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IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS WITHIN THE MEANING OF RULE 144A UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE ''U.S. SECURITIES ACT'') OR (2) NON-U.S. PERSONS OUTSIDE OF THE UNITED STATES IN ACCORDANCE WITH REGULATION S UNDER THE U.S. SECURITIES ACT (AND, IF INVESTORS ARE RESIDENT IN A MEMBER STATE OF THE EUROPEAN ECONOMIC AREA, A QUALIFIED INVESTOR).

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached offering memorandum (the "Offering Memorandum"), and you are therefore advised to read this disclaimer page carefully before reading, accessing or making any other use of the attached Offering Memorandum. In accessing the attached Offering Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE U.S. SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your representation: In order to be eligible to view this Offering Memorandum or make an investment decision with respect to the securities, you must: (i) not be a U.S. person (as defined in Regulation S under the U.S. Securities Act), and be outside the United States; or (ii) be a qualified institutional buyer (as defined in Rule 144A under the U.S. Securities Act), provided that investors resident in a Member State of the European Economic Area must be "qualified investors" (within the meaning of Article 2(1)(e) of Directive 2003/71/EC and any relevant implementing measure in each Member State of the European Economic Area). You have been sent the attached Offering Memorandum on the basis that you have confirmed to the lead manager set forth in the attached Offering Memorandum (the "Lead Manager" and the co-manager set forth in the attached Offering Memorandum (the "Co-Manager")), being the sender or senders of the attached, that either: (A)(i) you and any customers you represent are not U.S. persons; and (ii) the e-mail address to which this Offering Memorandum has been delivered is not located in the United States, its territories and possessions, any state of the United States or the District of Columbia; "possessions" include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands; or (B) you and any customers you represent are qualified institutional buyers and, in either case, that you consent to delivery by electronic transmission.

This Offering Memorandum has been sent to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and, consequently, none of the Lead Manager, the Co-Manager, any person who controls the Lead Manager or the Co-Manager, 4finance S.A. (the "Issuer"), 4finance Holding S.A. ("Holdco") or any of its direct or indirect subsidiaries, or any director, officer, employer, employee or agent of theirs, or affiliate of any such person, accepts any liability or responsibility whatsoever in respect of any difference between the Offering Memorandum distributed to you in electronic format and the hard copy version available to you on request from the Lead Manager or the Co-Manager.

You are reminded that the attached Offering Memorandum has been delivered to you on the basis that you are a person into whose possession this Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorized to deliver this Offering Memorandum to any other person. You may not transmit the attached Offering Memorandum (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Lead Manager or the Co-Manager. If you receive this document by e-mail, you should not reply by e-mail to this announcement. Any reply e-mail communications, including those you generate by using the

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"Reply" function on your e-mail software, will be ignored or rejected. If you receive this document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

The materials relating to this offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Lead Manager or the Co-Manager or any affiliate of the Lead Manager or the Co-Manager is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Initial Purchaser or such affiliate on behalf of the Issuer in such jurisdiction.

Restrictions: The attached document is in draft form and is being furnished in connection with an offering exempt from registration under the U.S. Securities Act. Nothing in this electronic transmission constitutes an offer of securities for sale in the United States or to any U.S. person. You are reminded that the information in the attached document is in draft form, is not complete and may be changed. An investment decision should only be made on the basis of the final Offering Memorandum.

Any securities to be issued will not be registered under the U.S. Securities Act or the securities laws of any other jurisdiction and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as such terms are defined in Regulation S under the U.S. Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act.

The attached Offering Memorandum is not a prospectus for the purposes of the European Union's Directive 2003/71/EC (and any amendments thereto) as implemented in member states of the European Economic Area (the "EU Prospectus Directive"). The attached Offering Memorandum has been prepared on the basis that all offers of the securities described herein made to persons in the European Economic Area will be made pursuant to an exemption under the EU Prospectus Directive from the requirement to produce a prospectus in connection with offers of the securities.

In the United Kingdom, this document is being distributed only to and is directed only at: (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"), (b) high net worth entities falling within Article 49(2) of the Order and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This Offering Memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Offering Memorandum relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this Offering Memorandum or any of its contents.

In connection with the offering, the Lead Manager and the Co-Manager are not acting for anyone other than the Issuer and will not be responsible to anyone other than the Issuer for providing the protections afforded to their clients nor for providing advice in relation the offering.

4finance S.A.

USD 325,000,000 10.75% Senior Notes due 2022

Issue Price: 100% plus accrued interest, if any, from the Issue Date.

4finance S.A. (the "**Issuer**"), a public limited liability company (société anonyme) incorporated and existing under the laws of the Grand Duchy of Luxembourg ("**Luxembourg**"), is offering USD 325 million aggregate principal amount of its 10.75% Senior Notes due 2022 (the "**Notes**," and such offering, the "**Offering**"). The Issuer will pay interest on the Notes semi-annually in arrears on May 1, and November 1, of each year commencing on November 1, 2017. Unless previously redeemed or repurchased and cancelled as described under "*Description of Notes*," the Notes will mature on May 1, 2022 (the "**Maturity Date**").

The Notes constitute senior unsecured obligations of the Issuer and will rank *pari passu* in right of payment to all of the Issuer's existing and future unsecured indebtedness and senior to all of the Issuer's subordinated indebtedness, if any. The Notes will be structurally subordinated to all existing and future liabilities (including trade payables) of the Issuer's non-guarantor subsidiaries. The due and punctual payment of all amounts due at any time on or in respect of the Notes will be unconditionally and irrevocably guaranteed on a joint and several basis by 4finance Holding S.A. ("**Holdco**"), the Issuer's indirect parent company, and by certain other direct and indirect subsidiaries of Holdco, including the Issuer's direct parent company (the "**Subsidiary Guarantors**" and together with the Holdco, the "**Guarantors**" and each a "**Guarantor**") under the terms and conditions set forth herein (collectively, the "**Guarantees**" and each a "**Guarantee**").

Payments on the Notes will be made without withholding or deduction for, or on account of, any withholding taxes imposed by Luxembourg, and payments on each Guarantee will be made without withholding or deduction for, or on account of any withholding taxes imposed by the jurisdiction of incorporation of the relevant Guarantor, to the extent described in "*Description of Notes*" herein. In certain limited circumstances under current Luxembourg tax law and the current tax laws of certain of the Guarantors' jurisdictions as more fully described in "*Risk Factors*" and "*Taxation*" in this offering memorandum (the "**Offering Memorandum**"), withholding tax on interest payments to certain types of investors may apply. Subject to certain exceptions, the Issuer and the Guarantors, as applicable, will undertake to pay such additional amounts as will result in the receipt by holders of Notes ("**Noteholders**") of such amounts as would have been received by them if no such withholding had been required.

At any time prior to May 1, 2019, the Issuer may redeem all or a portion of the Notes at a redemption price equal to 100% of the principal amount of the Notes plus the applicable "make-whole" premium plus accrued and unpaid interest to the redemption date. On or after May 1, 2019, the Issuer may redeem all or a portion of the Notes at the redemption prices (expressed as percentages of principal amount) as described in the "*Description of Notes*" herein. At any time prior to May 1, 2019, the Issuer may redeem up to 40% of the aggregate principal amount of the Notes using the net cash proceeds from certain equity offerings at a price equal to 110.75% of the principal amount of the Notes, plus accrued and unpaid interest, provided that at least 60% of the aggregate principal amount of the Notes originally issued remains outstanding immediately after the occurrence of such redemption. Upon events constituting a Change of Control (as defined in "*Description of Notes*"), the Issuer may be required to redeem the Notes at a price equal to 101% of the principal amount of the Notes plus accrued and unpaid interest to the redemption date.

Investing in the Notes involves a high degree of risk. See "*Risk Factors*" beginning on page 22.

The Notes and the Guarantees have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act"), or the securities laws of any other jurisdiction and may not be offered or sold within the United States or to, or for the account or benefit of, any U.S. person (as such terms are defined in Regulation S under the U.S. Securities Act ("Regulation S")), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. See "*Transfer Restrictions*" and "*Plan of Distribution*" for additional information about eligible offerees and transfer restrictions.

There is currently no public market for the Notes. Application has been made to the Irish Stock Exchange for the approval of this Offering Memorandum as Listing Particulars and for the Notes to be admitted to the Official List and trading on the Global Exchange Market (the "**GEM**") which is the exchange regulated market of the Irish Stock Exchange (the "**ISE**").The GEM is not a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments. There can be no assurance, however, that the listing application will be approved by the ISE.

The Notes will be represented on issue by one or more Global Notes (as defined herein), which the Lead Manager expects will be delivered through Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking, *société anonyme*, Luxembourg ("Clearstream") and their participants, on or about April 28, 2017 (the "Issue Date"). The Notes will be cleared through Euroclear and Clearstream and will not be eligible for clearance through The Depository Trust Company. The Notes can only be held through Euroclear or Clearstream accounts. See "*Book-entry, Delivery and Form.*"

Lead Manager and Sole Bookrunner

STIFEL

Co-Manager

ABG
SUNDAL COLLIER

The date of this Offering Memorandum is April 12, 2017.

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NOTICE TO INVESTORS, ETC.

You should rely only on the information contained in this Offering Memorandum. None of the Issuer, the Company (as defined herein), the Guarantors, the Lead Manager or the Co-Manager has authorized anyone to provide you with information that is different from the information contained herein. If given, any such information should not be relied upon. You should not assume that the information contained in this Offering Memorandum is accurate as of any date other than the date on the front of this Offering Memorandum.

None of the Issuer, the Company, the Guarantors, the Lead Manager or the Co-Manager is making an offer of the Notes in any jurisdiction where the Offering is not permitted.

REFERENCES

Unless the context otherwise requires, for any period subsequent to April 30, 2014, references to "we," "our," "us," "**4finance Group**" or the "**Group**" refer to 4finance Holding S.A. and its direct and indirect subsidiaries, and prior to April 30, 2014, refer to AS 4finance and its subsidiaries. Unless the context otherwise requires, references to the **"Company"** refer to AS 4finance.

Information posted on our website and those of our affiliates and subsidiaries do not constitute a part of this Offering Memorandum.

NOTICE TO INVESTORS

THE NOTES DESCRIBED IN THIS OFFERING MEMORANDUM HAVE NOT BEEN REGISTERED WITH, RECOMMENDED BY OR APPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE "**SEC**"), ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER SECURITIES COMMISSION OR REGULATORY AUTHORITY IN THE UNITED STATES OR IN ANY OTHER JURISDICTION, NOR HAS THE SEC, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER SECURITIES COMMISSION OR AUTHORITY IN THE UNITED STATES OR IN ANY OTHER JURISDICTION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

You are not to construe the contents of this Offering Memorandum as investment, legal or tax advice. You should consult your own counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of a purchase of the Notes. We are not, and the Lead Manager and the Co-Manager are not, making any representation to you regarding the legality of an investment in the Notes by you under applicable investment or similar laws.

We have prepared this Offering Memorandum solely for use in connection with the Offering and for listing the Notes on the GEM.

In making an investment decision regarding the Notes offered by this Offering Memorandum, you must rely on your own examination of the terms of the Offering, including, without limitation, the merits and risks involved. The Offering is being made solely on the basis of this Offering Memorandum. Any decision to purchase Notes in the Offering must be based solely on the information contained in this Offering Memorandum.

No person is authorized in connection with the Offering to give any information or to make any representation not contained in this Offering Memorandum, and, if given or made, any other information or representation must not be relied upon as having been authorized by us TMF Trustee Limited (the "**Trustee**") or the Lead Manager or the Co-Manager. The information contained in this Offering Memorandum is as of the date hereof and subject to change, completion or amendment without notice. The delivery of this Offering Memorandum at any time after the date hereof shall not, under any circumstances, create any implication that there has been no change in the information set forth in this Offering Memorandum or in our affairs since the date of this Offering Memorandum. We undertake no obligation to update this Offering Memorandum or any information contained in it, whether as a result of new information, future events or otherwise, save as required by law.

This Offering Memorandum is being provided for informational use solely in connection with the consideration of a purchase of the Notes (i) to QIBs and (ii) to qualified purchasers in offshore transactions complying with Rule 903 or Rule 904 of Regulation S under the U.S. Securities Act. Its use for any other purpose is not authorized.

The Offering is being made in reliance upon an exemption from registration under the U.S. Securities Act for an offer and sale of the Notes that does not involve a public offering. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A thereunder. In making your purchase, you will be deemed to have made certain acknowledgments, representations and agreements as set forth under the caption "*Transfer Restrictions*."

The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the U.S. Securities Act and all other applicable securities laws. See "*Transfer Restrictions*." You should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time.

We accept responsibility for the information contained in this Offering Memorandum. To the best of our knowledge and belief, having taken all reasonable care to ensure that such is the case, the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything that is likely to affect the import of such information. The information contained in this Offering Memorandum has been furnished by us and other sources we believe to be reliable. Nothing contained in this Offering Memorandum is or shall be relied upon as a promise or representation, whether as to the past or the future. This Offering Memorandum contains summaries, believed to be accurate, of some of the terms of specific documents, but reference is made to the actual documents, copies of which will be made available to you upon request, for the complete information contained in those documents. All summaries herein are qualified in their entirety by this reference.

We reserve the right to withdraw this Offering at any time, and we and the Lead Manager and the Co-Manager reserve the right to reject any commitment to subscribe for the Notes in whole or in part and to allot to any prospective purchaser less than the full amount of Notes sought by such purchaser. The Lead Manager and the Co-Manager and certain related entities may acquire for their own account a portion of the Notes. See "*Plan of Distribution*."

The distribution of this Offering Memorandum and the offer and sale of the Notes may be restricted by law in some jurisdictions. This Offering Memorandum does not constitute an offer to sell or an invitation to subscribe for or purchase any of the Notes in any jurisdiction in which such offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. Persons into whose possession this Offering Memorandum comes must inform themselves about and observe any such restrictions. For a description of the restrictions on offers, sales and resales of the Notes and distribution of this Offering Memorandum, see "*Notice to Prospective Investors in the United States,*" "*Notice to Certain European Investors*" and "*Transfer Restrictions*." Neither we nor the Lead Manager nor the Co-Manager are making any representation to any offeree or purchaser under any applicable law.

STABILIZATION

IN CONNECTION WITH THE ISSUANCE OF THE NOTES, STIFEL NICOLAUS EUROPE LIMTED (THE "**STABILIZING MANAGER**") (OR ANY PERSON ACTING ON BEHALF OF THE STABILIZING MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZING MANAGER (OR ANY PERSON ACTING ON BEHALF OF THE STABILIZING MANAGER) WILL UNDERTAKE STABILIZING ACTION. ANY STABILIZATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES

This Offering is being made in the United States in reliance upon an exemption from registration under the U.S. Securities Act for an offer and sale of the Notes which does not involve a public offering. In making your purchase, you will be deemed to have made certain acknowledgments, representations and agreements. See "*Transfer Restrictions*."

This Offering Memorandum is being provided (1) to a limited number of U.S. investors that the Issuer reasonably believes to be QIBs under Rule 144A under the U.S. Securities Act and (2) to investors outside the United States who are not U.S. persons in connection with offshore transactions complying with Rule 903 or Rule 904 of Regulation S under the U.S. Securities Act, for informational use solely in connection with their considerations of the purchase of the Notes. The Notes described in this Offering Memorandum have not been registered with, recommended by or approved by the SEC, any state securities commission in the United States or any other securities commission or regulatory authority, nor has the SEC, any state securities commission in the United States or any such securities commission or authority passed upon the accuracy or adequacy of this Offering Memorandum. Any representation to the contrary is a criminal offense.

NOTICE TO CERTAIN EUROPEAN INVESTORS

European Economic Area

This Offering Memorandum has been prepared on the basis that all offers of the Notes will be made pursuant to an exemption under Article 3 of the Prospectus Directive (as defined herein), as implemented in Member States of the European Economic Area (the "**EEA**"), from the requirement to produce a prospectus for offers of the Notes. Accordingly, any person making or intending to make any offer within the EEA of the Notes should only do so in circumstances in which no obligation arises for us or the Lead Manager or the Co-Manager to produce a prospectus for such offer. We, the Issuer, the Lead Manager and the Co-Manager, have not authorized, nor do we authorize, the making of any offer of Notes through any financial intermediary, other than offers made by the Lead Manager or the Co-Manager, which constitute the final placement of the Notes contemplated in this Offering Memorandum.

In relation to each member state of the EEA that has implemented the Prospectus Directive (each, a "**Relevant Member State**"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**"), an offer to the public of any Notes which are the subject of the Offering may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State may be made at any time with effect from and including the Relevant Implementation Date under the following exemptions under the Prospectus Directive:

(a) to any legal entity that is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) per Relevant Member State; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of the Notes shall require us or the Lead Manager or the Co-Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to the Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, and the expression "**Prospectus Directive**" means Directive 2003/71/EC (and any amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measures in each Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

This EEA selling restriction is in addition to any other selling restrictions set out in this Offering Memorandum.

Each subscriber for, or purchaser of, the Notes in the Offering located within a member state of the EEA will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive. The Issuer, the Lead Manager and the Co-Manager and their respective affiliates, and others will rely upon the truth and accuracy of the foregoing representation, acknowledgment and agreement.

United Kingdom

This Offering Memorandum may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorized or is unlawful. In particular, this Offering Memorandum does not constitute an offer of Notes to the public in the United Kingdom. No offering memorandum has been approved or will be approved in the United Kingdom in respect of the Notes. This Offering Memorandum is addressed to and directed only at persons who (i) are outside the United Kingdom, or (ii) are investment professionals for the purposes of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) (the "**Order**"), or (iii) are persons falling within Article 49(2)(a) to (d), "high net worth companies, unincorporated associations, etc.," of the Order, or (iv) other persons to whom it may lawfully be communicated (all such persons together being referred to as "relevant persons"). This Offering Memorandum must not be acted on or relied on by persons who are not relevant persons. Any investment activity to which this Offering Memorandum relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this Offering Memorandum or any of its contents.

Federal Republic of Germany

The Offering is not a public offering in the Federal Republic of Germany. The Notes may be offered and sold in the Federal Republic of Germany only in accordance with the provisions of the Securities Prospectus Act of the Federal Republic of Germany *(Wertpapierprospektgesetz)* (the "**German Securities Prospectus Act**") and any other applicable German law. Consequently, in Germany the Notes will only be available to, and this Offering Memorandum and any other offering material in relation to the Notes is directed only at, persons who are qualified investors *(qualifizierte Anleger)* within the meaning of Section 2 No. 6 of the German Securities Prospectus Act. Any resale of the Notes in Germany may only be made in accordance with the German Securities Prospectus Act and other applicable laws. The Issuer has not, and does not intend to, file a securities prospectus with the German Federal Financial Supervisory Authority *(Bundesanstalt für Finanzdienstleistungsaufsicht)* ("**BaFin**") or obtain a notification to BaFin from another competent authority of a Member State of the EEA, with which a securities prospectus may have been filed, pursuant to Section 17 Para. 3 of the German Securities Prospectus Act.

Luxembourg

This Offering Memorandum has not been approved by and will not be submitted for approval to Luxembourg Financial Services Authority (*Commission de Surveillance du Secteur Financier*) for the purposes of a public offering or sale of the Notes in Luxembourg. Accordingly, the Notes may not be offered or sold to the public in Luxembourg, directly or indirectly, and neither this Offering Memorandum nor any other circular, prospectus, form of application, advertisement, communication or other material may be distributed, or otherwise made available in or from, or published in, the Luxembourg, except in circumstances which do not constitute a public offer of securities to the public, subject to prospectus requirements in accordance with the Luxembourg law of July 10, 2005 relating to prospectuses for securities, as amended (the "**Luxembourg Prospectus Law**"), implementing the Prospectus Directive, as amended. Consequently, this Offering Memorandum and any other offering circular, prospectus, form of application, advertisement or other material may only be distributed (i) to persons who are qualified investors within the meaning of Article 5 para. 2 a) of the Luxembourg Prospectus Law or (ii) under any other circumstances that do not require the publication of a prospectus pursuant to Article 5 para. 2 of the Luxembourg Prospectus Law.

The Netherlands

In addition to the selling restrictions in respect of the Netherlands under the section headed "—*Notice to Certain European Investors*" above, the Notes which are the subject of the Offering will not be offered to the public in the Netherlands or in reliance on Article 3(2) of the Prospectus Directive unless:

(i) such offer is made exclusively to legal entities which are "Qualified Investors" as defined in the Prospectus Directive; or

(ii) standard logo and exemption wording are incorporated as required by article 5:20(5) of the Dutch Financial Supervision Act (the "**Dutch FSA**"); or

(iii) such offer is otherwise made in circumstances in which article 5:20(5) of the Dutch FSA is not applicable.

NOTICE TO INVESTORS IN OTHER JURISDICTIONS

The distribution of this Offering Memorandum and the offer and sale or resale of the Notes may be restricted by law in certain jurisdictions. Persons into whose possession this Offering Memorandum (or any part hereof) comes are required by us, the Lead Manager and the Co-Manager to inform themselves about, and to observe, any such restrictions.

AVAILABLE INFORMATION

Each purchaser of the Notes from the Lead Manager and the Co-Manager will be furnished with a copy of this Offering Memorandum and, to the extent provided to the Lead Manager and the Co-Manager by us for such purpose, any related amendments or supplements to this Offering Memorandum. Each person receiving this Offering Memorandum and any related amendments or supplements to this Offering Memorandum acknowledges that:

(1) such person has been afforded an opportunity to request from us and to review, and has received, all additional information considered by it to be necessary to verify the accuracy and completeness of the information herein;

(2) such person has not relied on the Lead Manager or the Co-Manager or any person affiliated with the Lead Manager or the Co-Manager in connection with its investigation of the accuracy of such information or its investment decision; and

(3) except as provided pursuant to clause (1) above, no person has been authorized to give any information or to make any representation concerning the Notes offered hereby other than those contained herein and, if given or made, such other information or representation should not be relied upon as having been authorized by us or the Lead Manager or the Co-Manager.

For so long as any Notes are outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. Securities Act, we will, during any period in which we are neither subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "**U.S. Exchange Act**"), nor exempt from the reporting requirements under Rule 12g3-2(b) of the U.S. Exchange Act, provide to any holder or beneficial owner of such restricted securities or any prospective purchaser of such restricted securities designated by such holder or beneficial owner, in each case upon the written request of such holder, beneficial owner or prospective purchaser, the information required to be delivered pursuant to Rule 144A(d)(4) under the U.S. Securities Act.

We have also agreed, pursuant to the Indenture (as defined below), to furnish to the Trustee (as defined herein) and to publish on our website certain additional information and reports. See "*Description of Notes—Designation of Restricted and Unrestricted Subsidiaries—Reports*."

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Offering Memorandum are not historical facts and are "forward looking." Forward-looking statements appear in various locations in this Offering Memorandum, including, without limitation, under the headings "*Summary*," "*Risk Factors*," "*Management's Discussion and Analysis of Results of Operations and Financial Conditions*," and "*Business.*" We may from time to time make written or oral forward-looking statements in reports to our shareholders and note holders and in other communications. In addition, this Offering Memorandum includes forward-looking information that has been extracted from third-party sources. Forward-looking statements include, but are not limited to, statements concerning our plans, expectations, projections, objectives, targets, goals, strategies, future events, future operating revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, our competitive strengths and weaknesses, our business strategy, and the trends we anticipate in the industries and the political, regulatory and legal environments in which we operate and other information that is not historical information.

Forward-looking statements that may be made by us from time to time (but that are not included in this Offering Memorandum) may also include projections or expectations of revenue, income (or loss), dividends, capital structure or other financial items or ratios.

Words such as "believe," "anticipate," "estimate," "target," "potential," "expect," "intend," "predict," "project," "could," "should," "may," "will," "plan," "aim," "seek" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

The forward-looking statements contained in this Offering Memorandum are largely based on our expectations, which reflect estimates and assumptions made by our management. These estimates and assumptions reflect our best judgment based on currently known market conditions and other factors, some of which are discussed below. Although we believe such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control. In addition, management's assumptions about future events may prove to be inaccurate. We caution all readers that the forward-looking statements contained in this Offering Memorandum are not guarantees of future performance, and we cannot assure any reader that such statements will be realized or the forward-looking events and circumstances will occur.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, many of which are beyond our control, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- currency exchange rate fluctuations;
- changes to accounting principles, regulations, taxation and governmental policies related to our activities, including, but not limited to, user and consumer protections laws;
- increased regulation;
- ability to react to interest rate changes;
- increases in defaults by customers, as well as increases in adjustments for loan losses;
- decreasing consumer demand for our products and services;
- risks associated with our expansion strategy, including additional strain on managerial and operational resources and an increase in costs from operating in numerous jurisdictions, a failure to diversify the markets in which we operate, an inability to properly identify and gather information on potential targets, an increase in costs from researching potential acquisitions that do not come to fruition and a failure to secure financing for potential acquisitions or manage any future acquisitions, including the integration thereof into our existing network;
- continued acceptance of our online and mobile channels by our customers;
- a prolonged economic downturn or volatile credit markets;
- our ability to attract and retain key personnel;
- difficulty of obtaining adequate managerial and operational resources;

- difficulty in assessing the credit risk of potential borrowers;
- our ability to attract new customers and retain existing customers;
- our ability to generate sufficient cash flow to fund our requirements in order to make significant capital expenditures to maintain our competitive position;
- the inability of our capital expenditures to generate a positive return or a significant reduction in costs or promote the growth of our business;
- significant and intense competition in the markets in which we operate;
- negative public perception of our business;
- our insurance not covering all potential losses, liabilities and damage related to our business and certain risks being uninsured or not insurable;
- adverse decisions of tax authorities or changes in tax treaties, laws, rules or interpretations;
- our ability to safeguard against failure to comply with anti-corruption laws;
- other contractual claims, complaints, litigation and publicity;
- difficult business climate as a result of corruption in some of the markets where we operate;
- fluctuations in the global economy;
- rapid or unforeseen economic or political changes in the emerging markets where we operate;
- less developed legal and judicial systems in some of our markets of operation;
- those described in the part of this Offering Memorandum entitled "*Risk Factors*," which should be read in conjunction with the other cautionary statements that are included in this Offering Memorandum; and
- factors that are not known to us at this time.

This list of important factors and the other factors discussed in "*Risk Factors*" are not exhaustive. Other sections of this Offering Memorandum describe additional factors that could adversely affect our results of operations, financial condition, liquidity and the development of the industry in which we operate. New risks can emerge from time to time, and it is not possible for us to predict all such risks, nor can we assess the impact of all such risks on our business or the extent to which any risks, or combination of risks and other factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, you should not rely on forward-looking statements as a prediction of actual results.

Forward-looking statements speak only as of the date on which they are made. Accordingly, we do not intend, and do not undertake any obligation, to update or revise any of them, whether as a result of new information, future events or other factors except as otherwise required by applicable law. We do not make any representation, warranty or prediction that the results or events anticipated by such forward-looking statements will be achieved or occur, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

You should interpret all subsequent written or oral forward-looking statements attributable to us or to persons acting on our behalf as being qualified by the cautionary statements in this Offering Memorandum. As a result, you should not place undue reliance on such forward-looking statements.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

FINANCIAL STATEMENTS

The financial information set forth herein, has, unless otherwise indicated, been derived from the audited consolidated financial statements of the Group as of and for the years ended December 31, 2016, 2015 and 2014 (the "**Financial Statements**"). The Financial Statements and other financial information in this Offering Memorandum have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("**IFRS**") in effect at the time of preparing the Financial Statements.

Discontinued operations are shown separately from continuing operations in our Financial Statements.

IFRS differs in various significant respects from U.S. GAAP. In making an investment decision, you should rely upon your own examination of the terms of the Offering and the financial information contained in this Offering Memorandum. You should consult your own professional advisors for an understanding of the differences between IFRS, on the one hand, and U.S. GAAP, on the other hand, and how those differences could affect the financial information contained in this Offering Memorandum.

The preparation of financial statements in conformity with IFRS requires us to use certain critical accounting estimates. It also requires us to exercise judgment in the process of applying our accounting policies. See "*Management's Discussion and Analysis of Results of Operations And Financial Condition—Discussion of Critical Accounting Policies"* for a discussion of the areas involving a higher degree of judgment or complexity and of the areas where assumptions and estimates are significant.

ISSUER, GUARANTORS AND NON-GUARANTOR FINANCIAL INFORMATION

The Financial Statements include the financial information of the Issuer and of all subsidiaries within the Group, including the Subsidiary Guarantors and Holdco. See "—*Business—History*."

The Issuer generated EBITDA of EUR 41.7 million, representing 33.4% of our EBITDA for the year ended December 31, 2016, and had net assets of EUR 94.5 million, representing 41.1% of our total consolidated net assets as of December 31, 2016.

The Guarantors generated EBITDA of EUR 204.9 million, representing 164.1% of our EBITDA for the year ended December 31, 2016, and had net assets of EUR 285.1 million, representing 123.9% of our total consolidated net assets as of December 31, 2016.

The non-guarantor subsidiaries generated EBITDA of EUR 25.4 million, representing 20.3% of our EBITDA for the year ended December 31, 2016 and had net assets of EUR 86.5 million, representing 37.6% of our total consolidated net assets as of December 31, 2016.

There were no Guarantors which individually comprised greater than 20% of our EBITDA for the year ended December 31, 2016 except for AS 4finance, which accounted for EUR 38.5 million, or 30.8% of our EBITDA and EUR 67.2 million or 29.2% of our net assets in 2016 and Vivus Finance sp.z.o.o. which accounted for EUR 31.0 million, or 24.8% of our EBITDA and EUR 37.2 million, or 16.2% of our net assets for the year ended December 31, 2016. There were no Guarantors which individually comprised greater than 20% of our net assets as of and for the year ended December 31, 2016 except for AS 4finance, which accounted for EUR 67.2 million or 29.2% of our net assets and EUR 38.5 million or 30.8% of our EBITDA for the year ended December 31, 2016. There are no risks specific to, or encumbrances on the assets of, the Company and Vivus Finance s.p.z.o.o. that could have a material adverse effect on its ability to meet its obligations under its guarantees. Please see the section entitled "*Description of Issuer and Guarantors*" for more information on the Issuer and Guarantors.

REPORTING SEGMENTS

We have the following reporting segments under IFRS: Latvia, Lithuania, Finland, Sweden, Denmark, Poland, Georgia, Spain, Friendly Finance OU ("**Friendly Finance**") and TBIF Group. In 2014 and 2013, we reported six segments, and in 2015, we introduced Spain and Denmark as separate reporting segments. In 2016, TBIF Group and Friendly Finance were introduced as new reporting segments.

In our Consolidated Financial Statements, we present in our segment information an additional item labeled "Other," which includes Argentina, Armenia, Bulgaria, the Czech Republic, the Dominican Republic and Mexico.

Our Latvia reporting segment corresponds to our intermediate holding company, AS 4finance, which holds our operating companies in Lithuania, Finland, Sweden, Denmark, Poland, Georgia, and Spain. As such, the revenue and profit before tax of our Latvia segment includes both interest income received from its operations and dividends received from subsidiaries of AS 4finance, recorded separately as "internal revenue". Accordingly, the profit before tax of our Latvia segment is not comparable to the profit before tax of our others segments.

OTHER FINANCIAL INFORMATION

Non-IFRS financial information

This Offering Memorandum includes references to "EBITDA", "Adjusted EBITDA", "Net Debt" and "Net Assets" and certain other financial measures, none of which are defined by or applied in accordance with IFRS. These measures may not be comparable to other similarly titled measures of other companies and are not measurements under IFRS or other generally accepted accounting principles, and they should not be considered in isolation from, or as substitutes for, the information contained in the Financial Statements.

EBITDA is defined as profit for the period plus tax plus interest expense, plus amortization and depreciation. Adjusted EBITDA is a non-IFRS measure that represents EBITDA (profit for the period plus tax, plus interest expense, plus depreciation and amortization) as adjusted by income/loss from discontinued operations, non-cash gains and losses attributable to movement in the mark-to-market valuation of hedging obligations under IFRS, goodwill write-offs and certain other one-off or non-cash items. Adjusted EBITDA, as presented in this Offering Memorandum, may not be comparable to similarly titled measures that are reported by other companies due to differences in the way that these measure are calculated.

For a reconciliation of EBITDA and Adjusted EBITDA to profit for the period, see "*Selected Financial Information and Operating Data*".

Net debt is defined as debt less cash. Total debt is defined as long and short term loans and borrowings.

Net assets is defined as the value of the Group's assets less its liabilities.

Ratios

This Offering Memorandum also includes certain ratios, which are derived from a combination of our principal IFRS and non-IFRS measures. Where such amounts have been presented, a description of the amount and the measures from which it has been derived has been included.

Financial information of TBI Bank EAD

This Offering Memorandum presents certain financial information in relation to TBI Bank EAD ("**TBI Bank**"). Such financial information includes the audited consolidated financial statements of TBI Bank as of and for the year ended December 31, 2016, including comparative figures as of and for the year ended December 31, 2015, which have been prepared in accordance with IFRS and audited by its independent auditor Ernst & Young Bulgaria, as set forth in their audit report included elsewhere herein (the "**2016 TBI Consolidated Financial Statements**").

Such financial information also includes the audited consolidated financial statements of TBI Bank as of and for the year ended December 31, 2015, including comparative figures as of and for the year ended December 31, 2014, which have been prepared in accordance with IFRS and audited by its independent auditor for 2015, PricewaterhouseCoopers Audit OOD, as set forth in their audit report included elsewhere herein (the "**2015 TBI Consolidated Financial Statements**").

TBI Bank is wholly and directly owned by TBIF Financial Services B.V. ("**TBIF**," and together with its consolidated subsidiaries, the "**TBIF Group**").

TBI Bank presents its consolidated financial statements in BGN. For the benefit of the reader, the financial information for the TBIF Group contained in this Offering Memorandum is presented in EUR. The BGN has been pegged to the EUR at an exchange rate of BGN 1.95583 to EUR 1 since January 1, 1999.

Pro forma financial information

As part of this Offering Memorandum, the Group presents the unaudited pro forma consolidated income statement for the year ended December 31, 2016, reflecting Holdco's acquisition of the TBIF Group in August 2016, as if such acquisition had taken place on January 1, 2016. The historical financial information used to prepare the unaudited pro forma consolidated income statement is derived from:

- the audited consolidated financial statements of the Group as of and for the years ended December 31, 2016; and
- the audited consolidated financial statements of TBI Bank as of and for the year ended December 31, 2016.

