significant assumptions used in determining collective impairment losses for the loan portfolio include:

Management assumes that 4finance Group collects cash from defaulted loans up to 21 months after default for single payment loans and up to 36 months after default for instalment loans.

Management calculates probability of default ratios using historic transition matrices which analyse loan portfolio movements between the delinquency buckets over one month periods. This analysis is undertaken on a monthly basis, in which the average probability of default ratios of the last six months are recalculated.

Management writes off trade receivables and loans to customers when they are past due more than two years or earlier if deemed to be uncollectable.

Management closely follows recoveries from delinquent loans and revises LGD rates for portfolios based on actual recoveries received. Historical experience supports the use of 21 and 36 months after default as the period over which recoveries are expected to be received. This assumption is used across all countries and is supported by actual past experience across numerous entities within the 4finance Group. Where there is insufficient past statistical data, projections of recoveries are used based on the data available and benchmarking of comparable data from other markets where the 4finance Group has wider historical data availability. Projected LGD rates vary across the countries depending on the specifics of individual countries.

During the year ended 31 December 2017, management continually reassessed its impairment allowances for credit losses on loans and receivables. This assessment included a review of historical recovery trends impacting the LGD ratios that underlie the impairment loss allowance calculations. As at 31 December 2017, the weighted average LGD rate across portfolios was 54% (31 December 2016: 57%). The weighted average LGD rate decreased due to the decrease in LGD ratios due to debt sale activities in countries with larger portfolio exposure such as Poland, Denmark, Latvia, Finland and Sweden.

Sensitivity analysis of the Group’s net income for the year and equity to changes in LGD rates given a simplified scenario of a 5% increase in the LGD ratio for each operating entity would increase loan loss impairment for EUR 10 172 thousand (31 December 2016: EUR 11 165 thousand). A 5% decrease would lead to a decrease by EUR 10 327 thousand (31 December 2016: EUR 11 165 thousand).

- Separation of embedded derivatives

There is an early redemption option from 4finance Group’s perspective. These prepayment options are judged to be closely related to the host debt instruments characteristics and, therefore, are not separated from the host debt instrument. 4finance Group does not expect these options to be exercised.

- Capitalisation of internal development costs (see Note 28)



## Notes to the Consolidated Financial Statements

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### (5) Use of estimates and judgements (continued)

During the year, 4finance Group developed certain software solutions. 4finance Group applied IAS 38 to assess expenditure that met the criteria to be capitalized and expenditure to be expensed to profit or loss. Management judgement is required to assess costs falling within 3 specific phases - research and pre-development costs, development costs and maintenance/post-development costs. 4finance Group has set up internal processes allowing to allocate internal IT costs to the appropriate stage. Only those expenses that have been internally assessed as relating to development are capitalized. In addition, management judgement is required in assessing the useful economic lives of developed projects and performing review of intangible assets carrying value for impairment. Currently, useful lives ranges from 3 to 5 years. When assessing value in use, estimated future cash flows of cash-generating units are discounted to their present value using a rate that reflects current market assessments of the time value of money and the risks associated to the asset. Information in relation to the capitalisation of internal development costs is disclosed in more detail in Note 28.

- Deferred tax asset recognition

Significant management judgement is required in assessing deferred tax assets, in particular projecting taxable profits in current and future years (see Note 29).

- Fair value of financial instruments (see Note 40)
- Valuation of related party loans (see Note 23)
- Goodwill measurement and goodwill impairment testing (see Note 28)
- Impairment of Intangible assets (see Note 28)

Significant management judgement is required for assessing goodwill impairment. The main judgemental areas include projecting EBITDA in current and future years, projecting expected free cash flows to equity holders in current and future years, estimating discount rates and estimating terminal growth rates (see Note 28).

#### *TBIF Group*

The TBIF Group makes estimates and assumptions that affect the amounts of reported assets and liabilities within the next financial year. Accounting estimates and judgements are consistently applied and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

##### i. Allowances for credit losses

TBIF Group reviews its loan portfolios to assess the need for impairment on at least a quarterly basis. In determining whether an impairment loss should be recorded in the Statement of Comprehensive Income, TBIF Group makes an analysis whether objective data exists indicating that there is a significant decrease in the estimated future cash flows from the loan portfolio. Such evidence may include observable data, indicating an adverse change in the borrowers' ability to meet their loan obligations in the respective portfolio, or their national or local economic conditions indicate that the probability of default has increased. When estimating future cash flows, for assets with credit risk features and objective evidence for impairment similar to those in the portfolio, management uses estimates based on historical losses experienced. The methodology and assumptions used to estimate the amount and timing of future cash flows are reviewed regularly in order to reduce differences between loss estimates and actual loss experience. TBIF Group undertakes a credit risk stress test which assumes a static portfolio of the bank and migration of loans with DPD up to 90 days to loans with DPD 90+ with a forecast horizon of 12 months as reflected in the average three years transition matrices per product and domicile. As of 31 December 2017, this test resulted in a sensitivity of EUR 701 thousand (2016: EUR 2 860 thousand). In additional an adverse stress test of static portfolio is performed to reflect increase of migration rates to 10% p.a. with a total effect of EUR 1 972 thousand. As per EBA requirements the adverse scenario assumptions are performed on a dynamic portfolio with 24 months horizon totalling overall risk estimate of EUR 3 751 thousand.

##### ii. Repossessed collateral valuation

## Notes to the Consolidated Financial Statements

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### (5) Use of estimates and judgements (continued)

The value of real estate collateral is determined by independent expert appraisers, using generally accepted valuation techniques. Such techniques include the revenue method and the discounted cash flow method. In certain cases, fair value is determined based on recent transactions involving real estate with similar features and locations as the collateral.

Non-real estate collateral is measured at the lower of the value upon acquisition and the fair value less costs to make the sale.

The calculation of fair value of collateral involves the use of estimates, including the future cash flows from the assets and the discount rates applicable to these assets. These estimates are based on the conditions in the local market existing at the date of valuation.

TBIF Group management has committed to specific actions aimed at the realisation of these assets through disposal.

Assets acquired as collateral on loans are classified as non-current assets held for sale.

TBIF Group undertakes a collateral depreciation stress test, which assumes a devaluation of real estate by 5-15% depending on the type of real estate over a forecast horizon of 12 months. As of 31 December 2017, this test resulted in a sensitivity of EUR 2 453 thousand (2016: EUR 1 841 thousand).

### (6) Interest income

Interest income represents revenues generated during the reporting period from the Group's basic activities – consumer lending, and in the case of TBIF Group, consumer and SME lending and leasing. Interest income includes loan commission income and penalty fee income.

	<b>2017</b>	<b>2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
<b>Loans to customers:</b>		
4finance Group	355 167	359 503
TBIF Group	62 452	19 712
Friendly Finance	30 337	13 940
	<b><u>447 956</u></b>	<b><u>393 155</u></b>

**Notes to the Consolidated Financial Statements****(6) Interest income (continued)**

Interest income by geographic markets:

**The 4finance Group**

	<b>2017</b>	<b>2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Poland	105 333	94 024
Spain	69 913	56 007
Denmark	41 411	34 799
Latvia	36 040	43 086
Finland	21 698	21 958
Sweden	21 486	25 190
Czech Republic	17 566	17 550
Georgia	12 092	34 309
Lithuania	9 187	21 729
Argentina	4 914	1 619
Other	15 527	9 232
	<b>355 167</b>	<b>359 503</b>

**TBIF Group**

	<b>2017</b>	<b>2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Romania	31 946	9 672
Bulgaria	30 506	10 040
	<b>62 452</b>	<b>19 712</b>

**Friendly Finance**

	<b>2017</b>	<b>2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Spain	8 415	3 950
Czech Republic	6 036	2 779
Poland	5 573	2 376
Slovakia	4 141	1 760
Georgia	3 785	2 987
Other	2 387	88
	<b>30 337</b>	<b>13 940</b>

## Notes to the Consolidated Financial Statements

### (7) Interest expense

	2017	2016
	EUR'000	EUR'000
Interest expense on notes	55 908	34 780
Deposits from customers	4 124	1 898
Interest expense on other loans	1 359	1 372
Deposits from banks and financial institutions	474	119
Interest expense on bank loans	70	515
	<u>61 935</u>	<u>38 684</u>

### (8) Non-recurring finance cost

	2017	2016
	EUR'000	EUR'000
Non-recurring finance cost	6 265	—
	<u>6 265</u>	<u>—</u>

Non-recurring finance costs include premium to re-purchase the tendered USD 2019 Notes and to redeem the Group's 2018 SEK Notes, see Note 30.

### (9) Fee and commission income

	2017	2016
	EUR'000	EUR'000
Income from insurance broker's activities and agent's commissions	10 555	3 124
Transfer and transaction income	1 411	747
Guarantee and letter of credit income	16	—
Other income	580	98
	<u>12 562</u>	<u>3 969</u>

Fees and commissions are related to TBIF Group's operations. Agent's commission income originates from an insurance agency contract.

### (10) Fee and commission expense

	2017	2016
	EUR'000	EUR'000
Agent's commission expense	3 190	434
Bank transaction expense	840	349
Other expense	35	26
	<u>4 065</u>	<u>809</u>

Fees and commissions are related to TBIF Group's operations. Costs of agent's commissions relate to a credit brokerage contract.

## Notes to the Consolidated Financial Statements

### (11) Other operating income

	2017	2016
	EUR'000	EUR'000
Interest income	9 189	6 710
Financial intermediary services	1 122	443
Income from services	845	1 674
	<u>11 156</u>	<u>8 827</u>

In 2017, Other operating income includes interest income from related parties of EUR 8 550 thousand (2016: EUR 6 643 thousand), see Note 37.

### (12) Operating costs

	2017	2016
	EUR'000	EUR'000
Personnel costs	98 846	68 359
Marketing and sponsorship	56 143	55 733
IT expenses	10 813	3 584
Depreciation and amortization	8 987	5 139
Debt collection costs	8 258	8 321
Research and development expenses	8 158	7 934
Rent and utilities	7 516	5 193
Legal and consulting	9 334	12 051
Application inspection costs	7 032	5 030
Bank services	4 310	3 122
Communication expenses	4 297	4 496
Travel	2 311	2 466
Other	17 268	11 253
	<u>243 273</u>	<u>192 681</u>

The increase reflects both the Group's investment in growth of existing businesses as well as the impact of including the full year cost base of Friendly Finance and TBIF Group. The increase in personnel costs reflects the significant growth in staff numbers, mainly attributable to hiring in product development, IT, risk, legal & compliance and finance as well as in new markets. Other expenses mainly consist of office expenses, taxes, encashment costs and transport costs for TBIF Group and other costs.

	2017	2016
	EUR'000	EUR'000
<b>Auditor's fees (part of Legal and consulting)</b>		
Audit fees	787	545
Audit related fees	166	38
Tax related fees	62	127
	<u>1 015</u>	<u>710</u>

## Notes to the Consolidated Financial Statements

### (12) Operating costs (continued)

	2017	2016
<b>Average number of employees</b>		
Senior management/Executives	11	9
Employees	3 527	2 482
	<u>3 538</u>	<u>2 491</u>

### (13) Other income

	2017	2016
	EUR'000	EUR'000
Rent income	1 586	1 561
Proceeds from share sales	—	223
Other income	1 589	2 635
	<u>3 175</u>	<u>4 419</u>

### (14) Non-recurring expense

	2017	2016
	EUR'000	EUR'000
Goodwill impairment	22 000	—
Loss from acquisition	415	—
Intangible asset write-off	10 375	—
Intangible asset impairment	3 934	—
Other expense	275	—
	<u>36 999</u>	<u>—</u>

At the end of 2017 based on detailed review the decision was made to write-down intangible assets and impair goodwill associated with the Friendly Finance acquisition and impair IT intangible assets, see Note 28.

### (15) Net foreign currency loss

	2017	2016
	EUR'000	EUR'000
Net foreign currency (gain)/ loss	(16 640 )	7 989
Net (gain)/ loss on derivatives	20 645	(652 )
	<u>4 005</u>	<u>7 337</u>

## Notes to the Consolidated Financial Statements

### (16) Net impairment losses

	2017	2016
	EUR'000	EUR'000
Impairment losses on loans	136 478	105 918
Reversal of provision on debt portfolio sales	(18 921)	(7 610)
Recovery from written-off loans	(9 982)	(8 488)
	<u>107 575</u>	<u>89 820</u>

Impairment losses on loans include EUR 159 thousand of TBIF Group impairment on financial leases (2016: EUR 121 thousand).

### (17) Income tax for the reporting period

	2017	2016
	EUR'000	EUR'000
Current tax	34 098	28 503
Deferred tax	(6 529)	(10 671)
	<u>27 569</u>	<u>17 832</u>

#### Reconciliation of effective income tax:

	2017	2016
	EUR'000	EUR'000
Profit before corporate income tax	10 732	81 039
Theoretical corporate income tax, 27%	3 019	23 501
CIT relief due to donations	(157)	(73)
Effect of change in deferred tax asset recognition	7 719	(283)
Tax effect of permanent differences related to non-deductible expenses	19 536	2 738
Impact of tax rate in other jurisdictions	(2 548)	(8 051)
<b>Corporate income tax for the reporting year</b>	<u>27 569</u>	<u>17 832</u>

The effective tax rate in 2017 was 246% (2016: 22%).

The high effective tax rate of 246% for FY2017 is explained by significant one-off adjustments to profit, most of which are non-deductible in nature, as well as due to changes in deferred tax asset recognition. To summarize:

- impairment of Friendly Finance goodwill by EUR 22.0 million (for more details see Note 14 and 28).
- reduction of EUR 17.8 million to Group's IT intangible assets through a combination of write-offs, impairment and de-recognition of expenses previously capitalized during the course of 2017 (for more details see Note 14 and 28). This includes EUR 2.0 million of IT assets within Friendly Finance.
- the capitalization of deferred expenses in respect of the US\$ bonds has been adjusted, resulting in a non-recurring finance charge of EUR 6.3 million.

## **Notes to the Consolidated Financial Statements**

### **(17) Income tax for the reporting period (continued)**

- due to local tax law changes the historically recognized EUR 1.7 million deferred tax assets were derecognized in Latvia and Georgia. In Mexico and Romania, due to longer than anticipated time for those markets to breakeven, historically recognized deferred tax assets of EUR 2.5 million were derecognized. In addition, no deferred tax assets in amount of EUR 3.5 million were recognized for these countries for the financial results of FY2017 (deferred tax assets would be based on tax loss, provisions for doubtful debts, payables to non-residents and individuals).
- due to uncertainty around utilisation of tax benefits in future also deferred tax asset in Poland Vivus in amount of EUR 2.1 million was derecognized.

### **(18) Cash and cash equivalents**

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Bank balances	70 476	79 333
Placements with other banks	3 968	50 216
Cash at central banks other than the minimum statutory reserve	57 473	7 471
<b>Cash and cash equivalents in the statement of cash flows</b>	<b>131 917</b>	<b>137 020</b>
Minimum statutory reserve	23 029	20 621
<b>Total cash on hand and cash at central banks</b>	<b>154 946</b>	<b>157 641</b>

As at 31 December 2017, the statutory minimum reserves held with the Bulgarian National Bank (BNB) by TBIF Group amount to 10 % of the deposits attracted, 5% of funds attracted from abroad and 0% of the funds attracted from other local banks. As at 31 December 2017, the statutory minimum reserves held at the National Bank of Romania (NBR) amounted to 8% of the funds attracted in new Romanian Lei and 8% of the funds attracted in currencies other than new Romanian Lei, not including funds attracted from other local banks and funds attracted with a residual maturity of less than two years without early termination clauses. The statutory minimum reserves are available for use at up to 50% from the required reserves in the Group's day-to-day operations under the condition that the full reserves requirement for the month is covered. The excess of the minimum statutory reserves held with BNB is charged currently with a negative interest rate (-0.60% per annual). Those held in NBR are charged with 0% interest currently.



## Notes to the Consolidated Financial Statements

### (19) Derivatives

To manage the Group's open position in foreign currencies, the Group has entered into forward and option agreements. The purpose of the financial instruments is to limit the Group's exposure to foreign currency fluctuations.

The tables below reflect the fair value of each financial instrument type separately as at 31 December 2017.

