4finance Holding S.A.

Société anonyme

Consolidated Annual Report for the year ended 31 December 2018

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

Contents

	Page
Information on the Company	**3**
Consolidated Management Report	**4**
Financial Statements	
Consolidated Statement of Comprehensive Income	**8**
Consolidated Statement of Financial Position	**9**
Consolidated Statement of Cash Flows	**10**
Consolidated Statement of Changes in Equity	**12**
Notes to the Consolidated Financial Statements	**13**
Independent Auditor's Report	**96**

Rounding and Percentages

Some numerical figures included in these financial statements have been subject to rounding adjustments.

Accordingly, numerical figures shown for the same category presented in different tables may vary slightly, and numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

In these financial statements, certain percentage figures have been included for convenience purposes in comparing changes in financial and other data over time. However, certain percentages may not sum to 100% due to rounding.

Information on the Company

Name of the Company	*4finance Holding S.A.*
Legal status	*Public limited liability company*
Number, place and date of registration	*B171.059, Luxembourg, Luxembourg, August 27, 2012*
Legal and postal address	*8-10, Avenue de la Gare, L-1610 Luxembourg, Grand Duchy of Luxembourg* *RCS Luxembourg: B171.059*
Board members and their positions	*Oyvind Oanes, Chairman of the Board of Directors, category B director (from 01.08.2018)* *Paul Goldfinch, category B director (from 30.12.2016)* *Fabrice Hablot, category A director (from 20.11.2017)* *Daniela Roca, category A director (from 13.07.2018)* *Mark Ruddock, Chairman of the Board of Directors, category B director (from 30.06.2017 to 01.08.2018)* *Simon Bouaksa, category A director (from 20.11.2017 to 13.07.2018)*
Reporting period	*01.01.2018–31.12.2018*
Information on shareholders	*4finance Group S.A. 100%*
Auditors	*PKF Audit & Conseil Sàrl* *37, rue d'Anvers* *L-1130 Luxembourg*

Consolidated Management Report

4finance Holding S.A. (the "Company"), one of Europe's largest digital consumer lending groups, active in 14 countries globally, presents its annual report including its audited annual accounts for the twelve month period ending 31 December 2018 .

The share capital of the Company as at 31 December 2018 was EUR 35 750 thousand (31 December 2017: EUR 35 750 thousand), divided into 3 575 000 000 ordinary shares (31 December 2017: 3 575 000 000 shares) with nominal value of EUR 0.01 each (31 December 2017: EUR 0.01), fully paid via contribution-in-kind.

The Company is rated B2 by Moody's and B+ by Standard & Poor's.

Important events in 2018 and future developments

During the reporting period, the Company and its subsidiaries (collectively, "the Group") achieved strong growth in profits driven by revenue growth and improved cost efficiency. The Group's largest online markets of Poland, Spain and Denmark all saw growth in business volumes and interest income, as did TBI Bank.

The Group conducted a thorough review of its markets and products during 2018 to ensure they met financial return criteria. This resulted in the exits of online businesses in Dominican Republic, Romania and Georgia in the Period. In addition, the integration of the Friendly Finance business was fully completed, with the purchase of the remaining 20% stake and combining of operations in the relevant countries. As a result it is no longer presented as a separate operating segment.

The Group continued its migration of single payment loan customers to longer-term instalment or line of credit products in various markets, with single payment loans reducing to 24% of net receivables by 31 December 2018. This strategy, combined with the rationalisation of some products, resulted in the total value of online loans issued by the Group in 2018 reducing slightly to EUR 1.21 billion (2017: EUR 1.28 billion). In July 2018, the Group reached the milestone of EUR 6 billion in total online loan issuance since the business was established in 2008.

Significant acquisitions and disposals

In November 2018, the Group acquired a 9.1% stake in Oslo listed Norwegian digital bank Monobank ASA for approximately EUR 6 million. Monobank, operating in Norway and Finland, is a niche digital bank focusing on consumer finance and has grown successfully and profitably in the Nordic region since launch in 2015, with a net loan portfolio of approximately EUR 360 million. It is an advanced digital bank, with highly efficient and scalable operations based on innovative technology.

Financing

The Group had excess liquidity during the second half of 2018 and made market purchases of USD 10 million of its 2022 Notes in July 2018 and a further USD 15 million of the 2022 Notes in December 2018.

Dividend

No dividend was declared in respect of the 2017 financial year.

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 its online loan portfolio from 730 days past due to 360 days past due. For further details, please see note (3) Significant accounting policies.

The adjustment (net of tax) of the adoption of IFRS 9 on the opening balance of Group's equity at 1 January 2018 was approximately EUR 55 million.

Regulatory changes

In Sweden, new regulations in the consumer finance sector were approved in Parliament in the beginning of May 2018. The changes include the cap of annual and penalty interest at 40%, limitation on extensions and overall cost of credit cap at 100% of the amount borrowed. The new regulations came into force from 1 September 2018 and the Group adapted its products accordingly.

Changes in management

The following management team members joined the Group in 2018:

- Sergio Crespo Martin-Albo took over as Chief Marketing Officer in May 2018
- Sergey Terentyev joined the Group as Regional Manager of Latin and North America in July 2018
- Oyvind Oanes joined in the role of Chief Executive Officer in August 2018

The roles of Chief Data Officer and Chief Compliance Officer were also restructured during the Period and are no longer separate positions on the executive committee. The various compliance functions are now handled within Risk, Internal Audit, Legal and Corporate Management divisions.

Future developments

In 2019, the Group will continue to pursue its strategy of building a multi-segment, multi-product, consumer credit specialist, based on providing a convenient, responsible and transparent service to its customers. As the Group evolves and broadens its business model, it aims to:

- Optimise existing business. To reinforce the Group's leadership in existing markets, optimising its products and adapting to incoming regulation where appropriate.

- Develop future business. Develop next generation of products, on a new IT platform, including for customers further up the credit curve, and pursue joint-venture partnerships in selected markets.

- Diversify funding sources. Develop internal (via TBI Bank) and external (via securitisation) options to fund the Group's future growth, to lower cost of funding over time and reduce reliance on any one source of funds.

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

Interest income for the twelve months ended 31 December 2018 amounted to EUR 475 190 thousand, compared with EUR 447 956 thousand in 2017, which represents an increase of 6%. Growth in interest income from online lending was 4%, reflecting the 13% decrease in the average balance of net receivables and a higher average interest yield, both of which are largely caused by the introduction of IFRS 9 as of 1 January 2018. Relatively higher growth in loan issuance continues to be seen in Poland, Spain and Denmark. Those three countries saw an increase in interest income of 18% in Poland, 4% in Spain and 5% in Denmark, contributing an increase of EUR 25 683 thousand for 2018 compared with 2017. The TBIF Group interest income growth of 20% was driven by a loan issuance volume increase of 14% comparing to the previous period.

The balance of outstanding net loans at the end of 2018 was EUR 553 173 thousand, a 6% decrease compared with EUR 591 177 thousand as of 31 December 2017. The decrease mainly reflects the IFRS 9 adjustments to opening balances.

The Group generated profit before tax during the reporting period. Profit before tax for the year ended 31 December 2018 amounted to EUR 52 577 thousand, nearly five times the EUR 10 732 thousand reported for the twelve months ended 31 December 2017.

As well as the increased operating profit generated in 2018, the prior year comparison is impacted by significant write-downs of intangible assets (bond deferred expenses, goodwill and IT intangible assets) made in 2017

totalling EUR 42.3 million. A far smaller adjustment of EUR 6.7 million to goodwill and IT intangible assets was made in the fourth quarter of 2018, as described in note (14) Non-recurring expense.

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.

Corporate Governance

Strong corporate governance is an integral part of building a sustainable business. The membership of the Supervisory Board of the Group's parent company, 4finance Group S.A., was refreshed with the appointment of Dmitry Babichev as member of the Board in April 2018, replacing Nicholas Jordan. Post year end, William Horwitz and former Group CEO Mark Ruddock stepped down in January 2019.

In September 2018, Dmitry Babichev and Alexander Alexandrov were appointed as members of the Group's Audit Committee.

In July 2018, Daniela Roca replaced Simon Bouaksa, the previous Category A director of 4finance Holding S.A. and 4finance S.A., and Category A management board member of 4finance Group S.A.

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.

Ownership

The ultimate beneficial ownership of the Group changed in mid-2018 for the first time since early-2015. The 25.5% previously held by Uldis Arnicans has been fully divested. Consequently the Group's significant ultimate beneficial owners are Vera Boiko: 49.0% (held in trust) and Edgars Dupats: 29.5%, with the remaining 21.5% held by minority investors, each owning below 10%.

Important events after the balance sheet date

Changes in the regulatory framework

In Latvia, changes to loan size limits and extensions came into force on 1 January 2019. The Group has adapted its relevant products to minimum-to-pay lines of credit. The reduced APR cap of 25% and marketing restrictions come into force on 1 July 2019.

In Finland, new consumer credit regulations that apply to all loan types and amounts (excluding motor vehicle financing) were approved in Parliament in March 2019. The changes include annual nominal interest rate cap at 20% and specifies limits for various other fees. The new regulations will come into force on 1 September 2019.

The regulatory landscape continues to evolve across Europe, with proposed additional regulations in Poland. Consultations on these proposals are ongoing and the timing for any implementation is currently unclear.

Change in auditor

The Group has appointed PKF Audit & Conseil, a member of the PKF International network, as its auditor. This follows a tender process to replace KPMG, who had audited the group (and its predecessor Latvian holding company) since the business started more than 10 years ago.

Consolidated Management Report

Supervisory Board

As noted above, two changes have been made within the Supervisory Board, with William Horwitz and former Group CEO Mark Ruddock stepping down from the Supervisory Board of 4finance Group S.A. in January 2019.
The Group's Audit Committee has been enhanced with two new members appointed - Konstantin Ter-Martirosyan in March and Evgeny Sytnik in April 2019.

Financing

In March and April 2019, the Group repurchased USD 20 million of the 2022 Notes by way of market purchases.

Disposals

In March 2019, the Group agreed to sell the loan made by 4finance SA to Spotcap Global S.a.r.l to Tirona Limited for its outstanding principal value of EUR 4.9 million. In April 2019, the Group further agreed to sell its 19.9% equity interest in Spotcap Global S.a.r.l. to Tirona Limited for its carrying value of EUR 9.9 million, part of which is subject to regulatory approval.

In April 2019, the 4finance online business in Bulgaria (4finance EOOD) was sold to TBI Bank EAD.

Liquidations

In February 2019, dissolution of 4finance S.A. Malta Branch was completed. The Malta Branch has been closed because it has not been operational since November 2017 when its loan portfolio was transferred to Luxembourg.

These subsequent events are shown also in the Note (46) Subsequent events.

Oyvind Oanes
Chairman of the Board of Directors

Paul Goldfinch
Member of the Board of Directors

29 April 2019

Consolidated Statement of Comprehensive Income

	Note	2018 EUR'000	2017 EUR'000
Interest income	6	475 190	447 956
Interest expense	7	(62 095)	(61 935)
Non-recurring finance cost	8	—	(6 265)
Net interest income		**413 095**	**379 756**
Fee and commission income	9	15 861	12 562
Fee and commission expense	10	(6 245)	(4 065)
Other operating income	11	9 080	11 156
Non-interest income		**18 696**	**19 653**
Operating income		**431 791**	**399 409**
Operating costs	12	**(239 074)**	**(243 273)**
Other income	13	2 714	3 175
Non-recurring expense	14	(7 353)	(36 999)
Net foreign currency loss	15	(12 635)	(4 005)
Pre-provision operating profit		**175 443**	**118 307**
Net impairment losses	16	(122 866)	(107 575)
Profit before tax		**52 577**	**10 732**
Income tax for the reporting period	17	(24 085)	(27 569)
Profit /(loss) for the period		**28 492**	**(16 837)**
Profit or loss attributable to:			
Equity holders of the Group		28 465	(14 024)
Non-controlling interests	45	27	(2 813)
Profit /(loss)		**28 492**	**(16 837)**
Other comprehensive income that is or may be transferred to profit or loss			
Net gain /(loss) on available for sale financial assets		—	(5)
Foreign currency translation differences on foreign operations		(608)	6 392
Other comprehensive income/(expenses), net of tax		**(608)**	**6 387**
Total comprehensive income/(expenses) for the period		**27 884**	**(10 450)**
Total comprehensive income or loss attributable to:			
Equity holders of the Group		27 769	(7 650)
Non-controlling interests		115	(2 800)

The accompanying notes on pages 13 to 95 form an integral part of these consolidated financial statements.

Oyvind Oanes
Chairman of the Board of Directors

Paul Goldfinch
Member of the Board of Directors

29 April 2019

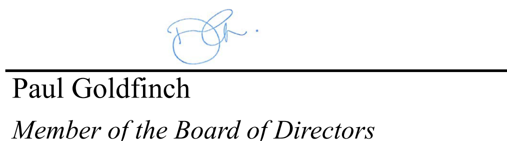
Consolidated Statement of Financial Position

	Note	31.12.2018 EUR'000	31.12.2017 EUR'000
Assets			
Cash and cash equivalents	18	172 155	154 946
Placements with other banks		8 753	7 002
Derivatives	19	2 460	406
Gross receivables due from customers		705 333	761 290
Allowance for impairment		(152 160)	(170 113)
Net receivables due from customers	20	553 173	591 177
Net investment in finance leases	21	7 292	10 454
Debt and equity instruments	22	38 356	18 435
Loans to related parties	23	66 176	66 561
Other assets	24	33 445	55 145
Investments in associates	25	1 641	1 745
Prepaid expenses		8 152	10 770
Property and equipment	26	8 769	10 061
Intangible assets	27	22 257	28 640
Goodwill	27	17 504	21 353
Tax assets		16 581	20 737
Deferred tax asset	28	37 587	29 446
Total assets		**994 301**	**1 026 879**
Liabilities			
Loans and borrowings	29	462 020	470 216
Deposits from customers	30	284 969	271 024
Income tax liabilities		18 093	19 777
Derivatives	19	4 605	13 845
Other liabilities	32	66 304	62 608
Total liabilities		**835 991**	**837 470**
Share capital	31	35 750	35 750
Retained earnings		153 896	188 283
Reserves	31	(31 388)	(32 257)
Total equity attributable to equity holders of the Company		**158 258**	**191 776**
Non-controlling interests	45	52	(2 367)
Total equity		**158 310**	**189 409**
Total shareholder equity and liabilities		**994 301**	**1 026 879**

The accompanying notes on pages 13 to 95 form an integral part of these consolidated financial statements.