The adjustments made in order to present the unaudited pro forma consolidated income statement have been made based on available information and assumptions that the Group's management believes are reasonable. The pro forma adjustments are described in the notes to the unaudited pro forma consolidated income statement. The unaudited pro forma consolidated income statement is for informational purposes only and does not necessarily present what the Group's results would have been had the TBIF Group acquisition actually occurred on January 1, 2016, nor should it be used as the basis of projections of the Group's results of operations or financial condition for any future period. You are therefore advised to carefully consider the Group's and TBI Bank's historical financial statements and the notes thereto included elsewhere in this Offering Memorandum, as well as "*Management's Discussion and Analysis of Financial Condition and Results of Operations*."

As Adjusted Data

The Group additionally presents in this Offering Memorandum certain financial information on an as adjusted basis to give effect to the Offering. The adjustments made in order to present the financial information on an as adjusted basis to give effect to the Offering have been made based on available information and assumptions that the Group's management believes are reasonable. The as adjusted financial information is for informational purposes only and does not necessarily present what the results would actually have been had the transactions described in "*The Offering*" actually occurred on December 31, 2016 nor should it be used as the basis of projections of our results of operations or financial condition for any future period.

Neither the assumptions underlying the adjustments nor the resulting as adjusted financial information have been audited or reviewed in accordance with any generally accepted auditing or review standards. See "*Unaudited Pro Forma Consolidated Financial Information*" for a more complete description of the adjustments and assumptions underlying the *pro forma* financial data.

The financial information included elsewhere in this Offering Memorandum is not intended to comply with the SEC's reporting requirements.

ROUNDING

Certain amounts which appear in this Offering Memorandum have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

CURRENCIES

Unless otherwise specified or the context so requires:

References to "**Euro**", "**€**" and "**EUR** "are to the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended;

References to "**Lithuanian Litas**" or "**LTL**" are to the currency of the Republic of Lithuania through December 31, 2014. On January 1, 2015, Lithuania changed its currency to the Euro;

References to "**Swedish Kronor**" or "**SEK**" are to the currency of the Kingdom of Sweden;

References to "**Danish Kroner**" or "**DKK**" are to the currency of the Kingdom of Denmark;

References to "**Zlotys**" or "**PLN**" are to the currency of the Republic of Poland;

References to “**Georgian Lari**” or “**GEL**” are to the currency of Georgia;

References to “**Czech Koruna**” or “**CZK**” are to the currency of the Czech Republic;

References to “**Bulgarian Lev**” or “**BGN**” are to the currency of Bulgaria;

References to “**Pound Sterling**” or “**GBP**” are to the currency of the United Kingdom; and

References to “**US dollar**”, “**USD**”, “**US$**” or “**$**” are to the currency of the United States.

On January 1, 2015, Lithuania changed its currency to Euro.

MARKET DATA

In certain cases, we have made statements in this Offering Memorandum regarding the economy, our position in the industry, our market share and the market shares of various industry participants based on our internal estimates, experience, our own investigation of market conditions and our review of industry publications, including information made available to the public by our competitors. We cannot assure you that the assumptions underlying these statements are accurate or correctly reflect our position in the industry and none of our internal surveys or information has been verified by any independent sources. None of the Issuer, the Group, the Trustee, the Lead Manager nor the Co-Manager makes any representation or warranty as to the accuracy or completeness of this information. Any of the information set forth in this Offering Memorandum relating to the operations and financial and operating results of competitor companies has been obtained from information made available to the public in such companies’ publicly available reports, and independent research. None of the Issuer, the Group, the Trustee, the Lead Manager nor the Co-Manager has independently verified this information or can guarantee its accuracy. We confirm that this information has been accurately reproduced and that as far as we and the Guarantors are aware and are able to ascertain from the published information, no facts have been omitted which would render the reproduced information inaccurate or misleading. Unless otherwise indicated, data on the Group’s market position and market share is based on revenue for the year ended December 31, 2016 and corresponds to the Group’s historical consolidated financial information. The Group’s estimates involve risks and uncertainties and are subject to change based on various factors. See “*Risk Factors,*” “*Industry*,” and “*Business*” for further discussion.

Credit ratings included or referred to in this Offering Memorandum have been issued by Moody’s Investors Service, Inc. (“**Moody’s**”) and Standard & Poor’s Ratings Services (“**S&P**”), each of which is established in the EU and registered under Regulation (EC) No 1060/2009, as amended (the “**CRA Regulation**”). As such, each of Moody’s and S&P is included in the list of credit rating agencies published by the European Securities and Markets Authority (the “**ESMA**”) on its website in accordance with the CRA Regulation. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization. The significance of the rating should be analyzed independently from any other rating. Ratings of the Group by Moody’s and S&P are not necessarily indicative of the ratings that may in the future be issued in respect of the Group, either by Moody’s or S&P or by any other rating organization.

EXCHANGE RATE INFORMATION

The following table sets out the period end, high, average and low exchange rates for select periods of each of our local functional currencies against the euro, in each case as reported by the relevant central bank on its website (unless otherwise stated). Monetary assets and liabilities denominated in foreign currencies at the respective reporting date are retranslated into Euros using the exchange rates stated in the table.

	12 months ended December 31, 2016				12 months ended December 31, 2015				12 months ended December 31, 2014			
	Period End	Average	High	Low	Period End	Average	High	Low	Period End	Average	High	Low
SEK	0.10	0.11	0.11	0.10	0.11	0.11	0.11	0.10	0.11	0.11	0.11	0.10
DKK	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13
PLN	0.23	0.23	0.24	0.22	0.23	0.24	0.25	0.23	0.23	0.24	0.24	0.23
GBP	1.17	1.22	1.37	1.11	1.36	1.38	1.44	1.28	1.28	1.24	1.29	1.19
CZK	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
BGN	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51
GEL	0.36	0.38	0.42	0.34	0.38	0.40	0.45	0.36	0.44	0.43	0.46	0.41
USD	0.95	0.90	0.96	0.86	0.92	0.90	0.95	0.83	0.82	0.75	0.82	0.72

	Month ended February 28, 2017				Month ended January 31, 2017			
	Period End	Average	High	Low	Period End	Average	High	Low
SEK	0.10	0.11	0.11	0.10	0.11	0.11	0.11	0.10
DKK	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13
PLN	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23
GBP	1.17	1.17	1.18	1.16	1.16	1.16	1.18	1.14
CZK	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
BGN	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51
GEL	0.37	0.35	0.37	0.34	0.35	0.35	0.36	0.34
USD	0.94	0.94	0.95	0.93	0.93	0.94	0.96	0.93

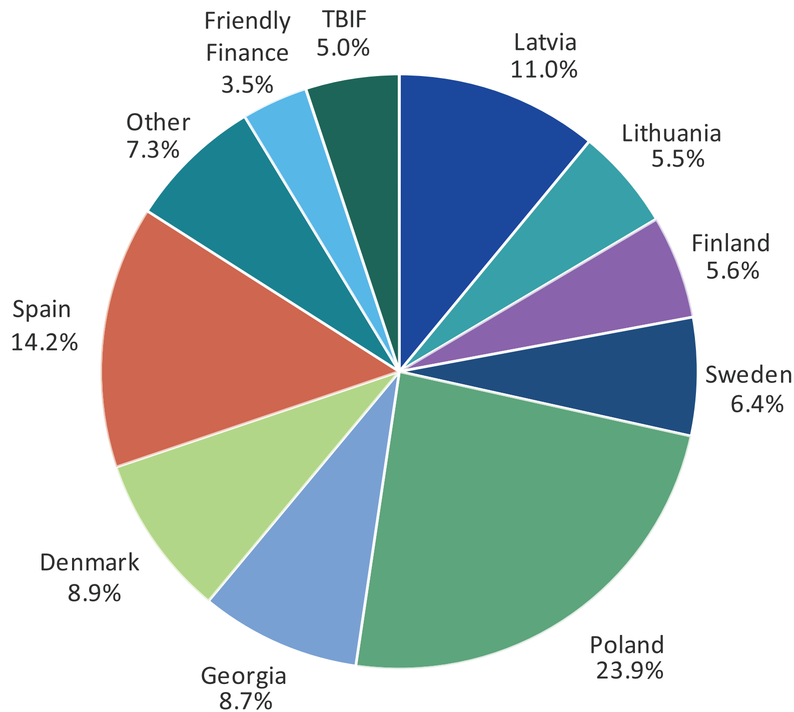
SUMMARY

The following overview should be read as an introduction to the more detailed information appearing elsewhere in this Offering Memorandum, including our consolidated financial statements and the accompanying notes beginning on page F-1. The financial information set forth herein has, unless otherwise indicated, been derived from the Financial Statements included elsewhere in this Offering Memorandum. Any decision by a prospective investor to invest in the Notes should be based on consideration of the Offering Memorandum as a whole, including the information discussed in "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors" and not solely on this summarized information.

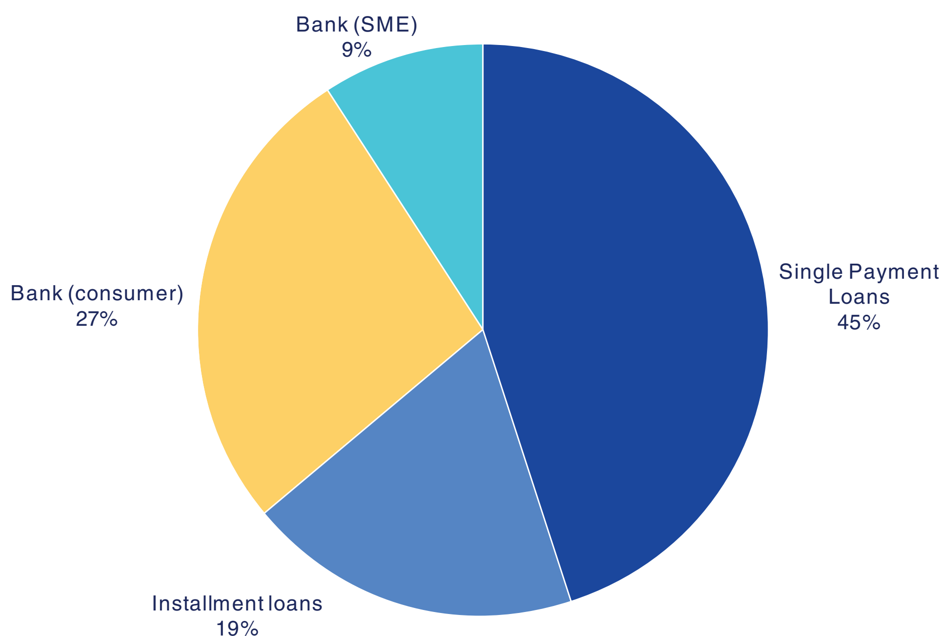
OVERVIEW

We are one of the largest online and mobile providers of unsecured consumer loans in our principal European markets based on market share. Our principal European markets are Latvia, Lithuania, Finland, Sweden, Denmark, Poland, Georgia and Spain. Our approximately 6.3 million registered online customers represent the growing number of consumers who use alternative financial services because of their convenience or because they are underserved by more traditional consumer credit providers such as banks and credit card companies. As a responsible lender, we work in close cooperation with the regulatory authorities in all of the jurisdictions in which we operate.

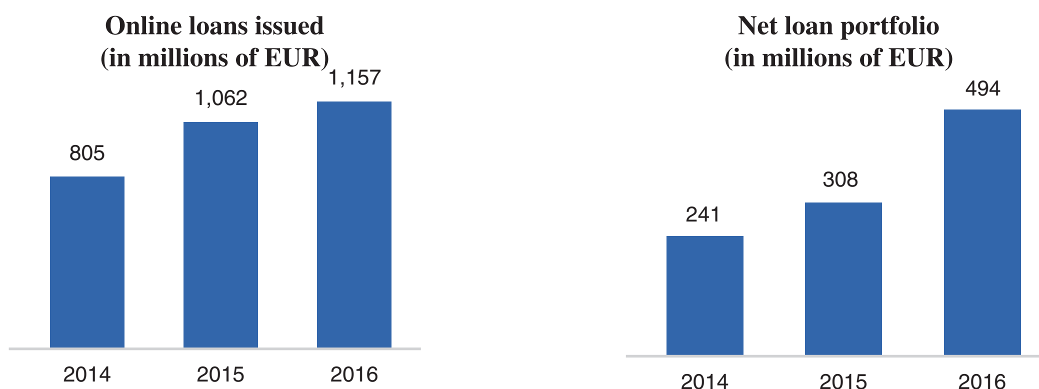
We are a diversified provider of consumer loans, currently operating in 16 countries: Argentina, Armenia, Bulgaria, the Czech Republic, Denmark, Dominican Republic, Finland, Georgia, Latvia, Lithuania, Mexico, Poland, Romania, Slovakia, Spain and Sweden. The chart below illustrates the percentage of our total interest income for the year ended December 31, 2016 across our key primary operating jurisdictions and business segments.



We offer Single Payment Loans with a term from one day up to 35 days and Installment Loans with a term from one month up to 24 months via websites and mobile and selected offline channels. In September 2015, we launched our third product, Credit Line, a revolving credit line, in Finland, and subsequently in Latvia in September 2016. We also offer a range of products through our banking operations. The chart below illustrates the composition of our net loan portfolio by product as of December 31, 2016.



As of December 31, 2016, our net loan portfolio, which represents our total loan portfolio less impairment, was EUR 493.9 million (of which, EUR 316.4 million was attributable to our online portfolio which excludes TBIF Group, and EUR 177.5 million was attributable to TBIF Group), compared to EUR 308.3 million as of December 31, 2015, and EUR 241.4 million as of December 31, 2014. Installment Loans represented approximately 30% of our net online loan portfolio as of December 31, 2016. The charts below illustrate our net online loans issued over each of the years ended, and our overall net loan portfolio as of, December 31, 2016, 2015 and 2014.



* 2016 online loans issued and net loan portfolio presented in the charts above are presented inclusive of TBIF Group and Friendly Finance, both of which were acquired during 2016; Friendly Finance contributed EUR 67 million to our 2016 online loans issued; TBIF Group contributed EUR 177.5 million, and Friendly Finance contributed EUR 26.2 million to our net online loan portfolio as of year-end 2016.

In August 2016, as part of our strategy to enter new markets and pursue selective expansion opportunities, the Group acquired TBI Bank (via the acquisition of TBI Bank’s direct parent company, TBIF), a consumer-focused bank operating in Bulgaria and Romania. This acquisition enhanced the scale of our operations in these two existing markets. TBI Bank maintains a consumer portfolio, including small-size loans (of a similar profile in terms of size and maturity to our Installment Loans), Point of Sale financing and Credit Cards, as well as a portfolio of small-to-medium enterprise (“SME”) loans, including leasing products. In 2016, the consumer portfolio and SME portfolio accounted for 68% (62% in 2015) and 32% (38% in 2015), respectively, of TBI

Bank's net loan portfolio. We believe that having an EU licensed bank within our Group will enable us to diversify our funding and lower funding costs by accepting deposits, broaden our product range (for example, allowing us to offer credit cards to our online customers) and operate in EU markets which require a banking license for consumer lending.

We have a strong brand portfolio which we deploy through diversified marketing channels to acquire customers, including traditional mass media (such as television and radio) as well as digital channels (such as cost-per-click, where we pay a fee each time our ad is clicked; search engine optimization (SEO) techniques, *i.e.*, enhancing the visibility of a website in a search engine's unpaid search results; and affiliate marketing, where a commission is paid for each successful transaction). While our offering is predominantly online and mobile, we also cooperate with partners in Latvia, Lithuania, Bulgaria, Romania, Spain, the Czech Republic and Poland, who help us acquire customers, many of whom ultimately become online customers, through physical points of sale, such as post offices, kiosks and brokers. Following the acquisition of Friendly Finance in mid-2016, we have multiple Single Payment Loan brands operating within many of our markets, allowing us to operate with different brand positioning in such jurisdictions.

Our sophisticated underwriting process mainly relies on data-driven statistical analysis, and is typically conducted in less than three seconds. If approved, money is transferred into our customers' accounts typically within 15 minutes. As of December 31, 2016, our proprietary database contained information from 27 million loan applications, including both traditional and alternative data points, that together with the historical performance of our customers provides us with an efficient underwriting and scoring process which we believe to be an important competitive advantage in our industry. We have a strong record for delivering high-quality customer service with local customer care teams in each operating market, with over 80% of our online lending volumes in 2016 issued to returning customers.

We seek to minimize defaults in our loan portfolio through a range of advanced data-driven customer assessment techniques. When defaults do occur, we aim to maximize recovery through an efficient debt collection process. Our portfolio of loans overdue for more than 90 days ("**non-performing loans**") as a share of online loans issued has remained relatively stable in recent years, at 9.3% for the year ended December 31, 2016 and 9.0% for the year ended December 31, 2015. Similarly, our ratio of net impairment (*i.e.,* impairment losses, net proceeds from debt sales and write-offs of loans not repaid within two years, less recoveries on loans written off) to revenue was 23% for the year ended December 31, 2016 and 24% for the year ended December 31, 2015.

For the year ended December 31, 2016, we generated profit before tax (after impairment losses on loans and receivables and general administrative expenses) of EUR 81.0 million and net profit of EUR 63.2 million. In 2015 and 2014, we generated profit before tax of EUR 73.8 million and EUR 60.6 million, respectively, and net profit of EUR 64.1 million and EUR 46.3 million, respectively.

We have strong EBITDA generation, recording EBITDA of EUR 124.9 million, EUR 110.0 million and EUR 82.6 million for the years ended December 31, 2016, 2015 and 2014, respectively (with an EBITDA margin of 31.8%, 34.5% and 37.5% respectively for those years). We are well capitalized, with total equity of EUR 230.1 million and EUR 173.3 million as of December 31, 2016 and December 31, 2015, respectively (with a ratio of total equity to net loan portfolio of 47% and 56% respectively as of those dates). TBIF Group's total capital adequacy ratio was 22.3% and 19.5% as of December 31, 2016 and December 31, 2015, respectively.

KEY STRENGTHS AND STRATEGY

Key strengths

Simple and transparent online/mobile product offering

We have designed our products to offer simplicity, convenience and transparency to our customers. Our convenient online and mobile loan products aim to protect customer privacy, provide easy online access to funding and offer easy-to-understand fee and interest structures. Single Payment Loans are loans with a term from one day up to 35 days with the customer having an option to extend maturity, and Installment Loans are loans with a term from one month up to 24 months. For Single Payment Loans, customers are charged interest, payable when the principal is repaid, ranging from 6% to 28% in Europe and 30% to 40% in Latin America. For Installment Loans, customers are charged annual nominal interest rates ranging from 58% to 96%, payable monthly on the outstanding principal, depending on the jurisdiction, loan amount and maturity. For Line of

Credit, customers have a minimum monthly repayment, along with a monthly interest rate of 8.5% to 10.0%. Maximum loan amounts under the Line of Credit are EUR 2,100.

We design our websites to be as simple and convenient as possible to use, with clear terms and conditions. With respect to our Single Payment Loans, we typically disburse loans to a customer's bank account within 15 minutes of approving an online application. We believe that our customers value our services as an important component of their personal finances because of the convenience and transparency of our products compared to other alternatives.

Strong brand awareness built on sophisticated marketing framework

We have put into place a sophisticated marketing framework, which is a vital component of our customer acquisition strategy. We utilize a three-phase, multi-channel country launch marketing strategy. When entering a new market, we employ online marketing channels to build initial interest and attract customers to the product. Online tools include cost per click advertising, where the most relevant promotion and placement has a higher likelihood of driving consumer action with greater efficiency; SEO, which enhances the visibility of our websites in a search engine's unpaid search results; affiliate marketing, where we pay a commission for each successful transaction; and other internet marketing, including website display advertising. In the second phase, known as the market rollout phase, we promote the proposition through offline channels, including TV, radio and billboards. In the third phase, which we implement in our more mature markets, we use performance marketing and customer management programmes to stimulate returning customers and brand endorsement. We also employ a dual-brand strategy in some markets, for example SMS Credit and Ondo Single Payment brands in Latvia and the addition of Friendly Finance brands to allow a different brand identity and positioning within a given market. We also provide sponsorships and support charitable projects. These activities require substantial investment; as a result, marketing expenses were EUR 55.4 million in 2016, or 14.1% of our 2016 revenues. They also help us maximize customer reach and create a strong positive brand awareness. Thanks in large part to our marketing efforts, we maintain a leading position in terms of brand awareness in a number of our markets.

Market innovation leader with sophisticated data-driven underwriting process

We have established ourselves as a leader in European online and mobile consumer lending with a reach across a large number of European markets. We believe that we have the expertise to remain a leader in terms of innovation in our services and product offerings, expansion capabilities, ease of use, customer convenience and anticipation of and compliance with regulatory changes. In addition, our IT systems have demonstrated a track record for reliability and performance.

We use data-driven analysis and decision making in all aspects of our business. This use of data improves our understanding of existing and potential customers, enabling us to optimize our marketing expenditure, enhance credit risk management and also to develop new products efficiently. For example, in our credit scoring, we evaluate predictive data from credit bureaus and alternative sources such as social networks and use technologies such as device fingerprinting to combat fraud.

We have built in-house expertise with our proprietary credit scoring databases containing information from 27 million loan applications as of December 31, 2016. Our databases include both traditional data points, such as address, income level and credit bureau data; and alternative data points, such as mobile carrier and device and social media presence and provide valuable insight into customer attitudes and behaviors in our existing markets. Since our inception through December 31, 2016, we have issued online loans in an aggregate of EUR 4.0 billion and, as of December 31, 2016, we had reached 6.3 million registered online customers (*i.e.*, loan applicants). Our information in relation to existing markets can provide us with an advantage when applied to new markets. We believe this targeted, data-driven approach brings us potential customers who are more likely to apply for our loans and reduces our cost per acquisition of new customers (an important component of operating costs).

We attract customers through a diversified multi-channel and data-driven marketing strategy, focusing on marketing to customers with the highest conversion potential. At the application stage, our customer identification methods are customized by country to reflect regulatory requirements and available sources of information. Within seconds, proprietary systems analyse the customer data and determine the creditworthiness of the applicant. Our dynamic credit scoring model aims to ensure that we capture the best mix of customers in

terms of balancing risk and reward and optimizing the profitability of the business in both our existing and target markets. We look to set acceptance thresholds that both manage our risks and maximize our profitability. Our non-performing loans have remained stable in recent years as our business has matured. As a percentage of issued online loans, non-performing loans amounted to 9.3% as of December 31, 2016, compared to 9.0% as of December 31, 2015 and 8.8% as of December 31, 2014. Such ratio takes into account non-performing loans as of a specific date as a percentage of loans issued during the two year period finishing 90 days prior to that specific date.

High rates of returning customers reflect our high levels of customer satisfaction

We emphasize customer satisfaction and operational excellence in order to attract a high proportion of returning customers, one of the important pillars of our business model. Returning customers of Single Payment Loans represented over 80% of our Single Payment Loan customers (in terms of lending volumes) in the year ended December 31, 2016, and the average returning Single Payment Loan customer had three transactions per year with us. Returning customers allow us to leverage existing credit score databases and thus reduce the costs associated with new customer acquisition. They also help give us a stable customer base to which we can offer new products to help optimize our performance. We define a Single Payment Loan returning customer as a customer who had taken out a loan, repaid it in full, and later applied for a separate Single Payment Loan.

We have developed a customer service division with 738 full-time-equivalent ("FTE") specialists as of December 31, 2016, delivering customer support in local languages across all of our markets (in most of which we offer customer support on a 24/7 basis). We continuously work to improve customer satisfaction by creating personal contact with customers through telephone calls, e-mail and chats to, among other things, discuss product options, address customers' questions, inform customers of their payment due dates and encourage on time payment, discuss options for late payments and help customers with their applications. With approximately 64% of our customers millenials (*i.e.*, under 40 years old), we have adopted a diversified, multi-channel marketing approach, including such methods as cost-per-click (*i.e.*, where advertisers pay a fee each time one of their ads is clicked), search engine optimization (SEO) (*i.e.*, enhancing the visibility of a website in a search engine's unpaid search results) and affiliate marketing (*i.e.*, where a commission is paid for each successful transaction) and other internet marketing, including website display advertising. In addition, we carefully monitor different customer service quality ratios, including but not limited to abandoned-call and repeated-call rates. We also survey customers on their perception of our quality of service and we actively monitor net promoter scores. We have also started to work with external review sites such as TrustPilot that give independent and publicly available customer feedback. We have been recognized for our customer service, having won the Quality Service Star award in our largest online market, Poland, in 2014 and 2015. We have also recently launched external independent customer reviews via Trustpilot in some of our European markets. As of February 2017, the Trustpilot rankings were all above 8 out of 10 and mostly above 9 out of 10. We believe this strong level of customer satisfaction is one of the reasons why customers who wish to access credit again often return to us.

We have high rates of recovery on our non-performing loans

We mainly handle collection of payments delayed up to 90 days past maturity in-house and over the years we have gained substantial expertise in debt collection strategies. In certain countries, we outsource portions of our debt collection activities to leading international partners, such as Intrum Justititia, Euler Hermes and Svea Finance, which allows us to test and compare the efficiency of internal versus external debt collection. We monitor the results of debt collection procedures and implement what we deem to be the most appropriate and efficient procedure in each jurisdiction, thereby increasing the effectiveness of our debt collection process.

We have developed policies and procedures for debt collection that have resulted in a Single Payment Loan average recovery rate of 93.4% of the principal amount of Single Payment Loans issued with a maturity date during 2014 (such loans having been issued between January 2014 and December 2014) within two years after maturity, and an Installment Loan average recovery rate of 92.5% of principal amount of the Installment Loans issued with a maturity date during 2013 (such loans having been issued between May 2012 and April 2013) within three years after maturity (as defined in "*—Process—Debt Collection—Debt Collection Statistics*").

Emphasis on being a responsible lender

We operate as a responsible lender. Our product terms, including fee and interest structures, are easy to understand. Our underwriting and credit scoring process is rigorous. We have developed a robust proprietary

credit scoring database that helps us optimize our customer mix, balancing risk and reward, and maintain stable non-performing loans ratios (both in terms of loans issued and total gross loans outstanding). While we charge penalty interest for delayed loans, which made up 9% of our interest income in 2016, we do not employ hidden fees, penalties, automatic loan extensions or compound interest, and we impose a maximum penalty limited to two times the principal on a defaulted loan (except in Latvia, where such penalty is limited to the principal amount of the loan). Our debt collection principles are designed to help customers find the best way to repay their loans. We do not employ controversial collection practices, such as the use of continuous payment authority or the direct debiting of monies from customers' bank accounts, and rely only on reputable and carefully selected external collection service providers. Not only do our business practices contribute to a high level of customer satisfaction, they also help us to maintain productive relationships with regulatory bodies in the jurisdictions where we operate as well as a positive brand image within the online lending industry.

We conduct our business in a highly regulated industry. We work in close cooperation with governmental authorities and consumer rights protection groups to support a fair and transparent market environment and legislative framework. We are actively involved in the principal trade associations in our principal markets and through these associations we may influence regulatory development as well as share knowledge with our peers.

Our Group and local legal and compliance teams continuously work to monitor the regulatory requirements to which we are subject in each jurisdiction. We also work with external legal advisors in different jurisdictions. Consequently we believe that we have the skills and capacity to manage the numerous regulatory requirements applicable to our business and to adapt to regulatory changes successfully. For instance, we have rapidly adapted our products to comply with new regulatory requirements in a number of jurisdictions in 2016, including Latvia, Lithuania and Poland, and will continue to do so in the future for changes expected in other markets, such as Sweden, Finland and Georgia.

Proven ability to adjust to regulatory change

We have the ability to dynamically adjust our business model in response to regulatory changes within a particular market, and have a track record of doing this successfully as regulation has increased in many of our markets in recent years. Our online lending business model has a number of key operating parameters at different stages of the customer lifecycle that we are able to adjust to optimize performance in specific markets. At the initial marketing stage in a new country, we adjust application volumes by controlling how much we spend (and through which channels) to target a certain volume and type of potential customer to our websites. At the underwriting stage, we control and adjust our scorecards to change the credit scoring thresholds for being granted a loan. This helps drive our acceptance rate, which together with the cost of marketing forms the cost per acquisition. Subsequently, we monitor the loan repayments, extension characteristics and behaviour of those customers who are late with repayments. The short term nature of our Single Payment Loans and the monthly repayments on our Installment Loans and Line of Credit products mean this data is gathered on a timely basis. We use such data to determine our impairment provisions and cost-of-risk based on roll rates, probability of default and loss-given-default. We then assess how the cohorts of customers we have attracted and then selected in the first two stages are performing, and use this to feed back into either marketing to a different customer segment (*i.e.*, marketing specifically to attract the types of customers we want to accept from a credit perspective) and/or adjust the credit scoring to change acceptance rates for particular customer profiles.

As we develop in each market, we adjust these key operating levers to get the appropriate balance of cost of acquisition and cost of risk to ensure we have optimal 'unit economics' for each product in each market. This is aided over time as our customer base, presence and market share grows because returning customers represent an increasing proportion of lending volumes. For these returning customers, the cost of acquisition is substantially lower because they have already used our product and so are familiar with the brand, and the cost of risk is also lower because we have propriety data on their previous repayment behaviour.

This flexibility has allowed us to adapt to regulatory change. For example, if regulators introduce caps on pricing, we can seek to adjust our marketing spend and risk cut-offs in order to continue to operate in a profitable manner despite the lower revenue yield per customer. In Georgia, a 100% cap on effective interest rate was introduced in January 2017. Previously we charged 15% for a 30 day loan, with a first loan for free offer for new customers (resulting in a blended average yield of 13% per month). After the cap became effective, the pricing has been limited to 6% for a 30 day loan. To adjust for this change, we have withdrawn the 'first loan for free' offer and reduced our marketing spend, but still received an increased number of applications (driven by the

lower pricing which increases natural demand) and tightened our acceptance criteria for new customers. Whilst the results in terms of profitability will depend on how extension behaviour and repayments develop in the coming months, we believe our ability to adjust these key levers on a real-time basis will significantly mitigate the initial impact on our profitability from lower pricing.

As an additional measure, we also review the design of our products to see if it can be better adjusted to suit a modified regulatory framework. For example, we may offer customers a premium service (such as faster disbursement of funds) for an additional fee. An example of a more significant re-design occurred when Google introduced paid search restrictions on products with less than a 60-day maturity. We are now trialing a 61-day product in Poland that runs in parallel with our normal 30-day product.

Regulatory changes also affect the broader market. Not all of our competitors have the resources or experience to adjust to new regulatory regimes. This is particularly the case for pricing caps because our products already tend to cost less than those of our peers. For example, in Poland, our Single Payment Loan costs 16% for 30 days whereas most other operators charge 20-25% (closer to the current cap of 28%). If a new and lower cap is introduced, as is being currently considered by Polish regulators, the reduction in revenue for us will be proportionately lower. Over a longer time period, such as following the changes in Poland in March 2016, we tend to see an increase in market share as smaller competitors who are less able to adapt have a lower presence in the market or withdraw.

Strong financial position

We have a strong balance sheet and have demonstrated strong cash flow characteristics supported by a flexible business model and a disciplined growth strategy. We achieved an annualized return on average equity and an annualized return on average assets from continuing operations of 31% and 9%, respectively, in the year ended December 31, 2016, as well as a profit before tax and interest income growth for continuing operations of 10% and 24%, respectively, in the year ended December 31, 2016. We have achieved a profit before tax margin of 21% for the year ended December 31, 2016 compared to 23% for the year ended December 31, 2015. We are well capitalized with a capital to assets ratio of 25% as of December 31, 2016. We employ a conservative strategy regarding the maturity profile of our balance sheet. The majority of our borrowings are not due for at least one year, whereas our online loan portfolio is short term in nature, with 74.7% of the performing loan portfolio as of December 31, 2016 having a maturity of less than 90 days. The short term nature of our loan portfolio enables us to generate revenue and reinvest it into new loans to customers.

We operate a flexible cost base and infrastructure. 82% of our general administrative costs shown in our income statement for the year ended December 31, 2016 were variable costs which broadly correlate to loan sales (i.e., all marketing and sponsorship costs, personnel costs, application inspection costs, IT expenses, debt collection costs, communication expenses and bank services). Our revenue base is geographically diverse, which has helped us to naturally hedge our financial performance against foreign exchange rate movements in our markets. We believe this has supported our historic growth profile.

Experienced management with proven track record

Our executive team and country managers consist of experienced professionals who have worked in different segments of the international financial and banking sectors. Their knowledge, experience and support have proven to be significant assets to us both on the strategic front and in the development of new products and we believe such knowledge, experience and support provide us with a significant competitive advantage.

Strategy

Consolidate and strengthen our leadership position in our core markets and develop new markets

We are a leader in the Single Payment Loans market in our core markets and aim to maintain such position. Our net online Single Payment Loan portfolio in these markets amounted to EUR 187.8 million as of December 31, 2016. We plan to maintain our market leadership for Single Payment Loans in these core markets, in part, through our marketing efforts and by adapting quickly to new regulations and by focusing on achieving efficiencies.

At year-end 2016, nearly half of our products were less than 18 months old, with 15 out of the 33 online products being offered online having been launched since the third quarter of 2015. This range of products reflect our entry into new markets, such as Argentina, Mexico and Romania in 2015 and the Dominican Republic in August 2016, the roll-out and re-launch of Installment Loans in existing markets, like Spain and the Czech Republic, and the launch of new products, such as our Line of Credit offering in Finland and Latvia. We believe there are growth opportunities for these markets and products, which we plan to capture by further development of distribution channels and investments in marketing, IT and customer service.

More generally, we plan to invest in marketing in all markets of operations to maintain or increase our brand recognition and grow our market share. We aim to increase the number of distribution channels we use in order to attract new customers. We also plan to continue to refine our underwriting and debt collection processes in every market of operation and more significantly the markets in which we recently launched our operations, such as the Dominican Republic, Romania, Argentina, Armenia and Mexico.