<b>Recognized as Assets</b>	<b>Currency</b>	<b>Notional amount '000</b>	<b>Rate</b>	<b>Maturity</b>	<b>31.12.2017 EUR'000</b>
EUR to USD forward agreements	USD	2 963	1.3388	Aug-19	207
GEL to USD forward agreements	USD	5 000	2.5932	Dec-18	139
GEL to USD forward agreements	USD	2 000	2.5932	Dec-18	55
RON to EUR forward agreements	RON	10 000	4.6560	Jan-18	5
					<b>406</b>

<b>Recognized as Liabilities</b>	<b>Currency</b>	<b>Notional amount '000</b>	<b>Rate</b>	<b>Maturity</b>	<b>31.12.2017 EUR'000</b>
EUR to USD forward agreements	USD	80 000	1.1432	Nov-19	6 610
EUR to USD forward agreements	USD	40 000	1.1397	Oct-19	3 370
EUR to USD forward agreements	USD	40 000	1.1332	Oct-19	3 574
EUR to USD forward agreements	USD	6 050	1.2100	Aug-19	177
RON to EUR forward agreements	RON	20 000	4.6700	Feb-18	100
RON to EUR forward agreements	RON	15 000	4.6815	Mar-18	14
					<b>13 845</b>

The tables below reflect the fair value of each financial instrument type separately as at 31 December 2016.

	<b>Currency</b>	<b>Notional amount '000</b>	<b>Rate</b>	<b>Maturity</b>	<b>31.12.2016 EUR'000</b>
European style Put EUR/USD option	USD	90 000	1.1305	Feb 2017	6 554
EUR to USD forward agreements (Note 37)	USD	2 963	1.3388	Aug 2019	632
European style Put EUR/USD option	USD	10 000	1.0853	Mar 2017	303
European style Call EUR/CZK option	EUR	135 258	27.0515	Mar 2017	19
European style Call EUR/GBP option	EUR	14 509	0.9068	Apr 2017	62
European style Put EUR/USD option	USD	72 500	1.0944	May 2017	2 969
European style Call USD/PLN option	USD	30 000	4.1705	Feb 2017	627
					<b>11 166</b>

**Notes to the Consolidated Financial Statements****(20) Net receivables due from customers****Summary**

Net receivables due from customers has been divided into three parts below. 4finance Group shows all companies under 4finance Holding S.A. with the exceptions of TBIF Group and Friendly Finance, which have been shown separately.

	<b>Gross</b>	<b>Allowance</b>	<b>Net</b>	<b>Gross</b>	<b>Allowance</b>	<b>Net</b>
	<b>receivables</b>	<b>for doubtful</b>	<b>receivables</b>	<b>receivables</b>	<b>for doubtful</b>	<b>receivables</b>
	<b>31.12.2017</b>	<b>31.12.2017</b>	<b>31.12.2017</b>	<b>31.12.2016</b>	<b>31.12.2016</b>	<b>31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>	<b>EUR'000</b>	<b>EUR'000</b>	<b>EUR'000</b>	<b>EUR'000</b>
4finance Group	469 288	(128 016 )	341 272	428 854	(140 276 )	288 578
TBIF Group	245 593	(21 026 )	224 567	191 098	(13 585 )	177 513
Friendly Finance	46 409	(21 071 )	25 338	43 569	(17 349 )	26 220
	<b>761 290</b>	<b>(170 113 )</b>	<b>591 177</b>	<b>663 521</b>	<b>(171 210 )</b>	<b>492 311</b>

**4finance Group**

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Long-term loans due from customers	26 507	21 629
Impairment of long-term loans due from customers	(7 065 )	(6 281 )
<b>Long term</b>	<b>19 442</b>	<b>15 348</b>
Short-term loans due from customers	442 781	407 225
Impairment of short-term loans due from customers	(120 951 )	(133 995 )
<b>Short term</b>	<b>321 830</b>	<b>273 230</b>
	<b>341 272</b>	<b>288 578</b>

**Notes to the Consolidated Financial Statements****(20) Net receivables due from customers (continued)**

The 4finance Group's long-term and short-term loans consist of loan balances not exceeding EUR 5 000 per loan (31 December 2016: EUR 3 061 and maturity of up to 3 years) with maturity of up to 4 years. The average loan size in 2017 was EUR 209 (2016: EUR 185). The loans are not collateralized.

Short-term loans include the Line of Credit portfolio outstanding of EUR 8 066 thousand as at 31 December 2017 (31 December 2016: EUR 3 738). The total credit committed under this product, which includes used and unused amounts, is EUR 12 849 thousand (31 December 2016: EUR 4 508).

Movements in the allowance for doubtful debts for 4Finance Group for the respective periods are as follows:

	<b>2017</b>	<b>2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
<b><u>Allowance for doubtful debts</u></b>		
Balance at the beginning of period	140 276	117 207
Charge for the period	102 604	97 443
Amounts written-off	(65 913)	(51 232)
Derecognised on disposal of portfolio	(54 215)	(20 588)
Currency effect	5 264	(2 554)
<b>Balance at period end</b>	<b><u>128 016</u></b>	<b><u>140 276</u></b>

Net gain from debt sales of portfolio in 4Finance Group is EUR 13 431 thousand.

Loans by country and currency:

	<b>Gross</b>	<b>Allowance</b>	<b>Net</b>	<b>Gross</b>	<b>Allowance</b>	<b>Net</b>
	<b>receivables</b>	<b>for doubtful</b>	<b>receivables</b>	<b>receivables</b>	<b>for doubtful</b>	<b>receivables</b>
	<b>31.12.2017</b>	<b>31.12.2017</b>	<b>31.12.2017</b>	<b>31.12.2016</b>	<b>31.12.2016</b>	<b>31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>	<b>EUR'000</b>	<b>EUR'000</b>	<b>EUR'000</b>	<b>EUR'000</b>
Poland (PLN)	153 721	(35 451)	118 270	112 373	(32 580)	79 793
Latvia (EUR)	56 096	(6 597)	49 499	59 817	(11 153)	48 664
Denmark (DKK)	54 567	(16 431)	38 136	46 256	(13 766)	32 490
Spain (EUR)	64 432	(27 733)	36 699	53 416	(27 157)	26 259
Sweden (SEK)	24 518	(4 268)	20 250	28 865	(6 495)	22 370
Lithuania (EUR)	21 095	(3 759)	17 336	34 312	(11 900)	22 412
Georgia (GEL)	29 599	(12 490)	17 109	36 410	(18 344)	18 066
Finland (EUR)	22 368	(7 419)	14 949	27 499	(8 244)	19 255
Other	42 892	(13 868)	29 024	29 906	(10 637)	19 269
	<b><u>469 288</u></b>	<b><u>(128 016)</u></b>	<b><u>341 272</u></b>	<b><u>428 854</u></b>	<b><u>(140 276)</u></b>	<b><u>288 578</u></b>

## Notes to the Consolidated Financial Statements

### (20) Net receivables due from customers (continued)

#### TBIF Group

#### Loans to customers

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Loans to customers:		
Individuals	197 524	139 930
Corporate clients	47 209	50 935
Staff	860	233
<b>Total loans to customers</b>	<b>245 593</b>	<b>191 098</b>
Impairment allowance	(21 026)	(13 585)
<b>Total net loans to customers</b>	<b>224 567</b>	<b>177 513</b>

Loans to customers include accrued interest amounting to EUR 4 813 thousand (2016: EUR 2 556 thousand). Loans to customers bearing floating interest rates amount to EUR 37 199 thousand (2016: EUR 40 838 thousand), and loans to customers bearing fixed interest rates amount to EUR 208 394 thousand (2016: EUR 137 976 thousand).

#### Impairment loss allowances

The movement in impairment loss allowances is as follows:

<b>Impairment allowance for individually assessed financial assets</b>	<b>2017</b>	<b>2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Balance at the beginning of period (2016 at 1 August)	1 432	1 393
(Reversal)/Charge for the period in continued operations	(214)	42
Amounts written-off	(55)	(3)
Currency effect	(9)	—
<b>Balance at period end</b>	<b>1 154</b>	<b>1 432</b>
<b>Impairment allowance for collectively assessed financial assets</b>	<b>2017</b>	<b>2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Balance at the beginning of period (2016 at 1 August)	12 153	11 752
Charge for the period in continued operations	12 737	1 525
Amounts written-off	(5 314)	(1 071)
Currency effect	296	(53)
<b>Balance at period end</b>	<b>19 872</b>	<b>12 153</b>

Net gain from debt sales of portfolio in TBIF Group is EUR 3 927 thousand.

**Notes to the Consolidated Financial Statements**

**(20) Net receivables due from customers (continued)**

**Structure of the loan portfolio by economic sectors**

	Gross receivables 31.12.2017	Allowance for doubtful debts 31.12.2017	Net receivables 31.12.2017	Gross receivables 31.12.2016	Allowance for doubtful debts 31.12.2016	Net receivables 31.12.2016
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Individuals	197 524	(18 710 )	178 814	141 988	(11 724 )	130 264
Construction and real estate	21 269	(1 341 )	19 928	19 835	(1 263 )	18 572
Commerce	6 727	(155 )	6 572	7 370	(148 )	7 222
Agriculture	6 825	(376 )	6 449	6 921	(143 )	6 778
Services	6 153	(353 )	5 800	5 120	(280 )	4 840
Manufacturing	3 717	(91 )	3 626	2 787	(27 )	2 760
Tourism	2 462	—	2 462	6 195	—	6 195
Staff	860	—	860	840	—	840
Other financial institutions	56	—	56	42	—	42
<b>Total loans to customers</b>	<b>245 593</b>	<b>(21 026)</b>	<b>224 567</b>	<b>191 098</b>	<b>(13 585)</b>	<b>177 513</b>

**Friendly Finance**

	31.12.2017 EUR'000	31.12.2016 EUR'000
Short-term loans due from customers	46 409	43 569
Impairment of short-term loans due from customers	(21 071 )	(17 349 )
<b>Short term</b>	<b>25 338</b>	<b>26 220</b>

## Notes to the Consolidated Financial Statements

### (20) Net receivables due from customers (continued)

Movements in the allowance for doubtful debts for Friendly Finance are as follows:

	2017 EUR'000	2016 EUR'000
<b>Allowance for doubtful debts</b>		
Balance at the beginning of period (2016 at 1 July)	17 349	10 328
Charge for the period	21 510	6 880
Amounts written-off	(7 293)	(286)
Written-off on disposal of portfolio	(10 754)	—
Currency effect	259	427
<b>Balance at period end</b>	<b>21 071</b>	<b>17 349</b>

Friendly Finance loans consist of loan balances not exceeding EUR 2 369 per loan (31 December 2016: EUR 2 365) with maturity of up to 7 months. The average loan size in 2017 was EUR 205 (2016: EUR 230 ). The loans are not collateralized.

Net gain from debt sales of portfolio in Friendly Finance is EUR 1 563 thousand.

Loans by country and currency:

	Gross receivables 31.12.2017 EUR'000	Allowance for doubtful debts 31.12.2017 EUR'000	Net receivables 31.12.2017 EUR'000	Gross receivables 31.12.2016 EUR'000	Allowance for doubtful debts 31.12.2016 EUR'000	Net receivables 31.12.2016 EUR'000
Spain (EUR)	10 672	(4 495 )	6 177	9 876	(3 860 )	6 016
Poland (PLN)	10 592	(4 406 )	6 186	8 074	(4 011 )	4 063
Slovakia (EUR)	6 704	(1 993 )	4 711	5 818	(2 080 )	3 738
Czech Republic (CZK)	6 606	(2 426 )	4 180	10 181	(5 017 )	5 164
Georgia (GEL)	8 957	(6 135 )	2 822	9 316	(2 381 )	6 935
Argentina (ARS)	2 878	(1 616 )	1 262	304	—	304
	<b>46 409</b>	<b>(21 071)</b>	<b>25 338</b>	<b>43 569</b>	<b>(17 349)</b>	<b>26 220</b>

**Notes to the Consolidated Financial Statements**

**(21) Net investment in finance leases**

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
<b>Gross investment in finance leases:</b>		
Not later than one year	4 877	4 745
Later than one and not later than five years	7 081	10 337
Later than five years	2 062	3 582
	<b>14 020</b>	<b>18 664</b>
Unrealised finance income	(3 056)	(4 851)
	<b>10 964</b>	<b>13 813</b>
Less allowance for impairment losses	(510)	(731)
<b>Net investment in finance leases</b>	<b>10 454</b>	<b>13 082</b>
<b>Net investment in finance leases</b>		
Not later than one year	3 397	2 523
Later than one and not later than five years	5 257	7 545
Later than five years	1 800	3 014
	<b>10 454</b>	<b>13 082</b>

Leases include mainly contracts with companies and individuals for the lease of vehicles and production equipment.

A movement of the allowance for impairment losses for finance leases is as follows:

	<b>2017</b>	<b>2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
As of 1 January 2017	731	—
As of 1 August 2016*	—	835
Impairment loss allowance charged	370	373
Reversed	(529)	(494)
Foreign exchange difference	(62)	17
<b>As of 31 December</b>	<b>510</b>	<b>731</b>

\*As of acquisition date 1st August 2016

**Notes to the Consolidated Financial Statements****(22) Financial assets available for sale**

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Investments in equities	9 905	5 131
Debt securities - listed	8 530	5 458
	<b>18 435</b>	<b>10 589</b>

Investment in equities mainly consists of a EUR 9 890 thousand investment in participation of 19.9% in Spotcap Global S.à r.l., a non-listed limited liability company that is an innovative online lender for small and medium sized enterprises. 9.9% of shares were acquired in June 2016 by the Group from Tirona Limited, a related party, for EUR 4.9 million. Additional 10% shares for EUR 5 million were acquired in July 2017 from Tirona Limited. Price valuation was based on expected company performance in future and industry multipliers. At year end investment was tested for impairment and no need for impairment was identified as estimated market value exceeded investment value. The market value was assessed based on future performance of the company by projecting revenue compound annual growth rate over the period of five years of 101% and industry multipliers. Currently the company is in the start up phase and plans to grow significantly in the next years.

Debt securities as at 31 December 2017 represent three types of issued Romanian government bonds: in EUR with a maturity on 21 January 2019 and coupon of 3.40 % per annum; in EUR with a maturity on 21 October 2024 and coupon of 2.88 % per annum; in EUR with a maturity on 29 October 2025 and coupon of 2.75 % per annum. Interest accumulated as at 31 December 2017 amounts to EUR 161 thousand (31 December 2016: 162 thousand).

Debt securities are carried at fair value based on quoted market prices as at the date of the financial statements.

**(23) Loans to related parties**

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Loans to related parties	66 561	67 198
	<b>66 561</b>	<b>67 198</b>

Detailed information regarding loans to related parties can be seen below:

	Maturity	Interest rate	Principal amount		Accrued interest	
			31.12.2017	31.12.2016	31.12.2017	31.12.2016
			EUR'000	EUR'000	EUR'000	EUR'000
Piressa Holdings Limited*	May 2018	13.75 %	5 100	5 100	—	713
V7 Limited	Oct 2018	13.75 %	—	18 491	—	1 637
4finance Group S.A.	Oct 2019	13.75 %	50 677	31 524	6 985	48
4finance US Holding Company, Inc	Dec 2019	13.75 %	—	4 046	6	854
0973915 B.C. Ltd	Nov 2018	13.75 %	—	3 743	—	1 042
Spotcap Global S.a.r.l.	Dec 2018	16.5 %	3 000	—	36	—
BillFront GbmH	Oct 2018	5 %	150	—	1	—
DVJ*	Oct 2018 - May 2022	12 %	606	—	—	—
			<b>59 533</b>	<b>62 904</b>	<b>7 028</b>	<b>4 294</b>

Note: \* loans have been repaid after Period end



## Notes to the Consolidated Financial Statements

### (23) Loans to related parties (continued)

All loans to related parties are unsecured.

The Group has entered into various loan agreements with related parties. These can be grouped into three categories: funding for businesses formerly owned and consolidated by the Group which were sold to related parties, funding provided to the Group's parent company, 4finance Group S.A.; and funding provided to companies the Group has a minority ownership in.

The loan to Piressa Holdings Limited was part of the agreement on divestment of operations in Russia in 2015. The principal amount of this loan is fixed and has remained the same since disposal. This loan was repaid in full in March 2018. The loan to V7 Limited related to the Group's minority interest in UK operations, which were piloted in 2016 and majority funded via this loan facility. In early 2017 this loan was restructured and became a liability of 4finance Group S.A. to the Company.