Oyvind Oanes

Chairman of the Board of Directors



Paul Goldfinch

Member of the Board of Directors

29 April 2019

Consolidated Statement of Cash Flows

	Note	2018 EUR'000	2017 EUR'000
Cash flows from operating activities			
Profit before taxes		52 577	10 732
Adjustments for:			
Depreciation and amortization		12 061	8 259
Impairment of goodwill and intangible assets		5 698	25 933
Net (gain) / loss on foreign exchange from borrowings and other monetary items		19 891	(30 058)
Impairment losses on loans		178 868	136 478
Reversal of provision on debt portfolio sales		(36 587)	(18 921)
Write offs and disposal of intangible and property and equipment assets		2 884	11 414
Interest income from non-customers loans		(8 149)	(9 189)
Interest expense on loans and borrowings and deposits from customers		62 095	61 935
Non-recurring finance cost		—	6 265
Other non-cash items		2 498	415
Profit before adjustments for the effect of changes to current assets and short term liabilities		291 836	203 263
Adjustments for:			
Change in financial instruments measured at fair value through profit or loss		(11 294)	24 605
Increase in other assets		(260)	(16 204)
Increase in accounts payable to suppliers, contractors and other creditors		3 717	7 428
Operating cash flow before movements in portfolio and deposits		283 999	219 092
Increase in loans due from customers		(255 079)	(267 223)
Proceeds from sale of portfolio		81 875	54 203
Increase in deposits from customers		16 480	33 820
Deposit interest payments		(3 956)	(4 514)
Gross cash flows from operating activities		123 319	35 378
Income tax paid		(27 451)	(33 637)
Net cash flows from operating activities		**95 868**	**1 741**
Cash flows from investing activities			
Purchase of property and equipment and intangible assets		(8 442)	(13 112)
Purchase of financial instruments		(13 565)	—
Loans issued to related parties		(2 602)	(4 306)
Loans repaid from related parties		7 434	10 882
Interest received from related parties		2 815	1 783
Acquisition of equity investments		(5 870)	(4 440)
Acquisition of Non-controlling interests		(4 388)	—
Acquisition of subsidiaries, net of cash acquired and disposed		(50)	(7)
Prepayment for potential acquisition		20 845	(20 845)
Net cash flows used in investing activities		**(3 823)**	**(30 045)**

Consolidated Statement of Cash Flows

	Note	2018 EUR'000	2017 EUR'000
Cash flows from financing activities			
Loans received and notes issued		463	163 658
Repayment of loans and notes		(27 176)	(57 994)
Interest payments		(52 666)	(51 584)
Costs of notes issuance and premium on repurchase of notes		(11)	(5 832)
FX Hedging margin		4 212	—
Dividend payments		(93)	(26 000)
Net cash flows from financing activities		**(75 271)**	**22 248**
Net increase in cash and cash equivalents		**16 774**	**(6 056)**
Cash and cash equivalents at the beginning of the period		**131 917**	**137 020**
Effect of exchange rate fluctuations on cash held		104	953
Cash and cash equivalents at the end of the period	18	**148 795**	**131 917**
Minimum statutory reserve	18	23 360	23 029
Total cash on hand and cash at central banks	18	**172 155**	**154 946**

The accompanying notes on pages 13 to 95 form an integral part of these consolidated financial statements.

Oyvind Oanes
Chairman of the Board of Directors

Paul Goldfinch
Member of the Board of Directors

29 April 2019

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 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
1 January 2017	**35 750**	**(31 240)**	**(9 456)**	**1 739**	**308**	**5**	**228 307**	**225 413**	**728**	**226 141**
Total comprehensive income										
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
Transactions with shareholders recorded directly in equity										
Dividends	—	—	—	—	—	—	(26 000)	(26 000)	(295)	(26 295)
31 December 2017	**35 750**	**(31 240)**	**(3 064)**	**1 739**	**308**	**—**	**188 283**	**191 776**	**(2 367)**	**189 409**
Adjustment on initial application of IFRS 9, net of tax	—	—	—	—	—	—	(54 858)	(54 858)	—	(54 858)
1 January 2018 (restated)	**35 750**	**(31 240)**	**(3 064)**	**1 739**	**308**	**—**	**133 425**	**136 918**	**(2 367)**	**134 551**
Total comprehensive income										
Profit for the reporting period	—	—	—	—	—	—	28 465	28 465	27	28 492
Increase of obligatory reserve	—	—	—	—	2 931	—	(2 931)	—	—	—
Other comprehensive income (OCI)	—	—	(696)	—	—	—	—	(696)	88	(608)
Transactions with shareholders recorded directly in equity										
Share based payment reserve (Note 36)	—	—	—	373	—	—	—	373	—	373
Share based payment reserve reclassification (Note 36)	—	—	—	(1 739)	—	—	1 739	—	0	—
Dividends	—	—	—	—	—	—	—	—	(93)	(93)
Changes in ownership interests										
Acquisition of NCI (Note 33)	—	—	—	—	—	—	(6 802)	(6 802)	2 397	(4 405)
31 December 2018	**35 750**	**(31 240)**	**(3 760)**	**373**	**3 239**	**—**	**153 896**	**158 258**	**52**	**158 310**

The accompanying notes on pages 13 to 95 form an integral part of these consolidated financial statements.

Oyvind Oanes
Chairman of the Board of Directors

Paul Goldfinch
Member of the Board of Directors

29 April 2019

(1) Reporting entity

4finance Holding S.A. (the "Company") is registered in Luxembourg. The Company is the holding company for several subsidiaries in Europe and South America (together referred to as the "Group"). The Group entities provide loans to millions of customers. Currently, the Group operates in Argentina, Armenia, Bulgaria, the Czech Republic, Denmark, Finland, Latvia, Lithuania, Mexico, Poland, Slovakia, Spain and Sweden, with Georgia, Romania and the Dominican Republic being in wind-down mode.

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 to medium-sized enterprises.

The Group companies, excluding TBIF Group, together are referred to as "4finance Group". Details of 4finance Group and TBIF Group 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 2018, 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 29 April 2019. 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 debt and equity instruments and financial assets and liabilities measured at fair value through profit or loss (including derivative instruments).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 5.

Having reassessed the main risks, the Management considers it appropriate to adopt going the concern basis of accounting in preparing these financial statements; there are no material uncertainties with regard to applying going concern basis of accounting.

(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.

(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.

(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 and/or associate 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.

Goodwill is allocated to cash-generating units and is stated at cost less accumulated 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. Any impairment expense is recognised immediately as an expense and is not subsequently reversed. 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.

(3) Significant accounting policies (continued)

(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:

31 December 2018		31 December 2017	
SEK	0.09752	SEK	0.10159
DKK	0.13392	DKK	0.13432
PLN	0.23248	PLN	0.23941
GBP	1.11791	GBP	1.12710
CZK	0.03887	CZK	0.03916
GEL	0.32572	GEL	0.32083
BGN	0.51130	BGN	0.51130
GIP	1.11791	GIP	1.12710
USD	0.87336	USD	0.83382
CAD	0.64082	CAD	0.66494
RON	0.21443	RON	0.21466
AMD	0.00181	AMD	0.00174
ARS	0.02319	ARS	0.04461
MXN	0.04446	MXN	0.04226
DOP	0.01740	DOP	0.01730

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, exchange rates used at the reporting date are set by the Central Bank of the country of operation or the European Central Bank or Bloomberg for euro zone countries, exchange rates at the reporting dates are specified in the table above. 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.

(3) Significant accounting policies (continued)

(iv) Share-based payment transactions

The Parent of the Group operates an equity-settled, share-based compensation plan, under which both the Parent and the Group receive services from employees as consideration for equity instruments (options) of the Parent. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options at the grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

The grant by the Parent of options over its equity instruments to the employees of the Group is treated as an equity contribution presented in Equity position Share based payment reserve.

(v) Cash and cash equivalents

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.

(vi) 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) Classification and 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.

The Group's assessment on particular asset classification is based on the Group's business model on how a particular asset is managed and based on contractual cash flow characteristics of that asset. At initial recognition the Group, as prescribed by IFRS 9, distributes all financial assets into 3 measurement categories:

- Amortised cost (AC) - The amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and adjusted for any loss allowance
- Fair value through other comprehensive income (FVOCI) - Financial asset measured at fair value with unrealized changes in fair value recognized in other comprehensive income, when realized changes are transferred to profit or loss
- Fair value through profit or loss (FVTPL) - Financial asset measured at fair value with realized and unrealized changes in fair value recognized in profit or loss.

(3) Significant accounting policies (continued)

Purchased or originated credit-impaired financial assets require special AC measurement treatment. For third party purchased credit-impaired financial assets AC measurement a credit adjusted effective interest rate is applied, meaning that projected future cash-flows need to include expected cash losses compared to contractual cash flow amounts.

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.

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) Business model assessment

The Group's financial assets are managed together to fulfil the business objectives set by the Group's management team and financial assets are divided into following business models:

- Held to collect - Financial assets are managed to realize cash flows by collecting payments of principal and interest over life of the instrument. Asset sales are very rare or insignificant relative to the size of portfolio
- Held to collect and sell - Objectives under this model are achieved by both collecting contractual cash flows and selling of financial assets
- Other - Portfolios of financial assets that are managed with the objective of realizing cash flow through sales whose performance is evaluated on fair value basis or are held-for-trading.

(iv) Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI)

A financial asset is classified as measured at amortized cost when it meets SPPI criteria and is has held to collect business model or FVOCI when SPPI criteria is met and business model is held to collect and sell unless designated as at FVTPL. The SPPI test requires consideration whether the contractual terms of the financial asset give rise, on specific dates, to cash flows that are solely payment of principal and interest:

- Principal - is the fair value of the financial asset at initial recognition, that may change over time due to periodic repayments
- Interest - is consideration for:
    1) the time value of money
    2) the credit risk associated with the principal amount outstanding during a particular period of time
    3) consideration for basic lending risks and costs
    4) a profit margin.

All of the Group's lending products are tested and meet the SPPI criterion. SPPI tests are mandatory and are performed during new product development or modification of current product features.

(v) 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.

(3) Significant accounting policies (continued)

Financial asset or liability contract modifications may result in derecognition, that is assessed according to qualitative and quantitative derecognition criteria. If derecognition criteria is met modified financial asset or liability is derecognised and a new modified financial asset is recognised.

(vi) Modification of financial assets and liabilities

Any modification to financial contract that is measured at amortised cost needs to be either derecognised or appropriately measured if modification is considered as non-substantial. Both qualitative and quantitative factors are considered in order to assess if the modification is substantial or not.

For modifications that do not result in derecognition, the gross carrying amount of the asset is recalculated by discounting the modified contractual cash flows using original EIR that was effective before modification. Any difference between initial gross carrying amount and recalculated gross carrying amount is recognized in the profit or loss as modification gain or loss. Any costs, fees or commissions are part of the modification and also adjust carrying amount of the modified financial contract.

Qualitative factors

Following qualitative factors indicate that modification is substantial indicating that financial asset needs to be derecognised:

- Currency conversion - Substantial modification is identified when the currency of the contract is changed and the change was not stipulated in the original contract. If the currency change is required by law, e.g. due to conversion to EUR, it is not treated as modification
- Change of counterparty - Substantial modification is identified if a separate agreement with the new counterparty is signed (associated with new credit risk assessment process). If the counterparty change is recorded solely due to legal reasons and within the rules agreed in the contract (e.g. due to death of borrower, re-assignment to co-borrower), it is not a case qualifying for derecognition
- Change of product type - Substantial modification is identified when the product type is changed to the different one (e.g. revolving product changed to instalment product)
- Consolidation of debt - Substantial modification is identified when several loans are consolidated under one contract
- Breach of SPPI test - Substantial modification is identified when the change of contractual terms results in breach of the SPPI test. After SPPI test breach is identified a financial asset is derecognised a new financial is recognised and is measured at FVTPL.

Quantitative factors

Financial asset or liability is subject to derecognition if there is a substantial difference between present value of future cash flows before and after modification. For financial assets and liabilities any changes in present value of +/- 10% are considered as substantial.

(vii) 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.

(3) Significant accounting policies (continued)

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.

(viii) Derivative financial instruments

Derivative financial instruments include foreign exchange swaps 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 statement of comprehensive income.

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 valuation adjustments are not material and has therefore not incorporated these into the fair value of derivatives.

(ix) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. All Group loans are managed under "held to collect" business model with contractual cash-flows representing solely payments of principal and interest.

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 the expected credit losses is established. The Group's policy is described in Note *(xv)* and 5.

(x) Debt and equity instruments

Debt and equity instruments 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 are recognised on the trade date - the date when the Group has committed to purchase or sell the asset.

Debt and equity instruments follow classification and measurements requirements as prescribe in Note 3 *(vi).* The Group has decided to classify both debt and equity instruments as FVOCI as these financial assets are held under Held to collect and sell business model.

Policy effective before 1 January 2018

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 any. Dividends are recognised in the statement of comprehensive income in the period in which the Group becomes entitled to receive them.

(3) Significant accounting policies (continued)

(xi) 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 unless there is evidence to suggest otherwise. Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity accounted investees, until the date on which significant influence 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.

(xii) 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
Leasehold improvements	5 years
Other property and equipment	5 years
Motor vehicles	4-10 years

(xiii) 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.

(3) Significant accounting policies (continued)

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	up to 5 years
Software and other intangible assets	up to 3 years

(xiv) 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.

(xv) Impairment

(i) Financial assets

4finance Group

On 1 January 2018, 4finance Group adopted the accounting standard, IFRS 9, Financial Instruments. 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. The 4finance Group does not apply hedge accounting therefore there are no effects identified related to the new general hedge accounting model. Transition effects of IFRS 9 initial application are recognized in the retained earnings as at 1 January 2018.

At each reporting date, the 4finance Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss and not available for sales financial assets are impaired. IFRS 9 replaces the 'incurred loss' model in IAS 39(applied before 1 January 2018) with an 'expected credit loss' (ECL) model, which means that a loss event will no longer need to occur before an impairment allowance is recognized. 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 rates and LGD.

Loan portfolio is grouped into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

- Stage 1 - Performing loans: part of loan portfolio where no significant increase in credit risk has occurred (delay days ≤30 days), 4finance Group recognizes an allowance based on twelve months expected credit losses. Under IAS 39, the Group had been recording an allowance for Incurred But Not Identified (IBNI) impairment losses. The change in impairment recognition methodology has increased the impairment allowance compared to the previous approach
- 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, 4finance Group records an allowance for the lifetime expected credit loss

(3) Significant accounting policies (continued)

- 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). 4finance Group recognizes the lifetime expected credit losses for these loans and in addition, the Group accrues interest income on the amortized cost of the loan net of allowances.

The 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 in accordance with the contract and all the cash flows that are expected to be received (i.e., all cash shortfalls), discounted at the original effective interest rate (EIR).

The carrying amount of the asset is 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). 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.

In assessing collective impairment, the 4finance Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of expected loss, 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 individual 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.

IFRS 9 suggests to use reasonable forward looking information to enhance ECL models. The Group has decided to incorporate forward looking information into provisioning model in 2019, and currently forward-looking information is not used. Given nature of the Group's products and collective assessment approach the forward looking information available for undue cost is the information related to macro economical state and forecasts. Postponement is mainly driven by the following factors: (i) short horizon of single payment loan products and thus expected limited impact of macro changes (ii) lack of robust correlation between portfolio quality and macro indicators based on past analysis.