Leverage our acquisition of TBI Bank, including use of our EU banking license

In August 2016, we acquired TBI Bank (via the acquisition of TBI Bank's direct parent company, TBIF), a consumer-focused bank operating in Bulgaria and Romania. TBI Bank maintains a consumer portfolio, including small-size loans of a similar profile (in terms of size and maturity) to our Installment Loans, Point of Sale financing and Credit Cards, as well as an SME portfolio, including leasing. This acquisition expands our product offering and may serve as a platform for further expansion of such offerings. For example, TBI Bank currently offers credit cards in Bulgaria and Romania and in the future we may use this capability to offer card-based lending products in other markets. In February 2017, we secured Romanian and Polish regulatory approvals to use TBI Bank's credit card license in Poland. In addition, we anticipate the TBI Bank acquisition will allow us to diversify and lower our costs of funds as well as operate within certain jurisdictions, such as Germany, which require a banking license. It also gives us flexibility in the event that regulatory changes (in any EU jurisdiction) restrict lending business only to entities which have banking licenses.

Introduction of new products

We plan to continue our innovative approach, offering convenient online services and transparent and competitive lending products to customers not served by traditional lenders. We plan to continue to leverage our existing proprietary database to introduce Installment Loans in existing markets where we do not already offer them, and also develop new products in certain markets. For example, in 2015, we launched our third product, Line of Credit, in Finland which we later launched in Latvia in 2016. In the fourth quarter of 2016, we also commenced a trial of a Point of Sale product in Spain. Through our acquisition of TBI Bank, we have the capability to offer credit cards. TBI Bank currently offers these in Bulgaria and Romania and in the future we may use this capability to offer card-based lending products in other markets. We expect our continued investment in our products to drive continuing increase in our revenues.

Continue to maintain a high level of investment in technology

We plan to continue to invest in our underlying systems and technology. We aim to enhance our software platform to support more rapid product development and rollout of products across our countries of operation. We will continue to integrate the latest technologies into our business, including in the areas of digital marketing (*e.g.,* IPonWeb), anti-fraud (*e.g.*, lovation), risk tools (*e.g.,* Experian risk suite) and payment systems.

As we capture an ever broader range of traditional and alternative data, we plan to further develop our data management and governance capabilities so that the information can be effectively utilized in our marketing technology, credit scoring and risk management.

Continue to pursue selective expansion opportunities

We regularly evaluate strategic opportunities for our business, such as acquisition transactions in new countries, particularly in Latin America and Asia, as well as our existing markets, and offerings of securities in the international capital markets (including a possible public offering of our shares), and will continue to do so in the future. Making use of both organic growth and acquisitions, we aim to leverage our existing expertise to expand over time into countries which we believe have an attractive customer base and growth potential.

The decision to acquire an existing entity or expand through organic growth in a new market is driven by the analysis of several factors, including acquisition price, the cost and time required to build up a local operation, licensing requirements and the likelihood that we could successfully manage the integration of an existing entity into our Group operating model. For example, in 2015, we started greenfield operations in Romania and Mexico, but acquired small businesses in Armenia and Argentina that accelerated our entry into those markets.

As we aim to build one of the world's leading digital consumer finance businesses, we regularly review and consider potential acquisition opportunities around the world.

RECENT DEVELOPMENTS

Consent solicitation and tender offer in respect of the 2019 Notes

On March 29, 2017, the Issuer, as issuer of the 2019 Notes, launched a consent solicitation process in respect of the 2019 Notes (the "**Consent Solicitation**") and a tender offer in respect of all outstanding 2019 Notes (the "**2019 Notes Tender Offer**"). Pursuant to the Consent Solicitation and 2019 Notes Tender Offer, the Issuer seeks to obtain consent to amend the 2019 Notes Indenture to remove certain covenants, terms and events of default in the indenture governing the 2019 Notes and invites the holders of the 2019 Notes to tender their 2019 Notes for purchase by the Issuer at a purchase price of USD 1,060 per USD 1,000 in principal amount of the 2019 Notes for holders of the 2019 Notes who tender prior to the early participation deadline, and at a purchase price of USD 1,010 per USD 1,000 in principal amount of the 2019 Notes for holders of the 2019 Notes who tender after the early participation deadline but prior to the expiration deadline, and on the terms and conditions contained in the Tender Offer and Consent Solicitation Memorandum.

Pursuant to the Tender Offer and Consent Solicitation Memorandum, the acceptance for purchase by the Issuer of any of the 2019 Notes for purchase is subject to, among other things, the receipt of consents in respect of the Consent Solicitation from eligible holders of the 2019 Notes (the criteria for such eligibility being set out in the Tender Offer and Consent Solicitation Memorandum) representing a majority of the then outstanding principal amount of the 2019 Notes validly given and not revoked (the "**Required Consents**") to the proposed amendments, receipt of tenders in respect of the 2019 Notes Tender Offer of a majority in aggregate principal amount of the then outstanding of the 2019 Notes validly tendered and not withdrawn (the "**Requisite Minimum Tenders**") and the issuance of the Notes offered hereby.

Redemption of the SEK Notes

On March 30, 2017, the Issuer issued a conditional notice to redeem all the outstanding SEK Notes pursuant to the Redemption Option contained in the SEK Notes. The notice is conditional upon, amongst other things, the aggregate gross proceeds of the Offering being such that the Interest Coverage Ratio contained in the SEK Notes would be below 2.5 to 1.0, on a pro forma basis. If the conditions are met, the SEK Notes will be redeemed at a price equal to 106% of the aggregate principal amount of SEK Notes outstanding plus accrued and unpaid interest, such redemption to occur on or about May 31, 2017. The Issuer has obtained a waiver of the requirement to meet the SEK Notes Interest Coverage Ratio of 2.5 to 1.0 during the period between closing of the Offering and redemption in full of the SEK Notes.

HISTORY

AS 4finance was founded in Latvia in February 2008 by a group of individuals and companies and commenced operations offering Single Payment Loans in July 2008 and Installment Loans in August 2009.

Our initial objective was to provide flexible and convenient consumer financial services to customers in four countries, Sweden, Finland, Lithuania and Latvia, and more broadly to become the leader in Northern European and Scandinavian markets for online Single Payment Loans. The services we originally provided focused on Single Payment Loans through e-commerce, such as using the Group's internet platform, phone calls or text messages. We introduced online Installment Loans in Sweden, Finland, Lithuania, Latvia and Poland, as well as online deposit-taking in Sweden. In 2012, we for the first time had days when we issued over 10,000 loans per day and achieved over 4,000 registrations per day. In September 2015, we launched our third product, Line of Credit, in Finland which we later launched in Latvia in 2016.

From 2009 to 2013, we initiated operations in Bulgaria, Canada, the Czech Republic, Denmark, Estonia, Finland, Georgia, Poland, Russia, Spain, Sweden and the United Kingdom, principally through the establishment of new start-up entities. During this period, we also started a Canadian-based company, which provided management and administration service to a U.S. third-party entity that provided Single Payment Loans to customers in the United States. In December 2013, we discontinued operations in the United Kingdom and

North America business segments as part of a strategic decision to place greater focus on markets which provided, and which we believed would continue to provide, a higher return on investment. For the United Kingdom, our decision was also based on the uncertainty around a potential cap on annual percentage rates (“APR”) chargeable on loans that U.K. regulatory authorities were considering introducing. We sold our North America business (including the loan operations in Canada and the management and administration services provided to the United States) to a related party on January 1, 2014. See “*Related Party Transactions.*” In December 2014, we decided to sell our operations in the Russian Federation, mainly due to political and economic uncertainties in the market. The Russian Federation business segment was sold to a related party outside the reporting group. The sale of 85% of the ceased operations in the United Kingdom was effective from January 1, 2015. In March 2015 and mainly due to unfavorable market conditions, we discontinued our operations in Estonia. See “*—Group Structure—Legal Structure*” below.

In 2015, we launched Installment Loans in Denmark, with further launches in Spain, Romania and the Czech Republic in 2016. In 2015, we also commenced operations in Romania and Mexico through the establishment of new start-up entities. In April 2015, we acquired GoodCredit Armenia, which holds a credit organization license from the Central Bank of Armenia. The main activities of GoodCredit Armenia are micro-/SME business and consumer lending. This acquisition has enabled us to expand our activities in the Republic of Armenia.

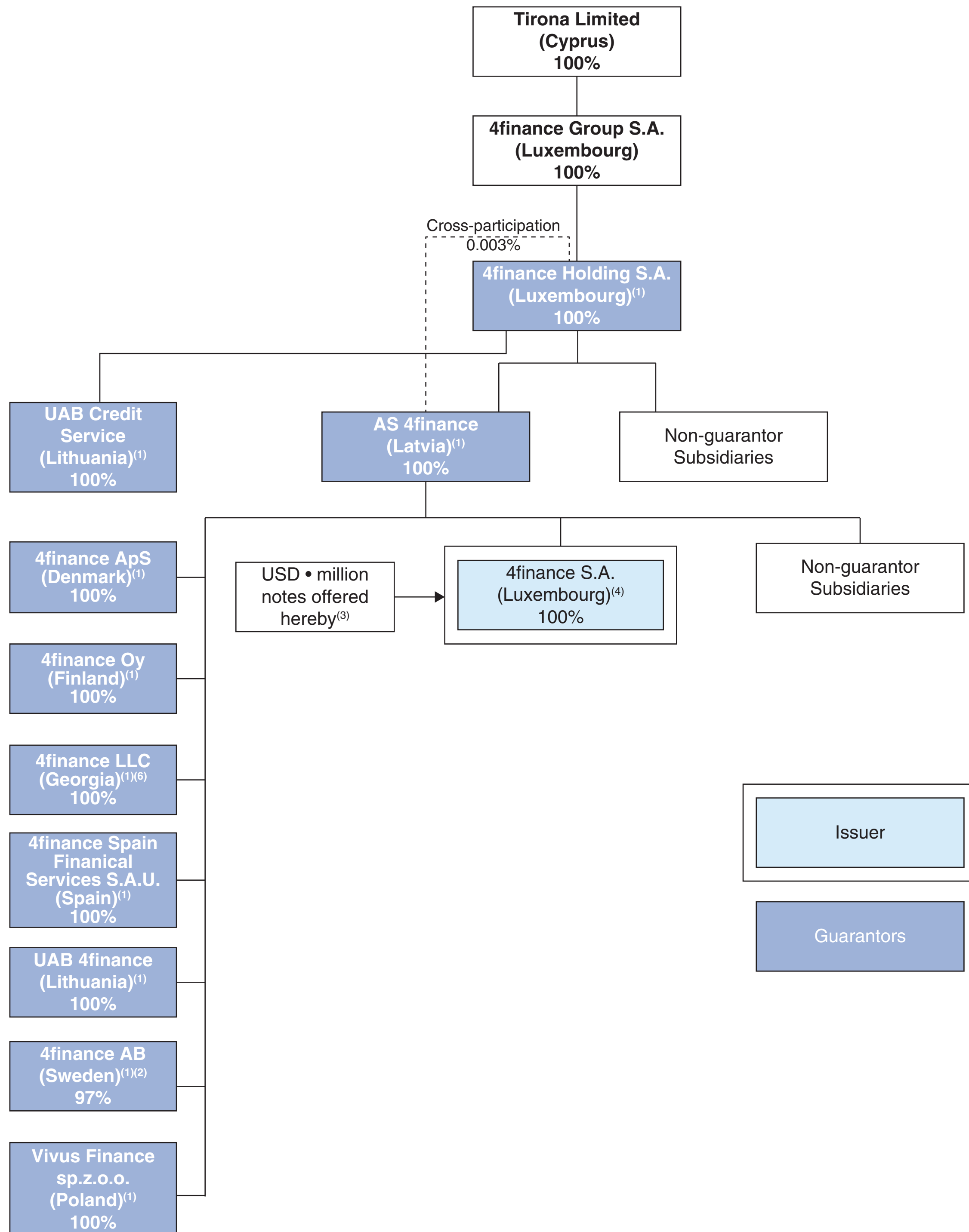
In May 2015, we acquired Prestamo Movil in Argentina. The main activities of Prestamo Movil are consumer lending through Single Payment Loans. In October 2015, we started lending in Argentina under the Vivus brand.

In June 2016, the Group acquired 80% of the share capital of Friendly Finance OU (an online consumer lender active in the Czech Republic, Poland, Spain, Slovakia and Georgia) from Tirona, our controlling shareholder, for a purchase price of EUR 28.8 million. See “*Related Party Transactions*.” The acquisition of Friendly Finance added additional brands to our portfolio and an additional database of over one million registered customers, reinforcing our position in our core markets.

In August 2016, we completed the purchase of TBI Bank through the acquisition of 100% of the share capital of TBI Bank’s direct parent company, TBIF Financial Services B.V. from its parent company, Kardan N.V., for a sum of EUR 82 million. TBI Bank is a consumer-focused financial group in Bulgaria and Romania with consolidated assets of EUR 318.9 million as of December 31, 2016. TBI Bank maintains a diversified loan portfolio consisting of loans to both consumers and SMEs. Funding is predominantly through customer deposits and customer accounts of EUR 224.4 million, representing 91.8% of TBI Bank’s total liabilities, as of December 31, 2016.

SUMMARY CORPORATE STRUCTURE

The following diagram reflects our corporate structure and our principal indebtedness on an adjusted basis after giving effect to the offering and sale of the Notes and the use of the proceeds thereof.



(1) On the Issue Date, the Notes will be unconditionally and irrevocably guaranteed on a senior unsecured basis by Holdco and by 4finance ApS, 4finance Oy, AS 4finance, UAB 4finance, UAB Credit Service, Vivus Finance sp.z.o.o., 4finance AB, 4finance Spain Financial Services S.A.U., and 4finance LLC. The Issuer generated EBITDA of EUR 41.7 million, representing 33.4% of our EBITDA for the year ended December 31, 2016, and had net assets of EUR 94.5 million, representing 41.1% of our total consolidated net assets as of December 31, 2016. The Guarantors generated EBITDA of EUR 204.9 million, representing 164.1% of our EBITDA (which is over 100% because it is before consolidation adjustments such as intra-Group dividends) for the year ended December 31, 2016, and had net assets of EUR 285.1 million, representing 123.9% of our total consolidated net assets as of December 31, 2016.

(2) 3% of the shares in 4finance AB are owned by its managing director.

(3) The Notes will be the Issuer's senior obligations and will rank pari passu in right of payment to all of the Issuer's existing and future senior unsecured indebtedness and senior to all of the Issuer's subordinated indebtedness, if any. We intend to use a portion of the proceeds from the issuance of the Notes to repurchase 2019 Notes tendered and not validly withdrawn in the 2019 Tender Offer and to pay the fees and expenses related to the issuance of the Notes. The Issuer may in certain circumstances use a portion of the proceeds of the Offering to redeem the SEK Notes in full, which is estimated to cost approximately EUR 42 million (including principal, redemption premium and accrued and unpaid interest). See "*Description of Notes—SEK Notes*." Any remaining proceeds will be used for general corporate purposes, including potential selective acquisitions, and will be lent by the Issuer to the Group companies for such purposes, as required. See "*Use of Proceeds.*" As of December 31, 2016 we had total debt of EUR 397.2 million, and pro forma total debt of EUR 535.0 million, as adjusted to take into account the offering of the Notes.

(4) 4finance S.A. is an indirect subsidiary of Holdco and is a public limited liability company (*société anonyme*) incorporated and existing under the laws of Luxembourg. It is registered with the Luxembourg Trade and Companies Register (Registre de Commerce et des Sociétés de Luxembourg) under number B173403 and its registered office is located at 9, allée Scheffer, L-2520 Luxembourg.

RISK FACTORS

An investment in the Notes involves a high degree of risk. For a detailed discussion of the risks and other factors to be considered when making an investment with respect to the Notes. See "*Risk Factors*" and "*Cautionary Note Regarding Forward—Looking Statements*." Prospective investors in the Notes should carefully consider the risks and other information contained in this Offering Memorandum prior to making any investment decision with respect to the Notes.

OVERVIEW OF THE OFFERING

The overview below describes the principal terms of the Notes and the Guarantees. Certain of the terms and conditions described below are subject to important limitations and exceptions. The "Description of Notes" section of this Offering Memorandum contains a more detailed description of the terms and conditions of the Notes and the Guarantees, including definitions of certain terms used in this overview.

Issuer . . . . 4finance S.A., a Luxembourg based company incorporated as a société anonyme (public limited liability company) under the laws of Luxembourg, having its registered address at 9 Allée Scheffer, L-2520 Luxembourg, and registered with the Luxembourg Trade and Companies Register under number B173403.

Guarantors . . . . The obligations of the Issuer under the Notes and the indenture governing the Notes (the "**Indenture**") will be fully and unconditionally guaranteed on a senior basis by AS 4finance, the Issuer's direct parent company, 4finance ApS, UAB 4finance, UAB Credit Service, 4finance Oy, 4finance AB, Vivus Finance Sp.z o.o, 4finance Spain Financial Services S.A.U., 4finance LLC and Holdco, the Issuer's indirect parent company. See "*Limitations on Validity and Enforceability of the Guarantees and the Notes and Certain Insolvency Considerations*" for information on the Guarantees.

Notes Offered . . . . USD 325,000,000 10.75% Senior Notes due 2022.

Issue Date . . . . On or about April 28, 2017.

Issue Price . . . . 100% of the principal amount of the Notes.

Maturity Date . . . . May 1, 2022.

Interest Rate . . . . 10.75% per annum.

Interest Payment Dates . . . . Interest will be payable semi-annually on May 1 and November 1 of each year commencing on November 1, 2017. Interest will accrue from the Issue Date.

Form and Denomination of the Notes . . . . The Issuer will issue the Notes in minimum denominations of USD 200,000 in principal amount and integral multiples of USD 1,000 in excess thereof.

Definitive Note Certificates evidencing holdings of Notes will be available only in certain limited circumstances. See "*Book-entry Delivery and Form.*"

Status of the Notes and Guarantees . . . The Notes constitute unsecured obligations of the Issuer and will rank *pari passu* in right of payment to all of the Issuer's existing and future unsecured indebtedness and senior to all of the Issuer's subordinated indebtedness, if any. The Notes will be structurally subordinated to all existing and future liabilities (including trade payables) of Holdco's non-Guarantor subsidiaries.

The Notes are guaranteed on a senior unsecured basis by the Guarantors. The Guarantees will rank *pari passu* with all of the Guarantors' existing and future senior unsecured debt and senior to all of their existing or future subordinated debt. Each Guarantee is subject to certain limitations under the laws of the relevant Guarantor's jurisdiction of organization. See "*Risk Factors—Risks*

Relating to the Notes and the Guarantees—The Guarantees may be significantly limited by applicable laws or subject to certain limitations or defenses."

Certain Covenants . . . . The Indenture will contain covenants that, among other things, limit the ability of Holdco and its restricted direct and indirect subsidiaries to:

- incur or guarantee additional debt;
- pay dividends on, redeem or repurchase capital stock;
- make certain restricted payments and investments, including dividends or other distributions with regard to the shares of Holdco or its restricted direct and indirect subsidiaries;
- create or incur certain liens;
- enter into agreements that restrict Holdco's restricted subsidiaries' ability to pay dividends or other distributions or make loans or advances to the Guarantors or any of the restricted subsidiaries;
- transfer or sell assets;
- merge or consolidate with other entities;
- enter into transactions with affiliates; and
- change the nature of their businesses or engage in any business other than those permitted.

Each of these covenants is subject to a number of important limitations and exceptions as described under "*Description of Notes—Certain Covenants*."

Optional Redemption . . . . At any time prior to May 1, 2019, the Issuer may redeem all or a portion of the Notes at a redemption price equal to 100% of the principal amount of the Notes plus the applicable "make-whole" premium set forth in this Offering Memorandum plus accrued and unpaid interest to the redemption date. See "*Description of Notes—Optional Redemption*."

On or after May 1, 2019, the Issuer may redeem all or a portion of the notes at the redemption prices (expressed as percentages of principal amount) as described in the "*Description of Notes*" herein, plus accrued and unpaid interest to the applicable redemption date. See "*Description of the Notes—Optional Redemption*."

Prior to May 1, 2019, the Issuer may redeem up to 40% of the aggregate principal amount of the Notes with the proceeds of certain equity offerings at 110.75% of the principal amount of the Notes, plus accrued and unpaid interest, provided that at least 60% of the aggregate principal amount of the Notes originally issued remains outstanding immediately after the occurrence of such redemption. See "*Description of the Notes—Optional Redemption.*"

Change of Control . . . . Upon the occurrence of certain events constituting a "Change of Control", the holders of the Notes will have the right to require the Issuer to redeem all or part of the Notes at a purchase price equal to 101%. of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date. See "*Description of Notes—Repurchase at the Option of Holders.*"

Withholding Tax	Payments on the Notes will be made without withholding or deduction for, or on account of, any withholding taxes imposed by Luxembourg, and payments on each Guarantee will be made without withholding or deduction for, or on account of any withholding taxes imposed by the jurisdiction of incorporation of the relevant Guarantor, to the extent described in "*Description of Notes*" herein. In certain limited circumstances under the current tax laws of certain of the Guarantors' jurisdictions as more fully described in "*Taxation*" in this Offering Memorandum, withholding tax on interest payments to certain types of investors may apply. Subject to certain exceptions, the Issuer and the Guarantors, as applicable, will undertake to pay such additional amounts as will result in the receipt by Noteholders of such amounts as would have been received by them if no such withholding had been required.
Tax Redemption	The Issuer may at its option redeem the Notes, in whole, but not in part, at their principal amount plus accrued and unpaid interest in the event of certain changes affecting taxation in Luxembourg or any jurisdiction of organization of a Guarantor.
Events of Default	For a description of certain events of default that will permit acceleration of the principal amount of the Notes together with accrued but unpaid interest thereon, along with any other amounts due in respect of the Notes, see "*Description of Notes—Events of Default and Remedies.*"
Use of Proceeds	We intend to use a portion of the proceeds from the issuance of the Notes to repurchase the 2019 Notes tendered and not validly withdrawn in the 2019 Notes Tender Offer and to pay the fees and expenses related to the issuance of the Notes. The Issuer may in certain circumstances use a portion of the proceeds of the Offering to redeem the SEK Notes in full, which is estimated to cost approximately EUR 42 million (including principal, redemption premium and accrued and unpaid interest). See "*Description of Indebtedness —SEK Notes*." Any remaining proceeds will be used for general corporate purposes, including potential selective acquisitions, and will be lent by the Issuer to the Group companies for such purposes, as required.
Listing	Application has been made to the ISE for the Notes to be admitted to the Official List to trade on the GEM. The Notes will be new securities for which there is currently no established trading market. Accordingly, we cannot assure you that a liquid market for the Notes will develop or be maintained.
Governing Law	The Indenture, the Notes and the Guarantees will be governed by, and shall be construed in accordance with, New York law. For the avoidance of doubt, Articles 86 to 94-8 of the Luxembourg law of August 10, 1915 on commercial companies, as amended from time to time, shall not apply to the Notes.
Tender Offer and Consent Solicitation	On March 29, 2017, the Issuer, as issuer of the 2019 Notes, launched the Consent Solicitation and 2019 Notes Tender Offer. Pursuant to the Consent Solicitation and 2019 Notes Tender Offer, the Issuer seeks to obtain consent to amend the 2019 Notes Indenture to remove certain covenants, terms and events of default contained in the indenture

governing the 2019 Notes and invites the holders of the 2019 Notes to tender their 2019 Notes for purchase by the Issuer at a purchase price of USD 1,060 per USD 1,000 in principal amount of the 2019 Notes for holders of the 2019 Notes who tender prior to the early participation deadline (the "**Total Early Tender Consideration**"), and at a purchase price of USD 1,010 per USD 1,000 in principal amount of the 2019 Notes for holders of 2019 Notes who tender after the early participation deadline but prior to the expiration deadline and on the terms and conditions contained in the Tender Offer and Consent Solicitation Memorandum. Pursuant to the Tender Offer and Consent Solicitation Memorandum, the acceptance for purchase by the Issuer of any of the 2019 Notes for purchase is subject to, among other things, the receipt of consents in respect of the Consent Solicitation from holders of the 2019 Notes that are eligible under the terms of the Tender Offer and Consent Solicitation Memorandum (an "**Eligible Noteholder**") and who represent a majority of the then outstanding principal amount of the 2019 Notes validly given and not revoked (the "**Required Consents**") to the proposed amendments, receipt of tenders in respect of the 2019 Notes Tender Offer from Eligible Noteholders of at least a majority in aggregate principal amount of the then outstanding 2019 Notes validly tendered and not withdrawn (the "**Requisite Minimum Tenders**") and the issuance of the Notes hereby.

Lead Manager and Sole Bookrunner . . . . Stifel Nicolaus Europe Limited

Co-Manager . . . . ABG Sundal Collier ASA

Trustee . . . . TMF Trustee Limited

Principal Paying and Transfer Agent . . . . Banque Internationale à Luxembourg S.A. (the "**Paying Agent**").

Registrar and Paying and Transfer Agent . . . . The Paying Agent.

Risk Factors . . . . Investing in the Notes involves a high degree of risk. See "*Risk Factors*" for a description of certain of the risks you should carefully consider before investing in the Notes.

Security Codes: . . . . ISIN: Reg S: XS1597294781
144A: XS1597295838.

Common Code: Reg S: 159729478
144A: 159729583.

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL DATA

The financial statements included in this Offering Memorandum are the consolidated financial statements of the Company as of and for the years ended December 31, 2016, 2015 and 2014.

The financial information set forth herein, has, unless otherwise indicated, been derived from the Financial Statements (the audited consolidated financial statements of the Company as of and for the years ended December 31, 2016, 2015 and 2014 and contained elsewhere in this offering memorandum). The result of operations for prior years are not necessarily indicative of the results to expect for any future periods. The Financial Statements were prepared in accordance with IFRS, in effect at the time of preparing the relevant Financial Statements. The financial information set forth herein includes certain financial measures and ratios that are not determined in accordance with IFRS. See "*Presentation of Financial and Other Information*."

The summary consolidated financial information set forth below should be read in conjunction with the Financial Statements of the Company which are included elsewhere in this Offering Memorandum. The summary consolidated financial information of the Company should also be read in conjunction with "*Management's Discussion and Analysis of Results of Operations and Financial Condition*."

Certain amounts and percentages included in this Offering Memorandum have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different contexts may vary slightly and figures in certain other contexts may not be the exact arithmetic results of their components as shown herein.

SELECTED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME DATA

	Year ended December 31,		
	2016	2015	2014
	(EUR thousands)		
Continuing operations			
Interest income	393 155	318 285	220 333
Interest expense	(38 684)	(28 657)	(23 749)
Net interest income	**354 471**	**289 628**	**196 584**
Fee and commission income	2 901	—	—
Fee and commission expense	(809)	—	—
Net fee and commission income	**2 092**	**—**	**—**
Net trading loss	(7 337)	(6 988)	—
Other income	14 314	3 813	2 150
Other expense	(2 446)	(1 752)	(4 037)
Net impairment losses on loans and receivables	(89 672)	(76 964)	(54 030)
General administrative expenses	(190 383)	(133 899)	(80 020)
Profit before taxes	**81 039**	**73 838**	**60 647**
Corporate income tax for the reporting period	(17 832)	(15 683)	(11 639)
Profit from continuing operations	**63 207**	**58 155**	**49 008**
Discontinued operations			
Profit from discontinued operations, net of tax	—	5 910	(2 748)
Profit for the period	**63 207**	**64 065**	**46 260**
Profit attributable to:			
Equity holders of Group	62 823	63 470	45 646
Non-controlling interests[(1)]	384	595	614
PROFIT	**63 207**	**64 065**	**46 260**
Other comprehensive income that is or may be transferred to profit or loss			
Net gain on available for sale financial assets:	5	—	—
Reclassification of foreign currency differences on disposal of subsidiaries:	—	(728)	(165)
Foreign currency translation differences on foreign operations:	(4 404)	(5 318)	1 422
Other comprehensive income:	**(4 399)**	**(6 046)**	**1 257**
Total comprehensive income for the period	**58 808**	**58 019**	**47 517**
Total comprehensive income attributable to:			
Equity holders of Group	58 400	57 414	47 427
Non-controlling interest[(1)]	408	605	90

Note:

(1) Non-controlling refers to minority shareholders who own or owned during the period 3% of the shares in each of our Swedish and Lithuanian operating subsidiaries.

SELECTED CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA

	As of December 31,		
	2016	2015	2014
	(EUR thousands)		
Assets			
Cash and cash equivalents	157 641	56 862	33 713
Placements with other banks	4 752	—	—
Derivatives	11 166	10 503	18 626
Loans due from customers	493 897	308 288	241 375
Net investment in finance leases	13 082	—	—
Financial assets available for sale	10 589	—	4 418
Loans to related parties	67 198	13 732	134
Investments in associates	2 080	—	—
Prepaid expenses	5 602	2 675	3 331
Non-current assets held for sale	8 576	—	—
Property and equipment	12 345	4 328	2 108
Intangible assets and goodwill	83 175	18 030	2 751
Income tax asset	16 053	5 465	4 700
Deferred tax asset	23 697	12 941	10 727
Other assets	21 531	5 382	48 147
Total assets	**931 384**	**438 206**	**370 030**
Liabilities			
Loans and borrowings	397 183	229 462	231 624
Deposits from customers	237 119	9 121	—
Income tax liabilities	14 633	7 358	6 407
Other liabilities	47 495	19 002	17 344
Liabilities held for sale	4 809	—	1 646
Total liabilities	**701 239**	**264 943**	**257 021**
Share capital	35 750	35 750	35 750
Retained earnings	232 420	171 048	107 578
Reserves	(38 753)	(34 646)	(31 433)
Total equity attributable to equity holders of the Group	**229 417**	**172 152**	**111 895**
Non-controlling interests	728	1 111	1 114
Total equity	**230 145**	**173 263**	**113 009**
Total shareholders’ equity and liabilities	**931 384**	**438 206**	**370 030**

SELECTED CONSOLIDATED STATEMENT OF CASH FLOW DATA

	Year ended December 31,		
	2016	2015	2014
	(EUR thousands)		
Net cash flows generated from/(used in) operating activities	106 224	74 016	(389)
Net cash flows used in investing activities	(150 625)	(52 745)	(3 489)
Net cash flows generated from/(used in) financing activities	124 323	1 770	15 063
Effect of exchange rate fluctuations on cash.	236	(621)	2 133
Cash and cash equivalents at the beginning of the period	56 862	34 442	21 124
Cash and cash equivalents at the end of the period	**137 020**	**56 862**	**34 442**
Minimum statutory reserve	20 621	—	—
Total cash on hand and cash at central banks	**157 641**	**56 862**	**34 442**

NET DEBT

	As of December 31		
	2016	2015	2014
	(EUR millions)		
Cash and cash equivalents	157.6	56.9	33.7
Bank loan	(0.2)	(5.9)	(6.2)
2015 Notes[1]	—	—	(43.4)
2019 Notes—non-current	—	(167.2)	(157.9)
2019 Notes—current	(194.3)	(7.8)	(7.3)
SEK Notes—non-current	(38.4)	(40.8)	—
SEK Notes—current	(1.2)	(1.3)	—
2021 Notes—non-current	(140.6)	—	—
2021 Notes—current	(1.8)	—	—
Friendly Finance Notes—non-current	(2.8)	—	—
Loans from related parties—non-current	(0.7)	(0.7)	(12.6)
Loans from related parties—current	(3.0)	(3.0)	(4.2)
Other loans—current	(10.0)	(2.8)	—
Other loans non—current	(4.2)	—	—
Net debt	**(239.6)**	**(172.6)**	**(197.9)**

Notes:

(1) The proceeds from the offering of the 2019 Notes were primarily used to (i) repurchase the 2015 Notes tendered and not validly withdrawn in the tender offer for the 2015 Notes and (ii) satisfy and discharge any 2015 Notes not so tendered or repurchased (the "2015 Notes Defeasance"). The 2015 Notes Defeasance was completed in August 2014, hence this amount is not included in 2014 net debt.

OTHER FINANCIAL DATA

	Year ended December 31,		
	2016	2015	2014
	(EUR millions)		
EBITDA and Adjusted EBITDA:			
Profit for the period	63.2	64.1	46.3
Provision for corporate income tax	17.8	15.7	11.6
Interest expense	38.7	28.7	23.8
Depreciation and amortization	5.1	1.6	0.9
EBITDA	**124.9**	**110.0**	**82.6**
Adjustments[1]	12.5	8.6	7.6
Adjusted EBITDA	**137.4**	**118.6**	**90.2**

Notes:

(1) Adjusted EBITDA is a non-IFRS measure that represents EBITDA (profit for the period plus tax, plus interest expense, plus depreciation and amortization) as adjusted by income/loss from discontinued operations, non-cash gains and losses attributable to movement in the mark-to-market valuation of hedging obligations under IFRS, goodwill write-offs and certain other one-off or non-cash items. Adjusted EBITDA, as presented in this Offering Memorandum, may not be comparable to similarly titled measures that are reported by other companies due to differences in the way that these measures are calculated.

	Year ended December 31,		
	2016	2015	2014
	(EUR millions)		
Summary breakdown of Adjustments to EBITDA			
Discontinued operations	—	(5.9)	2.7
Net effect of FX hedging	7.3	7.0	3.9
One-off costs and other prescribed adjustments	5.2	7.5	0.9
Total	**12.5**	**8.6**	**7.6**

KEY FINANCIAL RATIOS

	As of December 31,		
	2016	2015	2014
Net loans portfolio (in Euro millions)[(1)]	493.9	308.3	241.4
Capital/assets ratio[(2)]	25%	40%	35%
Capital/net loan portfolio[(3)]	47%	56%	47%
Interest coverage[(4)]	3.6x	4.1x	3.8x
Adjusted EBITDA margin[(5)]	35%	37%	41%
Profit margin[(6)]	21%	23%	28%
Return on average equity[(7)]	31%	41%	55%
Return on average assets[(8)]	9%	14%	16%
Operating expenses/interest income ratio[(9)]	48%	42%	36%
Net impairment to revenue ratio[(10)]	23%	24%	25%
Non-performing loans as a share of value of loans issued[(11)]	9.3%	9.0%	8.8%
TBI capital adequacy ratio	22.3%	19.5%	18.1%
Bank of Bulgaria statutory minimum capital adequacy requirement	13.5%	13.5%	13.5%

Notes:

(1) Gross loan portfolio less provisions for bad debts.