The Group has minority ownership positions in SpotCap and Billfront and provided some financing to both companies in 2017 to support their growth.

### (24) Other assets

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Prepayment for potential acquisition	21 420	—
FX hedging - margin requirements	8 876	—
Reposessed real estate	7 407	7 528
- less accumulated impairment	(34 )	(114)
Receivables from suppliers	6 169	5 505
Security deposits	1 748	1 650
Other receivables	9 375	6 962
	<b>54 961</b>	<b>21 531</b>

In October 2017 the Group made a prepayment of EUR 21 420 thousand (US\$25 million) for a potential investment which it decided subsequently not to pursue. This amount is due to be returned in instalments in Q1 of EUR 2.5 million (US\$3 million) and Q2 2018 of EUR 18.9 million (US\$22 million) as agreed in year 2018. The first part of the payment was received in March 2018. The Group has pledge over potential investment shares.

Reposessed real estate is from TBIF Group measured at costs.

Receivables from suppliers include receivables from offline service providers, which is the main driver for the increase as at 31 December 2017 compared to 31 December 2016. Offline service providers offer the opportunity for customers to repay loans via payment terminals. These providers are used mainly in Poland, Spain, Georgia and Denmark, the increase being driven by market growth in these countries.

Other receivables as at 31 December 2017 includes other receivables from related parties of EUR 1 480 thousand and receivables of EUR 1 351 regarding Friendly Finance Poland sold portfolio. It also includes faulty payments of EUR 704 thousand.

## Notes to the Consolidated Financial Statements

### (25) Investment in associates

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Investments in associates	1 745	2 080
	<b>1 745</b>	<b>2 080</b>

Investments in associates consists of a EUR 1 745 thousand investment in participation of 24.4% in BillFront GmbH, a non-listed limited liability German company. The Group has significant influence over, but does not control, the company as the ownership of 24.4% shares does not give power to make important decisions alone. The Group acquired 24.4% of shares for EUR 2 142 thousand in November 2016. As of 31 December 2017, the investment was decreased by EUR 335 thousand (31.12.2016: EUR 62 thousand), the Group's share of the loss for the twelve month period. The company is an online platform that offers working capital solutions to digital media businesses. The company is headquartered in London, with offices in Berlin and San Francisco.

### (26) Property and equipment

	<b>Buildings and land</b>	<b>Leasehold improvements</b>	<b>Computer equipment</b>	<b>Other property and equipment</b>	<b>Motor Vehicles</b>	<b>Total</b>
	<b>EUR'000</b>	<b>EUR'000</b>	<b>EUR'000</b>	<b>EUR'000</b>	<b>EUR'000</b>	<b>EUR'000</b>
<b>Cost</b>						
<b>31 December 2015</b>	—	1 213	3 938	1 594	—	6 745
Additions	5	562	1 747	1 130	691	4 135
Additions through business combinations (Note 27)	6 332	113	130	849	7 305	14 729
Disposals	(510)	(78)	(174)	(209)	(189)	(1 160)
Reclassified to assets held for sale (Note 26)	—	—	—	(52)	(6 647)	(6 699)
Reclassification	—	41	—	(41)	—	—
Effect of changes in foreign exchange rates	(68)	(68)	(74)	(72)	(25)	(307)
<b>31 December 2016</b>	<b>5 759</b>	<b>1 783</b>	<b>5 567</b>	<b>3 199</b>	<b>1 135</b>	<b>17 443</b>
<b>Accumulated depreciation</b>						
<b>31 December 2015</b>	—	347	1 630	440	—	2 417
Depreciation	77	294	1 281	564	766	2 982
Disposals	—	(60)	(80)	(26)	—	(166)
Reclassified to assets held for sale	—	—	—	(29)	—	(29)
Effect of changes in foreign exchange rates	(7)	(16)	(31)	(33)	(19)	(107)
<b>31 December 2016</b>	<b>70</b>	<b>565</b>	<b>2 800</b>	<b>916</b>	<b>747</b>	<b>5 098</b>
<b>Balance as at 31 December 2015</b>	—	866	2 308	1 154	—	4 328
<b>Balance as at 31 December 2016</b>	<b>5 689</b>	<b>1 218</b>	<b>2 767</b>	<b>2 283</b>	<b>388</b>	<b>12 345</b>

**Notes to the Consolidated Financial Statements**

**(26) Property and equipment (continued)**

	<b>Buildings and land</b>	<b>Leasehold improvements</b>	<b>Computer equipment</b>	<b>Other property and equipment</b>	<b>Motor Vehicles</b>	<b>Total</b>
	<b>EUR'000</b>	<b>EUR'000</b>	<b>EUR'000</b>	<b>EUR'000</b>	<b>EUR'000</b>	<b>EUR'000</b>
<b>Cost</b>						
<b>31 December 2016</b>	<b>5 759</b>	<b>1 783</b>	<b>5 567</b>	<b>3 199</b>	<b>1 135</b>	<b>17 443</b>
Additions	31	111	481	733	387	1 743
Disposals and write-offs	(323)	(62)	(499)	(162)	(829)	(1 875)
Effect of changes in foreign exchange rates	(103)	(42)	(59)	(40)	(41)	(285)
<b>31 December 2017</b>	<b>5 364</b>	<b>1 790</b>	<b>5 490</b>	<b>3 730</b>	<b>652</b>	<b>17 026</b>
<b>Accumulated depreciation</b>						
<b>31 December 2016</b>	<b>70</b>	<b>565</b>	<b>2 799</b>	<b>916</b>	<b>747</b>	<b>5 097</b>
Depreciation	159	474	1 225	833	253	2 944
Disposals	(7)	(44)	(215)	(74)	(606)	(946)
Effect of changes in foreign exchange rates	(11)	(31)	(19)	(38)	(31)	(130)
<b>31 December 2017</b>	<b>211</b>	<b>964</b>	<b>3 790</b>	<b>1 637</b>	<b>363</b>	<b>6 965</b>
<b>Balance as at 31 December 2016</b>	<b>5 689</b>	<b>1 218</b>	<b>2 767</b>	<b>2 283</b>	<b>388</b>	<b>12 345</b>
<b>Balance as at 31 December 2017</b>	<b>5 153</b>	<b>826</b>	<b>1 700</b>	<b>2 093</b>	<b>289</b>	<b>10 061</b>

## Notes to the Consolidated Financial Statements

### (27) Non-current assets and disposal groups held for sale

During 2016 and 2017 the TBIF Group was in the process of actively searching for a buyer of one of its fully owned subsidiaries operating in rent-a-car activities in Bulgaria. Business was sold in July 2017.

The TBIF Group subsidiary's major classes of assets and liabilities included in the disposal groups are as follow:

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Vehicles	—	6 647
Other assets	184	1 118
<b>Total assets</b>	<b>184</b>	<b>7 765</b>
Borrowings*	—	(5 480)
Other liabilities	—	(783)
<b>Total liabilities</b>	<b>—</b>	<b>(6 263)</b>
<b>Net from assets and liabilities</b>	<b>184</b>	<b>1 502</b>

\* 2016 included intercompany borrowings

TBIF Group's non-current assets held for sale are as follows (includes rent-a-car subsidiary held for sale as of 2016):

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Vehicles	—	7 362
- less accumulated impairment	—	(51)
Other	609	1 753
- less accumulated impairment	(425)	(488)
	<b>184</b>	<b>8 576</b>

**Notes to the Consolidated Financial Statements**

**(27) Non-current assets and disposal groups held for sale (continued)**

The movement in the impairment of non-current assets held for sale is as follows:

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
As at 1 January 2017	539	—
As at 1 August 2016*	—	647
Impairment charged for the period	—	35
Impairment written off for the period	(114)	(134)
Foreign exchange difference	—	(9)
<b>Balance at period end</b>	<b>425</b>	<b>539</b>

\*As of acquisition period

With sale of rent-a-car business TBIF Group holds no Non-current liabilities held for sale as at 31 December 2017. Non-current liabilities held for sale at year ends are as follows:

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Borrowings	—	4 026
Other liabilities	—	783
	<b>—</b>	<b>4 809</b>

**Notes to the Consolidated Financial Statements**

**(28) Intangible assets and goodwill**

	Licenses, trademarks and similar rights EUR'000	Software and other intangible assets EUR'000	Goodwill EUR'000	Development costs EUR'000	Advances EUR'000	Total EUR'000
<b>Cost</b>						
<b>31 December 2015</b>	<b>1 974</b>	<b>6 080</b>	<b>647</b>	<b>8 198</b>	<b>2 107</b>	<b>19 006</b>
Additions	857	317	—	20 114	2 132	23 420
Acquisitions through business combinations	702	54	42 706	—	35	43 497
Disposals and write-offs	(18)	(102)	—	—	—	(120)
Reclassification	19	7 038	—	(4 950)	(2 107)	—
Effect of changes in foreign exchange rates	(2)	153	—	598	—	749
<b>31 December 2016</b>	<b>3 532</b>	<b>13 540</b>	<b>43 353</b>	<b>23 960</b>	<b>2 167</b>	<b>86 552</b>
<b>Accumulated amortisation and impairment</b>						
<b>31 December 2015</b>	<b>573</b>	<b>403</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>976</b>
Amortisation	954	1 494	—	—	—	2 448
Disposals and write offs	(62)	(63)	—	—	—	(125)
Impairment loss	—	—	—	—	—	—
Effect of changes in foreign exchange rates	12	66	—	—	—	78
<b>31 December 2016</b>	<b>1 477</b>	<b>1 900</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>3 377</b>
<b>Balance as at 31 December 2015</b>	<b>1 401</b>	<b>5 677</b>	<b>647</b>	<b>8 198</b>	<b>2 107</b>	<b>18 030</b>
<b>Balance as at 31 December 2016</b>	<b>2 055</b>	<b>11 640</b>	<b>43 353</b>	<b>23 960</b>	<b>2 167</b>	<b>83 175</b>

**Notes to the Consolidated Financial Statements****(28) Intangible assets and goodwill (continued)**

	Licenses, trademarks and similar rights EUR'000	Software and other intangible assets EUR'000	Goodwill EUR'000	Development costs EUR'000	Advances EUR'000	Total EUR'000
<b>Cost</b>						
<b>31 December 2016</b>	<b>3 532</b>	<b>13 540</b>	<b>43 353</b>	<b>23 960</b>	<b>2 167</b>	<b>86 552</b>
Additions	3 826	1 156	—	6 188	199	11 369
Disposals and write-offs	(284)	(1 733)	—	(9 622)	(7)	(11 646)
Reclassification	2 339	9 085	—	(9 085)	(2 339)	—
Effect of changes in foreign exchange rates	(172)	(1 738)	—	(2 200)	(1)	(4 111)
<b>31 December 2017</b>	<b>9 241</b>	<b>20 310</b>	<b>43 353</b>	<b>9 241</b>	<b>19</b>	<b>82 164</b>
<b>Accumulated amortisation and impairment</b>						
<b>31 December 2016</b>	<b>1 477</b>	<b>1 900</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>3 377</b>
Amortisation	1 467	3 057	—	—	—	4 524
Disposals and write offs	(191)	(970)	—	—	—	(1 161)
Impairment loss	—	1 550	22 000	2 383	—	25 933
Effect of changes in foreign exchange rates	(127)	(376)	—	—	—	(503)
<b>31 December 2017</b>	<b>2 626</b>	<b>5 161</b>	<b>22 000</b>	<b>2 383</b>	<b>—</b>	<b>32 170</b>
<b>Balance as at 31 December 2016</b>	<b>2 055</b>	<b>11 640</b>	<b>43 353</b>	<b>23 960</b>	<b>2 167</b>	<b>83 175</b>
<b>Balance as at 31 December 2017</b>	<b>6 615</b>	<b>15 149</b>	<b>21 353</b>	<b>6 858</b>	<b>19</b>	<b>49 994</b>

Development costs largely relate to new IT development projects and significant improvements of existing products. During 2017, the Group's IT function was reorganized, decentralizing development and support services for countries and giving them larger autonomy. Number of long term projects have been completed during the reporting year and brought into use, among which is a new debt collection platform.

Management has reassessed expected future economic benefit for all development project costs capitalized as of 31 December 2017 and decision was made to write down several intangible assets and development costs (not yet in use) and partially impair intangible assets related to cash generating units which currently does not generate sufficient cash flows to cover the asset value. Impairment test of Software and Development costs took into consideration future performance of cash generating units, based on three years discounted EBITDA projections. Cash generating unit is a product (instalment loan, single payment loan or line of credit product with separately identifiable loan portfolio and brand name) of each 4Finance Holding S.A. entity, which is the unit that generates cash inflow from continuing use that is largely independent of the cash inflow of other assets. The discount rates (8% - 21%) and terminal growth rate (2 %) was determined by the Group's Risk department for each of cash generating units, taking into account specifics of particular markets.

In addition to impairment test results, IT intangible assets and capitalization policy were reviewed in the context of the decision at year end that a new IT platform will be introduced across the Group in 2018-2020, with the legacy IT platform to be phased out by 2020. This included identifying Software which is either is not used, or it's functionality is not aligned with current business strategy and therefore future economic benefit is not expected. A number of such items were identified and the write-off loss recognized as Non-recurring expense (Note 14).

## Notes to the Consolidated Financial Statements

### (28) Intangible assets and goodwill (continued)

#### Goodwill

##### *Acquisition of Armenia and Argentina*

During year 2015, the Group acquired two entities in Armenia and Argentina. Goodwill recognised in connection with these acquisitions totalled EUR 647 thousand. As of 31 December 2017, there are no indications of impairment for the goodwill recognised, as the entities in Armenia and Argentina are still developing their businesses. These companies are anticipated to continue to grow and become profitable in the future.

##### *Acquisition of Friendly Finance*

During the year 2016, the Group acquired 80% of Friendly Finance. The acquisition was completed on 30 June 2016 for EUR 28.8 million. The purchase price was determined based on two methods: EBITDA ratios and Price/Earnings ratios for similar companies. The net present value of discounted future cash flows was also calculated, to determine that the net present value was larger than the purchase price of the entity. Friendly Finance operates in Poland, Slovakia, the Czech Republic, Spain and Georgia. In year 2016 the acquisition was performed to enable the Group to increase its market share in countries in which it already has a presence (Poland, Czech Republic, Spain and Georgia), enter a new market (Slovakia) and add other brands to its portfolio. For the twelve months ended 31 December 2017, Friendly Finance group revenues amounted to EUR 27 502 thousands (2016: EUR 23 942 thousands) and loss amounted to EUR 14 101 thousands (2016: EUR 2 661 thousands).

##### *Identifiable assets acquired and liabilities assumed*

The following summarises the recognised amount of assets acquired and liabilities assumed of Friendly Finance at the acquisition date.

	<b>30.06.2016</b>
	<b>EUR'000</b>
Property and equipment	224
Intangible assets	275
Loans due from customers	16 452
Other receivables	401
Deferred tax asset	268
Cash and cash equivalents	1 621
Loans and borrowings	(13 448)
Trade and other liabilities	(3 355)
<b>Total identifiable net assets (100%)</b>	<b>2 438</b>
<b>Total identifiable net assets (80%)</b>	<b>1 950</b>

The asset and liability values above are estimated to be fair values. These values did not significantly differ from the net book values except for loans due from customers for which fair value was determined to be lower than the net carrying amount.

As of 30 June 2016, the net portfolio carrying amount in Friendly Finance consolidated financial information was EUR 19 313 thousand. The fair value of the loan portfolio was estimated based on discounted future cash flows. Discounted cash flows included such input data as the use of average portfolio interest rates and expected net cash flows from portfolios.



## Notes to the Consolidated Financial Statements

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### (28) Intangible assets and goodwill (continued)

The fair value of the portfolio was estimated to be lower than net book value of EUR 16 452 thousand. Other receivables amounted to EUR 401 thousands and, given their short term nature, the fair value was assumed to approximate the contractual amount. Deferred tax assets totalling EUR 268 thousand was recognised due to the difference in the net book value and fair value of loans due from customers. Short term loans and borrowings (not including the Friendly Finance OÜ loan from 4Finance S.A.) were EUR 1 795 thousands, long term loans and borrowings (not including Friendly Finance OÜ loan from 4Finance S.A.) were EUR 6 804 thousands and loans and borrowings of Friendly Finance OÜ from 4Finance S.A. were EUR 4 849 thousands. These are estimated to be fair value amounts in which interest rates are equal to market interest rates.