For assessment of expected credit loss for loans to related parties historic defaults produced by a ratings agency are used.

4finance Group - impairment policy effective before 1 January 2018

At each reporting date, the 4finance Group 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 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.

(3) Significant accounting policies (continued)

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

Receivables due from customers

TBIF Group recognizes expected credit losses (ECL) for all receivables that are not carried at FVTPL. ECL are based on the difference between the contractual cash flows due under the terms of the contract and all cash flows that TBIF Group expects to receive discounted at the original effective interest rate. Expected cash flows include cash flows from the sale of the collateral provided or other credit enhancements that form an integral part of the contract terms.

ECL are recognized in two stages. For credit exposures for which there is no significant increase in credit risk since initial recognition, ECL are recognized for credit losses that arise as a result of non-performing events that are possible over the next 12 months (12-month ECL). For credit exposures for which there is a significant increase in credit risk since initial recognition, the impairment allowance is determined in respect of the credit losses expected over the entire remaining life of the instrument, irrespective of the occurrence of the default (ECL over the lifetime of the instrument).

Cash, cash equivalents and debt instruments

For cash, cash equivalents and FVOCI debt instruments, ECL calculations are based on a counterparty's credit rating.

At each reporting date, TBIF Group determines whether a debt instrument is considered as a low credit risk using all reasonable and reasoned information that is available without undue cost or effort. In this assessment, TBIF Group reviews the credit rating of the debt instrument. In addition, TBIF Group assesses whether there is a significant increase in credit risk where the contractual payments are past due over 30 days.

TBIF Group's debt instruments in other comprehensive income include only quoted bonds. The policy of TBIF Group is to evaluate the ECL for these instruments on a 12-month basis. However, when there is a significant increase in the credit risk after the occurrence, the provision is based on the ECL for the entire duration of the instrument. TBIF Group uses the ratings to determine whether the credit risk of the debt instrument is significantly increased, as well as to assess the ECL.

Definition of default

TBIF Group considers a financial instrument as a defaulted when the contractual payments are overdue more than 90 days. In certain cases, however, a financial asset might be considered as defaulted when internal or external information indicates that it is unlikely that TBIF Group will receive all outstanding contractual cash-flows without taking any debt collection actions.

Write-off policy

TBIF Group write-off policy is based on the type of receivable, the number of overdue days and the exposure to collateral value ratio.

(3) Significant accounting policies (continued)

Exposures in the Corporate Banking segment are written-off based on the decision of the Impairment Committee, that takes in consideration a specific motivated proposal by the Compliance, SME and Leasing departments.

Exposures in the Retail Banking segment are written-off automatically after reaching over 1080 days past due for exposures granted in Bulgaria, 720 days past due, for exposures granted in Romania and 360 days past due for exposures originated by 4finance Group foreign companies and acquired by TBIF Group, and are 100% impaired.

Modified financial assets

Under certain circumstances, the renegotiation or modification of the contractual cash flows of a financial asset may result in derecognition of the existing financial asset. Accordingly, the date of the modification is the date of initial recognition of the new financial asset when new ECL is calculated for the modified financial asset.

If the contractual cash flows of a financial asset are renegotiated or otherwise modified but the financial asset is not derecognised, it can not automatically be considered that the financial asset has a lower credit risk. TBIF Group assesses whether there has been a significant increase in credit risk after initial recognition based on reasonable and reasoned information available without incurring unnecessary expense or effort. This includes both past and future period information as well as credit risk assessment for the expected life of the financial asset, incl. information on the circumstances that led to the modification. Evidence that the criteria for recognizing the expected credit losses for the entire duration of the instrument are no longer met may include current and timely data on the fulfilment of the payment obligation under the modified contractual terms.

TBIF Group - impairment policy effective before 1 January 2018

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
- 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.

(3) Significant accounting policies (continued)

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.

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.

(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.

(3) Significant accounting policies (continued)

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.

(xvi) 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.

(xvii) 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

The revaluation reserve includes unrealised gains and losses on fair value movements of the instruments classified and measured as available for sale financial instruments before 1 January 2018 and classified and measured as FVTOCI after 1 January 2018.

(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 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.

(3) Significant accounting policies (continued)

(xviii) 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.

(xix) 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.

(xx) Dividends

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

(xxi) 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.

(xxii) 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.

(3) Significant accounting policies (continued)

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.

(xxiii) 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 as the related services are performed and control over a service is transferred to a customer. 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. Income may be recognised at a point in time or over the time. Over time revenue recognition is proportional to progress towards satisfying a performance obligation by transferring control of promised services to a customer. Income which does not qualify for recognition over time is recognised at a point in time when the service is rendered. The Group has no material receivables and contract liabilities from contracts with customers as non-refundable up-front fees are not charged to customers upon commencement of contracts with customers.

(iii) Penalty fee income

Income from penalty fees is recognized as received.

(iv) Other income

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.

(3) Significant accounting policies (continued)

(xxiv) 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.

(xxv) 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.

(xxvi) 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.

(xxvii) 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 2018.

(i) *Introduction of IFRS 9: Financial instruments*

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The Group has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018, but have not been applied to the comparative information.

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in Note 3*(vi)*.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables

(3) Significant accounting policies (continued)

and available-for-sale. For an explanation of how the Group classifies financial assets under IFRS 9, see Note 3*(vi)(ii)*.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9, see Note 3*(xv)*.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as decrease in total of EUR 54 858 thousand as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

Transition effects are as follows:

EUR'000	**IAS 39 Measurement category**				**Transition**	**IFRS 9 Measurement category**			
Financial assets	**31 Dec 2017**	**AC**	**FVTPL**	**AFS**	**adjustments**	**01 Jan 2018**	**AC**	**FVTPL**	**FVOCI**
Cash and cash equivalents	**154 946**	154 946	—	—	—	**154 946**	154 946	—	—
Placements with other banks	**7 002**	7 002	—	—	(3)	**6 999**	6 999	—	—
Derivatives	**406**	—	406	—	—	**406**	—	406	—
Net receivables due from customers	**591 177**	591 177	—	—	(63 364)	**527 813**	527 813	—	—
Net investment in finance leases	**10 454**	10 454	—	—	—	**10 454**	10 454	—	—
Debt and equity instruments	**18 435**	—	—	18 435	(58)	**18 377**	—	—	18 377
Loans to related parties	**66 561**	66 561	—	—	(806)	**65 755**	65 755	—	—
Other financial assets	**47 588**	47 588	—	—	—	**47 588**	47 588	—	—
Total financial assets	**896 569**	**877 728**	**406**	**18 435**	**(64 231)**	**832 338**	**813 555**	**406**	**18 377**
Deferred tax assets	**29 446**	—	—	—	**4 228**	**33 674**	—	—	—
Financial liabilities									
Loans and borrowings	**470 216**	470 216	—	—	(5 145)	**465 071**	465 071	—	—
Deposits from customers	**271 024**	271 024	—	—	—	**271 024**	271 024	—	—
Derivatives	**13 845**	—	13 845	—	—	**13 845**	—	13 845	—
Accounts payable to suppliers	**14 478**	14 478	—	—	—	**14 478**	14 478	—	—
Total financial liabilities	**769 563**	**755 718**	**13 845**	—	**(5 145)**	**764 418**	**750 573**	**13 845**	—

(3) Significant accounting policies (continued)

The following guidance with effective date of 1 January 2018 did not have any material impact on these financial statements:

(ii) *Introduction of IFRS 15 Revenue from Contracts with Customers*

The new standard establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The Group initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Group's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15.

(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 2019, and have not been applied in preparing these financial statements.

(i) *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 plans to apply IFRS 16 initially on 1 January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

Group Transitional impact

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new accounting rules in IFRS 16. The standard will affect primarily the accounting of the Group's operating leases that comprise mainly of long-term rent of premises and vehicle operating leases.

4finance Group

Based on assessments undertaken to date, the total estimated adjustment of the adoption of IFRS 16 on the opening balance of Group's equity at 1 January 2019 is a decrease of approximately EUR 0.5 million. Right-of-use assets are estimated to increase by EUR 10.3 million and Lease liabilities are estimated to increase by EUR 10.8 million.

TBIF Group is in the process of the transitional impact assessment.

There are no other IFRSs that are not yet effective that would be expected to have a material impact on the Group.

(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 enhancements

As of 31 December	**Maximum exposure**	
	2018	**2017**
	EUR'000	**EUR'000**
Cash and cash equivalents	172 155	154 946
Placements with other banks	8 753	7 002
Loans to customers:	553 173	591 177
Corporate clients	51 660	44 670
Corporate client impairment	(2 730)	(2 315)
Individual clients	653 673	716 620
Individual client impairment	(149 430)	(167 798)
Investment in finance leases:	7 292	10 454
Gross investment in finance leases	7 808	10 964
Finance lease impairment	(516)	(510)
Loans to related parties	66 176	66 561
Other assets	33 445	55 145
Derivatives	2 460	406
Debt and equity instruments	38 356	18 435
Credit risk exposures related to contingent liabilities and irrevocable commitments are as follows:		
Contingent liabilities*	21 387	16 394
Total maximum exposure to credit risk	**903 197**	**920 520**

**For more details on contingent liabilities see Note 34*

(4) Risk management (continued)

The table below presents the maximum credit risk exposure of the 4finance Group and TBIF Group as at 31 December 2018 without taking into account collateral:

	Maximum exposure		
	4finance Group	**TBIF Group**	**Total**
	EUR'000	**EUR'000**	**EUR'000**
Cash and cash equivalents	110 512	61 643	**172 155**
Placements with other banks	—	8 753	**8 753**
Loans to customers:	291 576	261 597	**553 173**
Corporate clients	—	51 660	**51 660**
Corporate client impairment	—	(2 730)	**(2 730)**
Individual clients	405 433	248 240	**653 673**
Individual client impairment	(113 857)	(35 573)	**(149 430)**
Investment in finance leases	—	7 292	**7 292**
Gross investment in finance leases	—	7 808	**7 808**
Finance lease impairment	—	(516)	**(516)**
Loans to related parties	66 176	—	**66 176**
Other assets	24 712	8 733	**33 445**
Derivatives	2 304	156	**2 460**
Debt and equity instruments	9 891	28 465	**38 356**
Total credit risk exposure*	**505 171**	**376 639**	**881 810**

** Excluding contingent liabilities. For more details on contingent liabilities see Note 34*

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

4finance Group

The 4finance Group's Credit Risk Policy defines lending and loan book management 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 'underwriting process') are implemented for all products, and the customer's risk profile is analysed prior to a loan being issued. During the underwriting process the Group uses multiple attributes including, but not limited to, customer credit history checks and income levels. Current underwriting process has small level of judgement as majority of that is done automatically based on statistical evidence. Underwriting process is adjusted to specific country requirements and tendencies. It is periodically reviewed and if necessary rebuilt.

A Debt Collection policy guiding overall collections process throughout life-cycle of the loan is established. Detailed guidelines for specific collections stages are released as well. 4finance Group has implemented country-specific debt collection processes based on the above mentioned policies and guidelines. All processes comply with local regulations and ensure a smooth collection process. Performance of different customer groups is analysed on a regular basis by the Debt Collection department. Management believes that current procedures and tools are sufficient to effectively manage 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 impairment is described in Note 5. Quantitative information on 4finance Group's credit risk is disclosed in the table below.

(4) Risk management (continued)

Credit quality of loan portfolio (4finance Group):

	Gross receivables 31.12.2018	Allowance for doubtful debts 31.12.2018	Net receivables 31.12.2018	Gross receivables 31.12.2017	Allowance for doubtful debts 31.12.2017	Net receivables 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Not overdue	245 136	(16 929)	228 207	274 019	(8 228)	265 791
Overdue less than 90 days	70 283	(32 823)	37 460	70 349	(26 375)	43 974
Overdue more than 90 days	90 014	(64 105)	25 909	171 329	(114 484)	56 845
	405 433	**(113 857)**	**291 576**	**515 697**	**(149 087)**	**366 610**

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

As of January 2018 all Friendly Finance entities are fully integrated into 4finance operations in respective countries and thus Friendly Finance follows the same credit risk management principles as 4finance.

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 three groups based on the criteria of credit risk level, Stage 1 (with DPD < 30 days), Stage 2 (with DPD<30 days with forbearance measures and exposures with DPD between 31 and 90 DPD), Stage 3 (exposures with DPD>90 and with NPL triggers).

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.

(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 1.6 thousand / around EUR 844).

The table below shows the total amount of loans to customers before provisions and impairment losses by type of collateral at 31 December 2018:

As of 31 December 2018	**Loans to customers**		
	Gross amount	**Collateral***	**Coverage****
	EUR'000	**EUR'000**	
Mortgages	47 286	45 959	97.2%
Cash collateral	512	493	96.4%
Other collateral	2 640	2 461	93.2%
Unsecured	260 133	—	N/A
Total	**310 571**	**48 913**	

* 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 34.

(4) Risk management (continued)

For details regarding loans and leases at 31 December 2018 see the table below:

	Loans to corporate clients EUR'000	Loans to individual clients EUR'000	Financial leases EUR'000
Neither past due nor impaired	31 641	158 940	2 254
Past due less than 30 days*	6 656	37 481	1 125
Past due 31 to 60 days*	1 145	10 487	717
Past due 61 to 90 days*	2 292	4 984	1 192
Past due over 91 days*	3 324	36 326	1 879
Collective provisions	(1 022)	(35 551)	(35)
Past due and individually impaired	6 605	19	642
Individual impairment	(1 711)	(19)	(482)
Net of loan loss provisions	**48 930**	**212 667**	**7 292**

* Not individually impaired, collective provisioning used

As at 31 December 2018, the carrying amount of financial assets that would otherwise be past due whose terms have been renegotiated is EUR 8 704 thousand (31 December 2017: 12 155 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.

Group's Expected Credit Losses

The following table provides an explanation of how allowance for impairment changed during the year.

	Opening balance 01.01.2018	Origination and acquisition	Derecognition & repayments	Change in credit risk	Write-offs	Other & FX	Closing balance 31.12.2018
stage1	36 225	56 583	(57 937)	(554)	(226)	961	35 053
stage2	29 290	3 359	(20 529)	15 750	—	(405)	27 466
stage3	91 824	14 527	(65 134)	81 352	(32 344)	(119)	90 159
	157 339						**152 678**

(4) Risk management (continued)

Deposits, placements with other banks and debt and equity instruments

The table below presents an analysis of deposits with other banks and debt and equity instruments at 31 December 2018 based on criteria set by rating agencies as a result of their credit assessments.