(2) Total equity/total assets. Adjusted for effect of 2015 Notes Defeasance in 2014.

(3) Total equity/net loan portfolio.

(4) Adjusted EBITDA/interest expense.

(5) Adjusted EBITDA/interest income.

(6) Profit before tax/interest income.

(7) Profit from continuing operations/average equity (sum of total equity as of the start and end of each period divided by two).

(8) Profit from continuing operations/average assets (sum of total assets as of the start and end of each period divided by two).

(9) General administrative expenses/interest income.

(10) Net impairment losses on loans and receivables/interest income.

(11) Non-performing loans with a delay of over 90 days/value of loans issued. The value of loans issued represents loans issued for the two-year period before commencement of the 90 day past-due period, *e.g.*, for December 31, 2016: October 1, 2014 to September 30, 2016.

RISK FACTORS

Investing in the Notes involves a high degree of risk. Prospective investors should carefully consider each of the risks described below, together with all of the other information in this Offering Memorandum, before making any investment decision relating to the Notes. The occurrence of any of the following events could have a material adverse effect on our business, prospects, results of operations and financial condition and impair our ability to fulfill our obligations in respect of the Notes, potentially causing a loss of all or part of the investment made when purchasing the Notes.

Prospective investors should note that the risks described below are not the only risks we face. We have described only the risks we consider to be material. However, there may be additional risks that we currently consider not to be material or of which we are not currently aware, and any of these risks could have the effects set forth above.

RISK FACTORS RELATING TO OUR BUSINESS

We have a limited operating history in an evolving industry, which makes it difficult to evaluate our future prospects and may increase the risk that we will not be successful

We have a limited operating history in an evolving industry that may not develop as expected. Assessing our business and future prospects is challenging in light of the risks and difficulties we may encounter. These risks and difficulties include our ability to:

- increase the number and total volume of loans we extend to our customers, while managing our credit risk;
- improve the terms on which we lend to our customers as our business becomes more efficient;
- increase the effectiveness of our direct marketing;
- increase repeat borrowing;
- successfully develop and deploy new products;
- favorably compete with other companies that are currently in, or may in the future enter, the business of consumer lending;
- successfully navigate economic conditions and fluctuations in credit markets;
- effectively manage the growth of our business;
- respond to regulatory developments;
- successfully integrate new acquisitions; and
- successfully expand our business into new markets.

We may not be able to successfully address these risks and difficulties, which could have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

We may face difficulties in assessing the credit risk of potential borrowers

Despite our credit scoring model, we may be unable to correctly evaluate the current financial condition of each prospective customer and determine his or her creditworthiness. See "*Business—Underwriting and Review*." Our lending decisions are based partly on information provided to us by loan applicants. Prospective customers may fraudulently provide us with inaccurate information upon which, if not alerted to the fraud, we may base our credit scoring. Any failure to correctly assess the credit risk of potential customers, due to failure in our evaluation of the customer or incorrect information fraudulently provided by the customer, may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows and may even invoke regulatory sanctions (including imposition of fines and penalties, suspension of operations, or revocation of our licenses) as is the case in Sweden and Latvia, where a failure to comply with mandatory affordability checks may result in regulatory penalties.

We utilize a variety of credit scoring criteria, monitor the performance of our loan portfolio and maintain an allowance for estimated losses on loans and advances (including interest fees) at a level estimated to be adequate to absorb expected credit losses. As of December 31, 2016, our portfolio of non-performing loans was

EUR 196.6 million, which represented 9.3% of the value of loans issued (excluding any issued loans that have been extended) between October 1, 2014 and September 30, 2016. As of December 31, 2016, non-performing loans represented 41.5% of total gross loans outstanding, our impairment allowance was EUR 157.6 million (covering 80.2% of non-performing loans) and our loss given default rate (*i.e., the share of loans and receivables lost in the event of default*) was 57.0%. As of December 31, 2015, non-performing loans represented 36.9% of total loans outstanding, the impairment allowance was EUR 92.9 million (covering 74.6% of the non-performing loans) and our loss given default rate was 53.0%. Our allowances for doubtful debts are estimates and if circumstances or risks arise that we do not identify or anticipate when developing our credit scoring model, the level of our non-performing loans and write-offs could be greater than expected. Actual loan losses may materially exceed the level of our allowance for impairment losses, which may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

In addition, factors beyond our control, such as the impact of macroeconomic trends, political events or adverse events affecting our key jurisdictions, or natural disasters, may result in an increase in non-performing loans. Our allowances for doubtful debts may not be adequate to cover an increase in the amount of non-performing loans or any future deterioration in the overall credit quality of our total loan portfolio. If the quality of our total loan portfolio deteriorates, we may be required to increase our allowances for doubtful debts, which may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

Our business is highly regulated, and if we fail to comply with existing or newly introduced applicable laws, regulations, rules and guidance, we may be subject to fines, penalties or limitations, have to exit certain markets or be restricted from carrying out certain operations

Our operations are subject to regulation by a variety of consumer protection, financial services and other state authorities in various jurisdictions, including, but not limited to, laws and regulations relating to consumer loans and consumer rights protection, debt collection and personal data processing. See "*Regulatory Framework*." National and international regulations, as well as plaintiff bars, the media and consumer advocacy groups, have subjected our industry to intense scrutiny in recent years. Failure to comply with existing laws and regulations applicable to our operations, or to obtain and comply with all authorizations and permits required for our operations, or adverse findings of governmental inspections, may result in the imposition of material fines or penalties or more severe sanctions, including preventing us from continuing substantial parts of our business activities, suspension or revocation of our licenses, or in criminal penalties being imposed on our officers.

In several of the jurisdictions where we operate, we also face risks related to the acquisition of licenses to conduct consumer lending services. We are dependent on the authorities to grant us such required licenses, and in some jurisdictions the licenses are subject to renewal procedures. See "*Regulatory Framework*." If we fail to comply with the laws and regulations applicable to our business, it may result in us not being able to renew our consumer lending license in one or several jurisdictions. Local regulators may also suspend existing licenses temporarily or revoke them permanently. For example, on December 18, 2015, the Bank of Lithuania removed UAB 4finance from the Public List of Consumer Credit Providers in Lithuania and suspended further issuance of consumer credit, alleging that it had violated certain consumer lending regulations with respect to its performance of customer solvency assessments. Pursuant to the Bank of Lithuania's decision, UAB 4finance, which accounted for approximately 11% of our revenue in 2015, was prevented from providing new consumer loans (effective December 18, 2015), although it was able to continue to service existing customers until such time that the products with such existing customers mature or terminate. In response to this development, we restructured our Lithuanian operations (including dismissing UAB 4finance's general director) so that we may continue to service new customers. On January 23, 2016, we restarted lending services in Lithuania. Despite these steps taken, there can be no assurance that the Bank of Lithuania will not require us in the future to carry out potentially burdensome and/or costly, initiatives in connection with our relaunch of activities in Lithuania.

Governments may seek to impose new laws, regulatory restrictions or licensing requirements that affect the products or services we offer, the terms on which we offer them, and the disclosure, compliance and reporting obligations we must fulfill in connection with our business. For example, a proposal recently adopted by the Polish parliament seeks to oblige creditors and intermediaries to apply for entry into a specified registry in order to conduct operations. If such proposal becomes law, as it currently stands, we will be required to apply for such registration. See "*Regulatory Framework*." Governments may also interpret or enforce existing requirements in new ways that could restrict our ability to continue our current methods of operation, including the development of our scoring models, or to expand operations or impose significant additional compliance costs on us. In some

cases these measures could even directly limit or prohibit some or all of our current business activities in certain jurisdictions, or render them unprofitable and/or impractical to continue. In addition, they could require us to refund interest and result in a determination that certain loans are not collectable and could cause damage to our brand and our valued customer relationships.

In recent years, short-term consumer loan products (similar to those we offer) have come under increased media and regulatory scrutiny. Certain consumer advocacy groups and regulators have advocated that laws and regulations should be tightened so as to severely limit, if not eliminate, the type of loan products and services we offer. The national governments in countries where we operate have introduced or considered introducing legislation that could, among other things, place a cap on the interest or fees that we can charge, a cap on default interest, a cap on the effective annual percentage rate ("APR") that limits the amount of interest or fees that may be charged or a cap on the total cost of credit. For example, in Finland and Bulgaria, interest rate caps were introduced in 2013 and 2014, respectively. In the first quarter of 2016, caps on interest rates or the total cost of credit were introduced in Latvia, Lithuania and Poland, and caps on APR, default interest and prepayment premiums were introduced in Georgia during the first quarter of 2017. In addition, a proposal is currently being considered by the government in Poland that would significantly reduce the caps on credit costs other than interest, which may have a material adverse effect on our profitability in Poland. See "*Regulatory Framework*." Such legislation may be introduced in other jurisdictions as well. In Lithuania, regulators have introduced a requirement to conduct affordability checks, requiring lenders, such as ourselves, to carry out additional diligence to ensure potential consumers can afford to take out loans; this may impede our ability to issue loans as quickly as we would like. National legislatures have also considered banning or limiting certain types of loan renewals or extensions (where the customer agrees to pay the current finance charge on a loan for the right to make payment of the outstanding principal balance of such loan at a later date plus an additional finance charge) and the rates to be charged for such loan renewals or extensions, which, if they become law, may require us to offer our customers extended payment plans, limit origination fees for advances, require changes to our underwriting or collections practices, require short-term lenders to be bonded or require lenders to report consumer loan activity to databases designed to monitor or restrict consumer borrowing activity or impose "cooling off" periods between the time a loan is paid off and another loan is obtained. Moreover, in the last quarter of 2016, the Lithuanian regulator mandated that borrowers, who (i) are declared incapable, (ii) have a limited capacity, or (iii) who need assistance in taking decisions, are discharged from all outstanding obligations against consumer credit providers (for example from repaying the principal, interests, default interest and any other fees) unless the consumer credit provider evidences that the credit agreement was concluded with the permission of the legal representative of the borrower. We are considering introducing direct debit servicing, which would allow consumers of Installment Loans to set up automatic repayment dates. If we introduce such service, we may become subject to laws and restrictions regulating direct debit transactions.

Any of the above factors may impede our ability to conduct our operations, force us to relocate existing operations or force us to exit key jurisdictions and therefore may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

Our purchase of TBI Bank has exposed us to additional regulatory burdens

In addition, following the acquisition of TBI Bank (see "*Business—Overview*"), the Group became exposed to new, or to changes in existing, laws or regulations in the banking sector, including the interpretation and application thereof. For example, on 26 June 2013, the Basel III provisions were transposed on a European level through amendment to a directive (the Capital Requirements Directive IV, as amended—the "CRD IV") and a new regulation (the Capital Requirements Regulation, as amended—the "CRR"). The CRD IV and CRR encompass the new definitions of categories of capital, the increase in capital requirements, the implementation of liquidity requirements and a leverage ratio, the new calculation of counterparty risks, the introduction of capital buffers and the adoption of special rules relating to systemically important financial institutions. As of 1 January 2014, the CRR is directly applicable to all credit institutions and investment firms as defined under CRR within the European Union. Furthermore, the provisions implementing the CRD IV into Bulgarian law and the national discretions of CRR and CRD IV as implemented in the Bulgarian Law on Credit Institutions are also applicable as of 1 January 2014. As of 1 October 2016, a new European Central Bank (ECB) Regulation through which ECB exercises certain national discretions contained in CRR, CRD IV and delegated acts with regard to significant euro-area institutions will be applicable to the TBI Bank. In addition, draft legislation proposing to decrease the statutory penalty interest rate is currently pending before the Bulgarian parliament. The draft amendment was approved on its first hearing in the Bulgarian parliament, however due to the resignation of the government and the dismissal of the parliament the second hearing has been delayed until a new parliament has been elected. The elections are scheduled for March 2017. The draft amendment will become effective, if it is

approved by the new parliament on its second hearing. Such and other regulatory changes may significantly impact the capital resources and requirements of TBI Bank and, therefore, could have a material adverse effect on the Group's business, results of operations and financial condition, thereby potentially affecting the Group by requiring it to enter into business transactions which are not otherwise part of its current group strategy, restricting the type or volume of transactions the Group may enter into, set limits on or require the modification of rates or fees that the Group charges on loans or other financial products, the Group may also be faced with increased compliance costs and material limitations on its ability to pursue business opportunities, which may, in turn, have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

Our business is subject to complex and evolving laws and regulations regarding privacy, data protection, and other matters

Our business is subject to a variety of laws and regulations internationally that involve user privacy issues, data protection, advertising, marketing, disclosures, distribution, electronic contracts and other communications, consumer protection and online payment services. The introduction of new products or the expansion of our activities in certain jurisdictions may subject us to additional laws and regulations. In addition, the application and interpretation of these laws and regulations are often uncertain, particularly in the new and rapidly evolving e-commerce industry in which we operate, and may be interpreted and applied inconsistently from country to country and may also be inconsistent with our current or past policies and practices. A number of proposals are pending before legislative and regulatory bodies that could significantly affect our business. For example, in January 2012, the European Commission proposed a new Data Protection Regulation that was adopted in 2016 (Regulation (EU) 2016/679) and will replace the existing Data Protection Directive (Directive 95/46/EC) as from May 25, 2018. The Data Protection Regulation expands the scope of the operational requirements that companies receiving personal data must follow, and, as with the Data Protection Directive, imposes significant penalties for non-compliance. In October 2015, the Court of Justice of the European Union adopted a decision that invalidated the U.S./EU Safe Harbor framework that had facilitated the transfer of personal data from the EU to the U.S. This decision will increase the cost and complexity of the transfer of personal data to the U.S. and the use of U.S.-based services that involve personal data, as well as heighten the risk of fines and penalties related to the transfer of such personal data. There is also risk of fines and penalties in case of non-compliance. Although the European Commission negotiated a new framework for cross-border transfers of personal data with the U.S. Government, the Privacy Shield Framework announced in July 2016, its stability and reliability, which is particularly important for us since one of our main data recovery centers is located in the U.S., is uncertain and cannot be guaranteed. In particular, the new framework may face further challenges before the Court of Justice of the European Union, initiated both by European regulators and consumer groups. In addition, some countries have adopted or are considering legislation requiring local storage and processing of data that, if enacted, would increase the cost and complexity of delivering our services. Existing and proposed laws and regulations can be costly to comply with and can delay or impede the development of new products, the expansion into new markets, result in negative publicity, increase our operating costs, require significant management time and attention, and subject us to inquiries or investigations, claims or other remedies, including demands which may require us to modify or cease existing business practices and/or pay fines, penalties or other damages. This may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

Although we continuously educate our employees on applicable laws and regulations in relation to privacy, data protection and other matters, we cannot guarantee that our employees will comply at all times with such laws and regulations. If our employees fail to comply with such laws and regulations in the future, we may become subject to fines or other penalties which may have a negative impact on our reputation and may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

Failure to comply with anti-money laundering laws could have an adverse effect on our reputation and business

We are subject to anti-money laundering laws and related compliance obligations in most of the jurisdictions in which we do business. We have put in place an anti-money laundering policy and procedures for the Group (including employee trainings) which we apply in all of our countries of operation. We have also adopted local anti-money laundering policies in those jurisdictions where it is required under local law to do so and in certain other jurisdictions. However, these policies may not prevent all possible breaches of law. Country managers in each jurisdiction are responsible for money laundering prevention and compliance. As a financial institution, we are required to comply with anti-money laundering regulations that are generally less restrictive than those that apply to banks. As a result, we often rely on anti-money laundering checks performed by our

customers' banks when such customers open new bank accounts. Our ability to continually comply with anti-money laundering laws may be affected by legislative changes. For example, by June 26, 2017, member states of the European Union are obliged to introduce legislation that implements the new anti-money laundering directive (Directive (EU) 2015/849). This new directive may also be further changed, and in July 2016, the European Commission put forward an amendment proposal (the timing for adoption of which is uncertain). To ensure our compliance with the new directive, we have updated our anti-money laundering compliance procedures, including relevant software implementation, in 12 of the jurisdictions in which we operate, and expect to have such procedures updated in the remaining four jurisdictions by June 2017. While the amendment proposal, in its current form, is not expected to have a material adverse impact on our business, there can be no assurance that the substance of the proposal will not change or that other amendments will not be proposed, which would have a material impact on our operations. If we are not in compliance with relevant anti-money laundering laws (including as a result of relying on deficient checks carried out by our customers' banks), we may be subject to criminal and civil penalties and other remedial measures, such as cessation of business or license revocation. Any penalties, remedial measures or investigations into any potential violations of anti-money laundering laws could harm our reputation and may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

We are dependent upon our information technology systems to conduct our business operations

Our operations are significantly dependent on highly complex information technology ("**IT**") systems. The loan underwriting process is mainly performed automatically by IT systems developed internally by us and used at various stages of the underwriting process, including customer registration, application, identification and credit scoring. See "*Business—Information Technology*." In addition, bank transfers are completed online and reminder emails and invoicing are automatically processed and sent to customers. If any IT system at any stage of the loan underwriting process were to fail, any or all stages of the underwriting process could be affected and customer access to our websites and products could be disrupted. Any disruption in our IT systems would prevent customers from applying for loans, which would hinder our ability to conduct business and have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

In addition, IT systems are vulnerable to a number of problems, including computer viruses, unauthorized access, physical damage to vital IT centers and software or hardware malfunctions. Any interruption in, or security breach of, our IT systems, could have a material adverse effect on our operations, such as the ability to serve our customers in a timely manner, accurately record financial data and protect us and our customers from financial fraud or theft. If our operations are compromised, our reputation and client confidence in our business may deteriorate and we may suffer significant financial losses, any of which may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

Moreover, our IT strategy is based on utilizing, in our view, the most sophisticated technologies and solutions available on the market. Therefore, we intend to continue making substantial investments in our IT systems (in 2016 alone, having invested EUR 43.8 million, of which EUR 22.2 million, or 11.6% of total cost, was expensed in the income statement, and the remaining EUR 21.6 million was capitalized as intangible assets, representing product and platform development) and to adapt our operations and software to support current and future growth. We are required to continually upgrade our global IT system, and any failure to carry out such upgrades efficiently may result in the loss or impairment of our ability to do business or in additional remedial expense. In addition, there can be no assurance that we will be able to keep up to date with the most recent technological developments due to financial or technical limitations. Any inability to successfully develop or complete planned upgrades of our IT systems and infrastructure or to adapt our operations and software may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

Rapid growth and expansion may place significant strain on our managerial and operational resources and could be costly

We have experienced substantial growth and development in a relatively short period of time, including the two recent acquisitions of Friendly Finance and TBI Bank, and our business may continue to grow substantially in the future. This growth has placed and may continue to place significant demands on our management and our operational and financial infrastructure. Since the beginning of 2014, we have introduced new products in existing jurisdictions and have expanded into new jurisdictions. Expanding our products or entering into new jurisdictions with new or existing products can be costly and may require significant management time and attention. The acquisition of TBI Bank, in particular, may be specifically challenging due to the need to integrate a regulated entity into a nonbank financial group. Additionally, as our operations grow in size, scope and

complexity and our product offerings increase, we will need to upgrade our systems and infrastructure to offer an increasing number of customers enhanced solutions, features and functionality. The expansion of our systems and infrastructure will require us to commit substantial financial, operational and technical resources in advance of an increase in the volume of business, with no assurance that the volume of business will ultimately increase. Continued growth could also strain our ability to maintain reliable service levels for our customers, develop and improve our operational, financial and management controls, develop and enhance our legal and compliance controls and processes, enhance our reporting systems and procedures and recruit, train and retain highly skilled personnel. Managing our growth will require, among other things, continued development of financial and management controls and IT systems; increased marketing activities; hiring and training of new personnel; and the ability to adapt to changes in the markets in which we operate, including changes in legislation, incurrence of additional taxes, increased competition and changes in the demand for our services. Rapid growth and expansion may be costly, and may strain our managerial and operational resources; any difficulties encountered in managing our growth may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

The international scope of our operations may contribute to increased costs

We currently operate in 16 jurisdictions and, as part of our business strategy, we aim to continue pursuing attractive business opportunities in new jurisdictions. Although we analyze and carefully plan our international expansion, such expansion increases the complexity of our organization and may result in additional administrative costs (including costs relating to investments in IT), operational risk (including risks relating to management and control of cash flows and management and control of local personnel), other regulatory risk (including risks relating to non-compliance with data protection, anti-money laundering and local laws and regulations) and other challenges in managing our business. Any unforeseen changes or mistakes in planning or controlling our operations in these respects may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

The continued expansion of our loan portfolio depends, to an increasing extent, upon our ability to obtain adequate funding

Our growth depends, to a significant extent, on our ability to obtain adequate funding from a variety of sources such as the international capital markets and bank facilities. It is possible that these sources of financing may not be available in the future in the amounts we require, or they may be prohibitively expensive and/or contain overly onerous terms. European and international credit markets have experienced high volatility and severe liquidity disruptions, such as those that took place following the international financial and economic crisis in 2008-09, and more recently, the European sovereign debt crisis. These and other related events have had a significant impact on the global financial system and capital markets, and may make it increasingly expensive for us to diversify our funding sources and refinance our debt if necessary. Increased funding costs or greater difficulty in diversifying our funding sources may negatively impact our ability to sufficiently finance the expansion of our business operations, which may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

We may make acquisitions or pursue business combinations that prove unsuccessful or strain or divert our resources

Our growth strategy depends, in part, on the acquisition of existing businesses, including possible competitors. For example, in 2016, we expanded into new jurisdictions through the purchases of Friendly Finance and TBIF Group, and in 2015 into Armenia and Argentina through the purchase of local enterprises. We expect to continue growing our business by acquiring or combining with other businesses. Successful growth through future acquisitions is dependent upon our ability to identify suitable acquisition targets, conduct appropriate due diligence, negotiate transactions on favorable terms and ultimately complete such transactions and integrate the acquired business into our existing network. If we make acquisitions, there can be no assurance that we will be able to generate expected margins or cash flows or to realize the anticipated benefits of such acquisitions, including growth or expected synergies. There can be no assurance that our assessments of and assumptions regarding acquisition targets will prove to be correct, and actual developments may differ significantly from our expectations. Integration risks are particularly high when entering a new market due to the time associated with establishing an appropriate credit scoring model and an effective collection system. We may not be able to integrate acquisitions successfully into our business or such integration may require more investment than we expect, particularly if acquisitions are in regions or areas of business where we do not currently have operations, and we could incur or assume unknown or unanticipated liabilities or contingencies with respect to customers, employees, suppliers, government authorities or other parties, which may impact our

results of operations. The process of integrating businesses may be disruptive to our operations and may cause an interruption of, or a loss of momentum in, such businesses or a deterioration in our results of operations. Moreover, any acquisition may result in the incurrence of additional debt. All of these factors may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

Damage to our reputation and brand or a deterioration in the quality of our service may impede our ability to attract new customers and retain existing customers

Our ability to attract new customers and retain existing customers depends in part on our brand recognition and our reputation for and delivery of high quality services. Our reputation and brand may be harmed if we encounter difficulties in the provision of new or existing services, whether due to technical difficulties, changes to our traditional product offerings, financial difficulties, regulatory sanctions, or for any other reason. Damage to our reputation and brand, or a deterioration in the quality of our service, may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

The introduction of our new products and services may not be successful

As part of our business strategy, we may develop and introduce products and services that complement our current lending proposition. For example, in September 2015, we launched our new product, Line of Credit, in Finland, later launched also in Latvia. However, we cannot guarantee these pilot products will be developed into permanent product offerings or that we will launch any other new products. We can also offer no assurance that any products or services that we introduce will be successful once they are offered to our current or future customers. We may not be able to adequately anticipate our target customers' needs or desires, which could change over time rendering certain of our products and services obsolete. We may face difficulties in making these products and services profitable and may incur significant costs in connection with such products. Moreover, our introduction of additional financial products or services could subject us to additional regulation or regulatory oversight by governmental authorities. Any of these factors may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

Negative public perception of our business could cause demand for our products to significantly decrease

In recent years, there has been an increase in negative media coverage relating to short-term and single-payment loans of the type we offer. Certain consumer advocacy groups, as well as politicians and government officials in various jurisdictions where we operate, have advocated governmental action designed to prohibit higher cost consumer loans or place severe restrictions on the activities of short-term consumer lenders such as ourselves. The fees and/or interest charged by us and others in the industry attract media publicity about the industry and can be perceived as controversial. The negative characterization of these types of loans and lending practices could lead to more restrictive or adverse legislative or regulatory changes, which, in turn, may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows. See *"—Our business is highly regulated, and if we fail to comply with existing or newly introduced applicable laws, regulations, rules and guidance, we may be subject to fines, penalties or limitations, have to exit certain markets or be restricted from carrying out certain operations.*"

In addition, our ability to attract and retain customers is highly dependent upon the success of our marketing campaigns and public reputation, including perceptions of our customer service, integrity, business practices and financial condition. Restrictions on our ability to advertise our products or negative perceptions or publicity regarding short-term lending in general—even if related to seemingly isolated incidents or to practices not specific to short-term loans, such as debt collection—could erode trust and confidence in us and damage our reputation among existing and potential customers, which could make it difficult for us to maintain or expand our customer base or could reduce the demand for our products and services, both of which may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

If internet search engine providers change their methodologies for organic rankings or paid search results, or our organic rankings or paid search results decline for other reasons, our ability to attract new customers or to expand the volume of business from returning customers could be adversely affected

Our acquisition marketing for new customers and our relationship management with respect to returning customers are partly dependent on search engines, such as Google, Bing, Yahoo! and others, directing a

significant amount of traffic to our desktop and mobile websites via organic ranking and paid search advertising. Our competitors' paid search activities may result in their sites receiving higher paid search results than ours and/or in a substantial increase to our advertising costs.

Our paid search activities may not produce (and in the past have not always produced) the results we desire. Internet search engines often revise their methodologies, which could adversely affect our organic rankings or paid search results, leading to a decline in our ability to attract new customers or retain existing customers (for example, in July 2016, Google introduced a global policy update that prevented companies offering online loans with a term of less than 60 days from using its advertising services). Such revisions may also cause difficulties for our customers in using our web and mobile sites, or result in more successful organic rankings, paid search results or tactical execution efforts for our competitors, a slowdown in the overall growth in our customer base and the loss of existing customers, as well as higher costs for acquiring returning customers. In addition, search engines could implement policies that restrict the ability of consumer finance companies, such as the Group, to advertise their services and products, which could reduce the likelihood of companies in our industry appearing in a prominent location in organic rankings or paid search results when certain search terms are used by the consumer. Our online marketing efforts are also susceptible to actions by third parties that negatively impact our search results such as spam link attacks, which are often referred to as 'black hat' tactics. Our sites have experienced meaningful fluctuations in organic rankings and paid search results in the past, and we anticipate similar fluctuations in the future. Any reduction in the number of consumers directed to our web and mobile sites may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

Our business depends on marketing affiliates to assist us in obtaining new customers

We are dependent on marketing affiliates as a source for new customers. Our marketing affiliates place our advertisements on their websites, which, in turn, direct potential customers to our websites. As a result, the success of our business depends substantially on the willingness and ability of marketing affiliates to provide us customer leads at acceptable prices.

The failure of our marketing affiliates to comply with applicable laws and regulations, or any changes in laws and regulations applicable to marketing affiliates or changes in the interpretation or implementation of such laws and regulations, could have an adverse effect on our business and could increase negative perceptions of our business and industry. Also, certain changes in our online marketing affiliates' internal policies or privacy rules could limit our ability to advertise online. Additionally, the use of marketing affiliates could subject us to additional regulatory cost and expense. Any restriction on our ability to use marketing affiliates may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

Our business depends on services provided by third parties such as banks, local consumer credit agencies, IT services providers, debt-collection agencies and offline partners

We advance loans to customers, who deliver repayments from local bank accounts. Our continuing relationships with the banks with which we maintain accounts and with which we may in the future establish direct debit arrangements are critical to our business.

We contact consumer credit agencies and use other publicly available data sources in the jurisdictions in which we operate to verify the identity and creditworthiness of potential customers. In addition, every loan application in every country is verified through one or more credit bureaus. Should access to such information be restricted or disrupted for any period of time, or if the rates we are charged for access to such information should significantly increase, we may not be able to complete automatic customer identity and credit scoring checks in a timely manner or at all. This could impede our ability to process applications and issue loans and/or increase our cost of operation.

We also outsource certain IT services, such as software development, data center and technical support, to third-party providers.

Moreover, we generally outsource the collection of debt that is overdue by more than 90 days to debt-collection agencies in the jurisdictions in which we operate. The loss of a key debt-collection agency relationship, or the financial failure of one of our core debt-collection agency partners, could restrict our ability to recover delinquent debt, and there is no guarantee that we could replace a strategic debt-collection agency partner in a timely manner or on favorable terms.

In Poland, Latvia, Lithuania, Czech Republic, Bulgaria, Romania, Georgia and Spain, we cooperate with partners who distribute our products in offline points of sale. See "*Business—Underwriting—Offline partners*." Our offline partners in these jurisdictions handle certain aspects of our underwriting process, including the receipt of applications, identity checks and/or cash loan payments to our customers. Although our offline sales account for a limited part of our income, the continued relationships with our offline partners in Poland, Latvia and Lithuania play an important role in our ability to attract potential customers in these jurisdictions.

Any inability to maintain existing business relationships with banks, local consumer credit agencies, IT service providers, debt-collection agencies, offline partners and other third-party providers or the failure by these third-party providers to maintain the quality of their services or otherwise provide their services to us may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

New top level domain names may allow for the entrance of new competitors or dilution of our brands, which may reduce the value of our domain name assets

We have invested heavily in promoting our brands, including our website addresses. The Internet Corporation for Assigned Names and Numbers, the entity responsible for administering internet protocol addresses, has introduced, and has proposed the introduction of, additional new domain name suffixes in different formats, many of which may be more attractive than the formats held by us and which may allow the entrance of new competitors at limited cost. It may also permit other operators to register websites with addresses similar to ours, causing customer confusion and the dilution of our brands, which could materially adversely affect our business, prospects, results of operations and financial condition. Any defensive domain registration strategy or attempts to protect our trademarks or brands may be costly and may ultimately prove unsuccessful, which may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

Changes in our liquidity requirements may adversely affect our liquidity and financial condition

Our liquidity requirements can vary significantly from market to market, depending, in part, on differences in demand for consumer credit. If our available cash flows from operations are not sufficient to fund our on-going cash needs, we would be required to look to our cash balances and available credit facilities to satisfy those needs, as well as potential sources of additional capital. We are, as such, exposed to liquidity risks arising out of the mismatches between the maturities of our assets and liabilities, which may prevent us from meeting our obligations in a timely manner. If short- and, in particular, long-term funding from international capital markets is unavailable or if maturity mismatches between our assets and liabilities occur, this may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

Furthermore, an economic or industry downturn, such as the recent financial and economic downturn in Europe, could increase the level of non-performing loans. A significant deterioration in our debt collection could affect our cash flow and working capital position and could also negatively impact the cost or availability of financing to us.

If our capital resources are insufficient to meet our liquidity requirements, we will have to raise additional funds. We may not be able to raise sufficient additional funds on terms that are favorable to us, if at all. If we fail to raise sufficient funds, our ability to fund our operations, take advantage of strategic opportunities or otherwise respond to competitive pressures could be significantly limited, which may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows. See also "*—The continued expansion of our loan portfolio depends, to an increasing extent, upon our ability to obtain adequate funding*."

The terms of existing and future financings may impose financial and operating restrictions on us

The terms of existing financings, contain (and the terms of future financings may contain) a number of customary negative and other covenants, including, restricting our ability to do the following, among other things:

- incur more debt;
- change our line of business;

- make dividend payments, stock repurchases and other distributions;
- engage in certain mergers, consolidations and transfers of all or substantially all of our assets;
- make acquisitions of all of the business or assets of, or stock representing beneficial ownership of, any person;
- dispose of certain assets; and
- incur liens.

These covenants and restrictions could limit our ability to fund future operations or make capital expenditures, acquisitions or other investments in the future. Any failure to comply with any of the covenants under our existing and future financings may constitute an event of default under such financings, entitling the lenders to, among other things, terminate future credit availability, increase the interest rate on outstanding debt and/or accelerate the maturity of outstanding obligations. See "*Risks Related to the Notes—The Indenture governing the Notes contains restrictions and limitations that could significantly impact our ability to operate our business*" for a description of restrictions under the Indenture governing the Notes. Any such default may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

Our current interest rate spread may decline in the future, which could reduce our profitability

We earn a substantial majority of our revenues from interest payments on the loans we make to our customers. Bond issuance in the international capital markets and other funding sources provide us with the capital to fund these loans and lines of credit and charge interest on those borrowings. In the event that the spread between the rate at which we lend to our customers and the rates at which we raise debt funding or pay our depositors decreases, our financial results and operating performance will suffer. The interest rates we charge to our customers and pay to our lenders could each be affected by a variety of factors, including access to capital based on our business performance, the volume of loans we make to our customers, competition and regulatory requirements. These interest rates may also be affected by a change over time in the mix of the types of products we sell to our customers and investors. Interest rate changes may adversely affect our business forecasts and expectations and are highly sensitive to many macroeconomic factors beyond our control, such as inflation, the level of economic growth, the state of the credit markets, changes in market interest rates, global economic disruptions, unemployment and the fiscal and monetary policies of the jurisdictions in which we operate. Any material reduction in our interest rate spread could have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

Increasing competition from banks, credit card companies, other consumer lenders and other entities offering similar financial products and services in the consumer lending market may affect our business and expansions plans

We have many competitors. We operate both in mature markets with high levels of competition among consumer lending companies and in less developed markets where the consumer lending industry has not yet been fully established. Globally, our principal competitors include other online lenders (including peer-to-peer lenders), credit card companies, consumer loan companies, such as retail chains, and banks and other financial institutions. See "*Business—Competition*." Many banks and other financial institutions, as well as consumer loan companies that do not currently offer products or services directed towards our traditional customer base, could begin doing so, or new online lending companies could enter the markets in which we operate.

Our competitors may operate, or begin to operate, under business models less focused on legal and regulatory compliance, which could put us at a competitive disadvantage. Additionally, negative perceptions of these business models could cause legislators or regulators to pursue additional industry restrictions that could affect our business model. To the extent such lending models gain acceptance among consumers and investors or benefit from less onerous regulatory restrictions than ours, we may be unable to replicate their platforms or otherwise compete with them effectively, which could cause demand for our products to decline substantially. We can offer no assurance that we will be able to compete successfully against any or all of our current or future competitors. As a result, we could lose market share and our revenue could decline, thereby affecting our ability to generate sufficient cash flow to service our indebtedness or fund our operations.