Goodwill arising from the acquisitions was as follows:

	<b>30.06.2016</b>
	<b>EUR'000</b>
Total consideration transferred	28 800
Fair value of identifiable net assets acquired	(1 950)
<b>Goodwill</b>	<b><u>26 850</u></b>

At the time of the purchase goodwill presented the positive value that Friendly Finance was planning to generate in the future by earning revenues and profits.

Non-controlling interest was recognised as 20% of the recognised amount of the identifiable net assets of the acquired entity. In 2017, 4finance Holding S.A. entered into a deal to purchase minority shares of 20% that is expected to be closed in 2018.

#### *Acquisition of TBIF Group*

On 11 August 2016, 4finance Holding S.A. completed the purchase of TBI Bank EAD through the acquisition of 100% of TBIF Financial Services B.V. from its parent company, Kardan Financial Services B.V., following receipt of all regulatory approvals. The acquisition is in line with the Group's strategy of product and geographic diversification. In addition, the purchase may lead to lower costs of funding for the Group. The total consideration was in cash of EUR 81.8 million, which has been paid in full.

TBIF Group is a consumer-focused financial group in Bulgaria and Romania with consolidated assets of EUR 272 million as of 31 July 2016, including EUR 176 million of customer loans at net book value. Funding is predominantly through customer deposits and customer accounts of EUR 177 million, representing 85% of total liabilities, as of 31 July 2016.

The following summarises the estimated fair values of assets acquired and liabilities assumed of the acquired TBIF Financial Services B.V. group as of the acquisition date (financial information as of 31 July 2016 is used).

## Notes to the Consolidated Financial Statements

### (28) Intangible assets and goodwill (continued)

	<b>31.07.2016</b>
	<b>EUR'000</b>
Cash and cash equivalents	46 395
Placements with other banks	19 182
Loans due from customers	173 825
Other assets	18 423
Property and equipment	14 604
Intangible assets	840
Deferred tax asset	720
Deposits from banks	(14 038)
Deposits from customers	(176 897)
Other liabilities	(16 577)
Deferred tax liability	(519)
<b>Total identifiable net assets</b>	<b>65 958</b>

As of time of the acquisition, TBIF Group assets mainly consisted of cash, cash equivalents, placements with other banks, loans due from customers, and property and equipment. For short term assets, net book values were used as an approximation of fair values. Fair values of loans due from customers were estimated based on discounted future cash flows. Discounted cash flows included such input data as the use of expected net cash flows of the principal values and interest income. The expected contractual gross cash flows from loans due from customers to be received are expected to be EUR 262 million and net cash flows decreased by losses are expected to be EUR 248 million.

Property and equipment were divided into land and buildings, leasing and other fixed assets. To estimate the fair value for land and buildings, third party valuation reports not older than one year were used. The fair value for land and buildings was higher than net book value. Fair values for leasing and other fixed assets did not significantly differ from net book values. Other assets included prepaid expenses, trade receivables, repossessed collateral and available for sale financial assets.

TBIF Group liabilities mainly consisted of deposits from banks, for which the net book values represented fair values, deposits from customers where fair value estimations were made, and other liabilities that mainly included other borrowings, trade payables and other payables. For deposits from customers, fair values were estimated based on discounted cash flows. Cash flows were presented based on deposit payments per terms and expected interest payments.

In the course of identifying differences between net book values and fair values, deferred tax assets and deferred tax liabilities were calculated.

Based on the assessment as described above, the estimated fair values of total identifiable net assets of TBIF Group acquired was EUR 65 958 thousand.

**Notes to the Consolidated Financial Statements****(28) Intangible assets and goodwill (continued)**

Goodwill arising from the acquisitions was as follows:

	<b>31.07.2016</b>
	<b>EUR'000</b>
Total consideration transferred	81 814
Fair value of identifiable net assets acquired	(65 958)
<b>Goodwill</b>	<b><u>15 856</u></b>

For the twelve months ended 31 December 2017, consolidated TBI Bank EAD revenues amounted to EUR 62.9 million (2016: EUR 46.9 million) and profit to EUR 19.6 million (2016: EUR 16.6 million). The financial information is not presented for TBIF Group due to the fact TBIF is holding company and until the time of acquisition, TBIF Group had a different structure compared to post acquisition. When TBIF was acquired TBIF owned only TBI bank and its subsidiaries. Consequently, financial information of consolidated TBI Bank EAD for the twelve months ended 31.12.2016 provides more representative information.

**Goodwill impairment test**

As of 31 December 2016 and 2017, goodwill was tested for impairment. The goodwill impairment test was performed for each cash generating unit separately, where the cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The goodwill identified when Friendly Finance and TBIF Group was acquired was EUR 26 850 and 15 856 thousands, respectively.

*Friendly Finance*

In year 2016 for Friendly Finance, each business based on geographic location was identified as a cash generating unit despite the fact that the management of the Group viewed Friendly Finance as one operating segment (see Note 41). For the purposes of impairment testing, acquired goodwill of EUR 26 850 thousands was allocated as follows:

<b>Cash generating unit</b>	<b>EUR'000</b>
Spain	8 054
Czech Republic	6 713
Slovakia	2 685
Poland	9 398
	<b><u>26 850</u></b>

In 2016 Goodwill per unit was allocated based on management's assessment of each unit value, and its expected growth in cash flows.

In year 2016 no impairment losses were recognised because the recoverable amounts of these units including the goodwill allocated were determined to be higher than their carrying amounts. In year 2017 Friendly Finance was assessed to be worth less than its carrying value, and has been impaired by EUR 22.0 million to a remaining amount of EUR 4 850 thousand. This is due to worse than expected financial performance by Friendly Finance in 2017, regulatory outlook in certain markets, and the plans for a full integration with our in-country operations, including a potential withdrawal of the Friendly Finance operations in certain markets. In Spain, during 2017 the management was monitoring the performance of Friendly Finance single payment loans brand performance and financial results compared with the 4finance Group's Vivus brand. Consequently, the management has taken a view to concentrate marketing and new investment focus on the 4finance brand and decrease significantly operation of Friendly Finance in Spain, leading to the decision to impair the goodwill fully.

## Notes to the Consolidated Financial Statements

### (28) Intangible assets and goodwill (continued)

Friendly Finance goodwill impairment:

	<b>Goodwill 31.12.2017</b>	<b>Impairment 2017</b>	<b>Goodwill 31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>	<b>EUR'000</b>
<b>Cash generating unit</b>			
Spain	—	(8 054)	8 054
Czech Republic	2 000	(4 713)	6 713
Slovakia	1 000	(1 685)	2 685
Poland	1 850	(7 548)	9 398
	<b>4 850</b>	<b>(22 000)</b>	<b>26 850</b>

To estimate impairment the recoverable amounts for each unit was calculated based on their value in use, determined by discounting the future cash flows expected to be generated from the continuing activities of the units.

The calculations of value-in-use were based on free cash flows to each unit respectively, discounted by the weighted average costs of capital ("WACC"). The value-in-use calculations are most sensitive to projected profit before tax, interest expense, depreciation and amortization ("EBITDA"), terminal growth rates used to extrapolate cash flows beyond the budget period, and discount rates.

Projected EBITDA figures were based on detailed financial models. Actual figures were used as a starting point in these models, and took into account management's expectations of the future performance of each unit.

Projected revenues growth rates (per cent, compound annual growth rates) used in the Friendly Finance goodwill impairment test were:

<b>Cash generating unit</b>	<b>2017</b>	<b>2016</b>
Spain	n/a	63
Czech Republic	(19)	11
Slovakia	5	23
Poland	2	58

The projected revenues growth rates for all Czech Republic, Slovakia and Poland are expected to be lower than planned in year 2016 due to currently observed market trends in year 2017 and beginning of 2018.

Five years (2016: four years) of cash flows were included in the discounted cash flow model. A long-term growth rate into perpetuity was determined to be 2% (2016: 4%) for Friendly Finance units. The rate was decreased in year 2017 to apply more prudent approach.

Discount rates reflect the current market assessment of the risk specific to each unit. The discount rate was determined on a pre-tax basis. The rate was measured based on the rate of government bonds (including country risk), adjusted for a risk premium to reflect both the increased risk of investing in equities and the systematic risk of the specific cash generating unit.

Discount rates for Friendly Finance units, estimated as the WACC (rounded to the nearest whole number), are:

<b>Cash generating unit</b>	<b>2017</b>	<b>2016</b>
Spain	n/a	12
Czech Republic	12	12
Slovakia	12	12
Poland	14	13

## Notes to the Consolidated Financial Statements

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### (28) Intangible assets and goodwill (continued)

Sensitivity analysis was performed to assess changes to key assumptions that could influence whether the carrying value of the units exceeded their recoverable amounts.

In year 2016 the results of this analysis indicate that for Friendly Finance units, the recoverable amount would be slightly below the carrying amount including goodwill (i.e. goodwill would become impaired), if terminal growth rates decreased by 2%, discount rates increased by 2% and revenues decreased by:

<b>Cash generating unit</b>	<b>Per cent</b>
Spain	40
Czech Republic	48
Slovakia	31
Poland	40

In year 2017 goodwill impairment was recognised. Goodwill would be impaired fully, if discount rates increased by 2% and revenues decreased by:

<b>Cash generating unit</b>	<b>Per cent</b>
Spain	n/a
Czech Republic	48
Slovakia	34
Poland	34

#### *TBIF Group*

Due to the fact that TBI Bank EAD constitutes the major part of the TBIF Group operations and assets then goodwill was fully allocated to TBI Bank EAD.

The recoverable amounts for TBI Bank EAD were calculated based on the value in use. No impairment losses were recognised as the recoverable amounts of these units including goodwill were determined to be higher than their carrying amounts.

The value in use was calculated based on the free cash flows to equity discounted by the cost of equity. The projected growth rate of free cash flows to equity used in the test (average of next four years) was 16% (2016: 4%), based on management estimates. In year 2017 estimated growth rate reflects management expectations of the development of the bank and amounts to 16%.

Four years of cash flows were included in the discounted cash flow model. A long-term growth rate into perpetuity was determined as 2% (2016: 2%). The rate was estimated by management based on expected industry and market developments.

The discount rate reflects the current market assessment of the risk specific to TBI Bank EAD. The cost of equity was calculated as 17% (rounded to the nearest whole number). Sensitivity analysis was performed to assess changes to key assumptions that could influence whether the carrying value of the units exceeded their recoverable amounts. The results of the sensitivity analysis indicate that for TBI Bank EAD if free cash flows to equity decreased by 19% (Y2016: 21%), terminal growth rate decreased by 2%, discount rate increased by 2%, then the recoverable amount is slightly below the carrying amount including goodwill (i.e. goodwill would become impaired).

## Notes to the Consolidated Financial Statements

### (29) Deferred tax asset

Deferred tax relates to the following temporary differences and tax losses carried forward. Movement in temporary differences and tax losses carried forward during the year ended 31 December 2017:

	Net balance 1 January 2017	Recognised in profit or loss of continued operations	Effect of exchange rate fluctuations	Net balance 31 December 2017	Deferred tax asset	Deferred tax liabilities
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Impairment losses on loans and receivables	10 923	(3 231)	338	8 030	8 030	—
Property and equipment	(105)	109	(12)	(8)	—	(8)
Other liabilities	6 024	5 066	(535)	10 555	10 555	—
Tax losses carried forward	6 855	4 584	(570)	10 869	10 869	—
<b>Deferred tax assets (liabilities) before set-off</b>	<b>23 697</b>	<b>6 528</b>	<b>(779)</b>	<b>29 446</b>	<b>29 454</b>	<b>(8)</b>
Set-off of tax					(8)	(8)
<b>Net deferred tax assets</b>					<b>29 446</b>	<b>—</b>

Movement in temporary differences and tax losses carried forward during the year ended 31 December 2016:

	Net balance 1 January 2016	Recognised in profit or loss of continued operations	Acquired through business combination	Effect of exchange rate fluctuations	Net balance 31 December 2016	Deferred tax asset	Deferred tax liabilities
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Impairment losses on loans and receivables	8 815	2 187	—	(79)	10 923	10 923	—
Property and equipment	41	(151)	—	5	(105)	—	(105)
Other liabilities	2 008	3 679	469	(132)	6 024	6 024	—
Tax losses carried forward	2 077	4 956	—	(178)	6 855	6 855	—
<b>Deferred tax assets (liabilities) before set-off</b>	<b>12 941</b>	<b>10 671</b>	<b>469</b>	<b>(384)</b>	<b>23 697</b>	<b>23 802</b>	<b>(105)</b>
Set off of tax						(105)	(105)
<b>Net deferred tax assets</b>						<b>23 697</b>	<b>—</b>

The Group has recognized deferred tax assets of EUR 29 446 thousand (31 December 2016: EUR 23 697 thousand) in Argentina, Armenia, Bulgaria, Czech Republic, Denmark, Finland, Georgia, Lithuania, Luxembourg, Poland, Spain, Sweden, UK and US.

Deferred tax assets coming from tax losses carried forward as at 31 December 2017 related to Argentina, Armenia, Bulgaria, Lithuania, Luxembourg, Poland (IT branch), UK (IT branch) and US (4fSales Inc.), totalled EUR 10 869 thousand (31 December 2016: EUR 6 855 thousand). The Group has prepared detailed financial projections for these entities covering the next 3 years. Based on these projections and the Group's history of utilizing deferred tax assets in other countries, management expects that the Group will be able to fully utilise these tax losses over the forthcoming years.

EUR 7 077 thousand of the tax losses have an expiry period more than 5 years, while EUR 3 792 thousand of the tax losses have an expiry period within 5 years. Most of tax losses are expected to be utilised by the end of 2019, while the rest - by the end of 2020.

## **Notes to the Consolidated Financial Statements**

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### **(29) Deferred tax asset (continued)**

As at 31 December 2017, the Group has not recognized a deferred tax asset relating to tax losses of EUR 9 281 thousand (2016: EUR 4 919 thousand) mainly due to uncertainty around utilisation of these tax benefits (mainly consists of Dominican Republic, Mexico, Romania) or definite limitations on deferred tax asset recognition in books based on local accounting laws (Latvia).

The main reasons for the increase of deferred tax asset value in the reporting period compared to year 2016 are: continuing investments have been made into the development of start-up company in Argentina, creating higher tax losses in 2017 (tax asset increase by EUR 1 312 thousand); first time recognition of deferred tax asset in Luxembourg, 4finance S.A. (tax asset recognized in amount of EUR 5 624 thousand on historical tax loss created); increased deferred tax asset in Poland entity Zaplo (tax asset increase by EUR 4 480 thousand) due to rapid increase of loan portfolio and initial commissions charged upon granting the loan which are taxable upon granting of the loan, while deferred for accounting purposes.

At the same time the historically recognized deferred tax assets due to legislation changes were de-recognized in Latvian entities (EUR 1 463 thousand) and Georgia, Credit Management (EUR 247 thousand) and due to uncertainty around utilisation of tax benefits in future - in Romania (EUR 592 thousand), Mexico (1 910 thousand) and Poland Vivus (EUR 1 063 thousand). The de-recognized parts covers deferred tax assets accumulated from historical financial years, while in addition to these amounts no new deferred tax assets were recognized on the FY2017 results. Additional highest deferred tax asset reductions in result of usual business activities relates to Sweden 4finance (EUR 330 thousand) and US 4fSales (EUR 226 thousand).

In all other aspects the entities of the Group are mainly representing decrease in deferred tax asset closing balances apart from e.g. Czech Republic (EUR 390 thousand increase) and Georgia 4Finance (EUR 284 thousand increase).