Rating	Debt and Equity instruments	Placements with other banks
	EUR'000	EUR'000
Aa3 (Moody's)	—	—
BBB+ (Fitch)	—	—
Baa1 (Moody's)	—	1 575
BBB (Fitch)	—	1 631
Baa2 (Moody's)	19 949	—
Baa3 (Moody's)	—	11
BBB- (Fitch)	—	—
BBB- (BCRA)	—	3 072
BB+ (Fitch)	—	23
BB+ (BCRA)	—	2 182
BB (Fitch)	—	221
BB- (Fitch)	—	16
Ba2 (Moody's)	934	—
Ba3 (Moody's)	1 790	—
B2 (Moody's)	—	—
B- (Fitch)	—	22
RD (Fitch)	—	—
Unrated	5 787	—
	28 460	**8 753**

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

(b) Liquidity risk

4finance Group

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 41.

(4) Risk management (continued)

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 (LCR) of at least 100%. For more details see Note 41.

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 30.

(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.

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 2018 and 31 December 2017 and a simplified scenario of a 10% change in PLN, USD, CZK, GEL, SEK and RON to EUR exchange rates is as follows:

(4) Risk management (continued)

	31.12.2018		31.12.2017	
	Net income EUR'000	Equity EUR'000	Net income EUR'000	Equity EUR'000
Appreciation of PLN against EUR	15 045	15 045	14 067	14 067
Depreciation of PLN against EUR	(15 045)	(15 045)	(14 067)	(14 067)
Appreciation of USD against EUR	(19 187)	(19 187)	(32 139)	(32 139)
Depreciation of USD against EUR	19 187	19 187	32 139	32 139
Appreciation of CZK against EUR	3 457	3 457	4 212	4 212
Depreciation of CZK against EUR	(3 457)	(3 457)	(4 212)	(4 212)
Appreciation of GEL against EUR	1 074	1 074	2 195	2 195
Depreciation of GEL against EUR	(1 074)	(1 074)	(2 195)	(2 195)
Appreciation of SEK against EUR	154	154	653	653
Depreciation of SEK against EUR	(154)	(154)	(653)	(653)
Appreciation of RON against EUR	6 983	6 983	6 486	6 486
Depreciation of RON against EUR	(6 983)	(6 983)	(6 486)	(6 486)

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 (43) Currency analysis for further information on the Group's exposure to foreign currency risk. To manage the Group's open position in foreign currencies and limit the exposure to foreign currency fluctuations, the Group has entered into forward and option agreements, for more details refer to Note (19) Derivatives.

Price risk

4finance Group

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 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.

(4) Risk management (continued)

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 reputation 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.

(e) 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
- maintaining a strong capital base which is the basis for the development of the Group's activity.

4finance Group

Capital management of the 4finance Group 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 2018 was 22.52% (31 December 2017: 23.22%).

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.

4finance Group

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 2017. 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)

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 as standard approach, based on past historical data, that 4Finance Group recovers from defaulted loans up to 9 months after default.
- Management calculates probability of default ratios using historic transition matrices which analyse loan portfolio movements between the delinquency buckets over one month period for single payment loans and over one year period for instalment and line of credit products. The analysis is undertaken on monthly basis, in which the average probability of default ratios of the last six matrices for single payment loans and of last 3 matrices for instalment and line of credit products are calculated.
- Management writes off trade receivables and loans to customers when they are past due more than one year 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 2018, 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 2018, the weighted average LGD rate across portfolios was 74% (31 December 2017: 54%). On product level single payment loan weighted average LGD was 77%, but 71% for instatement loans. The weighted average LGD rate increase is due to IFRS 9 standard adoption (different discount is used in IFRS 9 compared to IAS 39).

(5) Use of estimates and judgements (continued)

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 7 004 thousand (31 December 2017: EUR 10 172 thousand). A 5% decrease would lead to a decrease to EUR 7 004 thousand (31 December 2017: EUR 10 327 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 27)

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 27.

- 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 28)

- Fair value of financial instruments (see Note 39)
- Valuation of related party loans (see Note 23)
- Goodwill measurement and goodwill impairment testing (see Note 27)
- Impairment of Intangible assets (see Note 27).

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 27).

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.

(5) Use of estimates and judgements (continued)

(a) 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 2018, this test resulted in a sensitivity of EUR 489 thousand (31 December 2017: EUR 701 thousand). In additional an adverse stress test of static portfolio is performed to reflect increase of migration rates with a total effect of EUR 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 6 601 thousand.

(b) Repossessed collateral valuation

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 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 2018, this test resulted in a sensitivity of EUR 2 258 thousand (31 December 2017: EUR 2 453 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.

	2018 EUR'000	2017 EUR'000
Loans to customers:		
4finance Group	399 966	385 504
TBIF Group	75 224	62 452
	475 190	**447 956**

(6) Interest income (continued)

Interest income by geographic markets:

The 4finance Group

	2018 EUR'000	2017 EUR'000
Poland	131 152	110 906
Spain	81 744	78 328
Denmark	43 432	41 411
Latvia	34 199	36 040
Czech Republic	20 803	23 602
Finland	18 943	21 698
Sweden	17 059	21 486
Georgia	11 565	15 877
Lithuania	9 041	9 187
Armenia	8 175	3 130
Other	23 853	23 839
	399 966	**385 504**

TBIF Group

	2018 EUR'000	2017 EUR'000
Bulgaria	41 427	31 946
Romania	33 413	30 506
Sweden	384	—
	75 224	**62 452**

(7) Interest expense

	2018 EUR'000	2017 EUR'000
Interest expense on notes	57 853	55 908
Deposits from customers	3 615	4 124
Deposits from banks and financial institutions	379	474
Interest expense on other loans	225	1 359
Interest expense on bank loans	23	70
	62 095	**61 935**

(8) Non-recurring finance cost

	2018 EUR'000	2017 EUR'000
Non-recurring finance cost	—	6 265
	—	**6 265**

Non-recurring finance costs in 2017 included premium to re-purchase the tendered USD 2019 Notes and to redeem the Group's 2018 SEK Notes, see Note 29.

(9) Fee and commission income

	2018 EUR'000	2017 EUR'000
Income from insurance broker's activities and agent's commissions	14 556	10 555
Transfer and transaction income	650	1 411
Guarantee and letter of credit income	20	16
Other income	635	580
	15 861	**12 562**

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

	2018 EUR'000	2017 EUR'000
Agent's commission expense	4 906	3 190
Bank transaction expense	1 108	840
Other expense	231	35
	6 245	**4 065**

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

(11) Other operating income

	2018 EUR'000	2017 EUR'000
Interest income	8 172	9 189
Income from services	883	845
Financial Intermediary Services	25	1 122
	9 080	**11 156**

In 2018, Other operating income includes interest income from related parties of EUR 7 450 thousand (2017: EUR 8 550 thousand), see Note 36.

(12) Operating costs

	2018 EUR'000	2017 EUR'000
Personnel costs	103 769	98 846
Marketing and sponsorship	43 194	56 143
IT expenses	21 945	18 971
Depreciation and amortization	11 925	8 987
Legal and consulting	11 483	9 334
Rent and utilities	7 490	7 516
Application inspection costs	6 896	7 032
Debt collection costs	6 392	8 258
Bank services	3 978	4 310
Communication expenses	3 429	4 297
Taxes	3 373	3 756
Travel	1 944	2 311
Other	13 257	13 512
	239 074	**243 273**

Other expenses mainly consist of office expenses, staff event costs, encashment costs and transport costs for TBIF Group and other costs.

Executive Committee and Board member remuneration expenses are disclosed in Note 36.

Auditor's fees (part of Legal and consulting)	2018 EUR'000	2017 EUR'000
Audit fees	1 131	787
Audit related fees	—	166
Tax related fees	19	62
	1 150	**1 015**

	2018	2017
Average number of employees		
Senior management/Executives	13	11
Employees	3 464	3 527
	3 477	**3 538**

(13) Other income

	2018 EUR'000	2017 EUR'000
Rent income	21	1 586
Proceeds from share sales	9	—
Other income	2 684	1 589
	2 714	**3 175**

(14) Non-recurring expense

	2018	2017
	EUR'000	**EUR'000**
Goodwill write-off	3 850	22 000
IA write-off	1 646	10 375
IA Impairment	1 857	3 934
Loss from acquisition	—	415
Other expense	—	275
	7 353	**36 999**

In 2018 there was a write-off of goodwill associated with the Friendly Finance in the Czech Republic and Poland, following the consolidation of operations in those markets, see Note 27.
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.

(15) Net foreign currency loss

	2018	2017
	EUR'000	**EUR'000**
Net foreign currency (gain)/ loss	23 886	(16 640)
Net (gain)/ loss on derivatives	(11 251)	20 645
	12 635	**4 005**

(16) Net impairment losses

	2018	2017
	EUR'000	**EUR'000**
Impairment losses on loans	178 868	136 478
Reversal of provision on debt portfolio sales	(36 587)	(18 921)
Recovery from written-off loans	(19 415)	(9 982)
	122 866	**107 575**

Impairment losses on loans include EUR 20 thousand of TBIF Group impairment on financial leases (2017: EUR 159 thousand).

(17) Income tax for the reporting period

	2018	2017
	EUR'000	**EUR'000**
Current tax	30 513	34 098
Deferred tax	(6 428)	(6 529)
	24 085	**27 569**

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

Reconciliation of effective income tax:

	2018 EUR'000	2017 EUR'000
Profit before corporate income tax	52 577	10 732
Theoretical corporate income tax, 26.01%	13 675	3 019
CIT relief due to donations	(41)	(157)
Effect of change in deferred tax asset recognition	6 921	7 719
Tax effect of permanent differences related to non-deductible expenses	3 762	19 536
Impact of tax rate in other jurisdictions	(232)	(2 548)
Corporate income tax for the reporting year	**24 085**	**27 569**

The effective tax rate in 2018 was 46% (2017: 246%).

The effective tax rate in 2018 was mainly impacted by the following items:

- de-recognition of deferred tax asset for Georgia and Argentina accumulated as at the end of 2017 (EUR 949 thousand and EUR 1 644 thousand respectively) as well as no new deferred tax recognition in Georgia and Argentina in 2018 (EUR 794 thousand and EUR 2 268 thousand respectively)
- part of dividend payment between Polish entities resulted in withhold tax payable (EUR 833 thousand)
- the Group's policy is to continue not to recognize deferred tax assets on tax losses and other temporary differences in countries where there is uncertainty around utilization of these assets in future or if the items relate to holding level entities.

Management utilizes both in-house tax expertise and external consultants to ensure compliance with tax legislation in the countries in which the Group operates.

Companies within the Group are subject, from time to-time, to tax inspections by the relevant local tax authorities. Currently, a tax inspection is being undertaking by the local tax authorities in the following Group's entities: Vivus Finance Sp. z o.o. (Poland), 4finance Spain Financial Services, S.A.U. (Spain), 4finance ApS (Denmark), 4f Sales Inc. (US), Friendly Finance Georgia Ltd. (Georgia).

(18) Cash and cash equivalents

	31.12.2018 EUR'000	31.12.2017 EUR'000
Bank balances	115 605	70 476
Placements with other banks	—	3 968
Cash at central banks other than the minimum statutory reserve	33 190	57 473
Cash and cash equivalents in the statement of cash flows	**148 795**	**131 917**
Minimum statutory reserve	23 360	23 029
Total cash on hand and cash at central banks	**172 155**	**154 946**

As at 31 December 2018, 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.

(18) Cash and cash equivalents (continued)

As at 31 December 2018, 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.

(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 2018.

Recognized as Assets	Currency	Notional amount '000	Rate	Maturity	31.12.2018 EUR'000
Swap sell EUR, buy USD	USD	46 476	1.1619	Apr-2020	689
Swap sell EUR, buy USD	USD	46 528	1.1632	Apr-2022	676
Forward sell EUR, buy USD	USD	24 494	1.2247	Jun-2020	411
Forward sell EUR, buy USD	USD	2 963	1.3388	Aug-2019	362
Forward sell EUR, buy USD	USD	6 050	1.2100	Aug-2019	166
Swap sell EUR, buy NOK	NOK	5 750	9.8125	Mar-2019	99
Swap sell EUR, buy RON	RON	7 068	4.7088	Feb-2019	42
Swap sell EUR, buy RON	RON	10 035	4.6798	Feb-2019	12
Swap sell EUR, buy RON	RON	10 016	4.6708	Jan-2019	2
Swap sell EUR, buy RON	RON	5 007	4.6703	Jan-2019	1
					2 460

Recognized as Liabilities	Currency	Notional amount '000	Rate	Maturity	31.12.2018 EUR'000
Forward sell EUR, buy USD	USD	80 000	1.1432	Nov-2019	2 112
Forward sell EUR, buy USD	USD	40 000	1.1332	Oct-2019	1 313
Forward sell EUR, buy USD	USD	40 000	1.1397	Oct-2019	1 110
Forward sell EUR, buy RON	RON	14 958	4.6503	Jan-2019	47
Forward sell EUR, buy RON	RON	2 928	4.7089	Feb-2019	19
Forward sell EUR, buy SEK	SEK	503	10.3115	Jan-2019	3
					4 605

(19) Derivatives (continued)

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

Recognized as Assets	Currency	Notional amount '000	Rate	Maturity	31.12.2017 EUR'000
Forward sell EUR, buy USD	USD	2 963	1.3388	Aug-2019	207
Forward sell GEL, buy USD	USD	5 000	2.5932	Dec-2018	139
Forward sell GEL, buy USD	USD	2 000	2.5932	Dec-2018	55
Forward sell RON, buy EUR	RON	10 000	4.6560	Jan-2018	5
					406

Recognized as Liabilities	Currency	Notional amount '000	Rate	Maturity	31.12.2017 EUR'000
Forward sell EUR, buy USD	USD	80 000	1.1432	Nov-2019	6 610
Forward sell EUR, buy USD	USD	40 000	1.1332	Oct-2019	3 574
Forward sell EUR, buy USD	USD	40 000	1.1397	Oct-2019	3 370
Forward sell EUR, buy USD	USD	6 050	1.2100	Aug-2019	177
Forward sell RON, buy EUR	RON	20 000	4.6700	Feb-2018	100
Forward sell RON, buy EUR	RON	15 000	4.6815	Mar-2018	14
					13 845

(20) Net receivables due from customers

Summary

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

	Gross receivables 31.12.2018 EUR'000	Allowance for doubtful debts 31.12.2018 EUR'000	Net receivables 31.12.2018 EUR'000	Gross receivables 31.12.2017 EUR'000	Allowance for doubtful debts 31.12.2017 EUR'000	Net receivables 31.12.2017 EUR'000
4finance Group	405 433	(113 857)	291 576	515 697	(149 087)	366 610
TBIF Group	299 900	(38 303)	261 597	245 593	(21 026)	224 567
	705 333	**(152 160)**	**553 173**	**761 290**	**(170 113)**	**591 177**

(20) Net receivables due from customers (continued)

4finance Group

	31.12.2018	**31.12.2017**
	EUR'000	**EUR'000**
Long-term loans due from customers	59 016	26 507
Impairment of long-term loans due from customers	(14 231)	(7 065)
Long term	**44 785**	**19 442**
Short-term loans due from customers	346 417	489 190
Impairment of short-term loans due from customers	(99 626)	(142 022)
Short term	**246 791**	**347 168**
	291 576	**366 610**

The 4finance Group's long-term and short-term loans consist of loan balances not exceeding EUR 5 000 per loan (31 December 2017: EUR 5 000 and maturity of up to 4 years) with maturity of up to 4 years. The average loan size in 2018 was EUR 228 (2017: EUR 209). The loans are not collateralized.