Significant increases in the number and size of our competitors could result in a decrease in demand for our online loan products, resulting in a decline in our revenues and earnings. Increased competition or more

aggressive marketing and pricing practices on the part of our competitors could result in lower revenues, margins and turnover rates in our operations, which may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

A decrease in demand for our financial products and failure by us to adapt to such decrease could result in a loss of revenues

Our revenue is primarily based on short-term consumer lending. Accordingly, any decrease in demand for our products could have a significant impact on our revenue. A variety of factors could influence demand for our products, such as regulatory restrictions that inhibit customer access to particular financial services, increased availability or attractiveness of competing financial products, changes in consumer sentiment and spending or borrowing patterns and changes in the financial condition of our customers that cause them to seek loans with longer maturities and/or of larger size from other lending institutions or, alternatively, to exit the lending market entirely. Should we fail to adapt to a significant change in customer demand for, or access to, our products and services, our revenues could decrease significantly and our on-going business operations could be adversely affected. Even if we do adapt our existing products or introduce new products to meet changing customer demand, customers may resist or reject such products. The effect of any product diversification or change on the results of our business may not be fully ascertainable until the change has been in effect for some time. All of these factors may result in a loss of revenue and may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

Potential union activities could have an adverse effect on our relationship with our workforce

None of our employees are currently covered by a collective bargaining agreement or represented by an employee union. Occasionally we experience union-organizing activities, such as in Spain and Argentina. If our employees become represented by an employee union or become subject to a collective bargaining agreement, it may make it more difficult for us to manage our business and to attract and retain new employees and may increase our cost of doing business. If our employees unionize or sign up to a collective bargaining agreement or if other labor-related requirements are imposed on us, we may experience work stoppages and incur higher employee costs, which, in turn, could have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

Our ability to recover outstanding debt may deteriorate if there is an increase in the number of our consumers facing personal insolvency procedures

Various economic trends and potential changes to existing legislation may contribute to an increase in the number of consumers subject to personal insolvency procedures. Under some insolvency procedures, a person's assets may be sold to repay creditors; our loans, however, are unsecured, and we are often unable to collect on such loans. The ability to successfully collect on our loans may decline with an increase in personal insolvency procedures or a change in insolvency laws, regulations, practices or procedures, which may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

We may be unable to protect our proprietary technology or keep up with that of our competitors and we may become subject to intellectual property disputes, which are costly to defend and could harm our business and operating results

The success of our online and mobile lending business depends to a significant degree upon the protection of our software and other proprietary intellectual property rights. We may be unable to deter misappropriation or other unauthorized use of our proprietary information or take appropriate steps to enforce our intellectual property rights. In addition, competitors could, without violating our proprietary rights, develop technologies that are as good as or better than our technology. Failure to protect our software and other proprietary intellectual property rights or to develop technologies that are as good as our competitors' could put us at a competitive disadvantage. Any such failures may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

From time to time we face, and we may face in the future, allegations that we have infringed the trademarks, copyrights, patents or other intellectual property rights of third parties, including from our competitors. Patent and other intellectual property litigation may be protracted and expensive, and the results are difficult to predict and may require us to stop offering certain products or product features, acquire licenses which may not be available at a commercially reasonable price or at all, or modify our products, product features, processes or websites while we develop non-infringing substitutes. Such events may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

We are subject to cyber security risks and security breaches and may incur increasing costs in an effort to minimize those risks and respond to cyber incidents

Our business involves the storage and transmission of consumers' proprietary information, and security breaches could expose us to a risk of loss or misuse of this information, litigation and potential liability. We are entirely dependent on the secure operation of our websites and systems, and the websites and systems of our data center providers, as well as on the operation of the internet generally. While we experience cyber-attacks or security breaches from time to time, we have incurred no material cyber-attacks or security breaches to date; a number of other companies have disclosed cyber-attacks and security breaches, some of which have involved intentional attacks. Attacks may be targeted at us, our customers and/or our data center providers. Although we and our data center providers devote resources to maintain and regularly upgrade our systems and processes that are designed to protect the security of our computer systems, software, networks and other technology assets and the confidentiality, integrity and availability of information belonging to us and our customers, there is no assurance that these security measures will provide absolute security. Despite our efforts to ensure the integrity of our systems and our data center providers' efforts to ensure the integrity of their systems, effective preventive measures against all security breaches may not be anticipated or implemented, especially because the techniques used change frequently or are not recognized until launched, and because cyber-attacks can originate from a wide variety of sources, including third parties outside the Group such as persons who are involved with organized crime or associated with external service providers or who may be linked to terrorist organizations or hostile foreign governments. These risks may increase in the future as we continue to increase our mobile and other internet-based product offerings and expand our internal usage of web-based products and applications or expand into new countries. If an actual or perceived breach of security occurs, customer and/or supplier perception of the effectiveness of our security measures could be harmed and could result in the loss of customers, suppliers or both. Actual or anticipated attacks and risks may cause us to incur increased costs, including costs to deploy additional personnel and protection technologies, train employees or engage third party experts and consultants.

A successful penetration or circumvention of our security systems or the security system of our data center providers could cause serious negative consequences to our business, including significant disruption of our operations, misappropriation of our confidential information or that of our customers or damage to our computers or systems or those of our customers and counterparties, and could result in violations of applicable privacy and other laws, financial loss to us or to our customers, loss of confidence in our security measures, customer dissatisfaction, significant litigation exposure and reputational harm, all of which could have a material adverse effect on us. In addition, most of our applicants provide personal information, including bank account information when applying for consumer loans. We rely on encryption and authentication technology licensed from third parties to provide the security and authentication to effectively secure transmission of confidential information, including customer bank account and other personal information. Advances in computer capabilities, new discoveries in the field of cryptography or other developments may result in the breach or compromise of the technology used by us to protect transaction data. Data breaches can also occur as a result of non-technical issues.

Our servers are also vulnerable to computer viruses, physical or electronic break-ins, and similar disruptions, including "denial-of-service" type attacks. We may need to expend significant resources to protect against security breaches or to address problems caused by breaches. Security breaches that result in the unauthorized release of consumers' personal information could damage our reputation and expose us to a risk of loss or litigation and possible liability. In addition, many of the third parties who provide products, services or support to us could also experience any of the cyber risks or security breaches described above, which could impact our customers and our business and could result in a loss of customers, suppliers or revenue.

Any of these events could result in a loss of revenue and may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

Our success is dependent upon our executive officers and employees and our ability to attract and retain qualified employees

Our success depends on our executive officers and employees who possess highly specialized knowledge and experience in IT and the development of the consumer lending business. Many members of our senior management team possess significant experience in the consumer lending industry and knowledge of the regulatory and legal environments in the markets in which we operate, and we believe that our senior management would be difficult to replace. The market for qualified individuals is highly competitive and labor costs for the hiring and training of new employees are increasing. Accordingly, although we provide our

executives and specialists with competitive compensation packages, including participation in the LTIP we may not be able to attract and/or retain qualified executive officers or IT specialists, which may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

The preparation of our financial statements under IFRS and certain tax positions taken by us require the judgment of management, and we could be subject to risks associated with these judgments or could be adversely affected by the implementation of new, or changes in the interpretation of existing, accounting principles, financial reporting requirements or tax rules

We prepare our financial statements in accordance with IFRS. IFRS and its interpretations are subject to change over time. If new rules or interpretations of existing rules require us to change our financial reporting, our results of operations and financial condition could be materially adversely affected, and we could be required to restate historical financial reporting.

The preparation of our financial statements in conformity with IFRS requires the board of directors and other management personnel to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities, at the dates of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. It also requires our board of directors and other management personnel to exercise their judgment in the application of our accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Statements, are described in "*Management's Discussion and Analysis of Results of Operations—Discussion of Critical Accounting Policies*." There is a risk that such estimates, assumptions or judgments by the board of directors and other management personnel do not correctly reflect the actual financial position of the Group.

In addition, management's judgment is required in determining the provision for income taxes, the levels of deferred tax assets and liabilities and any valuation allowance recorded against deferred tax assets, along with our approach to matters concerning withholding tax and value added tax. We regularly assess the adequacy of our tax provisions. If required, we also seek advice from external tax advisors. There can be no assurance as to the outcome of these decisions, or to the quality of advice we receive. From time to time, we may become subject to tax audits in the jurisdictions in which we operate. Furthermore, the tax laws and regulations, including the interpretation and enforcement thereof, in the jurisdictions in which we operate may be subject to change. As a result, we may face increases in taxes payable if tax rates increase, or if tax laws or regulations are modified in an adverse manner. Any additional or increased tax payments may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

We are subject to impairment risk

Our loan portfolio is subject to the risk of impairment. We examine each of our delinquency buckets separately for impairment on a monthly basis and we apply a formula for assessing net impairment losses for each reporting period. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Discussion of Critical Accounting Policies—Impairment*."

In relation to our growth, our net impairment charges have increased substantially in recent years. In the year ended December 31, 2016, we recorded a net impairment charge of EUR 89.7 million, substantially higher than the impairment charge of EUR 77.0 million taken in the year ended December 31, 2015. In the year ended December 31, 2014, our net impairment charge was EUR 54.2 million (of which EUR 13.5 million represented loan write-offs). Non-performing loans represented 41.5%, 36.9% and 34.2%, respectively, of online gross loans outstanding as of December 2016, 2015 and 2014. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Results of Operations*." Most of this increase in impairment charges is attributable to our rapid expansion in existing and new jurisdictions in recent years (with the remaining increase due to an increase in the scale of our operations). As we plan to continue expanding our operations in the future, particularly in new jurisdictions, there is a risk that our impairment charges will continue to rise. We continue to monitor relevant circumstances, including consumer levels, general economic conditions and the market prices for our products, and the potential impact that such circumstances might have on the valuation of our assets. It is possible that changes in such circumstances, or in the numerous variables associated with our judgments, assumptions and estimates made in assessing the appropriate valuation of assets, could in the future require us to further reduce our assets and record related non-cash impairment charges. If we are required to record additional impairment charges, this may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

Our operations in various countries subject us to foreign exchange risk

We operate in various jurisdictions and provide loan products in local currencies, including the Euro (in Finland, Spain, Latvia and Lithuania), the Bulgarian Lev, the Czech Koruna, the Danish Krone, the Georgian Lari, the Polish Zloty, the Swedish Krona, the Armenian Dram, the Mexican Peso, the Romanian Leu and the Argentine Peso. Thus, our results of operations are exposed to foreign exchange rate fluctuations. As of December 31, 2016, 71.0% of our net loans and advances due from customers were denominated in non-Euro currencies and none was denominated in the US Dollar. Our liabilities are mainly composed of loans and borrowings denominated in US Dollars, Swedish Kronor, and Euro, with US Dollar-denominated loans accounting for 48.9% of our liabilities as of December 31, 2016. Therefore, we are subject to certain shifts in currency valuations, namely, the depreciation against the US Dollar (and against the Euro, our reporting currency) of the other currencies in which we extend loans and advances and the depreciation of the Euro against the US Dollar. Although we have entered into a cross-currency swap and several forward agreements with related parties as a hedge against the depreciation of the US Dollar against the Euro, such hedging has not provided us with 100% coverage, nor has it protected us from fluctuations in the Euro value of our other operating currencies. We have also entered into certain option agreements as a hedge against the fluctuation of the Polish Zloty, Georgian Lari, and Czech Koruna. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Quantitative and Qualitative Disclosures about Risk Management—Currency risk*." Any failure to manage foreign exchange risk may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

If we fail to geographically diversify and expand our operations and customer base, our business may be adversely affected

Several countries in which we operate, such as Georgia, Latvia, Lithuania, Poland and Spain, generate a significant share of our revenues. In addition, following the acquisition of TBI Bank, a significant share of our assets will be represented by loans granted to borrowers in Bulgaria and Romania. As a result, we are exposed to country-specific risks with respect to such national markets. In such markets, a dissatisfaction with our products, a revocation of our operating license, a decrease in customer demand, a failure to successfully market our new and existing products or the failure to further expand our customer base and retain our existing customer base may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows. While we continue to seek opportunities to expand our operations into new markets, such as our recent entry into Armenia, Argentina, Mexico, Romania, and the Dominican Republic, there can be no guarantee that such efforts of diversification will be successful. Failure to geographically diversify and expand our operations and customer base could have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

We may be adversely affected by contractual claims, complaints, litigation and negative publicity

We may be adversely affected by contractual claims, complaints and litigation, resulting from relationships with counterparties, customers, competitors or regulatory authorities, as well as by any adverse publicity that we may attract. See "*Business—Litigation and Other Proceedings.*" Any such litigation, complaints, contractual claims, or adverse publicity may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

Defense of any lawsuit, even if successful, could require substantial time and attention of our management and could require the expenditure of significant amounts for legal fees and other related costs. We are also subject to regulatory proceedings, and we could suffer losses from the interpretation of applicable laws, rules and regulations in regulatory proceedings, including regulatory proceedings in which we are not a party. Any of these events could have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

Our operations could be subject to natural disasters and other business disruptions, which could adversely impact our future revenue and financial condition and increase our costs and expenses

Our services and operations are vulnerable to damage or interruption from tornadoes, earthquakes, fires, floods, power losses, telecommunications failures, terrorist attacks, acts of war, human errors and similar events. A significant natural disaster, such as a tornado, earthquake, fire or flood, could have a material adverse impact on our ability to conduct business, and our insurance coverage may be insufficient to compensate for losses that may occur. Although we have implemented business continuity plans, acts of terrorism, war, civil unrest, violence or human error could cause disruptions to our business or the economy as a whole. Any of these events

could cause consumer confidence to decrease, which could decrease the number of loans we make to customers. Any of these occurrences may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

Failure to keep up with the rapid changes in e-commerce and the uses and regulation of the Internet could harm our business

The business of providing products and services such as ours over the Internet is dynamic and relatively new. We must keep pace with rapid technological change, consumer use habits, Internet security risks, risks of system failure or inadequacy and governmental regulation and taxation. Local regulators may have divergent interpretations as to the classification of our services provided online, which may result in the reclassification of our services into e-money, payment or other services requiring a separate license. In addition, concerns about fraud, computer security and privacy and/or other problems may discourage additional consumers from adopting or continuing to use the Internet as a medium of commerce, and each of these factors could adversely impact our business.

Failure to comply with anti-corruption laws, including anti-bribery laws, could have an adverse effect on our reputation and business

While we are committed to doing business in accordance with applicable anti-corruption and anti-bribery laws, we face the risk that any of our operating subsidiaries or their respective officers, directors, employees, agents or business partners may take actions or have interactions with persons that violate such anti-corruption laws, or face allegations that they have violated such laws.

Corruption is one of the main risks confronting companies in certain of the markets where we operate. According to the International Monetary Fund (IMF), Armenia, Bulgaria, Georgia, Latvia and Poland are emerging markets. According to the 2016 Transparency International Corruption Perceptions Index, which evaluates data on corruption in countries throughout the world by ranking countries from 1 (least corrupt) to 176 (most corrupt), Armenia was ranked 113, Bulgaria 75, Georgia 44, Lithuania 38 and Romania 57. Poland and Latvia, two of our key markets in terms of profits before tax and, particularly with respect to Poland, growth potential, were ranked 29 and 44, respectively. Corruption has also been reported to affect the judicial systems and certain of the regulatory or administrative bodies of the countries where we operate. While we have adopted a formal Group-wide anti-bribery policy, this policy may not prevent breaches of law. The effects of corruption on our operations are difficult to predict. However, under certain circumstances, corruption, particularly where it heightens regulatory uncertainty or leads to regulatory changes adverse to our operations or to liability on our part or on the part of our directors or business partners, may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

Difficult conditions in the global financial markets and in the economy could have an adverse effect on our business

Although there have been signs of a global economic recovery during the last several years, various concerns remain regarding the ability of certain EU Member States and other countries to continue servicing their sovereign debt obligations or maintain their existing credit ratings. The significant economic stagnation in certain countries in the Eurozone, including in certain countries where we operate, like Spain, in part due to the effects of the sovereign debt crisis and corresponding austerity measures in these markets, has added to these concerns. The measures so far implemented to reduce public debt and fiscal deficits have already resulted in lower or negative GDP growth and high unemployment rates in these countries. If the fiscal obligations of these or other countries continue to exceed their respective fiscal revenues, taking into account the reactions of the credit and swap markets, or if the banking systems of these jurisdictions destabilize, the ability of such countries to service their debt in a cost efficient manner could be impaired. We operate in many countries which are likely to be affected by these developments. The continued uncertainty over the outcome of various international financial support programs, the possibility that other countries might experience similar financial pressures, investor concerns about inadequate liquidity or unfavorable volatility in the capital and foreign exchange markets, lower consumer spending, higher inflation or political instability could further disrupt the global financial markets and might adversely affect the economy in general. In addition, the risk remains that a default of one or more countries in the Eurozone, the extent and precise nature of which are impossible to predict, could lead to the expulsion or voluntary withdrawal of one or more countries from the Eurozone or a disorderly break-up of the Eurozone, either of which could significantly disrupt financial markets and possibly trigger another global recession. Such events may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

Significant, rapid or unforeseen economic or political changes in the economies in which we operate could reduce demand for our products and services and result in reduced earnings

We operate in a variety of markets in Europe and Latin America, including some so-called emerging markets, such as Georgia, Bulgaria, Mexico and Argentina. We also operate in Armenia and are considering expanding our business into other new markets should opportunities present themselves. In recent years, certain of the emerging markets where we operate have undergone substantial political, economic and social change. As is typical of emerging markets, they do not possess the full business, legal and regulatory infrastructures that would generally exist in more mature, free market economies, and the business, legal and regulatory infrastructures in these jurisdictions are continuously evolving. See also "—*Our business is highly regulated, and if we fail to comply with existing or newly introduced applicable laws, regulations, rules and guidance, we may be subject to fines or penalties, have to exit certain markets or be restricted from carrying out certain operations*." In addition, the tax and currency legislation in the markets in which we operate are subject to varying interpretations and changes, which can occur frequently. Any disruption of the reform policies and recurrence of political or governmental instability may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

In certain of the jurisdictions where we operate, such as Georgia and Bulgaria, political and economic environments continue to develop and remain at risk of disruption from domestic or international events. In addition, although we do not operate in Russia, our indirect controlling shareholder, Tirona, was until recently part of the Finstar Financial Group, one of the largest private investment groups in Russia which is ultimately beneficially owned by Oleg Boyko, a Russian citizen. Since February 2015, Tirona's largest ultimate beneficial owner (owning 49% of Tirona) has been Vera Boiko, a Russian citizen who is related to Oleg Boyko. In connection with events in Ukraine, the United States and EU have imposed economic sanctions on certain Russian governmental officials and businessmen, several Russian companies and several non-Russian companies holding assets in Russia. The US sanctions remain in place, and in December 2016, EU leaders agreed to extend EU sanctions against Russia to July 31, 2017. If either our controlling shareholder or one of our ultimate beneficial owners were to become the subject of sanctions, this could have a material adverse effect on our business, including our reputation, and depending on the nature of the sanctions, on our ability (including the ability of the Guarantors) to make payments on the Notes. Any significant changes in, or a deterioration of, the political or economic environment in regions where we currently operate or will operate in the future could lead to political and economic instability, which may have an adverse effect on investor and consumer confidence and affect consumers' ability to repay loans and accrued interest. Should the ability of our customers to repay loans and accrued interest be affected, this could restrict our ability to sustain or expand our operations in these countries and could therefore adversely and materially affect our cash flow, liquidity and working capital position. If such a situation were to occur, we may be required to seek additional capital. There is no guarantee that we would be successful in raising additional capital, or that we will be able to do so on a timely basis or on terms which are acceptable to us. If significant political or economic deterioration were to continue, we could face a liquidity shortage, which may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

The future economic direction of the markets in which we operate remains largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by their respective governments, together with tax, legal, regulatory, and political developments. Our failure to manage the risks associated with our operations in emerging markets may have a material adverse effect on our business, financial condition, results of operations, prospects or cash flows.

The legal and judicial systems in some of our markets of operation are less developed than western European countries

The legal and judicial systems in some of the markets in which we operate are less developed than those of western European countries. Commercial, competition, securities, anti-bribery, personal data protection, company and bankruptcy law (as well as other areas of law) in such countries may be unfamiliar to local judges. Related legal provisions in these jurisdictions have been and continue to be subject to ongoing, and at times unpredictable, changes. Existing laws and regulations in our countries of operation may be applied inconsistently or may be interpreted in a manner that is restrictive and non-commercial. Furthermore, it may not be possible, in certain circumstances, to obtain legal remedies in a timely manner in these countries. The relatively limited experience of a significant number of judges or other legal officials practicing in these markets, specifically with regard to capital markets issues, and questions regarding the independence of the judiciary system in such markets may lead to decisions based on considerations that are not grounded in the law. The enforcement of judgments may also prove difficult, which means that the enforcement of rights through the respective court

systems may be laborious, especially where such judgments may lead to business closures or job losses. This lack of legal certainty may adversely affect our business, and may also make it difficult for you to address any claims you may have as an investor.

RISK FACTORS RELATING TO THE NOTES

Our substantial level of indebtedness could adversely affect our financial condition, our ability to obtain financing in the future and our ability to fulfill our obligations under the Notes

We have substantial indebtedness. After the issuance of the Notes, we will have approximately EUR 535.0 million of total debt outstanding, including the aggregate principal amount of the Notes issued.

Subject to restrictions in the Indenture covering the Notes, we may incur additional indebtedness. Our high level of indebtedness could have important consequences for holders of the Notes. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to the Notes and our other indebtedness, resulting in possible defaults on and acceleration of such indebtedness;
- require us to dedicate a substantial portion of our cash flow from operations to the payment of principal and interest on our indebtedness, thereby reducing the availability of such cash flows to fund working capital, acquisitions, capital expenditures and other general corporate purposes;
- limit our ability to obtain additional financing for working capital, acquisitions, capital expenditures, debt service requirements and other general corporate purposes;
- limit our ability to refinance indebtedness or cause the associated costs of such refinancing to increase;
- limit our ability to fund change of control offers;
- restrict the ability of our subsidiaries to pay dividends or otherwise transfer assets to us, which could limit our ability to, among other things, make required payments on our debt;
- increase our vulnerability to general adverse economic and industry conditions, including interest rate fluctuations (because a portion of our borrowings may have variable rates of interest); and
- place us at a competitive disadvantage compared to other companies with proportionately less debt or comparable debt at more favorable interest rates who, as a result, may be better positioned to withstand economic downturns.

The high level of our indebtedness and the consequences thereof (as described above) could have a material adverse effect on our business, financial condition and results of operations. We expect to obtain the funds to pay our expenses and to repay our indebtedness primarily from our operations. Our ability to meet our expenses and make these payments thus depends on our future performance, which will be affected by financial, business, economic, regulatory and other factors, many of which we cannot control. Our business may not generate sufficient cash flow from operations in the future and our currently anticipated growth in revenue and cash flow may not be realized, either or both of which could result in our being unable to repay indebtedness, or to fund other liquidity needs. If we do not have enough funds, we may be required to refinance all or part of our then existing debt, sell assets or borrow more funds, which we may not be able to accomplish on terms acceptable to us, or at all. In addition, the terms of existing or future debt agreements may restrict us from pursuing any of these alternatives.

Despite our current indebtedness level, we may be able to incur substantially more debt, including secured debt, which could further exacerbate the risks associated with our substantial level of indebtedness

We may incur substantial additional indebtedness in the future. The Indenture allows us to incur substantial additional debt, including secured debt. If new debt is added to our current debt levels, the related risks that we face would increase, and we may not be able to meet all of our debt obligations. In addition, the Indenture governing the Notes does not prevent us from incurring obligations that do not constitute indebtedness.

The interests of our beneficial owners may conflict with those of the Noteholders

With a 100% shareholding in 4finance Group S.A., Tirona is the indirect controlling shareholder of the Group. Tirona was until early 2015 part of Finstar Financial Group, one of the largest private investment groups in Russia, which is ultimately beneficially owned by Mr. Oleg Boyko. The Group is now effectively owned by three individuals. Three individuals, Uldis Arnicāns, Edgars Dupats and Vera Boyko (who is related to Oleg

Boyko) have ultimate ownership of the Group, through their ownership of 25.5%, 25.5% and 49%, respectively, of Tirona. As a result, these individuals have and will continue to have the power to affect the legal and capital structure and the day-to-day operations of the Group, as well as the ability to elect and change the management team and approve other changes to the Group's operations. The interests of the ultimate beneficial owners may, in some circumstances, conflict with the interests of the Noteholders, particularly if the Group encounters financial difficulties or if we are unable to pay our debts as they become due. The ultimate beneficial owners could also have an interest in pursuing financings or other transactions which, in their judgment, could enhance their equity investment, although such transactions might increase the Group's indebtedness, require the Group to sell assets or otherwise impair our ability to make payments under the Notes. Any potential conflict between the interests of the indirect controlling shareholder or the ultimate beneficial owners, on the one hand, and Noteholders, on the other hand, may have a material adverse effect on the value of the Notes.

The interests of the immediate parent company of Holdco may conflict with those of the Noteholders

4finance Group SA, the immediate parent company of Holdco, has, since mid-2015, developed other businesses separate to those of the Group. These businesses include consumer lending in other jurisdictions, such as the United States. The Executive Committee is established at the 4finance Group SA level. The Group's resources may therefore be strained or diverted by activities for non-Group companies, which may have a material adverse effect on our business. Non-Group companies are active in consumer lending using the same or similar brands to those used by the Group, for example, Zaplo in the U.S. Any reputational damage incurred by those operations may affect the perception of our brands and may have a material adverse effect on our business. Any potential conflict between the interests of the immediate parent company, on the one hand, and Noteholders, on the other hand, may have a material adverse effect on the value of the Notes.

Our debt instruments, including the Indenture governing the Notes, contain restrictions and limitations that could significantly impact our ability to operate our business

The Indenture governing the Notes and our debt instruments contain covenants that, among other things, restrict our ability to:

- incur more debt;
- change our line of business;
- make dividend payments, stock repurchases and other distributions;
- engage in certain mergers, consolidations and transfers of all or substantially all of our assets;
- make acquisitions of all of the business or assets of, or stock representing beneficial ownership of, any person;
- dispose of certain assets; and
- incur liens.

In addition, some of our debt instruments require us to comply with various financial covenants. Our ability to comply with these covenants in future periods will depend on our ongoing financial and operating performance, which in turn will be subject to economic conditions and to financial, market and competitive factors, many of which are beyond our control. Our ability to comply with these covenants in future periods also will depend substantially on our ability to successfully implement our overall business strategy.

These covenants could adversely affect our ability to finance our future operations or capital needs and pursue available business opportunities. A breach of any of these covenants could result in a default under our indebtedness. If a default occurs, the relevant lenders could elect to declare the indebtedness, together with accrued interest and other fees, to be immediately due and payable and proceed against any collateral securing that indebtedness. Acceleration of our other indebtedness could result in a default under the terms of Notes. There is no guarantee that we would be able to satisfy our obligations if any of our indebtedness is accelerated.

We may not be able to generate sufficient cash to service all of our indebtedness, including the Notes, and may be forced to take other actions to satisfy our obligations under our debt agreements, which may not be successful

Our ability to make scheduled payments on or refinance our debt obligations depends on our financial condition and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We may not be able to maintain a level of cash

flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest and additional amounts, if any, on our indebtedness, including the borrowings under the Notes offered hereby.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital or restructure or refinance our indebtedness, including our indebtedness under the Notes offered hereby. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous borrowing covenants, which could further restrict our business operations. The terms of existing or future debt instruments may restrict us from adopting some of these alternatives. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. In addition, any failure to make payments of interest and principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness.

If we cannot make scheduled payments on our debt:

- the holders of our debt could declare all outstanding principal and interest to be due and payable;
- the holders of our secured debt, to the extent we have any, could commence foreclosure proceedings against our assets;
- we could be forced into bankruptcy or liquidation; and
- you could lose all or part of your investment in the Notes.

The Issuer and Holdco are companies that have no revenue generating operations of their own and depend on cash from our operating companies to be able to make payments on the Notes or the Guarantees, as applicable

The Issuer's only business operations consist of providing financing to the Group companies and Holdco is a holding company with no business operations other than the equity interests it holds in its subsidiaries. See "*Description of Issuer and Guarantors*." The Issuer and Holdco will be dependent upon the cash flow from our operating subsidiaries in the form of dividends or other distributions or payments to meet their obligations, including the Issuer's obligations under the Notes and Holdco's obligations under its Guarantee or other indebtedness incurred to fund their equity interests and other financial assets. The amounts of dividends or other distributions or payments available to the Issuer and Holdco will depend on the profitability and cash flows of our subsidiaries and the ability of those subsidiaries to issue dividends and make distributions and other payments under applicable law. Our subsidiaries, however, may not be able to, or may not be permitted under applicable law to, make dividends, distributions or other payments to the Issuer or Holdco to make payments in respect of their indebtedness, including the Notes and the Guarantees. In addition, our subsidiaries that do not guarantee the Notes have no obligation to make payments with respect to the Notes.

If we default on our obligations to pay our other indebtedness, we may not be able to make payments on the Notes

Any default under the agreements governing our indebtedness which is not waived could leave us unable to pay principal or interest on the Notes. For example, payments under the Guarantees could result in a default in respect of certain of our indebtedness. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, or interest on indebtedness, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing our indebtedness, we could be in default under the terms of the agreements governing such indebtedness. In the event of such default, the holders of such indebtedness could elect to declare all of the funds borrowed thereunder to be due and payable, together with any accrued and unpaid interest and we could be forced into bankruptcy or liquidation. Although we may in the future seek waivers from lenders of our indebtedness to avoid being in default, there is no guarantee that we will be able to obtain waivers from the lenders thereunder.

Not all subsidiaries of the Group, including TBI Bank, are providing Guarantees

The Financial Statements include both Subsidiary Guarantors and non-Guarantor subsidiaries. As the non-Guarantor subsidiaries of the Group represent 37.6% of the net assets of the Group as of December 31, 2016, the Financial Statements included herein may be of limited use in assessing the financial position of the Guarantors.

The Notes will be effectively subordinated to our and our Guarantors' secured indebtedness to the extent of the value of the collateral securing such indebtedness

The Notes and the related Guarantees will not be secured. In addition, the Indenture governing the Notes will allow us to incur substantial additional secured debt and the Notes will be effectively subordinated in right of payment to any of our secured indebtedness to the extent of the value of the collateral securing such indebtedness. Additionally, the Guarantees will be effectively subordinated to any secured indebtedness, to the extent of the value of the collateral securing such indebtedness, incurred in the future by the Guarantors. The effect of this subordination is that upon a default in payment on, or the acceleration of, any of our or any Guarantor's secured indebtedness or in the event of a bankruptcy, insolvency, liquidation, dissolution, reorganization or similar proceeding involving us or any of the Guarantors, the proceeds from the sale of assets securing our or any Guarantor's secured indebtedness will be available to pay obligations on the Notes or Guarantees, as applicable, only after all of our or any Guarantor's secured indebtedness has been paid in full.

The Notes will be structurally subordinated to all indebtedness of those of our existing or future subsidiaries that are not, or do not become, Guarantors of the Notes

The Notes are initially guaranteed only by some of Holdco's subsidiaries. Furthermore, the Indenture governing the Notes will permit Guarantees to be released under certain circumstances. See "*Description of Notes*." Claims of holders of the Notes will be structurally subordinated to all indebtedness and the claims of creditors of any non-guarantor subsidiaries, including trade creditors. All indebtedness and obligations of any non-guarantor subsidiaries will have to be satisfied before any of the assets of such subsidiaries would be available for distribution upon liquidation or otherwise to us or to a Guarantor of the Notes. The Indenture governing the Notes will permit these non-guarantor subsidiaries to incur certain additional debt, including secured debt, and will not limit their ability to incur other liabilities that are not considered indebtedness under the Indenture.

We may be unable to repay or repurchase the Notes at maturity

At maturity, the entire principal amount of the Notes, together with accrued and unpaid interest, will become due and payable. We may not have the ability to repay or refinance these obligations. If the maturity date occurs at a time when other arrangements prohibit us from repaying the Notes, we could try to obtain waivers of such prohibitions from the lenders and holders under those arrangements, or we could attempt to refinance the borrowings that contain the restrictions. If we fail to obtain the waivers or refinance these borrowings, we would be unable to repay the Notes.

We may not have the ability to raise the funds necessary to finance the change of control offer required by the Indenture governing the Notes and the change of control put right may not be triggered in certain circumstances

Upon the occurrence of a "**change of control**" as defined in the Indenture governing the Notes, we must offer to redeem the Notes at a price equal to 101% of the principal amount, together with accrued and unpaid interest, if any, to the date of the redemption. Our failure to give notice of a change of control or redeem such Notes would be a default under the Indenture governing the Notes, which could also trigger a cross-default under our other outstanding indebtedness.

A change of control could also trigger a default or mandatory redemption under certain indebtedness existing or incurred in the future. In order to satisfy our obligations, we could seek to refinance the indebtedness under our debt agreements or obtain a waiver under debt agreements or from you as a holder of the Notes. We cannot assure you that we would be able to obtain a waiver or refinance our indebtedness on terms acceptable to us, if at all.

In addition, the change of control provisions in the Indenture may not protect you from certain important corporate events, such as a leveraged recapitalization (which would increase the level of our indebtedness or otherwise adversely affect our capital structure, credit ratings or the value of the Notes), reorganization, restructuring, merger, or other similar transaction. Such a transaction may not involve a change in voting power or beneficial ownership or, even if it does, may not involve a change of control that would trigger our obligation to repurchase the Notes. If an event occurs that does not constitute a change of control, we will not be required to redeem the Notes and you may be required to continue to hold your Notes despite the event.

Holders of the Notes may not be able to determine when a change of control giving rise to their right to have the Notes repurchased by us has occurred following a sale of "substantially all" of our assets

A change of control will require the Issuer to make an offer to redeem such Noteholder's Notes (as described above). A "**change of control**" as defined in the Indenture includes the sale, conveyance, transfer, lease or other disposition of "**all or substantially all**" of our assets. There is no precise established definition of the phrase "substantially all" under applicable law. Accordingly, the ability of a holder of Notes to require us to redeem its Notes as a result of a sale, conveyance, transfer, lease or other disposition of less than all our assets to another individual, group or entity may be uncertain.