**Notes to the Consolidated Financial Statements****(30) Loans and borrowings**

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
<b>Long term</b>		
Notes	456 422	181 766
Loans from banks	219	246
Loans from related parties	—	700
Other loans in Friendly Finance	10	1 605
Other loans in TBIF Group	114	2 665
Other loans	357	—
	<b>457 122</b>	<b>186 982</b>
	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
<b>Short term</b>		
Notes	8 984	197 246
Loans from banks	2	3
Loans from related parties	0	3 045
Other loans in Friendly Finance	200	5 156
Other loans in TBIF Group	143	858
Other loans in 4finance Group	3 765	3 893
	<b>13 094</b>	<b>210 201</b>
<b>Total</b>	<b>470 216</b>	<b>397 183</b>



**Notes to the Consolidated Financial Statements****(30) Loans and borrowings (continued)**

Detailed information regarding loans and borrowings can be seen below:

Loan provider / type of loan	Currency	Maturity	Interest rate	Principal amount		Accrued interest	
				31.12.2017	31.12.2016	31.12.2017	31.12.2016
				EUR'000	EUR'000	EUR'000	EUR'000
<b>Notes:</b>							
2019 Notes	USD	Aug 2019	11.75 %	56 122	185 768	2 528	8 484
2021 Notes	EUR	May 2021	11.25 %	141 922	140 605	1 683	1 769
2022 Notes	USD	May 2022	10.75%	258 377	—	4 774	—
2018 Notes	SEK	Mar 2018	11.75 %	—	38 407	—	1 192
Friendly Finance Notes	PLN	May 2021	10%	—	2 754	—	33
<b>Loans from related parties:</b>	EUR	2017 - 2019	14%-15%	—	3 700	—	45
<b>Loans from banks:</b>							
Ameriabank CJSC	AMD	Mar 2019	15%	219	246	2	3
<b>Other loans in:</b>							
4finance Group	EUR	2018 - 2019	1.5%-9%	4 122	3 892	—	1
Friendly Finance	EUR	2018 - 2019	12%-15%	210	6 760	—	1
TBIF Group	BGN	2018 - 2020	2%	257	3 518	—	5
				<b>461 229</b>	<b>385 650</b>	<b>8 987</b>	<b>11 533</b>

In May 2016, 4finance S.A. issued EUR 150 million of 11.25% notes which are due in May 2021 ("2021 Notes"). The 2021 Notes were listed on the Frankfurt Stock Exchange.

In April 2017, 4finance S.A. issued USD 325 000 thousand of 10.75% notes which are due in May 2022 ("2022 Notes"). The 2022 Notes were listed on the Irish Stock Exchange.

In April 2017 there was settled tender offer for the Group's USD 2019 Notes and USD 61 million of tendered notes were rolled over into new 2022 Notes, USD 71 million were cancelled and a notional amount of USD 68 million of the USD 2019 Notes remains outstanding.

Following the closing of the new USD 2022 Notes, some of the proceeds were used to fund an early redemption of the Group's SEK 2018 Notes that settled in May 2017.

Relating to the re-financing, the Group incurred costs where:

- expenses directly related to the 2022 Notes issuing were capitalised;
- expenses of premium paid for the USD 2019 Noteholders who tendered and rolled over to the new USD 2022 Notes were capitalised based on qualitative and quantitative criteria assessment;
- unamortised issuance costs of EUR 1.8 million for USD 2019 Notes and SEK 2018 Notes were expensed and classified as interest expenses;
- the premium to re-purchase the tendered 2019 Notes from those not participating in the 2022 Notes and the premium to redeem the Group's 2018 SEK notes, amounting to a total of EUR 6.3 million, was expensed and classified under non-recurring finance costs.

The 2021 Notes and 2022 Notes are subject to a number of restrictive covenants and are senior to all future subordinated debt. The Group was compliant with all the covenants of the new notes and those previously issued throughout the period.

## Notes to the Consolidated Financial Statements

### (30) Loans and borrowings (continued)

On 30 June 2016, the Group acquired Friendly Finance. In November 2015, its subsidiary, Friendly Finance Poland, issued PLN 15 000 thousand (EUR 3 381 thousand) 10% notes due in May 2018. Friendly Finance Notes were repaid before maturity date, in August 2017.

The Group is always considering alternatives for financing, including actively managing liquidity risks and strengthening its long-term capital structure.

Reconciliation of movements of liabilities to cash flow arising from financing activities you can see in table below:

	Notes	Other loans	Retained earnings
<b>Balance at 1 January 2017</b>	<b>379 012</b>	<b>18 171</b>	<b>229 908</b>
<b>Changes from financing cash flows</b>			
Loans received and notes issued	160 878	2 780	—
Repayment of loans and notes	(41 688)	(16 306)	—
Dividend payment	—	—	(26 000)
<b>Total changes from financing cash flows</b>	<b>119 190</b>	<b>(13 526)</b>	<b>(26 000)</b>
<b>Other changes</b>			
<b>Liability-related</b>			
Interest payments	(50 114)	(1 470)	—
Costs of notes issuance and premium on repurchase of notes	(5 832)	—	—
Interest expense	55 911	1 425	—
Loans received through acquisition	—	347	—
Non-recurring finance cost	6 265	—	—
Foreign exchange impact	(39 026)	(137)	—
<b>Total liability-related other changes</b>	<b>(32 796)</b>	<b>165</b>	<b>—</b>
<b>Total equity-related other changes</b>	<b>—</b>	<b>—</b>	<b>(13 571)</b>
<b>Balance at 31 December 2017</b>	<b>465 406</b>	<b>4 810</b>	<b>190 337</b>

**Notes to the Consolidated Financial Statements****(31) Deposits from customers**

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
TBIF Group	257 135	224 611
4finance Group	13 889	12 508
<b>Total deposits from customers</b>	<b>271 024</b>	<b>237 119</b>

<b>TBIF Group</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
<b>Corporate customers</b>		
Current/settlement accounts	19 872	26 490
Term deposits	34 305	21 928
<b>Individuals</b>		
Current/settlement accounts	18 203	12 916
Term deposits	184 755	163 277
	<b>257 135</b>	<b>224 611</b>

As a credit institution, deposits are a normal part of the activity of TBIF Group, it provides only fixed rate deposits, most of which mature within 12 months. The average cost on these deposits for TBIF Group during 2017 was 1.5% (31 December 2016: 1.6%) per annum (average costs includes interest expense on deposits divided by current account and term deposit balances regardless of maturity, currency and geographic location).

The activity of applying measures against money laundering and terrorist financing in TBIF Group is performed by Compliance Departments in Bulgaria and its Romanian Branch. The departments performs functions of specialized unit for control and prevention of money laundering and terrorist financing (CPMLTF) under the local legislation requirements and properly identifies and verifies the identity of its customers. For the transactions monitoring a specialized software is used, where suspicious transactions and counterparties are assessed and controlled.

<b>4finance Group</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Deposits from customers	13 889	12 508
	<b>13 889</b>	<b>12 508</b>

In Sweden, the Group's subsidiary 4Spar AB offers online deposit-taking services to individuals for terms of up to three years, and also offers call deposits. The maximum amount of any deposit that can be accepted from a customer is limited by Swedish law to SEK 50 000 (approximately EUR 5 400).

Call deposits are offered for an unlimited term and may be withdrawn by a customer at any time without a fee. Call deposits bear a floating interest rate, that is currently 6.5% per annum. The minimum amount for call deposits is SEK 1 000 (approximately EUR 115).

Deposits on interest accounts are offered for fixed terms of between three months to three years, and may not be withdrawn early by a customer without the loss of accrued interest. Deposits on interest accounts bear a fixed interest rate that is currently between 7.1% and 10% per annum, depending on the term of the deposit. The minimum amount required to be deposited in respect of interest accounts is, in each case, SEK 10 thousand (EUR 1 156).

Deposits from customers at the end of 2017 includes interest payable amounting to EUR 991 (31 December 2016: EUR 1 898 thousand) thousand.

## Notes to the Consolidated Financial Statements

### (32) Share capital

The share capital of the Group as at 31 December 2017 was EUR 35 750 thousand (31 December 2016: EUR 35 750 thousand), divided into 3 575 000 000 ordinary shares (31 December 2016: 3 575 000 000 shares) with nominal value of EUR 0.01 each (31 December 2016: EUR 0.01), fully paid via a contribution-in-kind. As at 31 December 2016, 4finance AS, a subsidiary of 4finance Holding S.A., held one hundred thousand (100 000) non-voting preferred shares with nominal value of one cent of Euro (EUR 0.01) each.

During the year 2017 all one hundred thousand (100 000) non-voting preferred shares previously held by 4finance AS, a subsidiary of 4finance Holding S.A., were redeemed by 4finance Holding S.A.

The holders of ordinary shares are entitled to receive dividends as declared from time-to-time and are entitled to one vote per share at annual and general meetings of the Group. All ordinary shares rank equal in their entitlement to the Group's residual assets.

Equity includes a negative reorganization reserve of EUR 31 240 thousand (31 December 2016: EUR 31 240 thousand) which mainly reflects the difference between the share capital of 4finance Holding S.A. and the paid in share capital of AS 4finance prior to the legal reorganization conducted in 2014 and 2015.

As at 31 December 2017, the Company's shareholders were 4finance Group S.A. (100% ownership of ordinary shares, corresponding to 100% of total share capital) owned by Tirona Limited (Cyprus) - 4finance Group S.A. directly.

The beneficial owners of the group are Uldis Arnicāns, Edgars Dupats and Vera Boiko, owning 25.5%, 25.5% and 49%, respectively, in Tirona Limited.

### (33) Other liabilities

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
		<b>Restated</b>
Accrued expenses	19 301	14 847
Accounts payable to suppliers	14 478	11 835
Taxes payable	6 876	5 694
Advances received	3 922	3 345
Salaries payable	3 917	2 602
Overpayments received from clients	2 787	1 475
Prepaid repayment instalments	2 632	2 493
Faulty payments received	1 624	1 119
Provisions for unused vacations	1 951	2 199
Other liabilities	5 120	4 304
	<b>62 608</b>	<b>49 913</b>

Accrued expenses include expenses for marketing costs, loan application processing costs, communication expenses, debt collection expenses and IT expenses. The increase in the balance relates mainly to the Group's largest operating entities in Poland, Spain, Denmark, Latvia and the Czech Republic.

Prepaid repayment instalments relate to TBIF Group on loans to individuals represent instalments that have not yet matured. Upon request by a customer, the Group is obliged to repay the amounts to the respective borrower.

Accrued expenses includes accrual of potential tax provision in Poland in amount of EUR 2 418 thousand.

## Notes to the Consolidated Financial Statements

### (34) Acquisition of additional share in subsidiaries

During the financial year 2016, the Group acquired an additional 3% interest in 4finance UAB and Credit Service UAB for EUR 2 052 thousand in cash, increasing its ownership from 97% to 100%. The carrying amount of 4Finance UAB net assets in the Group's financial statements on the date of acquisition was EUR 21 090 thousand and Credit Service UAB EUR (1 073) thousand respectively. The Group recognized a decrease in NCI of EUR 601 thousand.

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Carrying amount of NCI acquired (20 017 x 3%)	—	601
Consideration paid to NCI	—	(2 052)
<b>A decrease in equity attributable to owners of the Group</b>	<b>—</b>	<b>(1 451)</b>

### (35) Contingent liabilities and irrevocable commitments

The Group's contingent liabilities, excluding TBIF Group, are related to its commitments to extend credit lines intended to meet the requirements of customers.

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Line of credit	4 783	770
	<b>4 783</b>	<b>770</b>

TBIF Group's contingent liabilities are related to its commitments to extend loans, credit lines, letters of credits and guarantees intended to meet the requirements of the bank's customers. Contingencies on loans and credit lines extended by the TBIF Group represent contractual commitments to unconditionally provide a specified amount to the customer under the provisions of the loan agreement, in the part related to utilisation, as well as an obligation of the TBIF Group to maintain amounts available up to those agreed in the credit line agreements. Upon expiry of the fixed deadline, the obligation, regardless of whether utilised or not, expires as well as the contingency for the TBIF Group.

Guarantees and letters of credit oblige the TBIF Group, if necessary, to make a payment on behalf of the customer, if the customer fails to discharge its obligations within the term of the agreement. At that time, the TBIF Group recognises the provision in its financial statements for the period of the occurred change.

The contingent liabilities and irrevocable commitments (except operating lease commitments) of the TBIF Group at 31 December 2017 are as follows:

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
<b>Guarantees</b>		
Corporate clients	657	519
<b>Undrawn credit commitments:</b>		
Corporate clients	3 126	3 020
Individuals	7 828	5 279
	<b>11 611</b>	<b>8 818</b>

4Finance Group has signed agreement to issue a loan to Spotcap up to EUR 4.9 million (see Note (23) Loans to related parties).

**Notes to the Consolidated Financial Statements****(36) Operating leases**

Non-cancellable operating lease rentals are payable as follows:

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Less than one year	4 833	4 979
Between one and five years	8 597	11 753
More than five years	1 760	2 081
	<b>15 190</b>	<b>18 813</b>

The Group entities lease a number of premises and equipment under operating lease. The leases typically run for an initial period up to five years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rent rates.

In 2017, EUR 4 433 thousand was recognized as an expense in the income statement in respect of operating leases (2016: EUR 4 815 thousand). Five entities cover EUR 2 508 thousand of total 2017 expenses - AS 4finance, Vivus Finance SA, Vivus Finance Sp.z.o.o, SIA 4finance IT branch in the Czech Republic, 4finance ApS.

**(37) Related party transactions**

*(a) Transactions with shareholders and related entities*

<b>Receivables from related parties:</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Loans issued to related parties	5 100	5 813
Other receivables	1 560	255
	<b>6 660</b>	<b>6 068</b>

<b>Income from related parties:</b>	<b>2017</b>	<b>2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Interest income	709	3 452
Income from services rendered	76	304
	<b>785</b>	<b>3 756</b>

**Notes to the Consolidated Financial Statements**

**(37) Related party transactions (continued)**

<b>Borrowings and payables to related parties:</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Loans and borrowings		
- Borrowings and payables at the end of the period	36	3 745
<b>Interest expense to related parties:</b>		
	<b>2017</b>	<b>2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Interest expense	36	534
<b>Financial instruments at fair value through profit or loss</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Financial assets at fair value through profit or loss at the end of the period	207	632
<b>Gain/loss from revaluing derivatives with related parties:</b>		
	<b>2017</b>	<b>2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
(Loss)/profit from financial instruments at fair value through profit or loss	(391)	(588)

*(b) Transactions with parent and the related entities*

<b>Receivables from related parties:</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Loans issued to related parties	57 668	41 257
Other receivable	504	2 074
	<b>58 172</b>	<b>43 331</b>
<b>Income from related parties:</b>		
	<b>2017</b>	<b>2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Interest income (Note 23)	7 804	1 683
Income from services rendered	569	691
	<b>8 373</b>	<b>2 374</b>

**Notes to the Consolidated Financial Statements**

**(37) Related party transactions (continued)**

*(c) Transactions with associated companies*

<b>Receivables from related parties:</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Loans issued to related parties	3 825	—
	<b>3 825</b>	<b>—</b>

<b>Income from related parties:</b>	<b>2017</b>	<b>2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Interest income	37	—
	<b>37</b>	<b>—</b>

*(d) Transactions with other related parties*

<b>Receivables from related parties:</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Loans issued to related parties	—	20 128
Other receivable	—	458
	<b>—</b>	<b>20 586</b>

<b>Income from related parties:</b>	<b>2017</b>	<b>2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Interest income	—	1 508
Income from services rendered	275	571
	<b>275</b>	<b>2 079</b>

<b>Expense to related parties:</b>	<b>2017</b>	<b>2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Expense for services received	43	—
	<b>43</b>	<b>—</b>

**Total remuneration included in administrative expenses:**

	<b>2017</b>	<b>2016</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Executive committee and Board members	3 584	3 286



## Notes to the Consolidated Financial Statements

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### (37) Related party transactions (continued)

There are no outstanding balances as of 31 December 2017 with members of the Group's management board or executive committee.

There are no emoluments granted to the members of the Board and commitments in respect of retirement pensions for former members of the Board.

During 2015, 4finance Group S.A., parent company of the Group, launched a long-term management incentive scheme linking incentives to the future profitability of 4finance Group S.A. The management incentive scheme is structured in a way that payments are to be settled by 4finance Group S.A. based on share value, which in turn is linked to the consolidated profits of 4finance Group S.A. Since the Group received the benefit from these services, the related expense in profit or loss of the Group in prior periods with a corresponding entry in share based payment reserve in equity. As at 31 December 2017, the share based premium reserve totalled EUR 1 652 thousand at year end (2016: EUR 1 652 thousand). The expense previously recorded for the long-term management incentive scheme is based on the estimated future profitability of the Group and 4finance Group S.A. over the period ending on 31 December 2017 and 31 December 2018.