Short-term loans include the Line of Credit portfolio outstanding of EUR 6 549 thousand as at 31 December 2018 (31 December 2017: EUR 8 066). The total credit committed under this product, which includes used and unused amounts, is EUR 12 348 thousand (31 December 2017: EUR 12 849).

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

	2018	**2017**
	EUR'000	**EUR'000**
<u>Allowance for doubtful debts</u>		
Balance at the beginning of period	149 087	157 625
IFRS 9 effect	(15 480)	—
Charge for the period	152 174	124 114
Amounts written-off	(93 303)	(73 206)
Derecognised on disposal of portfolio	(77 747)	(64 969)
Currency effect	(874)	5 523
Balance at period end	**113 857**	**149 087**

Net gain from debt sales of portfolio in 4finance Group is EUR 31 697 thousand (2017: EUR 13 431 thousand).

(20) Net receivables due from customers (continued)

Loans by country and currency:

	Gross receivables 31.12.2018	Allowance for doubtful debts 31.12.2018	Net receivables 31.12.2018	Gross receivables 31.12.2017	Allowance for doubtful debts 31.12.2017	Net receivables 31.12.2017
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Poland (PLN)	158 608	(37 555)	121 053	164 313	(39 857)	124 456
Latvia (EUR)	49 896	(8 445)	41 451	56 096	(6 597)	49 499
Spain (EUR)	52 708	(20 708)	32 000	75 104	(32 228)	42 876
Denmark (DKK)	43 153	(16 932)	26 221	54 567	(16 431)	38 136
Lithuania (EUR)	19 593	(2 213)	17 380	21 095	(3 759)	17 336
Finland (EUR)	13 210	(3 032)	10 178	22 368	(7 419)	14 949
Sweden (SEK)	12 803	(2 694)	10 109	24 519	(4 268)	20 251
Other	55 462	(22 279)	33 183	97 635	(38 528)	59 107
	405 433	**(113 857)**	**291 576**	**515 697**	**(149 087)**	**366 610**

TBIF Group

Loans to customers

	31.12.2018	31.12.2017
	EUR'000	**EUR'000**
Loans to customers:		
Individuals	247 266	197 524
Corporate clients	51 660	47 209
Staff	974	860
Total loans to customers	**299 900**	**245 593**
Impairment allowance	(38 303)	(21 026)
Total net loans to customers	**261 597**	**224 567**

Loans to customers include accrued interest amounting to EUR 7 636 thousand (2017: EUR 4 813 thousand). Loans to customers bearing floating interest rates amount to EUR 51 916 thousand (2017: EUR 37 199 thousand), and loans to customers bearing fixed interest rates amount to EUR 258 655 thousand (2017: EUR 208 394 thousand).

(20) Net receivables due from customers (continued)

Impairment loss allowances

The movement in impairment loss allowances is as follows:

Impairment allowance for individually assessed financial assets	**2018 EUR'000**	**2017 EUR'000**
Balance at the beginning of period	1 154	1 432
IFRS 9 effect	1 501	—
(Reversal)/Charge for the period in continued operations	(155)	(214)
Amounts written-off	(278)	(55)
Currency effect	(10)	(9)
Balance at period end	**2 212**	**1 154**

Impairment allowance for collectively assessed financial assets	**2018 EUR'000**	**2017 EUR'000**
Balance at the beginning of period	19 872	12 153
IFRS 9 effect	1 438	—
Charge for the period in continued operations	27 109	12 737
Amounts written-off	(12 229)	(5 314)
Currency effect	(99)	296
Balance at period end	**36 091**	**19 872**

Net gain from debt sales of portfolio in TBIF Group is EUR 4 889 thousand (2017: EUR 3 927 thousand).

Structure of the loan portfolio by economic sectors

	Gross receivables 31.12.2018	**Allowance for doubtful debts 31.12.2018**	**Net receivables 31.12.2018**	**Gross receivables 31.12.2017**	**Allowance for doubtful debts 31.12.2017**	**Net receivables 31.12.2017**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Individuals	247 266	(35 528)	211 738	197 524	(18 710)	178 814
Services	19 428	(626)	18 802	6 153	(353)	5 800
Construction and real estate	12 667	(1 203)	11 464	21 269	(1 341)	19 928
Commerce	7 199	(418)	6 781	6 727	(155)	6 572
Agriculture	5 014	(225)	4 789	6 825	(376)	6 449
Tourism	4 407	(103)	4 304	2 462	—	2 462
Manufacturing	2 889	(153)	2 736	3 717	(91)	3 626
Staff	974	(45)	929	860	—	860
Other financial institutions	56	(2)	54	56	—	56
Total loans to customers	**299 900**	**(38 303)**	**261 597**	**245 593**	**(21 026)**	**224 567**

(21) Net investment in finance leases

	31.12.2018	31.12.2017
	EUR'000	EUR'000
Gross investment in finance leases:		
Not later than one year	7 008	4 877
Later than one and not later than five years	2 748	7 081
Later than five years	7	2 062
	9 763	**14 020**
Unrealised finance income	(1 955)	(3 056)
	7 808	**10 964**
Less allowance for impairment losses	(516)	(510)
Net investment in finance leases	**7 292**	**10 454**
Net investment in finance leases		
Not later than one year	6 055	3 397
Later than one and not later than five years	1 230	5 257
Later than five years	7	1 800
	7 292	**10 454**

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:

	2018	2017
	EUR'000	EUR'000
As of 1 January	510	731
IFRS 9 effect	30	—
Impairment loss allowance charged	450	370
Reversed	(431)	(529)
Foreign exchange difference	(43)	(62)
As of 31 December	**516**	**510**

(22) Debt and Equity instruments

	31.12.2018	31.12.2017
	EUR'000	EUR'000
Investments in equities	15 684	9 905
Debt securities - listed	22 672	8 530
	38 356	**18 435**

(22) Debt and Equity instruments (continued)

Investments in equities consists of a EUR 9 890 thousand investment in participation of 19.9% in Spotcap Global S.a.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. As of 31 December 2018 the fair value of the investment was assessed to be EUR 9 890 thousand based on internally prepared valuation model including multiplier approach and discounted future net cash flow approach. In March 2019, the Group agreed to sell its 19.9% equity interest in Spotcap Global S.a.r.l. to Tirona Limited for its carrying value of EUR 9 890 thousand, part of which is subject to regulatory approval.

In November 2018, the Group acquired a 9.1% stake in Oslo listed Norwegian digital bank Monobank ASA for EUR 5 740 thousand. Monobank, operating in Norway and Finland, is a niche digital bank focusing on consumer finance and has grown successfully and profitably in the Nordic region since launch in 2015. It is an advanced digital bank, with highly efficient and scalable operations based on innovative technology. As part of 4finance Group's broader strategy to develop its near-prime business in the Nordic region, this minority stake is the first step in exploring potential cooperation with Monobank.

Debt securities as at 31 December 2018 represent the following government bonds:

Type	Issuer	ISIN code	Maturity	Coupon	Currency	31.12.2018 EUR'000
Government bond	Romania	RO1621DBE048	26.02.2021	1.250	EUR	8 776
Government bond	Romania	XS1312891549	29.10.2025	2.750	EUR	3 235
Government bond	Romania	XS1129788524	28.10.2024	2.875	EUR	3 282
Government bond	Romania	RO1419DBE013	21.01.2019	3.400	EUR	4 654
Government bond	Serbia	XS0893103852	25.02.2020	4.875	USD	1 790
Government bond	Croatia	XS0525827845	14.07.2020	6.625	USD	934
						22 672

Interest accumulated as at 31 December 2018 amounts to EUR 203 thousand (31 December 2017: 161 thousand). Debt securities are carried at Fair value through other comprehensive income (FVOCI) based on quoted market prices as at the date of the financial statements.

(23) Loans to related parties

	31.12.2018 EUR'000	31.12.2017 EUR'000
Loans to related parties	66 176	66 561
	66 176	**66 561**

(23) Loans to related parties (continued)

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

			Principal amount		Accrued interest	
	Maturity	Interest rate	31.12.2018	31.12.2017	31.12.2018	31.12.2017
			EUR'000	EUR'000	EUR'000	EUR'000
4finance Group S.A.	Feb 2022	13.75 %	48 124	50 677	12 279	6 985
Spotcap Global S.a.r.l.	Mar 2019	16.5 %	4 833	3 000	67	36
BillFront GmbH	Dec 2020	5 %	841	150	26	1
Piressa Holdings Limited	May 2018	13.75 %	—	5 100	—	—
4finance US Holding Company, Inc	Dec 2019	13.75 %	—	—	6	6
De Vries Justitia B.V.	Oct 2018	12 %	—	606	—	—
			53 798	**59 533**	**12 378**	**7 028**

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 Group has had minority ownership positions in Spotcap Global S.a.r.l. and Billfront GmbH, and provided some financing to both companies to support their growth.

In March 2019, the loan to Spotcap Global S.a.r.l. was sold. More detailed information is available in Note (46) Subsequent events.

(24) Other assets

	31.12.2018	31.12.2017
	EUR'000	EUR'000
Receivables from suppliers	14 309	6 169
Repossessed real estate	4 656	7 407
- less allowance for impairment	(67)	(34)
Other repossessed assets	1 073	609
- less allowance for impairment	(382)	(425)
FX hedging - margin requirements	4 581	8 876
Prepayment	1 400	21 420
Security deposits	1 306	1 748
Other receivables	6 569	9 375
	33 445	**55 145**

Receivables from suppliers include receivables from offline service providers, which is the main driver for the increase as at 31 December 2018 compared to 31 December 2017. Offline service providers offer the opportunity for customers to repay loans using other payment channels. These providers are used mainly in Poland, Spain and Denmark, the increase being driven by market growth in these countries.

(24) Other assets (continued)

Repossessed real estate and other repossessed assets are assets held for sale in TBIF Group. Assets are measured at fair value less cost of disposal.

In October 2017 the Group made a prepayment of EUR 21 420 thousand (USD 25 million) for a potential investment which it decided subsequently not to pursue. This amount was repaid in 2018.

Other receivables as at 31 December 2018 includes other receivables from related parties of EUR 1 429 thousand and receivables of EUR 1 276 thousand for Romania's sold portfolio.

(25) Investment in associates

	31.12.2018	31.12.2017
	EUR'000	EUR'000
Investments in associates	1 641	1 745
	1 641	**1 745**

Investments in associates measured using equity method consists of EUR 1 641 thousand investment in participation of 24.39% 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 24.39% shares does not give power to make important decisions alone. The Group acquired 24.39% of shares for EUR 2 142 thousand in November 2016. As of 31 December 2018, the investment was decreased by EUR 501 thousand (31.12.2017: EUR 397 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

	Buildings and land	Leasehold improvements	Computer equipment	Other property and equipment	Motor Vehicles	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost						
31 December 2016	**5 759**	**1 783**	**5 567**	**3 199**	**1 135**	**17 443**
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)
31 December 2017	**5 364**	**1 790**	**5 490**	**3 730**	**652**	**17 026**
Accumulated depreciation						
31 December 2016	**70**	**565**	**2 799**	**916**	**747**	**5 097**
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)
31 December 2017	**211**	**964**	**3 790**	**1 637**	**363**	**6 965**
Balance as at 31 December 2016	**5 689**	**1 218**	**2 767**	**2 283**	**388**	**12 345**
Balance as at 31 December 2017	**5 153**	**826**	**1 700**	**2 093**	**289**	**10 061**

(26) Property and equipment (continued)

	Buildings and land	Leasehold improvements	Computer equipment	Other property and equipment	Motor Vehicles	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost						
31 December 2017	**5 364**	**1 790**	**5 490**	**3 730**	**652**	**17 026**
Additions	99	408	604	936	10	2 057
Disposals and write-offs	(81)	(438)	(541)	(944)	(210)	(2 214)
Reclassification	—	25	—	(25)	—	—
Effect of changes in foreign exchange rates	(3)	(62)	(93)	(6)	—	(164)
31 December 2018	**5 379**	**1 723**	**5 460**	**3 691**	**452**	**16 705**
Accumulated depreciation						
31 December 2017	**211**	**964**	**3 790**	**1 637**	**363**	**6 965**
Depreciation	168	421	975	743	67	2 374
Disposals	—	(290)	(443)	(434)	(92)	(1 259)
Effect of changes in foreign exchange rates	—	(58)	(80)	(6)	—	(144)
31 December 2018	**379**	**1 037**	**4 242**	**1 940**	**338**	**7 936**
Balance as at 31 December 2017	**5 153**	**826**	**1 700**	**2 093**	**289**	**10 061**
Balance as at 31 December 2018	**5 000**	**686**	**1 218**	**1 751**	**114**	**8 769**

(27) 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
Cost						
31 December 2016	**3 532**	**13 540**	**43 353**	**23 960**	**2 167**	**86 552**
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)
Restated	—	(498)	—	(1 004)	—	(1 502)
31 December 2017	**9 241**	**19 812**	**43 353**	**8 237**	**19**	**80 662**
Accumulated amortisation and impairment						
31 December 2016	**1 477**	**1 900**	**—**	**—**	**—**	**3 377**
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)
Restated	—	220	—	(1 722)	—	(1 502)
31 December 2017	**2 626**	**5 381**	**22 000**	**661**	**—**	**30 668**
Balance as at 31 December 2016	**2 055**	**11 640**	**43 353**	**23 960**	**2 167**	**83 175**
Balance as at 31 December 2017	**6 615**	**14 431**	**21 353**	**7 576**	**19**	**49 994**

(27) 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
Cost						
31 December 2017	**9 241**	**19 812**	**43 353**	**8 237**	**19**	**80 662**
Additions	694	1 535	—	4 057	99	6 385
Disposals and write-offs	(590)	(2 422)	—	(909)	(97)	(4 018)
Reclassification	7	9 172	—	(9 172)	(7)	—
Effect of changes in foreign exchange rates	39	749	—	274	—	1 062
31 December 2018	**9 391**	**28 846**	**43 353**	**2 487**	**14**	**84 091**
Accumulated amortisation and impairment						
31 December 2017	**2 626**	**5 381**	**22 000**	**661**	**—**	**30 668**
Amortisation	3 240	6 447	—	—	—	9 687
Disposals and write offs	(567)	(1 522)	—	—	—	(2 089)
Impairment loss	79	1 615	3 850	154	—	5 698
Effect of changes in foreign exchange rates	40	222	(1)	105		366
31 December 2018	**5 418**	**12 143**	**25 849**	**920**	**—**	**44 330**
Balance as at 31 December 2017	**6 615**	**14 431**	**21 353**	**7 576**	**19**	**49 994**
Balance as at 31 December 2018	**3 973**	**16 703**	**17 504**	**1 567**	**14**	**39 761**

Development costs largely relate to new IT development projects and significant improvements of existing products.