Each Guarantee will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defenses that may limit its validity and enforceability

Each Guarantee provides the holders of the Notes with a direct claim against the relevant Guarantor. However, the Indenture will provide that each Guarantee will be limited to the maximum amount that can be guaranteed by the relevant Guarantor without rendering the relevant Guarantee voidable or otherwise ineffective under applicable law, and enforcement of each Guarantee would be subject to certain generally available defenses. See "*Limitations on Validity and Enforceability of the Guarantees and the Notes and Certain Insolvency Considerations*."

Enforcement of any of the Guarantees against any Guarantor will be subject to certain defenses available to Guarantors in the relevant jurisdiction. Although laws differ among these jurisdictions, these laws and defenses generally include those that relate to corporate purpose or benefit, fraudulent conveyance or transfer, voidable preference, insolvency or bankruptcy challenges, financial assistance, preservation of share capital, thin capitalization, capital maintenance or similar laws, regulations or defenses affecting the rights of creditors generally. If one or more of these laws and defenses are applicable, a Guarantor may have no liability or decreased liability under its Guarantee depending on the amounts of its other obligations and applicable law.

Although laws differ among various jurisdictions, in general, under bankruptcy or insolvency law and other laws, a court could (i) avoid or invalidate all or a portion of a Guarantor's obligations under its Guarantee, (ii) direct that the holders of the Notes return any amounts paid under a Guarantee to the relevant Guarantor or to a fund for the benefit of the Guarantor's creditors or (iii) take other action that is detrimental to you, typically if the court found that:

- the relevant Guarantee was incurred with actual intent to give preference to one creditor over another, hinder, delay or defraud creditors or shareholders of the Guarantor or, in certain jurisdictions, when the granting of the Guarantee has the effect of giving a creditor a preference or guarantee or the creditor was aware that the Guarantor was insolvent when the relevant Guarantee was given;
- the Guarantor did not receive fair consideration or reasonably equivalent value or corporate benefit for the relevant Guarantee and the Guarantor: (i) was insolvent or rendered insolvent because of the relevant Guarantee; (ii) was undercapitalized or became undercapitalized because of the relevant Guarantee; or (iii) intended to incur, or believed that it would incur, indebtedness beyond its ability to pay at maturity;
- the relevant Guarantee was held to exceed the corporate objects of the Guarantor or not to be in the best interests of or for the corporate benefit of the Guarantor; or
- the amount paid or payable under the relevant Guarantee was in excess of the maximum amount permitted under applicable law.

These or similar laws may also apply to any future Guarantee granted by any of our subsidiaries pursuant to the Indenture.

We cannot assure you which standard a court would apply in determining whether a Guarantor was "insolvent" at the relevant time or that, regardless of method of valuation. There can also be no assurance that a court would not determine that a Guarantor was insolvent on that date, or that a court would not determine, regardless of whether or not a Guarantor was insolvent on the date its Guarantee was issued, that payments to holders of the Notes constituted preferences, fraudulent transfers or conveyances on other grounds. The liability of each Guarantor under its Guarantee will be limited to the amount that will result in such Guarantee not constituting a preference, fraudulent conveyance or improper corporate distribution or otherwise being set aside. However, there can be no assurance as to what standard a court will apply in making a determination of the

maximum liability of each Guarantor. There is a possibility that the entire Guarantee may be set aside, in which case the entire liability may be extinguished. If a court decided that a Guarantee was a preference, fraudulent transfer or conveyance and voided such Guarantee, or held it unenforceable for any other reason, you may cease to have any claim in respect of the relevant Guarantor and would be a creditor solely of the Issuer and, if applicable, of any other Guarantor under the relevant Guarantee which has not been declared void. In the event that any Guarantee is invalid or unenforceable, in whole or in part, or to the extent the agreed limitation of the Guarantee obligations apply, the Notes would be effectively subordinated to all liabilities of the applicable Guarantor.

Enforcement of the Guarantees across multiple jurisdictions may be difficult

The Notes will be guaranteed by the initial and any additional Guarantors, which are organized or incorporated under the laws of multiple jurisdictions. In the event of a bankruptcy, insolvency or similar event, proceedings could be initiated in any of these jurisdictions. The rights of holders of the Notes under the Guarantees will thus be subject to the laws of a number of jurisdictions, and it may be difficult to enforce such rights in multiple bankruptcy, insolvency and other similar proceedings. Moreover, such multi-jurisdictional proceedings are typically complex and costly for creditors' rights. In addition, the bankruptcy, insolvency, administration and other laws of the jurisdiction of organization of the Issuer, Holdco and the Guarantors may be materially different from, or in conflict with, one another, including creditor's rights, priority of creditors, the ability to obtain post-petition interest and the duration of the insolvency proceeding. The application of these various laws in multiple jurisdictions could trigger disputes over which jurisdictions' law should apply and could adversely affect the ability to realize any recovery under the Notes and the Guarantees.

Relevant insolvency and administrative laws may not be as favorable to creditors, including Noteholders, as insolvency laws of the jurisdictions in which you are familiar and may limit your ability to enforce your rights under the Notes and the Guarantees and the Issuer and the Guarantors are subject to risks relating to the location of their center of main interest ("COMI")

The Issuer is incorporated in Luxembourg, and the Guarantors are incorporated or organized in Luxembourg, Latvia, Denmark, Lithuania, Finland, Poland, Sweden, Spain and Georgia. Some of our subsidiaries are incorporated or organized in jurisdictions other than those listed above and are subject to the insolvency laws of such jurisdictions. The insolvency laws of these jurisdictions may not be as favorable to your interests as creditors as the bankruptcy laws of certain other jurisdictions and your ability to receive payment under the Notes may be more limited than would be the case under such bankruptcy laws. See "*Limitations on Validity and Enforceability of the Guarantees and the Notes and Certain Insolvency Considerations*."

In addition, there can be no assurance as to how the insolvency laws of these jurisdictions will be applied in relation to one another. In the event that the Issuer, any of the Guarantors or any other of our subsidiaries experienced financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced or the outcome of such proceedings. Under the Regulation (EC) No 1346/2000 on Insolvency Proceedings (the "**EUIR**") (and the incoming Council of the European Union Regulation 2015/848 on Insolvency Proceedings (Recast)), the "main" insolvency proceedings in respect of a debtor should be opened in the EU Member State in which its COMI is located. See "*Limitations on Validity and Enforceability of the Guarantees and the Notes and Certain Insolvency Considerations*." There is a presumption in the EUIR that a company's COMI is in the EU Member State in which its registered office is located; however, this presumption may be rebutted by certain factors relating in particular to where the company's central administration is located. In addition, the concept of a company's COMI is a fluid and factual concept that may change. Although the Issuer's registered office is in Luxembourg, a COMI may be found to exist outside Luxembourg, and insolvency laws of another jurisdiction may become relevant. The insolvency and other laws of different jurisdictions may be materially different from, or in conflict with, each other, including in the areas of rights of secured and other creditors, the ability to void preferences, transactions at an undervalue and transactions defrauding creditors, priority of governmental and other creditors, ability to obtain or claim interest following the commencement of insolvency proceedings and the duration of the proceedings. The application of these laws, or any conflict among them, could call into question whether any particular jurisdiction's laws should apply, adversely affect your ability to enforce your rights under the Notes or the Guarantees in these jurisdictions and limit any amounts that you may receive. Prospective investors in the Notes should consult their own legal advisors with respect to such considerations.

The transfer of the Notes is restricted, which may adversely affect their liquidity and the price at which they may be sold

The Notes and the Guarantees have not been registered under, and we are not obliged to register the Notes or the Guarantees under, the U.S. Securities Act or the securities laws of any other jurisdiction and, unless so registered, may not be offered or sold except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the U.S. Securities Act or such securities laws as applicable. See "*Transfer Restrictions*." We have not agreed to or otherwise undertaken to register the Notes or the Guarantees, and do not have any intention to do so.

There is no established trading market for the Notes. If an actual trading market does not develop for the Notes, you may not be able to resell them quickly, for the price that you paid or at all

The Notes will constitute a new issue of securities, and there is no established trading market for the Notes. If an active trading market does not develop or is not sustained, the market price and liquidity of the Notes may be adversely affected and you may be unable to resell your Notes at a particular time, at their fair market value or at all.

If a trading market does develop, the market price of the Notes will depend on many factors, including:

- our credit ratings with the major credit rating agencies;
- the market demand for securities similar to the Notes and the interest of securities dealers in making a market for the Notes;
- the number of holders of the Notes;
- the prevailing interest rates being paid by other companies similar to us;
- our financial condition, financial performance and future prospects;
- the market price of our common stock;
- the prospects for companies in our industry generally; and
- the overall condition of the financial markets.

Historically, the market for non-investment grade debt has been subject to disruptions that have caused volatility in prices of securities similar to the Notes. It is possible that the market for the Notes will be subject to such disruptions. Any disruptions may have a negative effect on holders, regardless of our prospects and financial performance.

The Notes may not become or remain listed on the ISE

Although the Issuer will, in the Indenture, agree to use its commercially reasonable efforts to have the Notes listed on the Official List and admitted to trading on the GEM of the ISE after the Issue Date and will use commercially reasonable efforts to maintain such listing as long as the Notes are outstanding, the Issuer cannot assure you that the Notes will become or remain listed. If the Issuer cannot maintain the listing on the Official List on the GEM of the ISE or it becomes unduly burdensome to make or maintain such listing, the Issuer may cease to make or maintain such listing on the Official List on the GEM of the ISE, provided that it will use best efforts to obtain and maintain the listing of the Notes on another recognized stock exchange, although there can be no assurance that the Issuer will be able to do so. Although no assurance is made as to the liquidity of the Notes as a result of listing on the Official List on the GEM of the ISE or another recognized stock exchange in accordance with the Indenture, failure to be approved for listing or the delisting of the Notes from the Official List on the GEM of the ISE or another stock exchange in accordance with the Indenture may have a material adverse effect on a holder's ability to resell Notes in the secondary market.

Our credit ratings may not reflect all risks of your investment in the Notes

The credit ratings assigned to the Notes are limited in scope and do not address all material risks relating to an investment in the Notes but rather reflect only the view of each rating agency at the time the rating is issued. The credit rating agencies also evaluate our industry and may change their credit rating for us based on their overall view of our industry. There can be no assurance that the credit ratings assigned to the Notes will remain in effect for any given period of time or that a rating will not be lowered, suspended or withdrawn entirely by the

applicable rating agency if, in such rating agency's judgment, circumstances so warrant. Credit ratings are not a recommendation to buy, sell or hold any security. Each agency's rating should be evaluated independently of any other agency's rating. Actual or anticipated changes or downgrades in our credit ratings, including any announcement that our ratings are under further review for a downgrade, could affect the market value of the Notes and increase our corporate borrowing costs.

An increase in interest rates could result in a decrease in the relative value of the Notes

In general, as market interest rates rise, Notes bearing interest at a fixed rate generally decline in value because the premium, if any, over market interest rates will decline. Consequently, if you purchase these Notes and market interest rates increase, the market value of your Notes may decline. We cannot predict future levels of market interest rates.

Investors may face foreign exchange risks by investing in the Notes

The Notes will be denominated and payable in USD. If investors measure their investment returns by reference to a currency other than USD, an investment in the Notes will entail foreign exchange-related risks due to, among other factors, possible significant changes in the value of the USD relative to the currency by reference to which investors measure the return on their investments because of economic, political and other factors over which we have no control. Depreciation of the USD against the currency by reference to which investors measure the return on their investments could cause a decrease in the effective yield of the relevant Notes below their stated coupon rates and could result in a loss to investors when the return on such Notes is translated into the currency by reference to which the investors measure the return on their investments.

We may choose to repurchase or redeem a portion of the Notes when prevailing interest rates are relatively low, including in open market purchases

We may seek to repurchase or redeem a portion of the Notes from time to time, especially when prevailing interest rates are lower than the rate borne by such Notes. If prevailing rates are lower at the time of redemption, you may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on such Notes being redeemed. Our redemption right also may adversely impact your ability to sell such Notes.

We may also from time to time repurchase the Notes in the open market, privately negotiated transactions, tender offers or otherwise. Any such repurchases or redemptions and the timing and amount thereof would depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors. Such transactions could impact the market for such Notes and negatively affect our liquidity.

You may not be able to recover in civil proceedings for U.S. securities law violations

The Issuer and most of the Guarantors and their respective subsidiaries are organized outside the United States. All of the directors and executive officers of the Issuer and the Guarantors are non-residents of the United States. Although we will submit to the jurisdiction of certain New York courts in connection with any action under U.S. securities laws, you may be unable to effect service of process within the United States on any non-resident directors and executive officers. In addition, as the assets of the Issuer and all of the Guarantors and those of their directors and executive officers are located outside of the United States, you may be unable to enforce judgments obtained in the U.S. courts against them. See "*Service of Process and Enforcement of Judgments*." Moreover, in light of recent decisions of the U.S. Supreme Court, actions of the Issuer and the Guarantors may not be subject to the civil liability provisions of the federal securities laws of the United States.

The Notes will initially be held in book-entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies

The Notes will be cleared through Euroclear and Clearstream and not through The Depository Trust Company, and investors should note that the Notes can only be held through Euroclear or Clearstream accounts. Unless and until Notes in definitive registered form are issued in exchange for book-entry interests (which may occur only in very limited circumstances), owners of book-entry interests will not be considered owners or Noteholders. The common depository (or its nominee) for Euroclear and Clearstream will be the sole registered holder of the Global Notes. Payments of principal, interest and other amounts owing on or in respect of the relevant Global Notes representing the Notes will be made to the Paying Agent, which will make payments to

Euroclear and Clearstream. Thereafter, these payments will be credited to participants' accounts that hold book-entry interests in the Global Notes representing the Notes and credited by such participants to indirect participants. After payment to the common depositary for Euroclear and Clearstream, we will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, if you own a book-entry interest in the Notes, you must rely on the procedures of Euroclear and Clearstream and if you are not a participant in Euroclear and/or Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder of the Notes under the Indenture. See "*Book Entry, Delivery and Form*."

Unlike the holders of the Notes themselves, owners of book-entry interests will not have any direct rights to act upon any solicitations for consents, requests for waivers or other actions from holders of the Notes. Instead, if you own a book-entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from Euroclear and Clearstream or, if applicable, from a participant. The procedures implemented for the granting of such proxies may not be sufficient to enable you to vote on any matters or on a timely basis.

Similarly, upon the occurrence of an event of default under the Indenture, unless and until the relevant definitive registered Notes are issued in respect of all book-entry interests, if you own a book-entry interest, you will be restricted from acting through Euroclear and Clearstream. We cannot assure you that the procedures to be implemented through Euroclear and Clearstream will be adequate to ensure the timely exercise of rights under the Notes.

The Trustee may request Noteholders to provide an indemnity and/or security and/or prefunding to its satisfaction

In certain circumstances, the Trustee may (at its sole discretion) request Noteholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of Noteholders. The Trustee shall not be obliged to take any such actions if not indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. Notwithstanding the provision of an indemnity or security or prefunding to it, the Trustee may not be able to take actions in breach of the terms of the Indenture or the terms and conditions of the Notes and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations.

Modifications and waivers may be made in respect of the terms and conditions of the Notes and the Indenture by the Trustee or less than all of the Noteholders

The Indenture will contain provisions for amendment of the terms and conditions of the Notes and the Indenture, as well as waiver of such terms and conditions. These provisions permit defined majorities to bind all Noteholders, including those Noteholders who do not vote in any solicitation for consents or waivers and those Noteholders who vote in a manner contrary to the majority. Certain terms and conditions of the Notes and the Indenture required a super-majority (i.e., holders of Notes representing at least 90% of the outstanding principal amount of the Notes) to consent to such amendment or waiver in order to bind all the Noteholders. Furthermore, there is a risk that the decision of the majority or super-majority (as applicable) of Noteholders may be adverse to the interests of individual Noteholders.

The Indenture and the terms and conditions of the Notes will provide that the Trustee may (but shall not be obliged to), without the consent of Noteholders, agree to any modification of the terms and conditions of the Notes or the Indenture which is proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of the Noteholders and any modification of the terms and conditions of the Notes or the Indenture is of a formal, minor or technical nature or is to correct a manifest error. See "*Description of the Notes—Amendment, Supplement and Waiver.*"

Certain covenants may be suspended upon the occurrence of a change in the Notes' ratings

The Indenture will provide that, if at any time following the date of the Indenture, the Notes receive a rating of Baa3 or better by Moody's and a rating of BBB- or better by S&P and no default or event of default has occurred and is continuing, then beginning that day and continuing until such time, if any, at which such Notes cease to have such ratings, certain covenants will cease to be applicable to such Notes. See "*Description of the Notes—Certain Covenants—Suspension of Certain Covenants when notes Rated Investment Grade*." If these

covenants were to cease to be applicable, we would be able to incur additional debt or make payments, including dividends or investments, which may conflict with the interests of holders of the Notes. There can be no assurance that the Notes will ever achieve an investment grade rating or that any such rating will be maintained.

Foreign Account Tax Compliance Act may apply to the Notes

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, commonly referred to as "FATCA," imposes U.S. federal withholding of 30% on payments of interest on the Notes and (beginning in 2019) gross proceeds from the sale or other disposition of the Notes to "foreign financial institutions" (which is broadly defined for this purpose and in general includes investment vehicles) and certain other non-U.S. entities (whether such foreign financial institutions or other non-U.S. entities are beneficial owners or intermediaries) unless various U.S. information reporting and due diligence requirements (generally relating to ownership by U.S. persons of interests in or accounts with those entities) have been satisfied, or an exemption applies. If FATCA withholding is imposed, a beneficial owner that is not a foreign financial institution generally will be entitled to a refund of any amounts withheld by filing a U.S. federal income tax return (which may entail significant administrative burden). Potential investors should consult their tax advisors regarding the effects of FATCA on their investments in the Notes.

USE OF PROCEEDS

The aggregate gross proceeds of the Offering are expected to be USD 325.0 million. We intend to use a portion of the proceeds from the issuance of the Notes to repurchase 2019 Notes tendered and not validly withdrawn in the 2019 Tender Offer, to fund the redemption of the SEK Notes and to pay the fees and expenses related to the issuance of the Notes. Any remaining proceeds will be used for potential acquisitions and general corporate purposes, including funding the growth of our business, and will be lent by the Issuer to the Group companies for such purposes, as required.

The following table summarizes the expected sources and uses of proceeds in connection with the issuance of the Notes. The actual amounts as compared to those set forth in the table and in the accompanying footnotes are subject to adjustment and may differ at the time of the consummation of the Transactions depending on several factors, including differences from our estimation of fees and expenses and interests accrued on our existing debt until the relevant redemption dates.

Sources of Funds	(in millions of Euros)	Uses of Funds	(in millions of Euros)
Notes offered hereby[1]	309.0	Repurchase of 2019 Notes and Redemption of SEK Notes[2]	177.3
		Fees and expenses[3]	8.4
		General corporate purposes	123.3
Total Sources	309.0	**Total Uses**	309.0

(1) This amount reflects the expected gross proceeds of USD 325.0 million from the offering of the Notes translated into Euros. See *"Presentation of Financial and other Information–Currencies."*

(2) We intend to use a portion of the proceeds of the issuance of the Notes to repurchase the 2019 Notes tendered and not validly withdrawn in the 2019 Notes Tender Offer. The amount of EUR 177.3 million includes the principal amount of the 2019 Notes of EUR 125.2 million (USD 131.7 million) and associated tender premium and accrued and unpaid interest at closing of EUR 10.6 million. The Issuer may in certain circumstances use a portion of the proceeds of the Offering to redeem the SEK Notes in full, which is estimated to cost approximately EUR 42 million (including principal, redemption premium and accrued and unpaid interest). See "*Description of Indebtedness —SEK Notes*."

(3) Represents estimated fees and expenses associated with the issuance of the Notes.

CAPITALIZATION

The table below sets forth our consolidated capitalization as of December 31, 2016 (i) on an actual historical basis, (ii) as adjusted for the issue of the Notes and the application of proceeds therefrom as described in "*Use of Proceeds*" as if it had occurred on December 31, 2016 and (iii) as further adjusted for the incurrence of certain debt after December 31, 2016. This table should be read in conjunction with "*Use of Proceeds*," "*Management's Discussion and Analysis of Results of Operations and Financial Condition,*" "*Description of Certain Indebtedness*" and "*Description of Notes*" and the Financial Statements included elsewhere in this Offering Memorandum.

	As of December 31, 2016	
	Actual	**As Adjusted**
	(in millions of EUR)	
Cash and cash equivalents(1)	157.6	277.2
Debt		
2019 Notes(2)	194.3	66.4
SEK Notes(3)	39.6	—
2021 Notes	142.4	142.4
Friendly Finance Notes	2.8	2.8
Loans from related parties	3.7	—
Other debt(4)	14.4	14.4
Notes offered hereby(5)	—	309.0
Total debt	**397.2**	**535.0**
Equity		
Share capital	35.8	35.8
Retained earnings	232.4	232.4
Reserves(6)	(38.8)	(38.8)
Total equity attributable to equity holders of the Group	**229.4**	**229.4**
Non-controlling interests	0.7	0.7
Total capitalization(7)	**627.3**	**765.1**

(1) The adjusted amount consists of cash and cash equivalents as of December 31, 2016 and as adjusted to reflect the repayment at maturity on March 31, 2017 of the EUR 3.0 million loan from a related party and early repayment in April 2017 of the EUR 0.7 million loan from a related party, as well as the use of proceeds from the issuance of the Notes. See "*Use of Proceeds*" and "*Related Party Transactions*."

(2) The Issuer intends to use a portion of the proceeds to repurchase the 2019 Notes tendered and not validly withdrawn in the 2019 Notes Tender Offer.

(3) The Issuer may in certain circumstances use a portion of the proceeds of the Offering to redeem the SEK Notes in full, which is estimated to cost approximately EUR 42 million (including principal, redemption premium and accrued and unpaid interest). See "*Description of Indebtedness—SEK Notes*."

(4) Other debt consists of (i) amounts outstanding under loans from Ameriabank CJSC of EUR 0.2 million, (ii) other loans in the Group of EUR 3.9 million, (iii) other loans of Friendly Finance of EUR 6.8 million and (iv) other loans of TBIF Group of EUR 3.5 million.

(5) This amount reflects the aggregate principal amount of USD325.0 million (as an indicative amount) from the offering of the Notes translated into Euros. See *"Presentation of Financial and Other Information—Currencies."*

(6) Includes currency translation reserve, share base payment reserve and obligatory reserve.

(7) Total capitalization is the sum of (i) total debt, (ii) total equity attributable to our equity holders and (iii) non-controlling interests.

SELECTED FINANCIAL INFORMATION AND OPERATING DATA

The financial information set forth herein, has, unless otherwise indicated, been derived from the Financial Statements. The Financial Statements were prepared in accordance with IFRS, in effect at the time of preparing the relevant Financial Statements. The financial information set forth herein included certain financial measures and ratios that are not determined in accordance with IFRS. See "Presentation of Financial and Other Information."

The selected consolidated financial information of the Company should also be read in conjunction with the Financial Statements and "Management's Discussion and Analysis of Results of Operations and Financial Condition."

Certain amounts and percentages included in this Offering Memorandum have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different contexts may vary slightly and figures in certain other contexts may not be the exact arithmetic results of their components as shown herein.

In the selected consolidated statement of comprehensive income data, the selected consolidated statement of financial position data and the selected consolidated statement of cash flow data:

- *the numbers relating to the year ended December 31, 2015 are taken from the 2015 comparatives contained in the audited consolidated financial statements of the Group as of and for the years ended December 31, 2016; and*
- *the numbers relating to the year ended December 31, 2014 are taken from the 2014 comparatives contained in the audited consolidated financial statements of the Group as of and for the years ended December 31, 2015.*

SELECTED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME DATA

	Year ended December 31,		
	2016	**2015**	**2014**
	(EUR thousands)		
Continuing operations			
Interest income	393 155	318 285	220 333
Interest expense	(38 684)	(28 657)	(23 749)
Net interest income	**354 471**	**289 628**	**196 584**
Fee and commission income	2 901	—	—
Fee and commission expense	(809)	—	—
Net fee and commission income	**2 092**	**—**	**—**
Net trading loss	(7 337)	(6 988)	—
Other income	14 314	3 813	2 150
Other expense	(2 446)	(1 752)	(4 037)
Net impairment losses on loans and receivables	(89 672)	(76 964)	(54 030)
General administrative expenses	(190 383)	(133 899)	(80 020)
Profit before taxes	**81 039**	**73 838**	**60 647**
Corporate income tax for the reporting period	(17 832)	(15 683)	(11 639)
Profit from continuing operations	**63 207**	**58 155**	**49 008**
Discontinued operations			
Profit from discontinued operations, net of tax	—	5 910	(2 748)
Profit for the period	**63 207**	**64 065**	**46 260**
Profit attributable to:			
Equity holders of Group	62 823	63 470	45 646
Non-controlling interests[(1)]	384	595	614
PROFIT	**63 207**	**64 065**	**46 260**
Other comprehensive income that is or may be transferred to profit or loss			
Net gain on available for sale financial assets:	5	—	—
Reclassification of foreign currency differences on disposal of subsidiaries:	—	(728)	(165)
Foreign currency translation differences on foreign operations:	(4 404)	(5 318)	1 422
Other comprehensive income:	**(4 399)**	**(6 046)**	**1 257**
Total comprehensive income for the period	**58 808**	**58 019**	**47 517**
Total comprehensive income attributable to:			
Equity holders of Group	58 400	57 414	47 427
Non-controlling interest[(1)]	408	605	90

Note:

(1) Non-controlling refers to minority shareholders who own 3% of the shares in our Swedish subsidiary and 20% of the shares in Friendly Finance.

SELECTED CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA

	As of December 31,		
	2016	2015	2014
	(EUR thousands)		
Assets			
Cash and cash equivalents	157 641	56 862	33 713
Placements with other banks	4 752	—	—
Derivatives	11 166	10 503	18 626
Loans due from customers	493 897	308 288	241 375
Net investment in finance leases	13 082	—	—
Financial assets available for sale	10 589	—	4 418
Loans to related parties	67 198	13 732	134
Investments in associates	2 080	—	—
Prepaid expenses	5 602	2 675	3 331
Non-current assets held for sale	8 576	—	—
Property and equipment	12 345	4 328	2 108
Intangible assets and goodwill	83 175	18 030	2 751
Income tax asset	16 053	5 465	4 700
Deferred tax asset	23 697	12 941	10 727
Other assets	21 531	5 382	48 147
Total assets	**931 384**	**438 206**	**370 030**
Liabilities			
Loans and borrowings	397 183	229 462	231 624
Deposits from customers	237 119	9 121	—
Income tax liabilities	14 633	7 358	6 407
Other liabilities	47 495	19 002	17 344
Liabilities held for sale	4 809	—	1 646
Total liabilities	**701 239**	**264 943**	**257 021**
Share capital	35 750	35 750	35 750
Retained earnings	232 420	171 048	107 578
Reserves	(38 753)	(34 646)	(31 433)
Total equity attributable to equity holders of the Group	**229 417**	**172 152**	**111 895**
Non-controlling interests	728	1 111	1 114
Total equity	**230 145**	**173 263**	**113 009**
Total shareholders' equity and liabilities	**931 384**	**438 206**	**370 030**

SELECTED CONSOLIDATED STATEMENT OF CASH FLOW DATA

	Year ended December 31,		
	2016	2015	2014
	(EUR thousands)		
Net cash flows generated from/(used in) operating activities	106 224	74 016	(389)
Net cash flows used in investing activities	(150 625)	(52 745)	(3 489)
Net cash flows generated from/(used in) financing activities	124 323	1 770	15 063
Effect of exchange rate fluctuations on cash	236	(621)	2 133
Cash and cash equivalents at the beginning of the period	56 862	34 442	21 124
Cash and cash equivalents at the end of the period	**137 020**	**56 862**	**34 442**
Minimum statutory reserve	20 621	—	—
Total cash on hand and cash at central banks	**157 641**	**56 862**	**34 442**

NET DEBT

	As of December 31		
	2016	2015	2014
	(EUR millions)		
Cash and cash equivalents	157.6	56.9	33.7
Bank loan	(0.2)	(5.9)	(6.2)
2015 Notes[(1)]	—	—	(43.4)
2019 Notes—non-current	—	(167.2)	(157.9)
2019 Notes—current	(194.3)	(7.8)	(7.3)
SEK Notes—non-current	(38.4)	(40.8)	—
SEK Notes—current	(1.2)	(1.3)	—
2021 Notes—non-current	(140.6)	—	—
2021 Notes—current	(1.8)	—	—
Friendly Finance Notes—current	(2.8)	—	—
Loans from related parties—non-current	(0.7)	(0.7)	(12.6)
Loans from related parties—current	(3.0)	(3.0)	(4.2)
Other loans—current	(10.0)	(2.8)	—
Other loans non—current	(4.2)	—	—
Net debt	239.6	172.6	197.9

Notes:

(1) The proceeds from the offering of the 2019 Notes were primarily used to (i) repurchase the 2015 Notes tendered and not validly withdrawn in the tender offer for the 2015 Notes and (ii) satisfy and discharge any 2015 Notes not so tendered or repurchased (the "2015 Notes Defeasance"). The 2015 Notes Defeasance was completed in August 2014, hence this amount is not included in 2014 net debt.

OTHER FINANCIAL DATA

	Year ended December 31,		
	2016	2015	2014
	(EUR millions)		
EBITDA and Adjusted EBITDA:			
Profit for the period	63.2	64.1	46.3
Provision for corporate income tax	17.8	15.7	11.6
Interest expense	38.7	28.7	23.8
Depreciation and amortization	5.1	1.6	0.9
EBITDA	**124.9**	**110.0**	**82.6**
Adjustments[(1)]	12.5	8.6	7.6
Adjusted EBITDA	**137.4**	**118.6**	**90.2**

Notes:

(1) Adjusted EBITDA is a non-IFRS measure that represents EBITDA (profit for the period plus tax, plus interest expense, plus depreciation and amortization) as adjusted by income/loss from discontinued operations, non-cash gains and losses attributable to movement in the mark-to-market valuation of hedging obligations under IFRS, goodwill write-offs and certain other one-off or non-cash items. Adjusted EBITDA, as presented in this Offering Memorandum, may not be comparable to similarly titled measures that are reported by other companies due to differences in the way that these measures are calculated.

	Year ended December 31,		
	2016	2015	2014
	(EUR millions)		
Summary breakdown of Adjustments to EBITDA			
Discontinued operations	—	(5.9)	2.7
Net effect of FX hedging	7.3	7.0	3.9
One-off costs and other prescribed adjustments	5.2	7.5	0.9
Total	**12.5**	**8.6**	**7.6**

KEY FINANCIAL RATIOS

	As of December 31,		
	2016	2015	2014
Net loans portfolio (in Euro millions)[1]	493.9	308.3	241.4
Capital/assets ratio[2]	25%	40%	35%
Capital/net loan portfolio[3]	47%	56%	47%
Interest coverage[4]	3.6x	4.1x	3.8x
Adjusted EBITDA margin[5]	35%	37%	41%
Profit margin[6]	21%	23%	28%
Return on average equity[7]	31%	41%	55%
Return on average assets[8]	9%	14%	16%
Operating expenses/interest income ratio[9]	48%	42%	36%
Net impairment to revenue ratio[10]	23%	24%	25%
Non-performing loans as a share of value of loans issued[11]	9.3%	9.0%	8.8%
TBI capital adequacy ratio	22.3%	19.5%	18.1%
Bank of Bulgaria statutory minimum capital adequacy requirement	13.5%	13.5%	13.5%

Notes:

(1) Gross loan portfolio less provisions for bad debts.

(2) Total equity/total assets. Adjusted for effect of 2015 Notes Defeasance in 2014.

(3) Total equity/net loan portfolio.

(4) Adjusted EBITDA/interest expense.

(5) Adjusted EBITDA/interest income.

(6) Profit before tax/interest income.

(7) Profit from continuing operations/average equity (sum of total equity as of the start and end of each period divided by two).

(8) Profit from continuing operations/average assets (sum of total assets as of the start and end of each period divided by two).

(9) General administrative expenses/interest income.

(10) Net impairment losses on loans and receivables/interest income.

(11) Non-performing loans with a delay of over 90 days/value of loans issued. The value of loans issued represents loans issued for the two-year period before commencement of the 90 day past-due period, *e.g*., for December 31, 2016: October 1, 2014 to September 30, 2016.

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

Introduction

This section presents the unaudited pro forma consolidated income statement for the year ended December 31, 2016 of the Group and the related explanatory notes (the "**Unaudited Pro Forma Financial Information**").

The purpose of the Unaudited Pro Forma Financial Information is to simulate, using accounting principles that are consistent with those used in relation to the preparation of the Group's published historical consolidated financial statements, the main effects of the acquisition of the business of TBIF Group on the consolidated income statement of the Group, as if such acquisition of the business had taken place on January 1, 2016. The Unaudited Pro Forma Financial Information does not give effect to the offering of the Notes hereunder or the application of the proceeds therefrom.

The Unaudited Pro Forma Financial Information addresses a hypothetical situation and, therefore, does not represent the actual financial position or results of operations of the Group.

As mentioned above, the Unaudited Pro Forma Financial Information represents a simulation, for illustrative purposes only, of the main potential impacts that may derive from the acquisition of the business of TBIF Group. In particular, as pro forma information is prepared to illustrate retrospectively the effects of transactions that will occur subsequently using generally accepted regulations and reasonable assumptions, there are limitations that are inherent to the nature of pro forma information; hence, had the acquisition of the business of TBIF Group taken place on the dates assumed above, the actual effects would not necessarily have been the same as those presented in the Unaudited Pro Forma Financial Information.