In July 2017 purchased 10% additional shares for Spotcap Global S.à r.l. from Tirona Limited, please see Note (22) Financial assets available for sale.

### (38) Personnel costs

	2017	2016
	EUR'000	EUR'000
<b>Type of costs</b>		
Remuneration	76 051	53 861
Compulsory state social security contributions, pensions and other social security expenses	14 320	11 053
Other personnel costs	8 475	3 445
	<u>98 846</u>	<u>68 359</u>

### (39) Litigation

In the ordinary course of business, the Group is subject to legal actions. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial condition or the financial results of the Group.

## Notes to the Consolidated Financial Statements

### (40) Fair value of financial instruments

#### (a) Financial instruments measured at fair value

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised.

	Level 1	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
<b>31 December 2017</b>				
<b>Financial assets</b>				
Derivatives	—	406	—	406
Financial assets available for sale	8 484	—	46	8 530
	<b>8 484</b>	<b>406</b>	<b>46</b>	<b>8 936</b>
<b>Financial liabilities</b>				
Derivatives	—	13 845	—	13 845
<b>31 December 2016</b>				
<b>Financial assets</b>				
Derivatives	—	11 166	—	11 166
Financial assets available for sale	5 458	—	46	5 504
	<b>5 458</b>	<b>11 166</b>	<b>46</b>	<b>16 670</b>

**Notes to the Consolidated Financial Statements**

**(40) Fair value of financial instruments (continued)**

**(b) Financial instruments not measured at fair value**

The table below analyses the fair values of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised:

<b>31 December 2017</b>	<b>Level 1 EUR'000</b>	<b>Level 2 EUR'000</b>	<b>Level 3 EUR'000</b>	<b>Total fair values EUR'000</b>	<b>Total carrying amount EUR'000</b>
<b>Financial assets</b>					
Cash and cash equivalents	—	—	—	154 946	154 946
Placement in other banks	—	—	7 002	7 002	7 002
Loans due from customers	—	—	602 249	602 249	591 177
Net investment in finance leases	—	—	11 481	11 481	10 454
Loans to related parties	—	—	66 827	66 827	66 561
Other financial assets	—	—	47 588	47 588	47 588
<b>Financial liabilities</b>					
Loans and borrowings	—	518 275	4 722	522 997	470 216
Deposits from customers	—	—	270 403	270 403	271 024
Accounts payable to suppliers	—	—	14 478	14 478	14 478
<b>31 December 2016</b>	<b>Level 1 EUR'000</b>	<b>Level 2 EUR'000</b>	<b>Level 3 EUR'000</b>	<b>Total fair values EUR'000</b>	<b>Total carrying amount EUR'000</b>
<b>Financial assets</b>					
Cash and cash equivalents	—	—	—	157 641	157 641
Placement in other banks	—	—	4 752	4 752	4 752
Loans due from customers	—	—	503 825	503 825	492 311
Net investment in finance leases	—	—	15 752	15 752	13 082
Loans to related parties	—	—	67 414	67 414	67 198
<b>Other financial assets</b>	—	—	14 117	14 117	14 117
<b>Financial liabilities</b>					
Loans and borrowings	—	387 983	20 657	408 640	397 183
Deposits from customers	—	—	237 002	237 002	237 119
Accounts payable to suppliers	—	—	4 809	4 809	4 809
Accounts payable to suppliers	—	—	11 835	11 835	11 835

## Notes to the Consolidated Financial Statements

### (40) Fair value of financial instruments (continued)

The following table shows the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used:

#### Financial instruments measured at fair value (Level2)

Type	Valuation technique	Significant unobservable inputs
Derivatives, financial assets available for sale	The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments	Not applicable

#### Financial instruments measured at fair value (Level3)

Type	Valuation technique	Significant unobservable inputs
Financial assets available for sale	The fair value of unquoted equity instruments available for sale is calculated by: 1) using valuation reports of third parties based on the investee's net assets and management makes no further adjustments, and 2) assessment of net assets adjusted, if necessary.	Not applicable

#### Financial instruments not measured at fair value for level 3

Type	Valuation technique	Significant unobservable inputs
Other borrowed funds, loans due from customers, deposits due to customers, other assets and other liabilities	Discounted cash flows	Credit spreads

Bonds issued by the Group have been classified as Level 2 fair value measurement given that there are observable market quotations in markets, however, the market for the bonds is not assessed as an active market. Fair value of the bonds has been determined based on observable quotes.

No level of fair value has been assigned for cash and cash equivalents on the basis that these are available on demand and therefore no modelling of fair value is required.

Loans and receivables have been classified as a Level 3 fair value measurement and the fair value is determined based on money market rates adjusted for a relevant credit spread determined by the Group.

The fair value of deposits from customers has been determined with reference to the Group's borrowing costs and has been determined to be a Level 3 fair value measurement.

The remaining financial assets and financial liabilities have been classified as Level 3 fair value measurements. Due to their short term nature, no significant fair value difference from carrying amount is expected.

No asset or liability was moved between levels between 2016 and 2017.

## Notes to the Consolidated Financial Statements

### (41) Operating segments

The Group is organised into eight material reportable segments which are the Group's main strategic segments and TBIF Group and Friendly Finance, that are shown as separate segments (all smaller segments are reported under Other segments). In Each segment is managed separately because they require different marketing strategies. For each of the strategic segments, the Group's Management Board reviews internal management reports on at least a monthly basis.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit or loss, as included in internal management reports that are reviewed by the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results and benchmarking to other entities that operate within these industries.

#### Analysis by segment

##### Information about reportable segments

Segment information for the main reportable business segments of the Group for the year ended 31 December 2017 is set out below:

EUR'000	Latvia	Lithuania	Finland	Sweden	Denmark	Poland	Georgia**	Spain	Friendly Finance	TBIF Group	All other segments	Total
Interest income	36 040	9 187	21 698	21 486	41 411	105 333	12 092	69 913	30 336	62 452	38 008	447 956
Interest expense	(7 814)	(1 697)	(2 093)	(2 047)	(1 792)	(5 234)	(654)	(3 487)	(8 373)	(3 770)	(94 007)	(130 968)
Internal revenue*	103 206	596	—	461	—	379	460	—	4 146	509	70 747	180 504
Net impairment losses on loans and receivables	(3 969)	3 880	(6 627)	(4 620)	(10 421)	(21 850)	(4 938)	(21 559)	(19 132)	(8 436)	(9 903)	(107 575)
Reportable segment profit before tax	92 197	3 884	1 680	4 910	15 814	35 515	(3 620)	9 885	(12 655)	19 666	(61 121)	106 155

\*Internal revenue has significantly increased in year 2017 as 4Finance AS paid dividends to the sole shareholder 4Finance Holding S.A. from the retained earnings of previous years.

\*\*In Georgia, interest income and profit reduced in 2017 due to increased competition and regulatory changes in that market.

**Notes to the Consolidated Financial Statements**

**(41) Operating segments (continued)**

Segment information for the main reportable business segments of the Group for the year ended 31 December 2016 is set below:

<b>EUR'000</b>	<b>Latvia</b>	<b>Lithuania</b>	<b>Finland</b>	<b>Sweden</b>	<b>Denmark</b>	<b>Poland</b>	<b>Georgia</b>	<b>Spain</b>	<b>Friendly Finance</b>	<b>TBIF Group</b>	<b>All other segments</b>	<b>Total</b>
Interest income	43 086	21 729	21 958	25 190	34 799	94 024	34 309	56 007	13 940	19 712	28 401	393 155
Interest expense	(10 388 )	(1 330 )	(1 757 )	(2 716 )	(1 647 )	(5 130 )	(361 )	(3 252 )	(1 521 )	(1 352 )	(10 628 )	(40 082 )
Internal revenue	47 431	459	—	—	183	1 738	812	230	—	43	59 877	110 773
Net impairment losses on loans and receivables	(5 331 )	(7 792 )	(4 896 )	(3 927 )	(9 610 )	(19 204 )	(14 843 )	(17 378 )	(6 880 )	(1 498 )	(8 469 )	(99 828 )
Reportable segment profit/ (loss) before tax	41 777	10 210	7 160	12 224	13 398	31 640	10 670	7 317	199	8 435	34 120	177 150

**Notes to the Consolidated Financial Statements****(41) Operating segments (continued)**

A segment breakdown of assets and liabilities of the Group for the year ended 31 December 2017 is set out below:

<b>EUR'000</b>	<b>Latvia</b>	<b>Lithuania</b>	<b>Finland</b>	<b>Sweden</b>	<b>Denmark</b>	<b>Poland</b>	<b>Georgia</b>	<b>Spain</b>	<b>Friendly Finance</b>	<b>TBIF Group</b>	<b>All other segments and unallocated amounts*</b>	<b>Total</b>
Reportable segment assets	211 436	25 501	20 226	25 639	42 368	176 559	23 433	48 100	91 635	423 962	343 978	1 432 837
Reportable segment liabilities	218 449	21 339	19 201	21 613	30 069	152 817	26 581	41 201	106 089	407 723	770 514	1 815 596

\*The main contributors to All other segments and unallocated amounts are the Czech operating company, 4F Sales, 4Finance IT companies, 4Finance Media and 4Spar AB. Key positions for All other segments are receivables from related parties, intangible assets and loans due from customers under Assets and loans and borrowings and accounts payable to related parties under Liabilities.

A segment breakdown of assets and liabilities of the Group for the year ended 31 December 2016 is set out below:

<b>EUR'000</b>	<b>Latvia</b>	<b>Lithuania</b>	<b>Finland</b>	<b>Sweden</b>	<b>Denmark</b>	<b>Poland</b>	<b>Georgia</b>	<b>Spain</b>	<b>Friendly Finance</b>	<b>TBIF Group</b>	<b>All other segments and unallocated amounts</b>	<b>Total</b>
Reportable segment assets	188 704	43 120	24 121	27 259	36 224	105 291	34 746	38 415	36 909	316 849	207 682	1 059 320
Reportable segment liabilities	116 316	13 093	14 863	16 621	16 759	48 516	9 158	37 301	29 956	247 819	221 841	772 243

**Notes to the Consolidated Financial Statements**

**(41) Operating segments (continued)**

A segment breakdown of interest income is divided by products which includes Single Payment Loans (with a term from one day up to 35 days), Instalment Loans (with a term from one month up to 36 months) and Lines of Credit (open ended credit line with flexible monthly repayments). Products for TBIF Group are split between Retail, Small and Medium-sized Enterprises ("SME's") and Leasing.

A segment breakdown of interest income by products of the Group for the year ended 31 December 2017 is set out below:

<b>EUR'000</b>	<b>Latvia</b>	<b>Lithuania</b>	<b>Finland</b>	<b>Sweden</b>	<b>Denmark</b>	<b>Poland</b>	<b>Georgia</b>	<b>Spain</b>	<b>Friendly Finance</b>	<b>TBIF Group</b>	<b>All other segments and unallocated amounts</b>	<b>Total</b>
Single Payment Loans	21 260	1 560	17 926	12 420	29 632	83 324	12 092	64 790	30 336	—	34 500	307 840
Instalment Loans	14 177	7 627	167	9 066	11 779	22 009	—	5 123	—	—	3 508	73 456
Lines of Credit	603	—	3 605	—	—	—	—	—	—	—	—	4 208
Retail (Only TBIF Group)	—	—	—	—	—	—	—	—	—	57 043	—	57 043
SME (Only TBIF Group)	—	—	—	—	—	—	—	—	—	4 063	—	4 063
Leasing (Only TBIF Group)	—	—	—	—	—	—	—	—	—	1 346	—	1 346



**Notes to the Consolidated Financial Statements**

A segment breakdown of interest income by products of the Group for the year ended 31 December 2016 is set out below:

<b>EUR'000</b>	<b>Latvia</b>	<b>Lithuania</b>	<b>Finland</b>	<b>Sweden</b>	<b>Denmark</b>	<b>Poland</b>	<b>Georgia</b>	<b>Spain</b>	<b>Friendly Finance</b>	<b>TBIF Group</b>	<b>All other segments and unallocated amounts</b>	<b>Total</b>
Single Payment Loans	26 631	6 317	18 251	12 978	25 904	82 800	34 309	55 366	13 936	—	29 638	306 130
Instalment Loans	16 346	15 412	1 258	12 212	8 895	11 224	—	641	4	—	(1 237)	64 755
Lines of Credit	109	—	2 449	—	—	—	—	—	—	—	—	2 558
Retail (Only TBIF Group)	—	—	—	—	—	—	—	—	—	15 205	—	15 205
SME (Only TBIF Group)	—	—	—	—	—	—	—	—	—	3 985	—	3 985
Leasing (Only TBIF Group)	—	—	—	—	—	—	—	—	—	522	—	522

## Notes to the Consolidated Financial Statements

### (41) Operating segments (continued)

#### Reconciliation of reportable segment interest income

	2017	2016
	EUR'000	EUR'000
Total interest income for reportable segments	409 948	364 754
Interest income for other operating segments	38 008	28 401
Elimination of discontinued operations	—	—
<b>Consolidated revenue</b>	<b>447 956</b>	<b>393 155</b>

#### Reconciliation of reportable segment profit or loss

	2017	2016
	EUR'000	EUR'000
Total profit or loss for reportable segments	167 276	143 030
Profit or loss for other operating segments	(61 121 )	34 120
Elimination of inter-segment dividends included in inter-segment profits	(95 423 )	(96 111 )
Elimination of discontinued operations	—	—
<b>Consolidated profit before tax from continued operations</b>	<b>10 732</b>	<b>81 039</b>

#### Reconciliation of reportable segment interest expense

	2017	2016
	EUR'000	EUR'000
Total interest expense for reportable segments	36 961	29 454
Interest expense for other operating segments	94 007	10 628
Elimination of inter-segment transactions	(69 033 )	(1 398 )
Elimination of discontinued operations	—	—
<b>Consolidated interest expense</b>	<b>61 935</b>	<b>38 684</b>

#### Reconciliation of reportable segment assets

	31.12.2017	31.12.2016
	EUR'000	EUR'000
Total assets for reportable segments	1 088 859	851 638
Assets for other operating segments	343 978	207 682
Elimination of inter-group loans, investments and other receivables	(772 151 )	(172 035 )
Unallocated assets	366 193	42 513
<b>Consolidated total assets</b>	<b>1 026 879</b>	<b>929 798</b>

#### Reconciliation of reportable segment liabilities

	31.12.2017	31.12.2016
	EUR'000	EUR'000
Total liabilities for reportable segments	1 045 082	550 402
Liabilities for other operating segments	770 513	221 834
Elimination of inter-group borrowings and payables	(978 125 )	(68 579 )
<b>Consolidated total liabilities</b>	<b>837 470</b>	<b>703 657</b>

## Notes to the Consolidated Financial Statements

### (42) Maturity analysis

The table below shows carrying amounts of financial assets and liabilities by remaining contractual maturity dates as at 31 December 2017.

<b>Assets EUR'000</b>	<b>On demand/ less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 6 months</b>	<b>From 6 months to 1 year</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Overdue</b>	<b>TOTAL</b>
Cash and cash equivalents	154 946	—	—	—	—	—	—	154 946
Placements with other banks	7 002	—	—	—	—	—	—	7 002
Loans due from customers	214 390	31 759	84 457	17 899	140 876	—	101 796	591 177
Net investment in finance leases	516	173	571	—	1 368	465	7 361	10 454
Loans to related parties	—	—	5 100	3 572	57 889	—	—	66 561
Derivatives	5	—	—	194	207	—	—	406
Financial assets available for sale	8 484	—	—	—	—	46	—	8 530
Other financial assets	47 588	—	—	—	—	—	—	47 588
<b>Total financial assets</b>	<b>432 931</b>	<b>31 932</b>	<b>90 128</b>	<b>21 665</b>	<b>200 340</b>	<b>511</b>	<b>109 157</b>	<b>886 664</b>
<b>Liabilities EUR'000</b>	<b>On demand/ less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 6 months</b>	<b>From 6 months to 1 year</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Overdue</b>	<b>TOTAL</b>
Loans and borrowings	12 842	30	232	—	457 112	—	—	470 216
Deposits from customers	68 420	46 451	124 689	1 467	29 997	—	—	271 024
Derivatives	—	114	—	—	13 731	—	—	13 845
Accounts payable to suppliers	14 478	—	—	—	—	—	—	14 478
<b>Total financial liabilities</b>	<b>95 740</b>	<b>46 595</b>	<b>124 921</b>	<b>1 467</b>	<b>500 840</b>	<b>—</b>	<b>—</b>	<b>769 563</b>
<b>Net position</b>	<b>337 191</b>	<b>(14 663 )</b>	<b>(34 793 )</b>	<b>20 198</b>	<b>(300 500 )</b>	<b>511</b>	<b>109 157</b>	<b>117 101</b>
<b>Net cumulative position</b>	<b>337 191</b>	<b>322 528</b>	<b>287 735</b>	<b>307 933</b>	<b>7 433</b>	<b>7 944</b>	<b>117 101</b>	<b>—</b>

## Notes to the Consolidated Financial Statements

### (42) Maturity analysis (continued)

The table below shows financial assets and liabilities by remaining contractual maturity dates as at 31 December 2016.