Management has reassessed expected future economic benefit for all development project costs capitalized as of 31 December 2018 and decision was made to write-off several intangible assets and development costs and partially impair intangible assets related to cash generating units which currently do 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 cash flow 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 Group entity, which is the unit that generates cash inflow from continuing use that is largely independent of the cash inflow of other assets.

In addition to impairment test results, Group has reviewed IT related intangible assets portfolio to identify assets which either are not used, or which functionality is not aligned with current business strategy and therefore future economic benefit is not expected. In 2017 and 2018, a number of such items were identified and the write-off loss recognized as Non-recurring expenses.

(27) Intangible assets and goodwill (continued)

Goodwill

Acquisition of Armenia and Argentina

In 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 2018, 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 where goodwill of EUR 26 850 thousands was recognised. 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 operated 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 had a presence (Poland, Czech Republic, Spain and Georgia), enter a new market (Slovakia) and add other brands to its portfolio.

In 2017, 4finance Holding S.A. entered into a deal to purchase minority shares of 20% for EUR 3 860 thousand. The deal was closed in June 2018. See Note (33) Acquisition of additional share in subsidiaries.

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. TBIF Group is a consumer-focused financial group in Bulgaria and Romania. 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 paid in cash of EUR 81.8 million where goodwill recognised was EUR 15 856 thousands.

For the twelve months ended 31 December 2018, consolidated TBI Bank EAD revenues amounted to EUR 75.14 million (2017: EUR 62.9 million) and profit to EUR 14.5 million (2017: EUR 19.9 million). The financial information is not presented for TBIF Group due to the fact TBIF Financial Services B.V. is holding company and business is performed in TBI Bank EAD consolidated group.

Goodwill impairment test

As of 31 December 2017 and 2018, 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.

(27) Intangible assets and goodwill (continued)

Friendly Finance

At the time of acquisition of Friendly Finance, each business based on geographic location, was identified as a cash generating unit. 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 was 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 took 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. In year 2018 there was a write-off of EUR 3.9 million of goodwill associated with the Friendly Finance in the Czech Republic and Poland, following the consolidation of operations in those markets.

Friendly Finance goodwill impairment:

Cash generating unit	Goodwill 31.12.2018 EUR'000	Impairment 2018 EUR'000	Goodwill 31.12.2017 EUR'000	Impairment 2017 EUR'000	Goodwill 31.12.2016 EUR'000
Spain	—	—	—	(8 054)	8 054
Czech Republic	—	(2 000)	2 000	(4 713)	6 713
Slovakia	1 000	—	1 000	(1 685)	2 685
Poland	—	(1 850)	1 850	(7 548)	9 398
	1 000	**(3 850)**	**4 850**	**(22 000)**	**26 850**

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"). Projected free cash flows 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 are:

Cash generating unit	2018	2017
Czech Republic	n/a	(19)
Slovakia	61	5
Poland	n/a	2

(27) Intangible assets and goodwill (continued)

In 2017 five years of cash flows were included in the discounted cash flow model. In 2018 for Slovakia there was used two years budget. A long-term growth rate into perpetuity was determined to be 2% (2017: 2%) for Friendly Finance units.

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:

Cash generating unit	2018	2017
Czech Republic	n/a	12
Slovakia	12	12
Poland	n/a	14

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

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

In year 2018 goodwill allocated to Friendly Finance Slovakia would be impaired fully, if discount rates increased by 2% and revenues decreased by 39%.

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 three years) was 32% (2017: average of next four years 16%), based on management estimates. In year 2018 estimated growth rate reflects management expectations of the development of the bank.

Three years (2017: Four years) of cash flows were included in the discounted cash flow model. A long-term growth rate into perpetuity was determined as 2% (2017: 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 15% (2017: 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 54% (2017: 19%), 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).

(28) 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 2018:

	Net balance 1 January 2018	Recognised in profit or loss of continued operations	Recognized via balance sheet in result of IFRS9	Effect of exchange rate fluctuations	Net balance 31 December 2018	Deferred tax asset	Deferred tax liabilities
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'00**	**EUR'00**
Impairment losses on loans and receivables	8 030	(201)	1 069	(5)	8 893	8 893	—
Property and equipment	(8)	(2)	—	—	(10)	—	(10)
Other liabilities	10 555	8 168	—	655	19 377	19 377	—
Tax loss carry-forwards	10 869	(1 536)	—	(5)	9 328	9 328	—
Deferred tax assets (liabilities) before set-off	**29 446**	**6 429**	**1 069**	**645**	**37 588**	**37 598**	**(10)**
Set-off of tax						(11)	
Net deferred tax assets						**37 587**	**—**

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'00**	**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	—
Deferred tax assets (liabilities) before set-off	**23 697**	**6 528**	**(779)**	**29 446**	**29 454**	**(8)**
Set off of tax					(8)	(8)
Net deferred tax assets					**29 446**	**—**

The Group has recognized deferred tax assets of EUR 37 587 thousand (31 December 2017: EUR 29 446 thousand) in Armenia, Bulgaria, Czech Republic, Denmark, Finland, Lithuania, Luxembourg, Poland, Spain, Sweden, UK and US.

Deferred tax assets coming from tax losses carried forward as at 31 December 2018 related to Armenia, Bulgaria, Finland, Lithuania, Luxembourg, Poland (IT branch) and US (4fSales Inc.), totalled EUR 9 237 thousand (31 December 2017: EUR 10 869 thousand). The Group has prepared detailed financial projections for these entities covering next 1-3 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 utilize these tax losses over the forthcoming years.

(28) Deferred tax asset (continued)

EUR 8 836 thousand deferred tax asset is recognized on tax loss having expiry period more than 5 years, while EUR 491 thousand deferred tax asset is recognized on tax loss having expiry period within 5 years. Approx. 25% of tax losses are expected to be utilized by the end of 2019, while the rest - by the end of 2022-2023.

As at 31 December 2018, the Group has not recognized a deferred tax asset relating to tax losses and other temporary differences in amount of approx. EUR 43 927 thousand (2017: EUR 9 281 thousand) mainly due to uncertainty around utilization of these tax benefits (e.g. Argentina, Georgia, Latvia, Luxembourg, Mexico) or potential exit/closure of markets (e.g. Brazil, Dominican, Romania).

The main reasons for the increase of deferred tax asset value in the reporting period compared to year 2017 are:

- increased deferred tax asset in Spain on doubtful debt provisions recognized in result of IFRS9 implementation (EUR 1 170 thousand)
- deferred tax asset increase in Poland entity Zaplo (by EUR 8 960 thousand) mainly 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
- increase of deferred tax asset in 4fSales Inc., US, (by EUR 933 thousand) on tax loss created in result of reduction of IT intangible assets through a combination of write-offs and impairment (for more details see note 16 and 27)
- other locations with significant deferred tax asset increases as a result of usual business activities relates to Sweden (EUR 550 thousand), Armenia (EUR 295 thousand), Lithuania entity Credit Service UAB (EUR 273 thousand), Poland entity Vivus (EUR 244 thousand) and Czech Republic entity Zaplo Finance s.r.o. (EUR 169 thousand).

At the same time the historically recognized deferred tax assets in Georgia (EUR 949 thousand) and Argentina (EUR 1 644 thousand) were de-recognized due to uncertainty around utilization of these tax benefits in future as well as no new tax assets for FY2018 in Georgia and Argentina were recognized.

In all other aspects the entities of the Group are mainly representing decrease in deferred tax asset closing balances.

(29) Loans and borrowings

	31.12.2018	31.12.2017
	EUR’000	EUR’000
Long term		
Notes	395 138	456 422
Loans from banks	—	219
Other loans in TBIF Group	22	114
Other loans in 4finance Group	—	367
	395 160	**457 122**
Short term		
Notes	63 867	8 984
Loans from banks	36	2
Other loans in 4finance Group	348	3 965
Other loans in TBIF Group	2 609	143
	66 860	**13 094**
Total	**462 020**	**470 216**

(29) Loans and borrowings (continued)

Detailed information regarding loans and borrowings can be seen below:

				Principal amount		Accrued interest	
	Currency	**Maturity**	**Interest rate**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
				EUR'000	**EUR'000**	**EUR'000**	**EUR'000**
Notes:							
2021 Notes	EUR	May 2021	11.25%	144 428	141 922	1 690	1 683
2022 Notes	USD	May 2022	10.75%	246 336	258 377	4 573	4 774
2019 Notes	USD	Aug 2019	11.75%	59 331	56 122	2 648	2 528
Loans from banks:							
Ameriabank CJSC	AMD	Nov 2019	15.00%	36	219	—	2
Other loans in:							
Deposits from customers (TBIF Group)	RON	Jan 2019	2.85%	2 573	—	—	—
Hartzella Ventures Limited	EUR	Dec 2019	1.50%	348	—	—	—
State Fund Agriculture	BGN	2019 - 2020	2.00%	57	—	—	—
4finance Group	EUR	2019	3.00%-9.00%	—	4 122	—	—
TBIF	BGN	2019 - 2020	2%	—	257	—	—
Friendly Finance OÜ	EUR	2019	12.00%-15.00%	—	210	—	—
				453 109	**461 229**	**8 911**	**8 987**

As of 31 December 2018, the Group had loans and borrowings of EUR 462.0 million, compared with EUR 470.2 million as of 31 December 2017. The Group's loans and borrowings accounted for 55% of total liabilities as of 31 December 2018 and 56% of total liabilities as of 31 December 2017. The Group continues to optimise its funding by repaying debt at local subsidiary level and retains the flexibility to use excess liquidity to make limited repurchases of its bonds. USD 25 million of the 2022 Notes were repurchased by 4finance S.A. during 2018.

In August 2014, 4finance S.A. issued USD 200.0 million of 11.75% notes (the '2019 Notes') which are listed on the Irish Stock Exchange and are senior to all of the Group's future subordinated debt. The 2019 Notes will mature in August 2019. Following the tender offer conducted in April 2017, an amount of USD 68 million remains outstanding.

In May 2016, 4finance S.A. issued EUR 100.0 million of 11.25% notes (the '2021 Notes') which are senior to all of the Group's future subordinated debt. The 2021 Notes are listed on the Prime Standard regulated market segment of the Frankfurt Stock Exchange. In November 2016, a further EUR 50.0 million of 2021 Notes were issued at par. The 2021 Notes will mature in May 2021 and are currently callable at 104%.

In April 2017, 4finance S.A. issued USD 325.0 million of 10.75% notes (the '2022 Notes') which are listed on the Irish Stock Exchange and will mature in May 2022. An IFRS 9 adjustment as of 1 January 2018 resulted in a EUR 5.2 million decrease to the carrying value from the revaluation at the original effective interest rate of a proportion of USD 2022 bond carried over from original USD 2019 bond (to be amortised over remaining life of bond in 'interest expense'). The 2022 Notes are first callable at 105.4% from May 2019.

(29) Loans and borrowings (continued)

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 is detailed in the table below:

	Notes	Other loans	Retained earnings
Balance at 1 January 2018	**465 406**	**4 810**	**190 337**
Loans received and notes issued	—	6 598	—
Repayment of loans and notes	(22 655)	(8 083)	—
Dividend payment	—	—	(93)
Total changes from financing cash flows	**(22 655)**	**(1 485)**	**(93)**
Other changes			
Liability-related			
Interest payments	(52 418)	(235)	—
Costs of notes issuance and premium on repurchase of notes	(11)	—	—
Interest expense	57 854	235	—
Foreign exchange impact	16 016	(161)	—
Other	—	(148)	—
IFRS 9 impact	(5 188)		
Total liability-related other changes	**16 253**	**(309)**	**—**
Total equity-related other changes	**—**	**—**	**(33 262)**
Balance at 31 December 2018	**459 004**	**3 016**	**156 982**

(30) Deposits from customers

	31.12.2018	31.12.2017
	EUR'000	EUR'000
TBIF Group	269 973	257 135
4finance Group	14 996	13 889
Total deposits from customers	**284 969**	**271 024**

TBIF Group	31.12.2018	31.12.2017
	EUR'000	EUR'000
Corporate customers		
Term deposits	16 600	34 305
Current/settlement accounts	29 284	19 872
Individuals		
Term deposits	21 338	184 755
Current/settlement accounts	202 751	18 203
	269 973	**257 135**

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 2018 was 1.4% (31 December 2017: 1.5%) 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.

4finance Group	31.12.2018	31.12.2017
	EUR'000	EUR'000
Deposits from customers	14 996	13 889
	14 996	**13 889**

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 4 900).

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 5.5% per annum. The minimum amount for call deposits is SEK 1 000 (approximately EUR 98).

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 980).

Deposits from customers at the end of 2018 includes interest payable amounting to 454 EUR thousand (31 December 2017: EUR 991 thousand).

(31) Share capital

The share capital of the Group as at 31 December 2018 was EUR 35 750 thousand (31 December 2017: EUR 35 750 thousand), divided into 3 575 000 000 ordinary shares (31 December 2017: 3 575 000 000 shares) with nominal value of EUR 0.01 each (31 December 2017: EUR 0.01), fully paid via a contribution-in-kind. As at 31 December 2017, 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 2017: 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 2018, the Company's shareholder was 4finance Group S.A. (100% ownership of ordinary shares, corresponding to 100% of total share capital) owned by Tirona Limited (Cyprus) directly.

The beneficial owners of the group are Edgars Dupats and Vera Boiko, owning 29.5% and 49%, respectively, in Tirona Limited. Remaining 21.5% are owned by minority shareholders, each holding less than 10% of shares in Tirona Limited.

(32) Other liabilities

	31.12.2018	31.12.2017
	EUR'000	EUR'000
Accrued expenses	22 806	19 301
Accounts payable to suppliers	12 563	14 478
Taxes payable	8 110	6 876
Salaries payable	3 746	3 917
Overpayments received from clients	2 810	2 787
Prepaid repayment instalments and advances received	6 865	6 554
Provisions for unused vacations	1 976	1 951
Faulty payments received	1 510	1 624
Other liabilities	5 917	5 120
	66 304	**62 608**

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, Latvia, Spain, Czech Republic and Denmark.

Prepaid repayment instalments and advances received 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.

(33) Acquisition of additional share in subsidiaries

During the financial year 2018, the Group acquired an additional 20% interest in Friendly Finance group for EUR 3 860 thousand in cash, increasing its ownership from 80% to 100%. The carrying amount of Friendly Finance group net assets in the Group's financial statements on the date of acquisition was EUR (12 035) thousand. As the result of 20% minority acquisition from negative net assets, the Group recognized an increase in non-controlling interest (NCI) of EUR 2 407 thousand.

Also during the financial year 2018, the Group acquired an additional 1% interest in 4finance AB (Sweden) for EUR 545 thousand in cash, increasing its ownership from 97% to 98%. The carrying amount of 4finance AB net assets in the Group's financial statements on the date of acquisition was EUR 1 007 thousand. The Group recognized decrease in NCI of EUR 10 thousand.