The Unaudited Pro Forma Financial Information is based on our current estimates of, and good faith assumptions regarding, the adjustments arising from the acquisition of the business of TBIF Group. The Unaudited Pro Forma Financial Information is for informational purposes only and does not purport to represent or to be indicative of the consolidated results of operations or financial position that the Group would have reported had the acquisition of the business of TBIF Group been completed as of the date presented, and is not, and should not be taken as, representative of the Group's future consolidated results of operations or financial position, nor does it purport to project the Group's financial position as of any future date or results of operations for any future period. The unaudited pro forma financial data was not prepared in accordance with the requirements of Regulation S-X of the Securities Act, the Prospectus Directive or any generally accepted accounting standards.

Finally, it should be noted that the Unaudited Pro Forma Financial Information does not attempt to predict or estimate the future results of the Group and should not be used for this purpose.

Unaudited Pro Forma Consolidated Income Statement for the Year ended December 31, 2016

The following table shows the pro forma adjustments made in order to present the main potential effects of the acquisition of the business of TBIF Group on the consolidated income statement of the Group for the year ended December 31, 2016.

PROFIT OR LOSS	Audited Consolidated Group Financial Statements for the year ended December 31, 2016	Unaudited Pro Forma Consolidated Income Statement for the year ended December 31, 2016	Adjustments
	(in thousands of EUR)		
Interest income	393,155	419,066	25,911
Interest expense	(38,684)	(40,480)	(1,795)
Net interest income	**354,471**	**378,586**	
Fee and commission income	2,901	8,664	5,763
Fee and commission expense	(809)	(1,673)	(864)
Net fee and commission income	**2,092**	**6,991**	
Net trading gain	(7,337)	(6,002)	1,335
Other income	14,314	16,827	2,513
Other expense	(2,446)	(2,437)	9
Net impairment losses on loans and receivables	(89,672)	(93,216)	(3,544)
General administrative expenses	(190,383)	(207,757)	(17,375)
Profit before taxes	**81,039**	**92,991**	
Corporate income tax for the reporting period	(17,832)	(18,833)	(1,001)
Profit for the period	**63,207**	**74,158**	
Loss/gains from discontinued operations	—	—	
PROFIT	**63,207**	**74,158**	**10,952**
Non-controlling interests	384	384	—
Profit attributable to equity holders of the Group	**62,823**	**73,775**	**10,952**

Notes to the Unaudited Pro forma Financial Information

Basis of preparation

The historical financial information used to prepare the unaudited pro forma consolidated income statement is derived from:

- the audited consolidated financial statements of the Group as of and for the years ended December 31, 2016; and
- the audited consolidated financial statements of TBI Bank as of and for the year ended December 31, 2016.

TBI Bank is wholly and directly owned by TBIF Financial Services B.V.

TBIF Financial Services B.V. is a dormant holding company of TBI Bank, and its only major asset is its shareholding of TBI Bank. For that reason, the financial information in relation to the TBIF Group in this Offering Memorandum are the audited consolidated financial statements of TBI Bank as of and for the year ended December 31, 2016 and 2015.

Description of pro forma adjustments made in preparing the Unaudited Pro Forma Financial Information

The Unaudited Pro Forma Financial Information shows a pro forma profit and loss account for Holdco, assuming TBIF Group was acquired on December 31, 2015. To calculate the pro forma, full year figures for the group were taken excluding TBI Bank. Full year financial information for TBI Bank was then added and the pro forma group consolidated. Goodwill arising on the acquisition was assumed to be equal to that arising on the actual date of the acquisition. On acquisition, fair value adjustments assigned to assets as part of the purchase price allocation exercise were amortized from the date of acquisition. For the pro forma, the amortization of these adjustments was assumed to commence on January 1, 2016.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion and analysis should be read in conjunction with "*Presentation of Financial and Other Information*," "*Capitalization*," "*Summary Financial Information and Operating Data*," "*Selected Statistical Information*" and the Financial Statements included elsewhere in this Offering Memorandum. Investors should not solely rely on the information contained in this section. The Financial Statements have been prepared in accordance with IFRS.

The following discussion contains certain forward-looking statements, which are based on the current beliefs and expectations of our management and involve risks and uncertainties. These risks and uncertainties could cause our future results to differ materially from those discussed below. See "*Cautionary Note Regarding Forward-Looking Statements*" and "*Risk Factors*" for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in this Offering Memorandum.

Certain amounts and percentages included in this Offering Memorandum have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different contexts may vary slightly and figures in certain other contexts may not be exact arithmetic results of their components as shown herein.

OVERVIEW

We are one of the largest online and mobile providers of unsecured consumer loans in our principal European markets based on market share. Our principal European markets are Latvia, Lithuania, Finland, Sweden, Denmark, Poland, Georgia and Spain. Our approximately 6.3 million registered online customers represent the growing number of consumers use alternative financial services because of their convenience or because they are underserved by more traditional consumer credit providers such as banks and credit card companies. As a responsible lender, we work in close cooperation with the regulatory authorities in all of the jurisdictions in which we operate.

We are a diversified provider of consumer loans and currently operate in 16 countries: Argentina, Armenia, Bulgaria, the Czech Republic, Denmark, Dominican Republic, Finland, Georgia, Latvia, Lithuania, Mexico, Poland, Romania, Slovakia, Spain and Sweden.

For the year ended December 31, 2016, our interest income was spread across our countries of operation by the following percentages: Poland, 23.9%; Spain, 14.2%; Latvia, 11.0%; Denmark, 8.9%; Georgia, 8.7%; Sweden, 6.4%; Finland, 5.6%; and Lithuania, 5.5%. Other countries, including Argentina, Armenia, the Czech Republic, the Dominican Republic and Mexico accounted for 7.3% of our interest income for the year ended December 31, 2016.

We offer Single Payment Loans with a term from one day up to 35 days and Installment Loans with a term from one month up to 24 months via websites and mobile and selected offline channels. In September 2015, we launched our third product, Credit Line, a revolving credit line, in Finland, and subsequently in Latvia in September 2016. We also offer a range of products through our banking operations. For the year ended December 31, 2016, online loans accounted for 64% of our net loan portfolio, whilst bank loans (comprising both SME and retail loans) attributable to TBIF Group comprised 36% of our net loan portfolio.

As of December 31, 2016, our net loan portfolio, which represents our total loan portfolio less impairment, was EUR 493.9 million (of which EUR 316.4 million was attributable to our online portfolio which excludes TBIF Group, and EUR 177.5 million was attributable to TBIF Group), compared to EUR 308.3 million as of December 31, 2015 and 241.4 million as of December 31, 2014.

In August 2016, as part of our strategy to enter new markets and pursue selective expansion opportunities, the Group acquired TBI Bank (via the acquisition of TBI Bank's direct parent company, TBIF), a consumer-focused bank operating in Bulgaria and Romania. This acquisition enhanced the scale of our operations in these two existing markets. TBI Bank maintains a consumer portfolio, including small-size loans (of a similar profile in terms of size and maturity to our Installment Loans), Point of Sale financing and Credit Cards, as well as a portfolio of SME loans, including leasing products. In 2016, the consumer portfolio and SME portfolio accounted for 68% (62% in 2015) and 32% (38% in 2015), respectively, of TBI Bank's net loan portfolio. We believe that having an EU licensed bank within our Group will enable us to diversify our funding and lower funding costs by accepting deposits, broaden our product range (for example, allowing us to offer credit cards to our online customers) and operate in EU markets which require a banking license for consumer lending.

We seek to minimize impairments through a range of advanced data-driven customer assessment techniques. When impairments do occur, we aim to maximize recovery through an efficient debt collection process. Our portfolio of loans overdue for more than 90 days ("**non-performing loans**") as a share of online loans issued has remained consistent, and was 9.3% for the year ended December 31, 2016, 9.0% for the year ended December 31, 2015 and 8.8% for the year ended December 31, 2014. Similarly, our overall net impairment to revenue ratio was 23% for the year ended December 31, 2016 and 24% for the year ended December 31, 2015.

In the year ended December 31, 2016, we generated profit before tax (after impairment losses on loans and receivables and general administrative expenses) of EUR 81.0 million and net profit of EUR 63.2 million. In 2015 and 2014, we generated profit before tax of EUR 73.8 million and EUR 60.6 million, respectively, and net profit of EUR 64.1 million and EUR46.3 million, respectively.

We have strong EBITDA generation, recording EBITDA of EUR 124.9 million, EUR 110.0 million and EUR 82.6 million for the years ended December 31, 2016, 2015 and 2014, respectively (with an EBITDA margin of 31.8%, 34.5% and 37.5% respectively for those years). We are well capitalized, with total equity of EUR 230.1 million and EUR 173.3 million as of December 31, 2016 and December 31, 2015, respectively (with an equity to net customer loans ratio of 47% and 56% respectively for those years). TBIF Group's capital adequacy ratio was 22.3% and 19.5% as of December 31, 2016 and December 31, 2015, respectively.

REPORTING SEGMENTS

We have the following reporting segments under IFRS: Latvia, Lithuania, Finland, Sweden, Denmark, Poland, Georgia, Spain, Friendly Finance OU ("**Friendly Finance**") and TBIF Group. In 2014 and 2013, we reported six segments, and in 2015, we introduced Spain and Denmark as separate reporting segments. In 2016, TBIF Group and Friendly Finance were introduced as new reporting segments.

In our Consolidated Financial Statements, we present in our segment information an additional item labeled "Other," which includes Argentina, Armenia, Bulgaria, the Czech Republic, the Dominican Republic and Mexico.

Our Latvia reporting segment corresponds to our intermediate holding company, AS 4finance, which holds our operating companies in Lithuania, Finland, Sweden, Denmark, Poland, Georgia, and Spain. As such, the revenue and profit before tax of our Latvia segment includes both interest income received from its operations and dividends received from subsidiaries of AS 4finance, recorded separately as "internal revenue". Accordingly the profit before tax of our Latvia segment is not comparable to the profit before tax of our other segments.

KEY FACTORS AFFECTING RESULTS OF OPERATIONS

Loan amounts issued and movements in interest rates charged on loans

We generate substantially all of our net interest income from our portfolio of Single Payment Loans and Installment Loans. Our results of operations, therefore, are affected by loan amounts issued and the interest rates we are able to charge on our loans.

An increase in loan amounts issued has historically had a positive impact on our results of operations. During the relevant periods covered herein, our business has undergone organic expansion with online loan amounts issued (excluding TBIF Group and Friendly Finance) increasing to EUR 1,091 million in the year ended December 31, 2016 from EUR 1,062 million in the year ended December 31, 2015 and EUR 804.6 million in the year ended December 31, 2014. The significant increase in online loan amounts issued during the period under review (excluding the TBIF Group and Friendly Finance) was attributable to the expansion of our operations within existing jurisdictions and in new jurisdictions. We operated in 16 jurisdictions as of December 31, 2016, compared to 10 as of January 1, 2014. Our online customer base increased to 6.3 million registered customers (with a further 1.4 million registered acquired as a result of our acquisition of TBIF Group) as of December 31, 2016 from 0.5 million registered customers as of January 1, 2012, and the total number of online loans granted increased to 13.4 million loans as of December 31, 2016 from 1.0 million loans as of January 1, 2012. See "—*Key Performance Indicators*", below, for a discussion of the volumes of loans issued in our eight key jurisdictions (*i.e.*, the eight of our ten reporting business segments that represent countries of operations, excluding TBIF Group and Friendly Finance).

An increase in the interest rates that we charge will generally have a positive impact on our interest income, provided such increase does not lead to a reduction in loan amounts issued. In the year ended December 31, 2016, the average interest rate for our online net loans (calculated as the percentage of annualized interest income over the average online net loan portfolio) paid by customers was 120%, compared to 116% in the year ended December 31, 2015 and 105% in the year ended December 31, 2014. TBIF Group's average interest rate is a blend of consumer lending (cash lending, point-of-sale lending and credit cards) and SME / leasing, with average annualized interest rate on loans to customers of 27% in the year ended December 31, 2016. The increase in average interest rates during the period under review, together with the increase in loan amounts issued during the period, contributed to an increase in interest income to EUR 393.2 million in the year ended December 31, 2016 from EUR 318.3 million in the year ended December 31, 2015 and from EUR 220.3 million in the year ended December 31, 2014.

A decrease in the interest rates that we charge, whether caused by increased competition in the markets in which we operate, interest rate caps set by regulatory authorities, macroeconomic developments or a combination of these or any other factors, may have either a negative or a positive impact on our results of operations. A decrease in interest rates would have a negative impact on our results of operations to the extent such decrease is not offset by growth in loan amounts issued, greater cost efficiencies or a change in product portfolio. However, a decrease in interest rates may have a positive effect on our results of operations to the extent the decline in rates expands our customer base and therefore contributes to an offsetting increase in loan amounts issued.

Loan portfolio performance, and sales of loan portfolios

The ability to collect loan payments on a timely basis and recover debts that are overdue has a direct impact on the performance of our loan portfolio and on the level of net impairment charges taken during a reporting period.

The collection of loan payments on a timely basis depends, in part, on the strength of our underwriting and credit approval process, including the effectiveness of our proprietary scoring system, as well as on changes to our lending rules, such as restrictions on lending based on the age and past credit history of potential customers. We use an automated system to register, identify and process the applications of customers and a unique data-driven scoring system for assessing the creditworthiness of loan applicants. Our underwriting and credit approval process enables us to be flexible and react quickly to changes in the market. We aim to set acceptance thresholds that both manage our risks and maximize our profitability. Our non-performing loans as a percentage of issued online loans was 9.3% as of December 31, 2016 compared to 9.0% as of December 31, 2015 and 8.8% as of December 31, 2014.

As we expand into new markets, our initial customers represent on average a higher default risk than returning or new customers in existing jurisdictions. Generally, this higher default risk is because we do not have the same quality of behavioral evidence about customers in new jurisdictions that we have about customers in existing jurisdictions. However, over time and as we acquire more information about customers in new markets, our data-driven underwriting and debt collection policies in those markets generally improve. This is illustrated by the trend in net impairment losses in Poland, where we commenced our operations in July 2012. Initially, net impairment losses in Poland increased from EUR 5.3 million for the year ended December 31, 2013 (representing 21.5% of interest income in Poland) to EUR 20.9 million for the year ended December 31, 2014 (representing 34.1% of interest income in Poland). Net impairment losses in Poland decreased to EUR 15.9 million in the year ended December 31, 2015 (representing 19.6% of interest income in Poland) and increased to EUR 19.2 million in the year ended December 31, 2016 which as a percentage of interest income in Poland was 20.4% as the Polish business matured.

We have also developed an efficient system for collecting non-performing loans which has contributed to relatively low "loss given default" ratios (*i.e.*, the share of loans and receivables lost in the event of default) of 57% in the year ended December 31, 2016, 53% in the year ended December 31, 2015 and 47% in the year ended December 31, 2014. See "*Business—Process—Debt Collection*."

There are structural variations in the loss given default ratio across our different markets, such that an increase in the share of lending in countries such as Spain and Poland with higher than average ratios, for example, will increase the overall Group ratio. See *"–Key Performance Indicators*" for loss given default ratio by country, "*Business—4finance Group's Products—Single Payment Loans and Installment Loans*" for further discussion of our underwriting, credit approval and debt collection processes and "*—Discussion of Critical Accounting Policies—Impairment*" for a description of our impairment policies.

We also generate profit from the sale of certain of our loan portfolios that are non-performing, typically once they are between one and two years overdue. The profit from loan portfolio sales, which reflects an over-provisioning compared to the net asset value, is now recorded as a reduction of impairment losses, as per the table below. Overall net impairment losses represented 23% of interest income for the year ended December 31, 2016, a reduction from 24% for the year ended December 31, 2015.

	Year ended December 31,	
	2016	**2015**
	(in millions of EUR)	
Impairment losses on loans	105.8	84.7
Over provision on debt portfolio (portfolio net sale proceeds)	(7.6)	(2.8)
Recovery from written-off loans	(8.5)	(5.0)
Total	**89.7**	**77.0**

For the year ended December 31, 2016, we generated EUR 7.6 million in net gains from the sale of certain of our non-performing loans compared to EUR 2.8 million for the year ended December 31, 2015.

Regulatory environment

We operate in a complex regulatory environment currently spanning 16 jurisdictions in relation to consumer loans, consumer rights protection, debt collection and personal data processing, among other areas. Changes in the regulatory environment may have a significant impact on our results of operations. See "*Regulatory Framework*" for a description of the regulatory framework in our principal jurisdictions, including new regulations in Latvia, Lithuania and Poland, that came into force in 2016. Certain jurisdictions where we operate have imposed or are considering imposing caps on APR or total cost of credit, which may have either a positive or negative effect on our operations. The net effect of these caps depends on several factors including our ability to redesign our products in compliance with new regulations, the level of interest rates we are able to charge, the response of our competitors in that market and changes in consumer behavior.

For example, in Lithuania, loan amounts issued decreased from EUR 100.6 million for the year ended December 31, 2015 to EUR 8.5 million for the year ended December 31, 2016, representing a decrease of 91.6% due to the introduction of more restrictive legislation which introduced significant affordability testing for new loans. Similarly, interest income in Lithuania decreased from EUR 35.2 million for the year ended December 31, 2016 to EUR 21.7 million for the year ended December 31, 2016, representing a decrease of 38.4%. The fact that the decrease in interest income in Lithuania as a result of these events was significantly smaller than the decrease in the amount of loans issued, reflected the fact we had a roughly equal share of Installment Loans and Single Payment loans in our portfolio, meaning that the net interest yielding portfolio only decreased minimally during the year, highlighting the benefits of our diversified product offering in that market.

There are also associated costs with dealing with changes in the regulatory environment that have an impact on our profitability, such costs relating to internal and external legal analysis and increased expense on IT solutions. In addition, increased regulation has led us to increase our expenses related to compliance, legal and consultancy costs, IT costs and legal and regulatory personnel. Our ability to adapt to increased regulation is an important factor in mitigating the impact of such regulations on our business. For example, if regulators introduce caps on pricing, we can adjust our marketing spend and risk cut-offs to continue to operate in a profitable manner despite the lower revenue yield per customer. In Georgia, a 100% cap on effective interest rate was introduced in January 2017. Previously, we charged 15% for a 30-day loan, with a "first loan for free" offer for new customers (resulting in a blended average yield of 13% per month). After the cap became effective, the pricing has been limited to 6% for a 30 day loan. To adjust for this change, we have withdrawn the "first loan for free" offer and reduced our marketing spend, but still received an increased number of applications (driven by the lower pricing which increases natural demand) and tightened our acceptance criteria for new customers. Whilst the results in terms of profitability will depend on how extension behavior and repayments develop in future months, we believe our ability to adjust these key levers on a real-time basis will mitigate the initial impact on our profitability from the lower pricing.

Similarly, notwithstanding the caps on interests rates in Poland, introduced in the first quarter of 2016 (see "*Regulatory Framework—Poland*"), we were able to adapt to such regulatory changes, recording interest income

in Poland of EUR 94.0 million for the year ended December 31, 2016 compared to EUR 81.2 million for the year ended December 31, 2015, representing an increase of 15.8%. In Latvia, in the fourth quarter of 2016, in response to the regulator clarifying their position on extension pricing, we changed the pricing of our extensions on Single Payment Loans from 12.5% to 7.5%. We have seen a minor reduction in interest income in Latvia in the fourth quarter of 2016 as a result of such price changes.

Acquisitions and disposals

Acquisitions have been a key driver for the changes between our results of operations in the year ended December 31, 2016 and the year ended December 31, 2015.

In August 2016, the Group acquired TBIF Group, a consumer-focused bank operating in Bulgaria and Romania for a purchase price of EUR 82 million. TBIF Group maintains a consumer portfolio, including small-size loans of a similar profile (in terms of size and maturity) to our Installment Loans, point of sale financing and credit cards, as well as an SME portfolio, including leasing. Bank loans to consumers and SME customers from TBI made up 36% of our net loan portfolio by product for the year ended December 31, 2016. See "—*Overview*" for more information. In June 2016, the Group acquired 80% of the share capital of Friendly Finance, an online consumer lender active in the Czech Republic, Poland, Spain, Slovakia and Georgia from Tirona, our controlling shareholder, for a purchase price of EUR 28.8 million. The acquisition of Friendly Finance added additional brands to our portfolio and an additional database of over one million registered customers. Friendly Finance contributed EUR 26.2 million to our net loan portfolio, representing 5.3% of our net loan portfolio as of December 31, 2016.

The acquisitions of TBIF Group and Friendly Finance have contributed significantly to our results of operations. For example, as of December 31, 2016, our net loan portfolio, which represents our total loan portfolio less impairment, was EUR 493.9 million (of which EUR 177.5 million was attributable to TBIF Group and EUR 26.2 million was attributable to Friendly Finance), compared to EUR 308.3 million as of December 31, 2015. In addition, our interest income for the year ended December 31, 2016 increased to EUR 393.2 million from EUR 318.3 million for the year ended December 31, 2015, primarily due to the contribution to interest income from Friendly Finance of EUR 13.9 million and from TBIF Group of EUR 19.7 million.

The acquisition of TBI, in particular, has had, and may have, additional impacts on our results of operations. Over the period under review, TBI's cost of funding was lower than the Group's overall cost of funding. To the extent that this trend continues in the future, the presence of TBI as part of the Group may ultimately lower the Group's cost of funding. In addition, we have also generated new categories of income as a result of the acquisition. For example, we recorded net fee and commission income for the year ended December 31, 2016, to take into account income from TBI such as guarantees and letters of credit, transfers and transactions, and agents' commissions originating from an insurance agency contract.

As a result of our acquisition of TBIF Group which have a lower ratio of net impairment losses to interest income, the increase in net impairment losses was slightly lower than the increase in interest income, reflecting generally stable asset quality and the inclusion of TBI's banking operations. Net impairment losses represented 22.8% of interest income for the year ended December 31, 2016, a reduction from 24.2% for the year ended December 31, 2015.

There were no discontinued operations in the year ended December 31, 2016. In January 2015, a decision to discontinue operations in Estonia was made as part of a strategic decision to place greater focus on markets which provide a higher return on investment. In December 2014, a decision to sell the Group's operations in the Russian Federation was made. The decision was primarily driven by political and economic uncertainties in the market. In the first half of 2015, the Russian Federation business was sold to a related party. This resulted in a gain of EUR 6.4 million. In 2014, the North America business segment was sold to a related party outside of the reporting group. This resulted in a gain of EUR 2.3 million.

Also on 1 January 2015, the Group sold 85% of its effectively discontinued operations in the United Kingdom. Total loss from the sale of the United Kingdom operations amounted to EUR 0.2 million.

Product and country mix

Eight of our ten reportable segments represent the principal countries in which we operate (see "—*Business Segments*" for more information). These segments (Latvia, Lithuania, Finland, Sweden, Denmark, Poland, Georgia and Spain) are generally orientated towards different customer profiles and acquisition channels, and

therefore have different customer characteristics, business models, risks, and profitability. Any change in the mix of these jurisdictions will have an effect on our revenue and profitability. Upon entering a new jurisdiction, we expect our loan issuance and revenues to be low. As we become more established, we seek to build higher lending volumes and reach profitability. Whilst we acclimatize to a new business environment, we build scorecards and collect data on a broad range of customers in order to establish our underwriting criteria for the new market. As we establish in a new market, our financial profile changes, reflecting the more creditworthy customer base that naturally emerges.

For example, at the initial marketing stage in a new country, we can control and adjust how much we spend (and through which channels) to help drive a certain volume and type of potential customers to our websites. This drives our application volumes.

At the underwriting stage, we can control and adjust our scorecards to change the credit scoring thresholds for being granted a loan. This helps drive our acceptance rate, which together with the cost of marketing from the initial stage forms the "cost per acquisition".

As we develop in each market we fine tune these key operating levers to get the appropriate balance of cost of acquisition and cost of risk to ensure we have optimal, and profitable, 'unit economics' for each product in each market.

For example, increases in activity in a newer jurisdiction will mean higher revenue, but also, at least initially, a higher default rate. In Spain, interest income increased from EUR 14.4 million to EUR 35.4 million to EUR 56.0 million in the years ended December 31, 2014, 2015 and 2016 respectively. Simultaneously, net impairment losses also increased over the same period, from EUR 7.8 million to EUR 11.0 million to EUR 17.4 million in the years ending December 31, 2014, 2015 and 2016, respectively. A similar trend occurred in Denmark, another of our newer markets. Interest income increased in Denmark from EUR 13.0 million to EUR 22.0 million to EUR 34.8 million in the years ended December 31, 2014, 2015 and 2016, respectively. Concurrently, net impairment losses increased from EUR 2.7 million to EUR 5.8 million to EUR 9.6 million in the years ending December 31, 2014, 2015 and 2016, respectively.

Notwithstanding the increase in higher default rates as we develop in a new jurisdiction, our profitability often increases as a result of the factors described above. For example, in Spain, our profit before tax increased from a loss of EUR 5.4 million to a profit of EUR 3.2 million to EUR 7.3 million for the years ended December 31, 2014, 2015 and 2016, respectively. Similarly, in Denmark, our profit before tax increased from EUR 5.9 million to EUR 9.3 million to EUR 13.4 million for the years ending December 31, 2014, 2015 and 2016, respectively. Our operations in new jurisdictions mature over time as our customer base, presence and market share grows because returning customers represent an increasing proportion of lending volumes. For these returning customers, the cost of acquisition is substantially lower (as they have already used our product before and so are familiar with the brand) and the cost of risk is lower.

Currency risk

As of December 31, 2016, 71% of our net loans and advances due from customers were denominated in non-Euro currencies. Our liabilities mainly comprise loans and borrowings denominated in US dollars, Swedish Kronor and Euros, with US dollar-denominated loans and borrowings accounting for 49% of our liabilities as of December 31, 2016. Therefore, we are subject to certain shifts in currency valuations, namely, the depreciation against the US Dollar of the other currencies in which we extend loans and advances, and the depreciation against the Euro, which is our reporting currency, of the other currencies. See "*—Quantitative and Qualitative Disclosures About Risk Management—Currency risk*" for more information.

KEY PERFORMANCE INDICATORS—BUSINESS VOLUMES

Our key performance indicators in terms of business volume include (i) the number of registered customers; (ii) the loan amounts issued; and (iii) the breakdown of loan issuance by product. The number of registered customers reflects the number of customers who have applied for a loan, regardless of acceptance, and whose contact information we retain. The loan amounts issued reflects the total amount of new loans issued during a period. The breakdown of issuance by product represents the split between Single Payment Loans and Installment Loans (and Line of Credit, where applicable). The table below summarizes these key performance indicators for our eight key jurisdictions for the periods indicated.

	Year ended December 31,		
	2016	2015	2014
Poland			
Number of registered customers (*in thousands*)	1325	1097	811
Loan amounts issued (*in millions of EUR*)	384.3	310.1	247.0
Share of Single Payment Loans	92%	98%	98%
Share of Installment Loans	8%	2%	2%
Georgia			
Number of registered customers (*in thousands*)	885	724	459
Loan amounts issued (*in millions of EUR*)	119.1	128.4	76.5
Share of Single Payment Loans	100%	100%	100%
Share of Installment Loans	0%	0%	0%
Latvia			
Number of registered customers (*in thousands*)	482	460	428
Loan amounts issued (*in millions of EUR*)	127.5	124.5	107.7
Share of Single Payment Loans	76%	76%	73%
Share of Installment Loans	23%	24%	27%
Share of Line of Credit Loans	1%	0%	0%
Lithuania			
Number of registered customers *(in thousands)*	409	396	356
Loan amounts issued *(in millions of EUR)*	8.5	100.6	73.3
Share of Single Payment Loans	47%	50%	66%
Share of Installment Loans	53%	50%	34%
Finland			
Number of registered customers *(in thousands)*	253	235	208
Loan amounts issued (*in millions of EUR*)	88.4	89.2	93.0
Share of Single Payment Loans	95%	93%	93%
Share of Installment Loans	0%	6%	7%
Share of Line of Credit Loans	5%	1%	0%
Sweden			
Number of registered customers (*in thousands*)	162	143	116
Loan amounts issued (*in millions of EUR*)	63.8	105.5	92.9
Share of Single Payment Loans	73%	68%	77%
Share of Installment Loans	27%	32%	23%
Spain			
Number of registered customers (*in thousands*)	605	408	219
Loan amounts issued (*in millions of EUR*)	129.4	92.6	44.1
Share of Single Payment Loans	97%	100%	100%
Share of Installment Loans	3%	0%	0%
Denmark			
Number of registered customers (*in thousands*)	160	125	83
Loan amounts issued (*in millions of EUR*)	101.8	74.5	42.3
Share of Single Payment Loans	78%	88%	100%
Share of Installment Loans	22%	12%	0%

As of December 31, 2016 (compared to December 31, 2015), the number of registered customers increased significantly in Poland, Spain, Georgia and Denmark mainly due to marketing activities designed to grow our customer base in these markets. Similarly, our marketing activities prompted a significant increase to the number of registered customers during the previous year, as at December 31, 2015 (compared to December 31, 2014), in particular in the four markets discussed above.

Loan amounts issued have increased in certain markets and reduced in others for the year ended December 31, 2016 compared to the year ended December 31, 2015. The most significant reduction was in

Lithuania, where more restrictive legislation implemented on February 1, 2016 introduced significant affordability testing for new loans, resulted in a market-wide reduction in volumes. See "*—Key Factors Affecting Results of Operations—Regulatory Environment*" for more information on how new regulations in Lithuania have impacted our operations. Likewise, loan amounts issued increased in certain markets and decreased in others for the year ended December 31, 2015 compared to the year ended December 31, 2014. The most significant increases to loan amounts issued were in Spain and Denmark, where we placed a greater focus on expanding our operations in these relatively new markets.

Installment Loans grew as a share of loan amounts issued in the year ended December 31, 2016 compared with the year ended December 31, 2015 in Poland and Denmark in particular given the recent launch of Installment loans in those markets. Similarly, Installment Loans also grew as a share of loan amounts issued in the year ended December 31, 2015 compared to the year ended December 31, 2014, in particular in Denmark (due to its launch in 2015) and in Sweden and Lithuania (due to the increased marketing of our Installment Loans). We discontinued Installment Loans in Finland in late 2015 for strategic reasons. We may re-launch Installment Loans in Finland depending on market evolution.

The table below provides further key metrics for our eight key jurisdictions for the periods indicated.

	Year ended December 31,		
	2016	2015	2014
	(in millions of EUR, except percentages)		
Latvia			
Profit before tax[1]	41.8	36.0	21.0
Net loan portfolio	48.7	50.2	51.2
Average interest rate on loans to customers	87%	87%	82%
Loss given default	35%	39%	36%
Poland			
Profit before tax	31.6	31.7	13.4
Net loan portfolio	81.4	69.1	54.6
Average interest rate on loans to customers	125%	131%	133%
Loss given default	64%	66%	64%
Lithuania			
Profit before tax	10.2	11.7	16.1
Net loan portfolio	22.4	52.4	38.0
Average interest rate on loans to customers	58%	78%	74%
Loss given default	55%	40%	33%
Sweden			
Profit before tax	12.2	10.0	9.2
Net loan portfolio	22.4	32.0	24.1
Average interest rate on loans to customers	93%	93%	96%
Loss given default	42%	54%	52%
Finland			
Profit before tax	7.2	5.6	6.5
Net loan portfolio	19.3	22.1	20.9
Average interest rate on loans to customers	106%	100%	106%
Loss given default	47%	46%	38%
Spain			
Profit before tax	7.3	3.2	(5.4)
Net loan portfolio	26.3	20.1	11.4
Average interest rate on loans to customers	242%	226%	169%
Loss given default	76%	76%	80%
Georgia			
Profit before tax	10.7	26.5	11.9
Net loan portfolio	18.1	26.5	22.1
Average interest rate on loans to customers	154%	163%	158%
Loss given default	68%	49%	40%
Demark			
Profit before tax	13.4	9.3	5.9
Net loan portfolio	32.5	23.7	13.2
Average interest rate on loans to customers	124%	119%	120%
Loss given default	51%	48%	42%

Note:

(1) Includes intra-Group dividends received from subsidiaries of AS 4finance, recorded as internal revenue. See "*—Reporting Segments*" above.

DESCRIPTION OF CERTAIN INCOME STATEMENT LINE ITEMS

Below is a description of key line items from our income statement. See "*—Discussion of Critical Accounting Policies*" and the notes to our Financial Statements for further discussion of the accounting treatment of certain of these items.

Interest income

Interest income consists mainly of interest income from loans, and to a lesser extent penalty or late interest charged to customers. Interest income from loans is recognized using the effective interest rate method. See "*Critical Accounting Policies—Income and expense recognition—Interest income and expense*" for a description of the effective interest rate method. The effective interest rate method uses the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the outstanding loan to the carrying amount of such loan. Fees are recognized on a cash basis only when received.

Interest income from penalty or late interest charged to customers accounted for 9.2% and 10.3%, respectively, of our total interest income in the year ended December 31, 2016 and 2015 respectively.

Interest expense

Interest expense primarily consists of interest payments on our outstanding notes, bank loans and other loans. Interest expense is recognized using the effective interest rate method. The effective interest rate method uses the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the outstanding borrowing to the carrying amount of such borrowing.

Net interest income

Net interest income is interest income less interest expense.

Fee and commission income

Fee and commission income represents agents' commissions, and transfers and transaction.

Fee and commission expense

Fee and commission expense represents agents' commissions and bank transactions.

Net fee and commission income

Net fee and commission income is fee and commission income less fee and commission expense.

Goodwill write-off

Goodwill represents the excess of the cost of an acquisition over the fair value of our share in the net identifiable assets of the acquired entity as of the acquisition date. We write-off previously recognized goodwill if management concludes there is a reasonable degree of doubt concerning the future profitability of the acquired assets.

Net impairment losses on loans and receivables

Net impairment losses on loans and receivables represent the sum of impairment losses on loans extended to customers, net proceeds from debt sales and write-offs of loans (*i.e.*, any loan that is still not repaid after two years), less any recoveries on loans written off. See "*—Discussion of Critical Account Policies—Impairment*" for a description of our impairment policies and procedures.

General administrative expenses

General administrative expenses include marketing and sponsorship costs, personnel costs (including customer service and debt collection expenses related to in-house debt collection activities), application inspection costs, information technology expenses (including continuing investments in automation), debt collection costs related to the use of external debt collection agencies, communication expenses, bank services and rent and utilities.

Other income/(expense)

In the audited consolidated financial statements for the year ended December 31, 2016 (including comparative financial information for the year ended December 31, 2015), other income includes interest income, income from services, rent income, income from insurance brokers activities, other income from clients, and proceeds from share sales. Other expense represents cost of services rendered, and impairment of other assets.