Assets EUR'000	On demand/ less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	More than 5 years	Overdue	TOTAL
Cash and cash equivalents	157 641	—	—	—	—	—	—	157 641
Placements with other banks	4 752	—	—	—	—	—	—	4 752
Loans due from customers	153 895	45 056	62 909	20 710	101 088	4 863	103 790	492 311
Net investment in finance leases	1 088	397	2 216	—	7 983	—	1 398	13 082
Loans to related parties	—	—	—	—	67 198	—	—	67 198
Derivatives	—	7 502	3 032	—	632	—	—	11 166
Financial assets available for sale	—	—	516	4 942	—	47	—	5 458
Other financial assets	14 117	—	—	—	—	—	—	14 117
<b>Total financial assets</b>	<b>331 493</b>	<b>52 955</b>	<b>68 673</b>	<b>25 652</b>	<b>176 901</b>	<b>4 910</b>	<b>105 188</b>	<b>765 725</b>
<b>Liabilities EUR'000</b>	<b>Demand less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 6 months</b>	<b>From 6 months to 1 year</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Overdue</b>	<b>TOTAL</b>
Loans and borrowings	15 419	3 026	4 193	225 935	148 610	—	—	397 183
Deposits from customers	63 744	36 122	121 007	1 423	14 823	—	—	237 119
Liabilities held for sales	108	276	4 392	33	—	—	—	4 809
Accounts payable to suppliers	11 835	—	—	—	—	—	—	11 835
<b>Total financial liabilities</b>	<b>91 106</b>	<b>39 424</b>	<b>129 592</b>	<b>227 391</b>	<b>163 433</b>	<b>—</b>	<b>—</b>	<b>650 946</b>
<b>Net position</b>	<b>240 387</b>	<b>13 531</b>	<b>(60 919)</b>	<b>(201 739)</b>	<b>13 468</b>	<b>4 910</b>	<b>105 188</b>	<b>114 779</b>
<b>Net cumulative position</b>	<b>240 387</b>	<b>253 918</b>	<b>192 999</b>	<b>(8 740)</b>	<b>4 728</b>	<b>9 638</b>	<b>114 826</b>	<b>—</b>

## Notes to the Consolidated Financial Statements

### (43) Analysis of financial liabilities' contractual undiscounted cash flows

The table below presents the cash flows payable by the Group under contractual financial liabilities, including derivative financial liabilities, by remaining contractual maturities as at the reporting date.

The amounts disclosed in the table are the contractual undiscounted cash flows in comparison with the carrying amounts of financial liabilities, comprising discounted cash flows as at the reporting date.

The analysis as at 31 December 2017 was as follows:

<b>31 December 2017</b>	<b>Carrying amount</b>	<b>Total nominal (inflow)/ outflow</b>	<b>On demand/ less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 6 months</b>	<b>From 6 months to 12 months</b>	<b>More than 1 year</b>
<b>Non-derivative liabilities</b>							
Loans and borrowings	470 216	655 575	4 080	3 337	22 116	25 188	600 854
Deposits from customers	271 024	273 479	68 188	45 747	125 988	2 520	31 036
Accounts payable to suppliers	14 478	14 478	14 478	—	—	—	—
<b>Total</b>	<b>755 718</b>	<b>943 532</b>	<b>86 746</b>	<b>49 084</b>	<b>148 104</b>	<b>27 708</b>	<b>631 890</b>
<b>Credit related commitments</b>	<b>—</b>	<b>4 783</b>	<b>4 783</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

The analysis as at 31 December 2016 was as follows:

<b>31 December 2016</b>	<b>Carrying amount</b>	<b>Total nominal (inflow)/ outflow</b>	<b>On demand/ less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 6 months</b>	<b>From 6 months to 12 months</b>	<b>More than 1 year</b>
<b>Non-derivative liabilities</b>							
Loans and borrowings	397 183	592 307	51 393	16 458	12 338	219 856	292 261
Deposits from customers	237 119	240 041	63 987	35 548	122 296	2 172	16 038
Liabilities held for sales	4 809	5 705	124	324	4 458	—	799
Accounts payable to suppliers	11 835	11 835	11 835	—	—	—	—
<b>Total</b>	<b>650 946</b>	<b>849 888</b>	<b>127 339</b>	<b>52 330</b>	<b>139 092</b>	<b>222 028</b>	<b>309 098</b>
<b>Credit related commitments</b>	<b>—</b>	<b>1 089</b>	<b>1 089</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

## Notes to the Consolidated Financial Statements

### (44) Currency analysis

The table below shows the currency structure of financial assets and liabilities as at 31 December 2017:

<b>Assets EUR'000</b>	<b>PLN</b>	<b>RON</b>	<b>DKK</b>	<b>GEL</b>	<b>BGN</b>	<b>SEK</b>	<b>EUR</b>	<b>USD</b>	<b>Other</b>	<b>TOTAL</b>
Cash and cash equivalents	18 445	6 242	2 676	1 419	27 962	4 042	89 521	998	3 641	154 946
Placements with other banks	—	—	—	—	—	—	7 002	—	—	7 002
Loans due from customers	124 456	90 906	38 136	19 931	115 441	20 250	152 189	—	29 868	591 177
Net investment in finance leases	—	8 758	—	—	1	—	1 695	—	—	10 454
Loans to related parties	—	—	—	35	—	—	66 140	—	386	66 561
Other financial assets	4 183	93	1 517	775	1 890	93	36 409	27	2 591	47 578
<b>Total financial assets</b>	<b>147 084</b>	<b>105 999</b>	<b>42 329</b>	<b>22 160</b>	<b>145 294</b>	<b>24 385</b>	<b>352 956</b>	<b>1 025</b>	<b>36 486</b>	<b>877 718</b>
Off-balance sheet	—	9 660	—	—	—	102	—	146 763	—	156 525
<b>Liabilities EUR'000</b>	<b>PLN</b>	<b>RON</b>	<b>DKK</b>	<b>GEL</b>	<b>BGN</b>	<b>SEK</b>	<b>EUR</b>	<b>USD</b>	<b>Other</b>	<b>TOTAL</b>
Loans and borrowings	2	—	7	—	257	3 765	144 156	321 809	220	470 216
Deposits from customers	—	41 034	—	—	111 414	13 889	101 957	—	2 730	271 024
Accounts payable to suppliers	6 411	105	202	214	1 939	201	3 803	601	1 002	14 478
<b>Total financial liabilities</b>	<b>6 413</b>	<b>41 139</b>	<b>209</b>	<b>214</b>	<b>113 610</b>	<b>17 855</b>	<b>249 916</b>	<b>322 410</b>	<b>3 952</b>	<b>755 718</b>
Off-balance sheet	—	4 279	—	5 847	7 173	—	162 265	—	—	179 564
<b>Net position (excluding off-balance sheet)</b>	<b>140 671</b>	<b>64 860</b>	<b>42 120</b>	<b>21 946</b>	<b>31 684</b>	<b>6 530</b>	<b>103 040</b>	<b>(321 385 )</b>	<b>32 534</b>	<b>122 000</b>
<b>Net position (including off-balance sheet)</b>	<b>140 671</b>	<b>70 241</b>	<b>42 120</b>	<b>16 099</b>	<b>24 511</b>	<b>6 632</b>	<b>(59 225 )</b>	<b>(174 622 )</b>	<b>32 534</b>	<b>98 961</b>

Currency risk of the open positions in USD, GEL, RON is managed through the use of forward foreign currency contracts which minimize the adverse effects of currency exchange rate fluctuations. The Group monitors its foreign currency exposure to non-Euro based currencies on a regular basis and will, if deemed commercial, consider hedging some or all of any exposure arising.

**Notes to the Consolidated Financial Statements**

**(44) Currency analysis (continued)**

The table below shows the currency structure of financial assets and liabilities as at 31 December 2016:

<b>Assets EUR'000</b>	<b>PLN</b>	<b>RON</b>	<b>DKK</b>	<b>GEL</b>	<b>BGN</b>	<b>SEK</b>	<b>EUR</b>	<b>USD</b>	<b>Other</b>	<b>TOTAL</b>
Cash and cash equivalents	13 211	4 523	1 956	3 806	20 602	2 541	105 944	1 767	3 291	157 641
Placements with other banks	—	—	—	—	—	—	4 752	—	—	4 752
Loans due from customers	83 358	73 551	32 490	25 001	93 398	22 370	143 932	—	18 211	492 311
Net investment in finance leases	—	1 387	—	—	—	—	11 695	—	—	13 082
Loans to related parties	—	—	—	—	—	—	37 384	9 574	20 240	67 198
Other financial assets	1 228	1 322	992	1 147	471	198	7 083	30	1 646	14 117
<b>Total financial assets</b>	<b>97 797</b>	<b>80 783</b>	<b>35 438</b>	<b>29 954</b>	<b>114 471</b>	<b>25 109</b>	<b>310 790</b>	<b>11 371</b>	<b>43 388</b>	<b>749 101</b>
Off-balance	—	—	—	—	—	—	61 426	182 458	5 000	248 884
<b>Liabilities EUR'000</b>	<b>PLN</b>	<b>RON</b>	<b>DKK</b>	<b>GEL</b>	<b>BGN</b>	<b>SEK</b>	<b>EUR</b>	<b>USD</b>	<b>Other</b>	<b>TOTAL</b>
Loans and borrowings	—	—	—	—	517	42 990	159 175	194 252	249	397 183
Deposits from customers	—	36 760	—	—	96 338	12 508	90 353	—	1 160	237 119
Accounts payable to suppliers	621	48	126	290	1 937	689	3 270	560	4 294	11 835
<b>Total financial liabilities</b>	<b>621</b>	<b>36 808</b>	<b>126</b>	<b>290</b>	<b>98 792</b>	<b>56 187</b>	<b>252 798</b>	<b>194 812</b>	<b>5 703</b>	<b>646 137</b>
Off-balance	28 460	32 966	—	—	—	—	157 284	—	21 952	240 662
<b>Net position (excluding off-balance)</b>	<b>97 176</b>	<b>43 975</b>	<b>35 312</b>	<b>29 664</b>	<b>15 679</b>	<b>(31 078)</b>	<b>57 992</b>	<b>(183 441 )</b>	<b>37 685</b>	<b>102 964</b>
<b>Net position (including off-balance)</b>	<b>68 716</b>	<b>11 009</b>	<b>35 312</b>	<b>29 664</b>	<b>15 679</b>	<b>(31 078 )</b>	<b>(37 866 )</b>	<b>(983 )</b>	<b>20 733</b>	<b>111 186</b>

**Notes to the Consolidated Financial Statements****(45) Group entities**

As at 31 December 2017 and 31 December 2016 respectively, the Group consisted of the following entities:

<b>Name of entity</b>	<b>Registered office</b>	<b>Ownership 31.12.2017</b>	<b>Ownership 31.12.2016</b>
AS 4finance	Lielirbes 17A-8, Rīga, LV-1046, Latvia	100%	100%
4finance EOOD	79 Nikola Gabrovski Str., floor 2, Sofia 1700, Bulgaria	100% AS 4finance	100% AS 4finance
Zaplo Finance s.r.o. (formerly Vivus Finance s.r.o.)	Jankovcova 1037/49, Holešovice, 170 00 Prague 7, Czech Republic	100% AS 4finance	100% AS 4finance
4finance UAB	Kauno m. sav. Kauno m. Jonavos g., 254 A, Lithuania	100% AS 4finance	100% AS 4finance
4finance Oy	Mikonkatu 15A, 00100 Helsinki, Finland	100% AS 4finance	100% AS 4finance
4finance AB	Hammarby Alle 47, 120 30, Stockholm, Sweden	97% AS 4finance	97% AS 4finance
4finance ApS	Vesterbrogade 1L, 4., DK-1620, Copenhagen, Denmark	100% AS 4finance	100% AS 4finance
4finance OÜ	Kreutzwaldi 6-1, Tallinn, 10124, Estonia		100% AS 4finance
Intersales Services Limited	Icom house 1/5 Irish Town, Suite 3, Second Floor, Gibraltar	100%	100%
International Risk Management OÜ	Narva mnt 5, Tallinn, Harju county, 10117, Estonia	100% AS 4finance	100% AS 4finance
Vivus Finance Sp.z o.o.	ul. 17 Stycznia, nr 56, 02-146 Warsaw, Poland	100% AS 4finance	100% AS 4finance
4finance Spain Financial Services S.A.U (formerly Vivus Finance S.A.U., formerly Vivus Finance SL)	Calle Genova, 27 2 planta 28004 Madrid, Spain	100% AS 4finance	100% AS 4finance
4finance LLC	Ts. Dadiani str.7, Commercial unit N b506, Tbilisi, Georgia	100% AS 4finance	100% AS 4finance
4finance Malta branch	40, Villa Fairholme, Sir Augustus Bartolo Street, Ta' Xbiex, XBX 1095, Malta	100% 4finance S.A. (branch)	100% 4finance S.A. (branch)
GCM Global Collection Sp.z o.o. (formerly: Global Collection Management Sp.z o.o. SKA, formerly Palkow Sp.z o.o. SKA)	Ul. 17 Stycznia, nr 56, 02-146, Warsaw, Poland	100% Vivus Finance Sp. z o.o.	100% Vivus Finance Sp. z o.o.
Zaplo Sp.z o.o. (formerly Palkow Sp.z o.o.)	ul.17 Stycznia, nr 56, 02-146, Warsaw, Poland	100%	100%
Global Collection Management Sp.z o.o.	ul. 17 Stycznia, nr 56, 02-146, Warsaw, Poland	100% Vivus Finance Sp. z o.o.	100% Vivus Finance Sp. z o.o.
Monetago.pl Sp. z o.o.	ul. 17 Stycznia, nr 56, 02-146 Warsaw, Poland	100%	
4finance GmbH	Eschenheimer Anlage 1, 60316 Frankfurt am Main, Germany	100%	
4Spar AB	Hammarby Alle 47, 120 30, Stockholm, Sweden	100% 4finance AB	100% 4finance AB
4finance S.A.	8-10, Avenue de la Gare, L-1610 Luxembourg, Grand Duchy of Luxembourg	100% AS 4finance	100% AS 4finance