	31.12.2018	**31.12.2017**
	EUR'000	**EUR'000**
Carrying amount of NCI acquired	(2 397)	—
Consideration paid to NCI	(4 405)	—
A decrease in equity attributable to owners of the Group	**(6 802)**	**—**

(34) Contingent liabilities and irrevocable commitments

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

	31.12.2018	**31.12.2017**
	EUR'000	**EUR'000**
Lines of credit	5 799	4 783
	5 799	**4 783**

On 27 June 2018 the Company issued a financial guarantee for the benefit of a third party with a maximum liability not exceeding EUR 15 million, where the liability of the Company under this guarantee is limited to the performance of 4finance S.A. arising from derivative transactions.

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 2018 are as follows:

(34) Contingent liabilities and irrevocable commitments (continued)

	31.12.2018 EUR'000	31.12.2017 EUR'000
Guarantees		
Corporate clients	480	657
Undrawn credit commitments:		
Corporate clients	3 287	3 126
Individuals	11 821	7 828
	15 588	**11 611**

(35) Operating leases

Non-cancellable operating lease rentals are payable as follows:

	31.12.2018 EUR'000	31.12.2017 EUR'000
Less than one year	3 459	4 833
Between one and five years	7 259	8 597
More than five years	685	1 760
	11 403	**15 190**

The Group entities lease a number of premises and equipment under operating leases. 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 2018, EUR 4 083 thousand was recognized as an expense in the income statement in respect of operating leases (2017: EUR 4 433 thousand). Six entities cover EUR 2 686 thousand of total 2018 expenses - Vivus Finance Sp.z o.o., AS 4finance, 4finance Spain Financial Services SAU, 4finance Oy, SIA 4finance IT branch in Czech Republic and 4finance ApS.

(36) Related party transactions

(a) Transactions with shareholders and related entities

Receivables:	31.12.2018 EUR'000	31.12.2017 EUR'000
Loans issued to related parties (Note 23)	—	5 100
Other receivables	—	1 560
	—	**6 660**

Income:	2018 EUR'000	2017 EUR'000
Interest income (Note 11)	115	709
Income from services rendered	—	76
	115	**785**

(36) Related party transactions (continued)

Borrowings and payables:	**31.12.2018**	**31.12.2017**
	EUR'000	**EUR'000**
Borrowings and payables at the end of the period	—	36

Expense:	**2018**	**2017**
	EUR'000	**EUR'000**
Interest expense	—	36

Other items	**31.12.2018**	**31.12.2017**
	EUR'000	**EUR'000**
Financial assets at fair value through profit or loss at the end of the period	364	207
(Loss)/profit from financial instruments at fair value through profit or loss	(189)	(391)

(b) Transactions with parent and the related entities

Receivables:	**31.12.2018**	**31.12.2017**
	EUR'000	**EUR'000**
Loans issued to related parties (Note 23)	60 409	57 668
Other receivables	1 429	504
	61 838	**58 172**

Income:	**2018**	**2017**
	EUR'000	**EUR'000**
Interest income (Note 11)	6 902	7 804
Income from services rendered	489	569
	7 391	**8 373**

(c) Transactions with associated companies

Receivables:	**31.12.2018**	**31.12.2017**
	EUR'000	**EUR'000**
Loans issued to related parties (Note 23)	867	789
	867	**789**

Income:	**2018**	**2017**
	EUR'000	**EUR'000**
Interest income (Note 11)	26	1
	26	**1**

(36) Related party transactions (continued)

(d) Transactions with other related parties

Receivables:	**31.12.2018**	**31.12.2017**
	EUR'000	**EUR'000**
Loans issued to related parties (Note 23)	4 900	3 036
	4 900	**3 036**

Income:	**2018**	**2017**
	EUR'000	**EUR'000**
Interest income (Note 11)	407	36
Income from services rendered	16	275
	423	**311**

Expense:	**2018**	**2017**
	EUR'000	**EUR'000**
Expense for services received	63	43
	63	**43**

Total remuneration included in administrative expenses:

	2018	**2017**
	EUR'000	**EUR'000**
Executive committee and Board members	4 723	3 584

There are no outstanding balances as of 31 December 2018 with members of the Group's Management Board (the 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.

On 1 January 2018, the Parent company of the Group has established a share option program that entitles senior management personnel to purchase shares of the Parent, see Note (37) Personnel costs.

As at 31 December 2018, the share based payment reserve totalled EUR 373 thousand at year end (2017: EUR 1 739 thousand). The expense recorded in 2018 totalled EUR 373 thousand. During 2018 share based payment reserve previously realized was transferred to retained earnings for total EUR 1 739 thousand.

(37) Personnel costs

	2018	**2017**
	EUR'000	**EUR'000**
Type of costs		
Remuneration	81 146	76 051
Compulsory state social security contributions, pensions and other social security expenses	13 663	14 320
Equity-settled share-based payments	373	—
Other personnel costs	8 587	8 475
	103 769	**98 846**

(37) Personnel costs (continued)

Share-based payment arrangements

At 31 December 2018, the Group had the following share-based payment arrangements.

Equity-settled share option program

On 1 January 2018, the Parent company of the Group has established a share option program that entitles senior management personnel to purchase shares of the Parent. In accordance with this program, holders of the vested options are entitled to purchase Parent company shares at their nominal value.

The terms and conditions of the grants are as follows and are settled by physical delivery of shares by the Parent company.

Grant date/employees entitled	Number of instruments	Vesting conditions	Contractual life of the options
Option grant to senior management at 1 January 2018	4,320	Quarterly in equal instalments over a three-year period starting on the grant date, subject to the continued employment	10 years

Measurement of fair values - share options

The fair value of services received in return for share options granted is based on the fair value of share options at the grant date, which are equal to diluted Parent company`s share value, measured using market multiple approach.

Fair value of share options	Granted 1 Jan 2018
Share option fair value at grant date	EUR 128.23
Parent company share value at grant date	EUR 128.24
Exercise price	EUR 0.01

(38) 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.

(39) 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.

31 December 2018	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets				
Derivatives	—	2 460	—	2 460
Debt and Equity instruments*	22 672	—	15 684	38 356
	22 672	**2 460**	**15 684**	**40 816**
Financial liabilities				
Derivatives	—	4 605	—	4 605

31 December 2017	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets				
Derivatives	—	406	—	406
Debt and Equity instruments*	8 484	—	46	8 530
	8 484	**406**	**46**	**8 936**
Financial liabilities				
Derivatives	—	13 845	—	13 845

** Included investment in equity at fair value, but in prior year at cost less any impairment loss, if it exists*

(39) 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:

31 December 2018	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total fair values EUR'000	Total carrying amount EUR'000
Financial assets					
Cash and cash equivalents	—	—	—	172 155	172 155
Placement in other banks	—	—	8 753	8 753	8 753
Loans due from customers	—	—	540 817	540 817	553 173
Net investment in finance leases	—	—	8 804	8 804	7 292
Loans to related parties	—	—	66 229	66 229	66 176
Other financial assets	—	—	28 165	28 165	28 165
Financial liabilities					
Loans and borrowings	—	495 370	2 952	498 322	462 020
Deposits from customers	—	—	283 631	283 631	284 969
Accounts payable to suppliers	—	—	12 563	12 563	12 563

31 December 2017	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total fair values EUR'000	Total carrying amount EUR'000
Financial assets					
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
Financial liabilities					
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

(39) 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 (Level 2)

Type	Valuation technique	Significant unobservable inputs
Derivatives, Debt and Equity instruments	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 (Level 3)

Type	Valuation technique	Significant unobservable inputs
Debt and Equity instruments	The fair value of unquoted equity instruments measured at fair value is calculated by: 1) using valuation reports of third parties based on the investee's net assets and management makes no further adjustments, 2) using valuation report made internally based on discounted future net cash flow model or multipliers, and 3) 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.

(40) Operating segments

The Group is organised into eight material reportable segments and TBIF Group, all smaller segments are reported under other segments. Each segment is managed separately because they require different marketing strategies. For each of the 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 2018 is set out below:

EUR'000	Latvia	Lithuania	Finland	Sweden	Denmark	Poland*	Georgia*	Spain*	TBIF Group	All other segments*	Total
Interest income	34 199	9 041	18 943	17 058	43 432	131 152	11 565	81 745	75 224	52 831	475 190
Interest expense	(6 624)	(2 755)	(2 020)	(2 060)	(1 570)	(11 001)	(2 025)	(6 949)	(3 116)	(92 978)	(131 098)
Internal revenue	58 250	—	—	—	—	2 072	—	—	536	73 882	134 740
Net impairment losses on loans and receivables	(4 700)	4 189	(5 356)	(4 680)	(10 650)	(36 993)	(4 437)	(25 653)	(21 749)	(12 837)	(122 866)
Reportable segment profit/ (loss) before tax	48 008	3 153	2 514	1 458	15 868	40 119	(4 363)	11 576	15 016	(33 354)	99 995

*with effect from 1 January 2018 Friendly Finance is not reported as separate segment, it is split by country and included into the appropriate segment.

(40) Operating segments (continued)

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

EUR'000	Latvia	Lithuania	Finland	Sweden	Denmark	Poland*	Georgia*	Spain*	TBIF Group	All other segments*	Total
Interest income	36 040	9 187	21 698	21 486	41 411	110 790	15 863	78 295	62 452	50 734	447 956
Interest expense	(7 814)	(1 697)	(2 093)	(2 047)	(1 792)	(5 857)	(1 653)	(4 388)	(3 770)	(99 857)	(130 968)
Internal revenue	103 206	596	—	461	—	396	460	—	509	74 876	180 504
Net impairment losses on loans and receivables	(3 969)	3 880	(6 627)	(4 620)	(10 421)	(24 782)	(9 346)	(27 746)	(8 436)	(15 508)	(107 575)
Reportable segment profit/ (loss) before tax	92 197	3 884	1 680	4 910	15 814	34 472	(7 331)	8 832	19 666	(67 969)	106 155

*Starting from 2018 Friendly Finance is not reported as separate segment, to compare 2017 data it is split by country and included into the appropriate segment.

(40) Operating segments (continued)

A segment breakdown of assets and liabilities of the Group for the year ended 31 December 2018 is set out below:

EUR'000	Latvia	Lithuania	Finland	Sweden	Denmark	Poland*	Georgia*	Spain*	TBIF Group	All other segments and unallocated amounts* **	Total
Reportable segment assets	190 188	24 487	14 190	15 434	31 339	198 978	12 225	48 503	454 594	211 888	1 201 825
Reportable segment liabilities	190 199	21 304	11 934	14 310	18 919	170 268	17 411	40 568	442 023	750 920	1 677 856

*Starting from 2018 Friendly Finance is not reported as separate segment, it is split by country and included into the appropriate segment.

**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 2017 is set out below:

EUR'000	Latvia	Lithuania	Finland	Sweden	Denmark	Poland*	Georgia*	Spain*	TBIF Group	All other segments and unallocated amounts*	Total
Reportable segment assets	211 436	25 501	20 226	25 639	42 368	184 809	26 436	55 130	423 962	417 330	1 432 837
Reportable segment liabilities	218 449	21 339	19 201	21 613	30 069	162 395	33 919	49 317	407 723	851 571	1 815 596

*Starting from 2018 Friendly Finance is not reported as separate segment, it is split by country and included into the appropriate segment.

(40) 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 2018 is set out below:

EUR’000	Latvia	Lithuania	Finland	Sweden	Denmark	Poland*	Georgia*	Spain*	TBIF Group	All other segments and unallocated amounts*	Total
Single Payment Loans	19 860	1 133	13 315	9 152	34 076	87 699	8 594	73 769	_	44 274	291 872
Instalment Loans	13 722	7 908	65	7 906	9 356	43 453	2 971	7 976	_	8 556	101 913
Lines of Credit	617	—	5 563	—	—	—	—	—	_	—	6 180
Retail (Only TBIF Group)	—	—	—	—	—	—	—	—	65 855	—	65 855
SME (Only TBIF Group)	—	—	—	—	—	—	—	—	7 651	—	7 651
Leasing (Only TBIF Group)	—	—	—	—	—	—	—	—	1 719	—	1 719

*Starting from 2018 Friendly Finance is not reported as separate segment, it is split by country and included into the appropriate segment.

(40) Operating segments (continued)

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

EUR'000	Latvia	Lithuania	Finland	Sweden	Denmark	Poland*	Georgia*	Spain*	TBIF Group	All other segments and unallocated amounts*	Total
Single Payment Loans	21 260	1 560	17 926	12 420	29 632	88 781	15 863	73 172	—	47 132	307 746
Instalment Loans	14 177	7 627	167	9 066	11 779	22 009	—	5 123	—	3 602	73 550
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

*Starting from 2018 Friendly Finance is not reported as separate segment, it is split by country and included into the appropriate segment.

(40) Operating segments (continued)

Reconciliation of reportable segment interest income

	2018 EUR'000	2017 EUR'000
Total interest income for reportable segments	422 360	409 948
Interest income for other operating segments	52 830	38 008
Consolidated revenue	**475 190**	**447 956**

Reconciliation of reportable segment profit or loss

	2018 EUR'000	2017 EUR'000
Total profit or loss for reportable segments	133 349	167 276
Profit or loss for other operating segments	(33 354)	(61 121)
Elimination of inter-segment dividends included in inter-segment profits	(47 418)	(95 423)
Consolidated profit before tax from continued operations	**52 577**	**10 732**

Reconciliation of reportable segment interest expense

	2018 EUR'000	2017 EUR'000
Total interest expense for reportable segments	38 120	36 961
Interest expense for other operating segments	92 977	94 007
Elimination of inter-segment transactions	(69 002)	(69 033)
Consolidated interest expense	**62 095**	**61 935**

Reconciliation of reportable segment assets

	31.12.2018 EUR'000	31.12.2017 EUR'000
Total assets for reportable segments	989 937	1 088 859
Assets for other operating segments	211 888	343 978
Elimination of inter-group loans, investments and other receivables	(712 047)	(772 151)
Unallocated assets	504 524	366 193
Consolidated total assets	**994 302**	**1 026 879**

Reconciliation of reportable segment liabilities

	31.12.2018 EUR'000	31.12.2017 EUR'000
Total liabilities for reportable segments	926 936	1 045 082
Liabilities for other operating segments	750 920	770 513
Elimination of inter-group borrowings and payables	(841 865)	(978 125)
Consolidated total liabilities	**835 991**	**837 470**

(41) Maturity analysis

The table below shows carrying amounts of financial assets and liabilities by remaining contractual maturity dates as at 31 December 2018.