**Notes to the Consolidated Financial Statements**

<b>Name of entity</b>	<b>Registered office</b>	<b>Ownership 31.12.2017</b>	<b>Ownership 31.12.2016</b>
SIA Ondo	Lielirbes 17A-10, Rīga, LV-1046, Latvia	100%	100%
SIA Vivus	Lielirbes 17A-9, Rīga, LV-1046, Latvia	100%	100%
SIA Debt Solution	Lielirbes iela 17A - 11, Riga, LV-1046, Latvia	100%	
4finance IT SIA	Lielirbes 17A-10, Riga, LV-1046, Latvia	100%	100%
4finance IT SIA odštěpný závod v České republice	Jankovcova 1037/49, Holešovice, 170 00 Prague 7, Czech Republic	100% 4finance IT SIA (branch)	100% 4finance IT SIA (branch)
4finance IT SIA spółka z ograniczona odpowiedzialnoœcia Oddzial w Polsce	ul. 17 Stycznia, nr 56, 02-146, Warsaw, Poland	100% 4finance IT SIA (branch)	100% 4finance IT SIA (branch)
4finance IT SIA Lietuvos filialas	Kauno m. sav. Kauno m. Jonavos g., 254 A, Lithuania	100% 4finance IT SIA (branch)	100% 4finance IT SIA (branch)
Zaplo IFN S.A	49 Nicolae Caramfil Str., 3rd floor, Bucharest, 014142, Romania	100% (99.9% 4finance Holding S.A., 0.1% AS 4finance)	100% (99.9% 4finance Holding S.A., 0.1% AS 4finance)
4f Sales, Inc.	18851 NE 29th Avenue, Suite 410, Miami, FL 33180, USA	100%	100%
4finance Media SIA	Lielirbes iela 17A-10, Riga, LV-1046, Latvia	100%	100%
GoodCredit Universal Credit Organization CJSC (Armenia)	58/1 K. Ulnecu str., Yerevan, Armenia	100%	100%
VIVUS, S.R.L.	Juan Sanchez Ramirez #40, Ens. Gazcue. Santo Domingo, Dominican Republic	100% (99.9% 4finance Holding S.A., 0.1% AS 4finance)	100% (99.9% 4finance Holding S.A., 0.1% AS 4finance)
4F Serviços de Correspondente Bancário Ltda.	Avenida Engenheiro Luiz Carlos Berrini, 1748, conjunto 2205, sala 5, Jardim Judith, Zip Code 04571-000, City of So Paulo, State of So Paulo	100% (99.99% 4finance Holding S.A., 0.01% AS 4finance)	100% (99.99% 4finance Holding S.A., 0.01% AS 4finance)
Global Collection Management Sp. z o.o. komandytowo - akcyjna spółka jawna	ul. 17 Stycznia, nr 56, 02-146 Warsaw, Poland	100% limited partnership with 2 partners - Global Collection Management Sp.z o.o. SKA and Global Collection Management Sp.z o.o.	100% limited partnership with 2 partners - Global Collection Management Sp.z o.o. SKA and Global Collection Management Sp.z o.o.
Credit Management LLC	T. Dadiani str. N7, commercial unit N b501, Tbilisi, Georgia	100% AS 4finance	100% AS 4finance
4finance, S.A. de C.V., SOFOM E.N.R.	Av. Insurgentes Sur No. 1647 Piso 4 Col. San Jos Insurgente, Benito Jurez 03900, Ciudad de Mxico, Mxico	100% (99.99% 4finance Holding S.A., 0.01% AS 4finance)	100% (99.99% 4finance Holding S.A., 0.01% AS 4finance)

**Notes to the Consolidated Financial Statements**

<b>Name of entity</b>	<b>Registered office</b>	<b>Ownership 31.12.2017</b>	<b>Ownership 31.12.2016</b>
Prestamo Movil S.A.	Juramento 1475, 1428, CABA, Buenos Aires, Argentina	100% (98.75% 4finance Holding S.A., 1.25% AS 4finance)	100% (98.75% 4finance Holding S.A., 1.25% AS 4finance)
SIA 4finance IT	80 Great Eastern Street, London, EC2A 3JL, UK	100% 4finance IT SIA (branch)	100% 4finance IT SIA (branch)
Credit Service UAB	Jonavos str. 254A, LT- 44132, Kaunas, Lithuania	100%	100%
Finansu Administravimas UAB	Jonavos str. 254A, LT- 44132, Kaunas, Lithuania	100%	100%
4finance, Responsabilidad Limitad	Diagonal 6 10-01 Zona 10 Edificio Centro Gerencial Las Margaritas Oficina 402B Torre 2, Guatemala, Guatemala	100% (99% 4finance Holding S.A., 1% AS 4finance)	100% (99% 4finance Holding S.A., 1% AS 4finance)
Friendly Finance OÜ	Rotermanni 2, 10111 Tallinn, Estonia	80%	80%
Friendly Finance Slovakia s.r.o.	Tallerova 4, Stare Mesto, 81102, Bratislava, Slovakia	100% Friendly Finance OÜ	100% Friendly Finance OÜ
Friendly Finance Poland Sp. z o.o.	Zlota 7/18, 00-019 Warsaw, Poland	100% Friendly Finance OÜ	100% Friendly Finance OÜ
Fine Line Services Ltd.	Suites 41/42, Victoria House, 26 Main Street, Gibraltar	100% Friendly Finance OÜ	100% Friendly Finance OÜ
Fine Line Services Asia Ltd.	Suite 1201, Tower 2, The Gateway 25, Canton, RdTST KLN Hong Kong	100% Friendly Finance OÜ	100% Friendly Finance OÜ
Friendly Finance Asia s.r.o.	Olivova 2096/4, Nové Město, 110 00 Praha 1, Czech Republic	100% Friendly Finance OÜ	100% Friendly Finance OÜ
Friendly Finance Kazakhstan LLC	050013 Kazahstan, Almati, bulv. Buhar Zhirau No. 26/1, office No.7	100% Friendly Finance OÜ	100% Friendly Finance OÜ
Friendly Finance s.r.o.	Olivova 2096/4, Nové Město, 110 00 Praha 1, Czech Republic	100% Friendly Finance OÜ	100% Friendly Finance OÜ
Friendly Finance Georgia Ltd	Pekini street N 28, Tbilisi, Georgia	100% Friendly Finance OÜ	100% Friendly Finance OÜ
Friendly Finance Argentina S.R.L.	Avda. del Libertador 498 - piso 23, C1001ABR Buenos Aires, Argentina	90% Friendly Finance OÜ, 10% Fine Line Services Ltd.	90% Friendly Finance OÜ, 10% Fine Line Services Ltd.
Fine Line Services Ltd.	Ground Floor, Palace Court, Church Street, St Julians STJ 3049, Malta	100% Friendly Finance OÜ	100% Friendly Finance OÜ
Friendly Group Spain S.L.	Calle Tusset 32, 3a Planta, 08006, Barcelona, Spain	90% Friendly Finance OÜ, 10% Fine Line Services Ltd	90% Friendly Finance OÜ, 10% Fine Line Services Ltd
Friendly Finance Nusuntara PT	Eighty Eight@Kasablanka Office Tower lt. 3 unit A Jl Casablanca Kav. 88, Menteng Dalam, Tebet, Jakarta Seletan, 12870, Indonesia	85% Fine Line Services Asia Ltd.	
Wisemedia OÜ	Raatus tn 20, 51009 Tartu, Estonia	100% Friendly Finance OÜ	100% Friendly Finance OÜ
Mile High OÜ	Rotermanni 2, 10111 Tallinn, Estonia	100% Friendly Finance OÜ	100% Friendly Finance OÜ
BillFront GmbH	Rosa-Luxembourg-Straße 2, 10178 Berlin, Germany	24.39%	24.39%

**Notes to the Consolidated Financial Statements**

<b>Name of entity</b>	<b>Registered office</b>	<b>Ownership 31.12.2017</b>	<b>Ownership 31.12.2016</b>
Integrated Management Services Mexico S.A. de C.V.	Av. Insurgentes Sur No. 1647 Piso 4 Col. San Jos Insurgente, Benito Jurez 03900, Ciudad de Mxico, Mxico	100% (99% 4finance Holding S.A., 1% AS 4finance)	100% (99% 4finance Holding S.A., 1% AS 4finance)
V7 Limited	Birchin Court Birchin Line, London, England, EC3V 9DU, UK		15% AS 4finance
Spotcap Global S.a.r.l.	5, Heienhaff, L-1736 Senningerberg H.G.R., Luxembourg	19.9%	9.9%
TBIF Financial Services B.V.	Westerdoksdiijk 423, 1013 BX Amsterdam, The Netherlands	100%	100%
TBI Bank EAD	52-54 Dimitar Hadzhikotsev Str., Lozenets district, 1421 Sofia, Bulgaria	100% TBIF Financial Services B.V.	100% TBIF Financial Services B.V.
TBI Bank EAD Sofia - Bucharest Branch	8-12 Putuli lui Zamfir Str., 4th floor, 1st sector, Bucharest, Romania	100% TBI Bank EAD (branch)	100% TBI Bank EAD (branch)
TBI Rent EAD	52-54 Dimitar Hadzhikotsev Str., Lozenets district, 1421 Sofia, Bulgaria		100% TBI Bank EAD
TBI Credit IFN S.A.	8-12 Putul lui Zamfir Str., 2nd Floor, District 1, Bucharest, Romania	100% (99.99999863% TBI Bank EAD, 0.00000137% TBIF Financial Services B.V.)	100% (99.99999863% TBI Bank EAD, 0.00000137% TBIF Financial Services B.V.)
TBI Leasing IFN S.A.	8-12 Putul lui Zamfir Str., Ground Floor and First Floor, District 1, Bucharest, Romania	100% (99.9989% TBI Bank EAD, 0.0011% TBIF Financial Services B.V.)	100% (99.9989% TBI Bank EAD, 0.0011% TBIF Financial Services B.V.)
TBI Call Center S.R.L.	8-12 Putul lui Zamfir Str., 3rd Floor, District 1, Bucharest, Romania		100% TBI Credit IFN S.A.
TBI Insurance Agent Asigurare S.R.L.	8-12 Putul lui Zamfir Str., Ground Floor and First Floor, District 1, Bucharest, Romania		100% TBI Leasing IFN S.A.
TBI Fleet Management S.A.	8-12 Putuli lui Zamfir Str., 4th floor, 1st sector, Bucharest, Romania	100% (99.9433427762% TBI Leasing IFN S.A., 0.0566572238% TBIF Financial Services B.V.)	100% (99.9433427762% TBI Leasing IFN S.A., 0.0566572238% TBIF Financial Services B.V.)

## Notes to the Consolidated Financial Statements

### (46) Non-controlling interest in subsidiaries

Non-controlling interests in subsidiaries have the same proportion of voting rights as their ownership interest held. The table below summarises the information relating to each of the Group's subsidiaries that have material non-controlling interests (NCI), before any intra-group eliminations as at 31 December 2017:

EUR'000	<b>Friendly Finance</b>	<b>Sweden</b>	<b>Total</b>
<b>NCI percentage</b>	<b>20%</b>	<b>3%</b>	
Cash and cash equivalents	1 924	2 020	3 944
Loans due from customers	25 338	20 250	45 588
Property and equipment	419	51	470
Intangible assets	2 435	7	2 442
Deferred tax asset	—	1 160	1 160
Other assets	3 086	1 153	4 239
Loans and borrowings	(40 649)	(4 656)	(45 305)
Corporate income tax payable	(1 377)	(91)	(1 468)
Other liabilities	(2 956)	(15 365)	(18 321)
<b>Net assets</b>	<b>(11 780)</b>	<b>4 529</b>	<b>(7 251)</b>
<b>Other comprehensive income allocated to NCI</b>	<b>(735)</b>	<b>—</b>	<b>(735)</b>
<b>Carrying amount of NCI</b>	<b>(2 503)</b>	<b>136</b>	<b>(2 367)</b>
Revenue	30 337	21 486	51 823
Profit/(loss)	(14 710)	4 184	(10 526)
<b>Total comprehensive income</b>	<b>(12 454)</b>	<b>4 540</b>	<b>(7 914)</b>
<b>Profit/(loss) allocated to NCI</b>	<b>(2 943)</b>	<b>130</b>	<b>(2 813)</b>
Cash flows from operating activities	(7 215)	8 770	1 555
Cash flows from investment activities	(3 036)	191	(2 845)
Cash flows from financing activities, before dividends to NCI	9 205	(8 813)	392
Cash flows from financing activities - cash dividends to NCI	—	(295)	(295)
<b>Net (decrease) in cash and cash equivalents</b>	<b>(1 046)</b>	<b>(147)</b>	<b>(1 193)</b>

## Notes to the Consolidated Financial Statements

### (46) Non-controlling interest in subsidiaries (continued)

The table below summarises the information relating to each of the Group's subsidiaries that has material non-controlling interests (NCI), before any intra-group eliminations as at 31 December 2016:

EUR'000	<b>Friendly Finance</b>	<b>Sweden</b>	<b>Total</b>
<b>NCI percentage</b>	<b>20%</b>	<b>3%</b>	
Cash and cash equivalents	2 969	2 167	5 136
Loans due from customers	26 220	22 370	48 590
Property and equipment	346	79	425
Intangible assets	2 412	21	2 433
Deferred tax asset	—	1 795	1 795
Other assets	1 332	11 492	12 824
Loans and borrowings	(28 391)	(9 948)	(38 339)
Corporate income tax payable	(1 029)	(924)	(1 953)
Other liabilities	(1 726)	(17 016)	(18 742)
<b>Net assets</b>	<b>2 133</b>	<b>10 036</b>	<b>12 169</b>
<b>Carrying amount of NCI</b>	<b>427</b>	<b>301</b>	<b>728</b>
Revenue	13 940	25 190	39 130
Profit	429	9 937	10 366
Other comprehensive income	(735)	—	(735)
<b>Total comprehensive income</b>	<b>(306)</b>	<b>9 937</b>	<b>9 631</b>
<b>Profit allocated to NCI</b>	<b>86</b>	<b>298</b>	<b>384</b>
<b>Other comprehensive income allocated to NCI</b>	<b>(147)</b>	<b>—</b>	<b>(147)</b>
Cash flows from operating activities	(7 152)	18 837	11 685
Cash flows from investment activities	(2 886)	(10 798)	(13 684)
Cash flows from financing activities, before dividends to NCI	11 386	(7 626)	3 760
Cash flows from financing activities - cash dividends to NCI	—	(678)	(678)
<b>Net increase in cash and cash equivalents</b>	<b>1 348</b>	<b>(265)</b>	<b>1 083</b>

### (47) Subsequent events

#### *Changes in the regulatory framework*

In Slovakia, new regulations governing how credit assessments should be performed came into force in January 2018.

In Romania, a draft bill containing new regulations on Annual Percentage Rate caps for mortgage and consumer lending was introduced in February 2018.

#### *Supervisory Board*

Nicholas Jordan stepped down from the Supervisory Board in April 2018. Dmitry Babichev is appointed as an additional Supervisory Board member.

#### *Changes in the Accounting standard*

On 1 January 2018, the Group adopted accounting standard IFRS 9 Financial Instruments, issued by the IASB in July 2014. The standard provides revised principles for classification and measurement of financial instruments, including introducing the expected credit loss impairment model (see Note 3).

## **Notes to the Consolidated Financial Statements**

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### **(47) Subsequent events (continued)**

#### *Other*

An acquisition of the 20% minority stake in Friendly Finance was agreed at the end of 2017, with expected closing in 2018 subject to regulatory approval.

In year 2018 it was agreed that prepayment of potential investment will be returned in instalments in Q1 and Q2 2018 where the first part of the payment was received in March (see Note 24).

In year 2018 there was signed agreement of purchase of 3% of the minority stake in Sweden entity 4finance AB.

No other significant subsequent events have occurred that would materially impact the consolidated financial statements.





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4finance Holding S.A.  
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## **REPORT OF THE REVISEUR D'ENTREPRISES AGREE**

### ***Report on the audit of the consolidated financial statements***

#### ***Opinion***

We have audited the consolidated financial statements of 4finance Holdings S.A. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

#### ***Basis for Opinion***

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession ("Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under the Law of 23 July 2016 and ISAs are further described in the « Responsibilities of "Réviseur d'Entreprises agréé" for the audit of the consolidated financial statements » section of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### ***Other information***

The Board of directors is responsible for the other information. The other information comprises the information stated in the consolidated annual report including the consolidated management report but does not include the consolidated financial statements and our report of "Réviseur d'Entreprises agréé" 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 this fact. We have nothing to report in this regard.

### ***Responsibilities of the Board of Directors for the consolidated financial statements***

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Directors 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, the Board of Directors 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 the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

### ***Responsibilities of the Réviseur d'Entreprises agréé for the audit of the consolidated financial statements***

The objectives of our audit 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 a report of "Réviseur d'Entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF 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 the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, 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 the Board of Directors.
- Conclude on the appropriateness of Board of Directors' 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 report of "Réviseur d'Entreprises agréé" 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 report of "Réviseur d'Entreprises agréé". 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 and 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.

#### ***Report on other legal and regulatory requirements***

The consolidated management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and has been prepared in accordance with the applicable legal requirements.

Luxembourg, 20 April 2018

KPMG Luxembourg  
Société coopérative  
Cabinet de révision agréé



M. Weber