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	172 155	—	—	—	—	—	—	172 155
Placements with other banks	4 499	4 254	—	—	—	—	—	8 753
Loans due from customers	136 176	48 201	100 200	26 779	178 377	84	63 356	553 173
Net investment in finance leases	270	217	566	—	240	1	5 997	7 292
Loans to related parties	—	—	—	60 409	5 767	—	—	66 176
Derivatives	—	156	—	528	1 776	—	—	2 460
Debt and Equity instruments	4 681	119	109	—	16 755	16 692	—	38 356
Other financial assets	28 165	—	—	—	—	—	—	28 165
Total financial assets	**345 946**	**52 947**	**100 875**	**87 716**	**202 915**	**16 777**	**69 353**	**876 530**

Liabilities 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**
Loans and borrowings	7 113	0	32	59 715	395 160	—	—	462 020
Deposits from customers	65 534	43 233	130 673	2 096	43 432	—	—	284 969
Derivatives	—	70	—	4 535	—	—	—	4 605
Accounts payable to suppliers	12 563	—	—	—	—	—	—	12 563
Total financial liabilities	**85 210**	**43 303**	**130 705**	**66 346**	**438 592**	**—**	**—**	**764 157**
Net position	**260 736**	**9 644**	**(29 830)**	**21 370**	**(235 677)**	**16 777**	**69 353**	**112 373**
Net cumulative position	**260 736**	**270 380**	**240 550**	**261 920**	**26 243**	**43 020**	**112 373**	**—**

(41) Maturity analysis (continued)

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

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	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
Debt and Equity instruments	8 484	—	—	—	—	46	—	8 530
Other financial assets	47 588	—	—	—	—	—	—	47 588
Total financial assets	**432 931**	**31 932**	**90 128**	**21 665**	**200 340**	**511**	**109 157**	**886 664**

Liabilities EUR'000	**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**
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
Liabilities held for sales	—	114	—	—	13 731	—	—	13 845
Accounts payable to suppliers	14 478	—	—	—	—	—	—	14 478
Total financial liabilities	**95 740**	**46 595**	**124 921**	**1 467**	**500 840**	**—**	**—**	**769 563**
Net position	**337 191**	**(14 663)**	**(34 793)**	**20 198**	**(300 500)**	**511**	**109 157**	**117 101**
Net cumulative position	**337 191**	**322 528**	**287 735**	**307 933**	**7 433**	**7 944**	**117 101**	**—**

(42) 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 2018:

31 December 2018	Carrying amount	Total nominal (inflow)/ outflow	On demand/ less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 12 months	More than 1 year
Non-derivative liabilities							
Loans and borrowings	462 020	585 306	5 154	3 487	21 713	84 469	470 483
Deposits from customers	284 969	288 642	65 573	43 325	131 948	2 915	44 881
Accounts payable to suppliers	12 563	12 563	12 563	—	—	—	—
Total	**759 552**	**886 511**	**83 290**	**46 812**	**153 661**	**87 384**	**515 364**
Credit related commitments	**—**	**5 799**	**5 799**	**—**	**—**	**—**	**—**

The analysis as at 31 December 2017:

31 December 2017	Carrying amount	Total nominal (inflow)/ outflow	On demand/ less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 12 months	More than 1 year
Non-derivative liabilities							
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	—	—	—	—
Total	**755 718**	**943 532**	**86 746**	**49 084**	**148 104**	**27 708**	**631 890**
Credit related commitments	**—**	**4 783**	**4 783**	**—**	**—**	**—**	**—**

(43) Currency analysis

The table below shows the currency structure of financial assets and liabilities as at 31 December 2018:

Assets EUR'000	PLN	RON	DKK	GEL	BGN	SEK	EUR	USD	Other	TOTAL
Cash and cash equivalents	21 816	4 389	6 931	3 610	17 238	6 075	103 256	4 461	4 379	172 155
Placements with other banks	2	611	4	—	4	380	4 552	2 382	818	8 753
Loans due from customers	121 053	111 826	26 221	6 916	141 572	10 109	113 538	—	21 938	553 173
Net investment in finance leases	—	1 191	—	—	—	—	6 101	—	—	7 292
Loans to related parties	—	—	—	—	—	—	66 170	6	—	66 176
Other financial assets	10 970	1 335	1 506	258	167	45	40 746	2 751	8 770	66 548
Total financial assets	**153 841**	**119 352**	**34 662**	**10 784**	**158 981**	**16 609**	**334 363**	**9 600**	**35 905**	**874 097**
Off-balance sheet	—	61 983	4	—	—	40 636	—	149 356	—	251 975

Liabilities EUR'000	PLN	RON	DKK	GEL	BGN	SEK	EUR	USD	Other	TOTAL
Loans and borrowings	—	2 573	57	—	—	—	258 284	201 069	37	462 020
Deposits from customers	—	46 856	—	—	116 975	14 996	96 677	—	9 465	284 969
Accounts payable to suppliers	3 396	97	39	47	36	73	7 292	399	1 184	12 563
Total financial liabilities	**3 396**	**49 526**	**96**	**47**	**117 011**	**15 069**	**362 253**	**201 468**	**10 686**	**759 552**
Off-balance sheet	—	9 594	—	1 779	5 922	—	253 457	—	—	270 752
Net position (excluding off-balance sheet)	**150 445**	**69 826**	**34 566**	**10 737**	**41 970**	**1 540**	**(27 890)**	**(191 868)**	**25 219**	**114 545**
Net position (including off-balance sheet)	**150 445**	**122 215**	**34 566**	**8 958**	**36 048**	**42 176**	**(281 347)**	**(42 512)**	**25 219**	**95 768**

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.

(43) Currency analysis (continued)

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

Assets EUR'000	**PLN**	**RON**	**DKK**	**GEL**	**BGN**	**SEK**	**EUR**	**USD**	**Other**	**TOTAL**
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
Total financial assets	**147 084**	**105 999**	**42 329**	**22 160**	**145 294**	**24 385**	**352 956**	**1 025**	**36 486**	**877 718**
Off-balance	—	9 660	—	—	—	102	—	146 763	—	156 525

Liabilities EUR'000	**PLN**	**RON**	**DKK**	**GEL**	**BGN**	**SEK**	**EUR**	**USD**	**Other**	**TOTAL**
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
Total financial liabilities	**6 413**	**41 139**	**209**	**214**	**113 610**	**17 855**	**249 916**	**322 410**	**3 952**	**755 718**
Off-balance	—	4 279	—	5 847	7 173	—	162 265	—	0	179 564
Net position (excluding off-balance)	140 671	64 860	42 120	21 946	31 684	6 530	103 040	(321 385)	32 534	122 000
Net position (including off-balance)	**140 671**	**70 241**	**42 120**	**16 099**	**24 511**	**6 632**	**(59 225)**	**(174 622)**	**32 534**	**98 961**

(44) Group entities

As at 31 December 2018 and 31 December 2017 respectively, the Group consisted of the following entities:

Name of entity	Registered office	Ownership 31.12.2018	Ownership 31.12.2017
AS 4finance	Lielirbes 17A-8, Riga, 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	98% AS 4finance	97% AS 4finance
4finance ApS	Vesterbrogade 1L, 4., DK-1620, Copenhagen, Denmark	100% AS 4finance	100% AS 4finance
Monobank ASA	Starvhusgaten 4, 5014 Bergen, Norway	9,06% TBI Bank EAD	
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%	100%
4finance GmbH	Eschenheimer Anlage 1, 60316 Frankfurt am Main, Germany	100%	100%
4Spar AB	Hammarby Alle 47, 120 30 Stockholm, Sweden	100% 4finance AB	100% 4finance AB

Notes to the Consolidated Financial Statements

Name of entity	Registered office	Ownership 31.12.2018	Ownership 31.12.2017
4finance S.A.	8-10, Avenue de la Gare, L-1610 Luxembourg, Grand Duchy of Luxembourg	100% AS 4finance	100% AS 4finance
SIA Ondo	Lielirbes 17A-10, Riga, LV-1046, Latvia	100%	100%
SIA Vivus	Lielirbes 17A-9, Riga, LV-1046, Latvia	100%	100%
SIA Debt Solution	Lielirbes iela 17A - 11, Riga, LV-1046, Latvia	100%	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 spólka 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)
SIA 4finance IT branch in UK	1 Mark Square, London, EC2A 4EG, UK	100% 4finance IT SIA (branch)	100% 4finance IT SIA (branch)
Zaplo 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%
4f Sales Overseas, Inc.	18851 NE 29th Avenue, Suite 410, Miami, FL 33180, USA	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)

Notes to the Consolidated Financial Statements

Name of entity	Registered office	Ownership 31.12.2018	Ownership 31.12.2017
Global Collection Management Sp. z o.o. komandytowo - akcyjna spólka 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 Mexico, Mexico	100% (99.99% 4finance Holding S.A., 0.01% AS 4finance)	100% (99.99% 4finance Holding S.A., 0.01% AS 4finance)
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)
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, Resposabilidad 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	100%	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, 110 00 Praha 1-Nové Město, Prague, 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
Friendly Finance s.r.o.	Olivova 2096/4, 110 00 Praha 1-Nové Město, Prague, 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

Notes to the Consolidated Financial Statements

Name of entity	Registered office	Ownership 31.12.2018	Ownership 31.12.2017
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 JI Casablanca Kav. 88, Menteng Dalam, Tebet, Jakarta Seletan, 12870, Indonesia	85% Fine Line Services Asia Ltd.	85% Fine Line Services Asia Ltd.
Wisemedia OÜ	Raatuse 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%
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)
Spotcap Global S.a.r.l.	5, Heienhaff, L-1736 Senningerberg H.G.R., Luxembourg	19.9%	19.9%
TBIF Financial Services B.V.	Westerdoksdijk 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 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 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.

(45) 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 2018:

EUR'000	**Sweden**
NCI percentage	**2%**
Cash and cash equivalents	1 797
Loans due from customers	10 109
Property and equipment	47
Intangible assets	201
Deferred tax asset	1 711
Other assets	10 345
Loans and borrowings	(5 456)
Corporate income tax payable	(152)
Other liabilities	(16 458)
Net assets	**2 144**
Other comprehensive income allocated to NCI	**456**
Carrying amount of NCI	**52**
Revenue	17 057
Profit	1 361
Total comprehensive income	**1 361**
Profit/(loss) allocated to NCI	**27**
Cash flows from operating activities	9 154
Cash flows from investment activities	1 485
Cash flows from financing activities, before dividends to NCI	(10 769)
Cash flows from financing activities - cash dividends to NCI	(93)
Net (decrease) in cash and cash equivalents	**(223)**

(45) 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 2017:

EUR'000	**Friendly Finance**	**Sweden**	**Total**
NCI percentage	**20%**	**3%**	
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)
Net assets	**(11 780)**	**4 529**	**(7 251)**
Carrying amount of NCI	**(2 503)**	**136**	**(2 367)**
Revenue	30 337	21 486	51 823
Profit/(loss)	(14 710)	4 184	(10 526)
Other comprehensive income	(735)	—	(735)
Total comprehensive income	**(14 710)**	**4 184**	**(10 526)**
Profit/(loss) allocated to NCI	**(2 943)**	**130**	**(2 813)**
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)
Net in(decrease) in cash and cash equivalents	**(1 046)**	**(147)**	**(1 193)**

(46) Subsequent events

Changes in the regulatory framework

In Latvia, changes to loan size limits and extensions came into force on 1 January 2019. The Group has adapted its relevant products to minimum-to-pay lines of credit. The reduced APR cap of 25% and marketing restrictions come into force on 1 July 2019.

In Finland, new consumer credit regulations that apply to all loan types and amounts (excluding motor vehicle financing) were approved in Parliament in March 2019. The changes include annual nominal interest rate cap at 20% and specifies limits for various other fees. The new regulations will come into force on 1 September 2019.

The regulatory landscape continues to evolve across Europe, with proposed additional regulations in Poland. Consultations on these proposals are ongoing and the timing for any implementation is currently unclear.

Change in auditor

The Group has appointed PKF Audit & Conseil, a member of the PKF International network, as its auditor. This follows a tender process to replace KPMG, who had audited the group (and its predecessor Latvian holding company) since the business started more than 10 years ago.

(46) Subsequent events (continued)

Supervisory Board

Two changes have been made within the Supervisory Board, with William Horwitz and former Group CEO Mark Ruddock stepping down from the Supervisory Board of 4finance Group S.A. in January 2019.

The Group's Audit Committee has been enhanced with two new members appointed - Konstantin Ter-Martirosyan in March and Evgeny Sytnik in April 2019.

Financing

In March and April 2019, the Group repurchased USD 20 million of the 2022 Notes by way of market purchases.

Disposals

In March 2019, the Group agreed to sell the loan made by 4finance SA to Spotcap Global S.a.r.l to Tirona Limited for its outstanding principal value of EUR 4.9 million. In April 2019, the Group further agreed to sell its 19.9% equity interest in Spotcap Global S.a.r.l. to Tirona Limited for its carrying value of EUR 9.9 million, part of which is subject to regulatory approval.

In April 2019, the 4finance online business in Bulgaria (4finance EOOD) was sold to TBI Bank EAD.

Liquidations

In February 2019, dissolution of 4finance S.A. Malta Branch was completed. The Malta Branch has been closed because it has not been operational since November 2017 when its loan portfolio was transferred to Luxembourg.

Independent Auditor's Report

To the Shareholders of
4finance Holding S.A
8-10, Avenue de la Gare
L-1610 Luxembourg

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of 4finance Holding S.A and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, 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 EU regulation N° 537/2014, the Law of 23 July 2016 and ISAs are further described in the « Responsibilities of "*Réviseur d'Entreprises Agréé*" for the Audit of the 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 management report but does not include the consolidated financial statements and our report of the "*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.

PKF Audit & Conseil Sàrl
Réviseur d'Entreprises agréé - RC B222994
37, rue d'Anvers L-1130 Luxembourg
+352 28 80 12

PKF Audit & Conseil is a member firm of the PKF International Limited family of legally independent firms and does not accept any responsibility or liability for the actions or inactions of any individual member or correspondent firm or firms.

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 and Those Charged with Governance 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 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 the "*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 EU Regulation N° 537/2014, 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 EU Regulation N° 537/2014, 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 the "*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 the "*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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements

We have been appointed as "Réviseur d'Entreprises Agréé" by the Board of Directors on 14 February 2019 with immediate effect and for a period ending at the next annual general meeting to be held in 2019 in relation to the approval of the annual accounts of the Group as of 31 December 2018.

The consolidated management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

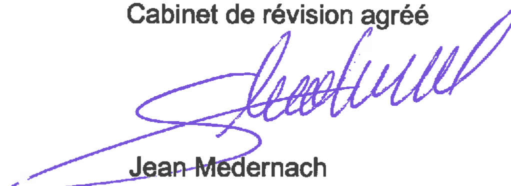
The Corporate Governance Statement includes, when applicable, information required by Article 68ter paragraph (1) points a), b), e), f) and g) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

We confirm that the audit opinion is consistent with the additional report to those charged with governance.

We confirm that the prohibited non-audit services referred to in the EU Regulation No 537/2014 were not provided and that we remained independent of the Group in conducting the audit.

Luxembourg, 29 April 2019

PKF Audit & Conseil Sàrl
Cabinet de révision agréé



Jean Medernach