In the audited consolidated financial statements for the year ended December 31, 2015 (including comparative financial information for the year ended December 31, 2014), other income includes net gains from debt portfolio sales, interest income, and income from services. Other expense represents net foreign exchange loss / (gain), financial assets at fair value through profit or loss, and cost of services rendered.

Because of this change in the way we record gains from portfolio sales in our audited consolidated financial statements for the year ended December 31, 2016, the "Other income/expense" line item in our comparative financial information for 2015 included as part of the audited consolidated financial statements for the year ended December 31, 2016 is not directly comparable to the "Other income/expense" line item included in our audited consolidated financial statements for the year ended December 31, 2015 and comparative financial information for 2014. Our discussion and analysis of changes in income statement line items below is based, for 2016 and 2015, on our audited consolidated financial statements for the year ended December 31, 2016 (and comparative financial information for 2015) and, for 2015 and 2014, on our audited consolidated financial statements for the year ended December 31, 2015 (and comparative financial information for 2014).

Corporate income tax

Corporate income tax comprises current and deferred taxes.

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2016 COMPARED TO THE YEAR ENDED DECEMBER 31, 2015

The table below sets forth our results of operations for the year ended December 31, 2016 compared to the year ended December 31, 2015.

	Year ended December 31,	
	2016	**2015**
	(in millions of EUR)	
Continuing operations		
Interest income	393.2	318.3
Interest expense	(38.7)	(28.7)
Net interest income	**354.5**	**289.6**
Fee and commission income	2.9	—
Fee and commission expense	(0.8)	—
Net fee and commission income	**2.1**	**—**
Net trading loss	(7.3)	(7.0)
Other income	14.3	3.8
Other expense	(2.4)	(1.8)
Net impairment losses on loans and receivables	(89.7)	(77.0)
General administrative expenses	(190.4)	(133.4)
Profit before taxes	**81.0**	**73.8**
Income tax for the reporting period	(17.8)	(15.7)
Profit from continuing operations	**63.2**	**58.2**
Discontinued operations		
Profit from discontinued operations, net of tax	0.0	5.9
Profit for the period	**63.2**	**64.1**
Profit attributable to:		
Equity holders of Group	62.8	63.5
Non-controlling interests(1)	0.4	0.6
PROFIT	**63.2**	**64.1**
Other comprehensive income that is or may be transferred to profit or loss		
Net gain on available for sale financial assets:	0.0	0.0
Reclassification of foreign currency differences on disposal of subsidiaries:	(0.0)	(0.7)
Foreign currency translation differences on foreign operations:	(4.4)	(5.3)
Other comprehensive income:	(4.4)	(6.0)
Total comprehensive income for the period	**58.8**	**58.0**
Total comprehensive income attributable to:		
Equity holders of Group	58.4	57.4
Non-controlling interest(1)	0.4	0.6

Note:

(1) Non-controlling interest refers to minority shareholders who own 3% of the shares in each of our Swedish and Lithuanian operating subsidiaries and 20% of the shares in Friendly Finance for 2016.

Interest income

Interest income for the year ended December 31, 2016 was EUR 393.2 million, a 23.5% increase compared to EUR 318.3 million for the year ended December 31, 2015, reflecting an increase in the average balance of outstanding net loans and the addition of the loan portfolios of Friendly Finance and TBIF Group, which contributed EUR 13.9 million and EUR 19.7 million of interest income, respectively, for the year ended December 31, 2016. The average balance of outstanding net online loans, in the year ended December 31, 2016 was EUR 299.2 million, an 8.9% increase compared to EUR 274.8 million in the year ended December 31, 2015. The increase in the average balance of outstanding net online loans was mainly attributable to growth in loan amounts issued to EUR 1,156.5 million in the year ended December 31, 2016 from EUR 1,064.3 million in the year ended December 31, 2015, which, in turn, was mainly due to the expansion of operations in Poland, Spain, Denmark, and the acquisition of Friendly Finance. The average interest rate on our online loans to customers increased to 120% in the year ended December 31, 2016 compared to 116% in the year ended December 31,

2015, which was mainly driven by our expansion in Poland, Denmark, Georgia and Spain, where average interest rates were relatively higher than in more mature jurisdictions, such as Latvia, Sweden and Lithuania. This effect more than offset an increase in the share of Installment Loans in our portfolio which, on average, have a lower interest rate compared to Single Payment Loans.

The following table sets forth interest income by segment for the years ended December 31, 2016 and December 31, 2015.

Interest income

	2016	% of total revenues	2015	% of total revenues
	(in millions of EUR, except percentages)			
Latvia	43.1	11%	44.2	14%
Lithuania	21.7	6%	35.2	11%
Finland	22.0	6%	21.6	7%
Sweden	25.2	6%	26.2	8%
Denmark	34.8	9%	22.0	7%
Poland	94.0	24%	81.2	25%
Georgia	34.3	9%	39.7	12%
Spain	56.0	14%	35.6	11%
Friendly Finance	13.9	4%	n/a	—
TBIF Group	19.7	5%	n/a	—
Other[1]	28.5	6%	12.6	5%
Discontinued operations[2]	n/a	—	0.3	0%
Total	**393.2**	**100%**	**318.6**	**100%**

Notes:

(1) Other includes unallocated headquarters and IT costs, and other operating entities in Bulgaria, the Czech Republic, Romania, Argentina and Armenia. Other also includes Spain and Denmark for the years ended December 31, 2014.

(2) We discontinued operations in Estonia in March 2015, discontinued operations in Russia in December 2014 and discontinued operations in the United Kingdom and North America in 2013.

Interest income generated in the following countries increased by the percentages indicated for the year ended December 31, 2016, compared to the year ended December 31, 2015:

- Denmark (58.2%), primarily due to significant growth in volumes of issued loans, both in our Single Payment Loans product and Installment Loans, which were launched in Denmark in the third quarter of 2015;
- Spain (57.3%), primarily due to continued growth in volumes of issued loans, particularly from returning customers;
- Poland (15.8%), primarily due to growth in Installment Loans which were re-launched at the end of 2015 as well as continued growth in our Single Payment Loan product in Poland; and
- Finland (1.9%), primarily due to a consistent performance of our Finnish operations notwithstanding that we ceased offering Installment Loans in Finland in 2015.

Interest income generated in the following countries decreased by the percentages indicated for the year ended December 31, 2016 compared to the year ended December 31, 2015:

- Lithuania (38.3%), primarily due to the introduction of more restrictive legislation which introduced significant affordability testing for new loans;
- Georgia (13.6%), primarily due to a slight reduction in the volumes of issued loans and a reduction in asset quality;
- Sweden (3.8%), primarily due to lower volumes of issued loans in the second half of 2016 driven by a lower spend on marketing; and
- Latvia (2.5%), primarily due to a slight reduction in the volumes of issued loans.

Interest expense

Interest expense for the year ended December 31, 2016 was EUR 38.7 million, a 34.8% increase compared to EUR 28.7 million for the year ended December 31, 2015, reflecting an increase in the average balance of our overall level of indebtedness to EUR 313.3 million in the year ended December 31, 2016 from EUR 230.5 million in the year ended December 31, 2015 as a result of issuing the 2021 Notes in May 2016 and November 2016.

Net interest income

Our net interest income for the year ended December 31, 2016 was EUR 354.5 million, a 22.4% increase compared to EUR 289.6 million for the year ended December 31, 2015, reflecting the corresponding increases in interest income and interest expense discussed above.

The ratio of interest expense to interest income increased to 9.8% for the year ended December 31, 2016 from 9.0% for the year ended December 31, 2015, in line with the increase in our loans and borrowings during the same periods.

Fee and commission income

For the year ended December 31, 2016, we generated fee and commission income of EUR 2.9 million. This was primarily attributable to the acquisition of TBIF Group, and included EUR 2.1 million in agents' commissions, EUR 0.7 million in transfers and transactions, and EUR 0.1 million to other fee and commission income. We did not record any fee and commission income for the year ended December 31, 2015.

Fee and commission expense

For the year ended December 31, 2016, we recorded fee and commission expense of EUR 0.8 million. This was primarily attributable to the acquisition of TBIF Group, and included agents' commissions of EUR 0.4 million, bank transactions amounting to EUR 0.3 million, and other fee and commission expenses of EUR 0.1 million. We did not record any fee and commission expenses for the year ended December 31, 2015.

Net fee and commission income

Our net fee and commission income for the year ended December 31, 2016 was EUR 2.1 million. We did not record net fee and commission income for the year ended December 31, 2015.

Net impairment losses on loans and receivables

Net impairment losses for the year ended December 31, 2016 were EUR 89.7 million, a 16.5% increase compared to EUR 77.0 million for the year ended December 31, 2015. The increase in net impairment losses was slightly lower than the increase in interest income, reflecting generally stable asset quality and the inclusion of banking operations as a result of our acquisition of TBIF Group which have a lower ratio of net impairment losses to interest income. Net impairment losses represented 22.8% of interest income for the year ended December 31, 2016, a reduction from 24.2% for the year ended December 31, 2015.

	Year ended December 31,	
	2016	**2015**
	(in millions of EUR)	
Impairment losses on loans	105.8	84.7
Over provision on debt portfolio (portfolio net sale proceeds)	(7.6)	(2.8)
Recovery from written-off loans	(8.5)	(5.0)
Total	**89.7**	**77.0**

General administrative expenses

General administrative expenses for the year ended December 31, 2016 were EUR 190.4 million, a 42.2% increase compared to EUR 133.9 million for the year ended December 31, 2015. The increase in general and administrative expenses as a proportion of interest income primarily reflected both the Group's investment in the

growth of existing businesses, as well as the impact of including the higher cost base of Friendly Finance (due to its earlier stage of development) and TBIF Group (due to its higher cost ratio due to its branch structure). The increase in personnel costs to EUR 68.4 million for the year ended December 31, 2016 from EUR 39.4 million for the year ended December 31, 2015, or 73.6%, reflected significant staff growth last year, mainly attributable to hiring in product development, IT, risk, legal & compliance and finance, as well as in new markets. The increase in legal and consulting expenses to EUR 12.1 million for the year ended December 31, 2016 from EUR 7.5 million for the year ended December 31, 2015 and the increase in other costs to EUR 8.8 million for the year ended December 31, 2016 from EUR 3.9 million for the year ended December 31, 2015 include certain one-off items related to the evaluation of potential acquisitions and funding opportunities, and costs associated with having to adapt to changes in regulation (for example, in Lithuania) including consultation fees and legal advice.

The table below sets forth a breakdown of our general administrative expenses for the years ended December 31, 2016 and December 31, 2015.

	Year ended December 31,	
	2016	2015
	(in millions of EUR)	
Personnel costs	68.4	39.4
Marketing and sponsorship	55.4	50.1
Legal and consulting	12.1	7.5
Debt collection costs	8.5	7.0
Research and development expenses	7.9	4.3
Application inspection costs	5.4	4.0
Rent and utilities	5.2	2.5
Depreciation and amortization	5.1	1.6
Communication expenses	4.5	3.2
IT expenses	3.6	6.9
Bank services	3.1	1.9
Travel	2.5	1.7
Other	8.8	3.9
Total	**190.4**	**133.9**

For the years ended December 31, 2016 and 2015, marketing and sponsorship expenses accounted for 29.1% and 37.4%, respectively, and personnel costs accounted for 35.9% and 29.4%, respectively, of general administrative expenses.

Other income/(expense)

Other income for the year ended December 31, 2016 was EUR 14.2 million compared to EUR 3.8 million for the year ended December 31, 2015. The increase in other income was primarily attributable to interest income received from related parties of EUR 6.6 million (see "*Related Party Transactions*" for more information), rental income of EUR 1.6 million, and income from insurance brokers activities of EUR 1.1 million.

Profit before tax

For the reasons stated above, our profit before tax for the year ended December 31, 2016 was EUR 81.0 million, a 9.8% increase compared to EUR 73.8 million for the year ended December 31, 2015. The profit before tax margin, *i.e.*, profit before tax as a percentage of interest income, was 20.6% for the year ended December 31, 2016 and 23.2% for the year ended December 31, 2015.

The following table sets forth our profit/(loss) before tax by segment for the years ended December 31, 2016 and December 31, 2015.

Profit/(loss)

	Years ended December 31,			
	2016	% of total profits	2015	% of total profits
	(in millions of EUR, except percentages)			
Latvia[1]	41.8	52%	36.0	49%
Lithuania	10.2	13%	11.7	16%
Finland	7.2	9%	5.6	8%
Sweden	12.2	15%	10.0	14%
Poland	31.6	39%	31.7	43%
Georgia	10.7	13%	26.5	36%
Spain	7.3	9%	3.2	4%
Denmark	13.4	17%	9.3	13%
TBIF Group	8.4	10%	—	—
Friendly Finance	0.2	0%	—	—
Other[2]	34.1	19%	(17.1)	(15%)
Discontinued operations[3]	0	0%	(5.9)	(5%)
Total[4]	**177.2**	—	**110.9**	—

Notes:

(1) Includes intra-Group dividends received from subsidiaries of AS 4finance, recorded as internal revenue.

(2) Other includes internal dividends within AS 4finance, unallocated headquarters and IT costs and other operating entities in Bulgaria, the Czech Republic, Romania, Argentina, Armenia, Mexico and Dominican Republic.

(3) We discontinued operations in Estonia in March 2015, discontinued operations in Russia in December 2014, and discontinued operations in the United Kingdom and North America in 2013.

(4) Total is prior to the elimination of inter-segment dividends included in inter-segment profits, as described in note 40 of the audited consolidated financial statements for the year ended December 31, 2016.

For the year ended December 31, 2016, we recorded a decrease in profit before tax compared to the year ended December 31, 2015 in the following jurisdictions:

- Georgia (59.6%), principally due to lower issuance volumes which reduced our interest income in Georgia by EUR 5.4 million, and an increase in net impairment losses from EUR 8.3 million for the year ended December 31, 2015 to EUR 14.8 million for the year ended December 31, 2016 itself due to higher loss experienced on defaulted loans;
- Lithuania (12.8%), principally due to the reduction in loan issuance (by 92%) and revenue (by 38%) referred to above. The impact on profitability was mitigated by a reduction in marketing spend. See "*—Key Factors Affecting Results of Operations—Regulatory Changes*" for more information; and
- Poland (0.3%), principally due to an increase in interest income of EUR 12.8 million being offset by an increase in general and administrative income of EUR 9.0 million.

For the year ended December 31, 2016, we recorded an increase in profit before tax compared to the year ended December 31, 2015 in the following jurisdictions:

- Spain (128.1%) similarly due to a significant increase of EUR 20.4 million (57.3%) in interest income which again reflects the addition of new products into the jurisdiction, and the general maturing of our business in the market;
- Denmark (44.1%), principally due to a significant increase of EUR 12.8 million (58.2%) in interest income, the addition of new products into the jurisdiction, and the general maturing of our business in the market;
- Finland (28.6%), principally due to an increase in interest income of EUR 0.4 million, and a decrease in interest expense of EUR 0.8 million, driven by a reduction in operating expenses, particularly in marketing;
- Sweden (22.0%), principally due to a decrease in interest expense of EUR 0.9 million and a decrease in net impairment of EUR 3.9 million, driven by both a reduction in operating expenses, particularly in marketing, and a tighter acceptance criteria on our customer applications; and

- Latvia (16.1%), principally due to a decrease in interest expense of EUR 3.8 million, a decrease in net impairment of EUR 6.4 million and a reduction in general and administrative expenses of EUR 3.2 million, driven by lower net impairment losses and a reduction in operating costs.

Corporate income tax

Our corporate income tax expense increased by 13.4% to EUR 17.8 million for the year ended December 31, 2016 compared to EUR 15.7 million for the year ended December 31, 2015, reflecting an increase in our profit before tax, which, in turn, was driven by growth in net interest income and a higher effective tax rate in 2016 compared to 2015.

The table below sets forth a breakdown of our corporate income tax for the years ended December 31, 2016 and 2015.

	Year ended December 31,	
	2016	**2015**
	(in millions of EUR)	
Current tax	28.5	17.8
Deferred tax	(10.7)	(2.1)
Total	**17.8**	**15.7**

For the year ended December 31, 2016, our effective tax rate was 22%, compared to 21% for the year ended December 31, 2015. The increase in the effective tax rate was due to an increased interest income contribution from those countries with a higher effective tax rate.

Profit from continuing operations

For the reasons stated above, our profit from continuing operations for the year ended December 31, 2016 was EUR 63.2 million, an 8.6% increase compared to EUR 58.2 million for the year ended December 31, 2015.

Profit from discontinued operations, net of tax

We did not record a profit from discontinued operations, net of tax, for the year ended December 31, 2016. We recorded a profit from discontinued operations, net of tax, for the year ended December 31, 2015 of EUR 5.9 million, primarily due to the sale of our Russian business in 2015.

Profit for the period

For the reasons stated above, profit for the year ended December 31, 2016 was EUR 63.2 million, a 1.4% decrease compared to EUR 64.1 million for the year ended December 31, 2015.

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2015 COMPARED TO THE YEAR ENDED DECEMBER 31, 2014

The table below sets forth our results of operations for the year ended December 31, 2015 compared to the year ended December 31, 2014.

	Year ended December 31,	
	2015	**2014**
	(in millions of EUR)	
Interest income	318.3	220.3
Interest expense	(28.7)	(23.7)
Net interest income	289.6	**196.6**
Net impairment losses on loans and receivables	(79.8)	(54.0)
General administrative expenses	(133.9)	(80.0)
Other income	6.6	2.2
Other expense	(8.7)	(4.0)
Profit before taxes	**73.8**	**60.6**
Corporate income tax for the reporting period	(15.7)	(11.6)
Profit from continuing operations	**58.2**	**49.0**
Discontinued operations		
Profit/(loss) from discontinued operations, net of tax	5.9	(2.7)
Profit for the period	**64.1**	**46.3**
Profit attributable to:		
Equity holders of Group	63.5	45.6
Non-controlling interests(1)	0.6	0.6
PROFIT	**64.1**	**46.3**
Other comprehensive income/(expenses):		
Reclassification of foreign currency differences on disposal of subsidiaries	(0.7)	(0.2)
Foreign currency translation differences on foreign operations	(5.3)	1.4
Other comprehensive income	**6.0**	**1.3**
Total comprehensive income for the period	**58.0**	**47.5**
Total comprehensive income attributable to:		
Equity holders of the Group	57.4	47.4
Non-controlling interests	0.6	0.1

Note:

(1) Non-controlling interest refers to minority shareholders who own 3% of the shares in each of our Swedish and Lithuanian operating subsidiaries.

Interest income

Interest income for the year ended December 31, 2015 was EUR 318.3 million, a 44.5% increase compared to EUR 220.3 million for the year ended December 31, 2014, reflecting an increase in the average balance of outstanding net loans and an increase in the average interest rate. The average balance of outstanding net loans in the year ended December 31, 2015 was EUR 274.8 million, a 31.1% increase compared to EUR 209.6 million in the year ended December 31, 2014. The increase in the average balance was mainly attributable to the expansion of operations in Poland, Denmark, Sweden, Finland and Latvia.

Due to continuing growth in our loan portfolio and in the number of loan transactions, we recorded an increase in interest income in each of our key countries of operation for the year ended December 31, 2015 compared to the year ended December 31, 2014.

The following table sets forth our interest income by segment for the years ended December 31, 2015 and December 31, 2014.

Interest income

	2015	% of total revenues	2014	% of total revenues
	(in millions of EUR, except percentages)			
Latvia[1]	44.2	14%	40.8	18%
Lithuania	35.2	11%	27.0	12%
Finland	21.6	7%	20.0	9%
Sweden	26.2	8%	19.6	8%
Denmark	22.0	7%	13.0	6%
Poland	81.2	25%	61.4	27%
Georgia	39.7	12%	20.3	9%
Spain	35.6	11%	14.4	6%
Friendly Finance	n/a	—	n/a	—
TBIF Group	n/a	—	n/a	—
Other[2]	12.6	5%	3.8	1%
Discontinued operations[3]	0.3	0%	10.6	4%
Total	**318.6**	**100%**	**230.9**	**100%**

Notes:

(1) Results are for AS 4finance, the holding company of the Issuer and certain of our other operating subsidiaries, including certain subsidiaries outside of Latvia. See "*Business—Group Structure—Legal structure*".

(2) Other includes unallocated headquarters and IT costs, and other operating entities in Bulgaria, the Czech Republic, Romania, Argentina and Armenia. Other also includes Spain and Denmark for the years ended December 31, 2014.

(3) We discontinued operations in Estonia in March 2015 and discontinued operations in Russia in December 2014.

Interest income generated in the following countries increased by the percentages indicated in the year ended December 31, 2015 compared to the year ended December 31, 2014:

- Spain (147.2%), Georgia (95.6%), and Denmark (69.2%), and Poland (32.2%), primarily due to our expansion into these relatively new jurisdictions and our increased marketing efforts resulting in higher volumes of issued loans;
- Sweden (33.7%), and Lithuania (30.4%), primarily due to an increase in issuance volumes, particularly in Installment Loans; and
- Latvia (8.3%) and Finland (8.0%), primarily due to steady growth and an increase in returning customers.

Interest expense

Interest expense for the year ended December 31, 2015 was EUR 28.7 million, a 21.1% increase compared to EUR 23.7 million for the year ended December 31, 2014, reflecting an increase in the average balance of our indebtedness to EUR 230.5 million in the year ended December 31, 2015 from EUR 180.4 million in the year ended December 31, 2014, offset in part by a decrease in the average interest rate paid on our loans and borrowings to 12.2% in the year ended December 31, 2015 from 13.1% in the year ended December 31, 2014 due to a refinancing of the 2015 Notes by way of the issuance of the 2019 Notes. We incurred additional debt, including the SEK Notes, during 2015 in order to fund loan portfolio growth as part of our business expansion, and paid full annual interest on the 2019 Notes.

Net interest income

Our net interest income for the year ended December 31, 2015 was EUR 289.6 million, a 47.3% increase compared to EUR 196.6 million for the year ended December 31, 2014, reflecting the corresponding increases in interest income and interest expense discussed above.

The ratio of interest expense to interest income increased to 9.0% for the year ended December 31, 2015 from 10.8% for the year ended December 31, 2014.

Net impairment losses on loans and receivables

Net impairment losses for the year ended December 31, 2015 were EUR 79.8 million, a 47.8% increase compared to EUR 54.0 million for the year ended December 31, 2014. The increase in net impairment losses primarily reflected the expansion of our operations in both existing and new jurisdictions, where we would, at least initially, expect to have a higher default rate. For example, as we expanded, we increased the volume of loans extended to new customers, including those in new jurisdictions at the time (such as Denmark, Poland, Spain and Georgia) who on average represented a slightly higher default risk than returning customers or new customers in existing jurisdictions.

See "—Financial Position—Assets—Loan Portfolio" for a discussion of our non-performing loan coverage ratios and average loss given default rates.

General administrative expenses

General administrative expenses for the year ended December 31, 2015 were EUR 133.9 million (representing 42.1% of interest income), a 67.3% increase compared to EUR 80.0 million (representing 36.3% of interest income) for the year ended December 31, 2014. The increase in general and administrative income as a proportion of interest income primarily reflected an increase in marketing and brand awareness and personnel costs, as well as growth in IT expenses and application inspection costs.

The table below sets forth a breakdown of our general administrative expenses for the years ended December 31, 2015 and 2014.

	Year ended December 31,	
	2015	**2014**
	(in millions of EUR)	
Marketing and sponsorship	50.1	33.8
Personnel costs	39.4	22.8
IT expenses	11.2	3.2
Legal consulting	7.5	3.7
Debt collection costs	7.0	3.8
Application inspection costs	4.0	3.7
Communication expenses	3.2	2.4
Rent and utilities	2.5	1.5
Bank services	1.9	1.1
Travel	1.7	0.8
Depreciation and amortization	1.6	0.9
Other	3.9	2.3
Total	**133.9**	**80.0**

For the years ended December 31, 2015 and 2014, marketing and sponsorship expenses accounted for 37.4% and 42.2%, respectively, and personnel costs accounted for 29.4% and 28.5%, respectively, of general administrative expenses.

Profit before tax

For the reasons stated above, our profit before tax for the year ended December 31, 2015 was EUR 73.8 million, a 21.8% increase compared to EUR 60.6 million for the year ended December 31, 2014. The profit before tax margin was 23.2% for the year ended December 31, 2015 and 27.5% for the year ended December 31, 2014.

The table below sets forth our profit/(loss) before tax by segment for the years ended December 31, 2015 and December 31, 2014.

Profit/(loss)

	Years ended December 31,			
	2015	% of total profits	2014	% of total profits
	(in millions of EUR, except percentages)			
Latvia[1]	36.0	49%	21.0	35%
Lithuania	11.7	16%	16.1	27%
Finland	5.6	8%	6.5	11%
Sweden	10.0	14%	9.2	15%
Poland	31.7	43%	13.4	22%
Georgia	26.5	36%	11.9	20%
Spain	3.2	4%	(5.4)	(9%)
Denmark	9.3	13%	5.9	10%
TBIF Group	—	—	—	—
Friendly Finance	—	—	—	—
Other[2]	(17.1)	(15%)	(10.2)	(14%)
Discontinued operations[3]	(5.9)	(5)%	2.7	4%
Total[4]	**110.9**	**—**	**71.2**	**—**

Notes:

(1) Results are for AS 4finance, the holding company of the Issuer and certain of our other operating subsidiaries, including certain subsidiaries outside of Latvia. See "*Business–Group Structure–Legal structure*".

(2) Other includes internal dividends within AS 4finance, unallocated headquarters and IT costs, and other operating entities in Bulgaria, the Czech Republic, Romania, Argentina and Armenia.

(3) We discontinued operations in Estonia in March 2015 and discontinued operations in Russia in December 2014.

(4) Total is prior to the elimination of inter-segment dividends included in inter-segment profits, as described in note 31 of the audited consolidated financial statements for the year ended December 31, 2015.

We recorded a decrease in profit before tax for the year ended December 31, 2015, compared to the year ended December 31, 2014 in the following jurisdictions:

- Lithuania (27.3%) due to a EUR 4.7 million increase to impairment and an increase in general and administrative expenses of EUR 7.7 million; and
- Finland (13.8%) due to an increase in interest expense of EUR 0.3 million and an increase to impairment cost of EUR 2.2 million.

We recorded an increase in profit before tax for the year ended December 31, 2015, compared to the year ended December 31, 2014 in the following jurisdictions:

- Poland (136.6%) mainly due to an increase in interest income of EUR 19.8 million, driven by an increase in loan issuance volumes;
- Georgia (122.7%), due to an increase in interest income of EUR 19.4 million driven by our expansion into the jurisdiction and our increased marketing efforts resulting in higher volumes of issued loans whilst our cost base was still relatively low, and a lower impairment cost on our loan portfolio;
- Denmark (57.6%) due to an increase of EUR 9.0 million in interest income driven by our expansion into the jurisdiction and our increased marketing efforts resulting in higher volumes of issued loans whilst our cost base was still relatively low, and a lower impairment cost on our loan portfolio;
- Sweden (8.7%) due to an increase in interest income of EUR 6.6 million and a decrease in general and administrative expenses of EUR 0.8 million; and
- in Spain, we recorded a profit of EUR 3.2 million for the year ended December 31, 2016 compared to a loss of EUR 5.4 million for the year ended December 31, 2014 due to an increase in interest income of EUR 21.2 million over the period, due to interest income becoming greater than our administrative expenses, allowing us to become profitable in the jurisdiction.

Corporate income tax

Our corporate income tax expense increased by 35.3% to EUR 15.7 million for the year ended December 31, 2015 compared to EUR 11.6 million for the year ended December 31, 2014, reflecting an increase in our profit before tax, which, in turn, was driven by growth in interest income and a prudent deferred tax recognition policy, partially offset by a decrease in our effective tax rate.

The table below sets forth a breakdown of our corporate income tax for the years ended December 31, 2015 and 2014.

	Year ended December 31,	
	2015	**2014**
	(in millions of EUR)	
Current tax	17.8	18.5
Deferred tax	(2.1)	(6.8)
Total	**15.7**	**11.6**

For the year ended December 31, 2015, our effective tax rate was 21% compared to 19% for the year ended December 31, 2014. The increase in the effective tax rate was due to (i) an increase in our profit before tax, which, in turn, was driven by growth in net interest income and a higher effective tax rate in 2015 compared to 2014 and (ii) a lower reduction of deferred tax assets in 2015.

Profit from continuing operations

For the reasons stated above, our profit from continuing operations for the year ended December 31, 2015 was EUR 58.2 million, a 18.7% increase compared to EUR 49 million for the year ended December 31, 2014.

Profit from discontinued operations, net of tax

Profit from discontinued operation, net of tax, was EUR 5.9 million for the year ended December 31, 2016, compared to a loss from continued operations, net of tax, of EUR 2.7 million for the year ended December 31, 2015.

Profit for the period

For the reasons stated above, profit for the year ended December 31, 2015 was EUR 64.1 million, a 38.4% increase compared to EUR 46.3 million for the year ended December 31, 2014.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Following the completion of the Offering, our primary sources of liquidity are expected to consist of the following:

- cash generated from our operating activities;
- bond offerings including the Notes and 2021 Notes;
- bank borrowings;
- deposits from TBIF Group; and
- proceeds from the Offering. See "*Use of Proceeds.*"

As of December 31, 2016, EUR 3.7 million was outstanding under our shareholder loans. Shareholder loans are not expected to be a major source of financing in the future. Going forward, we expect deposits from TBI to account for a growing share of our liquidity. As part of its strategy to both diversify sources of funds and lower funding costs, we continue to explore secured funding alternatives for our current portfolios and for future origination. For example, we are exploring securitization as a means of providing an alternative source and type of funding for the Group whereby our operating entities sell receivables to a special purpose vehicle. We anticipate that securitizations would enable us to diversify our funding source and type, increase our lending capacity and lower our funding costs.

The Company may, from time to time, engage in purchases of any of the 2019 Notes that remain outstanding after the completion of the Offering, and use the proceeds thereof, in open market or private transactions or otherwise.

As of December 31, 2016, we had cash and cash equivalents of EUR 157.6 million, compared to EUR 56.9 million and EUR 33.7 million as of December 31, 2015 and 2014, respectively. This increase was primarily driven by (i) an increase in our bank balances to EUR 79.3 million for the year ended December 31, 2016 from EUR 56.9 million for the year ended December 31, 2015, (ii) placements with other banks amounting to EUR 50.2 million as at December 31, 2016 (as opposed to nil as at December 31, 2015), and (iii) cash held as the minimum statutory reserve of EUR 20.6 million as at December 31, 2016 (as opposed to nil as at December 31, 2015), mainly as a result of our acquisition of TBIF Group. The statutory minimum reserves are not available for use in the Group's day-to-day operations.

We anticipate that our primary use of cash will be to fund our loan portfolio and to service our debt obligations.

The table below sets forth our net cash flows from operating, investing and financing activities for the periods indicated.

	Year ended December 31,		
	2016	**2015**	**2014**
	(in millions of EUR)		
Net cash flows generated from/(used in) operating activities	106.2	74.0	(0.4)
Net cash flows used in investing activities	(150.6)	(52.8)	(3.5)
Net cash flows generated from/(used in) financing activities	124.3	1.8	15.1
Net increase in cash and cash equivalents(1)	79.9	23.0	11.2

Note:

(1) Does not include effect of exchange rate fluctuations on cash.

Cash flows generated from/(used in) operating activities

Net cash flows used in operating activities are calculated as profit before taxes, adjusted for non-cash and other items and the effect of changes to current assets and short-term liabilities, less corporate income tax paid.

Net cash flows from operating activities increased to EUR 106.2 million in the year ended December 31, 2016, compared to EUR 74.0 million for the year ended December 31, 2015. The increase was primarily due to (i) a EUR 20.7 million increase in adjustments for impairment allowance due to an increase in our loan portfolio over the period, (ii) a EUR 10.5 million decrease in adjustments for net losses on foreign exchange from borrowings and other items due to EUR/USD foreign exchange movements, (iii) a EUR 37.0 million increase in deposits due to the acquisition of TBIF Group, (iv) a EUR 26.7 million increase in adjustments for gains from sales of portfolio due to more active sales of non-performing loans (which also contributes to the increase in other assets), (v) an increase in other assets of EUR 64.8 million, due to the sale of non-performing loans, and TBI finance leases and (vi) a EUR 47.4 million decrease in loans issued to customers due to lower issuance volumes, (vii) less corporate income tax paid of EUR 16.4 million.

Net cash flows from operating activities increased to EUR 74.0 million in the year ended December 31, 2015 compared to net cash flows used in operating activities of EUR 0.4 million in the year ended December 31, 2014. The increase was primarily due to (i) a EUR 25.1 million increase in adjustments for increase in impairment allowance due to loan portfolio growth, (ii) a decrease in adjustments for net losses on foreign exchange from borrowings and other monetary items of EUR 6.0 million due to EUR/USD foreign exchange movements, (iii) an EUR 4.9 million increase in adjustments for interest expenses due to higher interest expense paid on borrowings (iv) a EUR 11.4 million adjustment for decreases in other assets (compared to EUR 3.6 million adjustment for increases in other assets in 2014) due to greater receivables from offline service providers in Spain and Georgia, and (v) a EUR 2.2 million increase in adjustments for gains from the sale of portfolios resulting from the sale of portfolios in Latvia, Sweden, Finland, Denmark, Lithuania and Georgia in 2015.

The increase in impairment allowances on loans and advances due from customers in each of the periods under review was due to our regular reassessment of such allowances, including a review of historical recovery trends impacting the loss given default ratio.

Cash flows used in investing activities

Our cash flows used in investing activities mainly include the purchase and disposition of property, equipment and intangible assets, loans issued and loans repaid to related parties.

Net cash flows used in investing activities were EUR 150.6 million in the year ended December 31, 2016, resulting primarily from (i) the purchase of property, equipment and intangible assets, which totaled EUR 21.3 million, (ii) the flow of loan issuance to related parties of EUR 54.0 million (see "*Related Party Transactions*" for more information), (iii) interest received on loans issued to related parties of EUR 1.1 million, and (iv) the acquisition of subsidiaries of EUR 67.5 million relating to the acquisitions of the TBIF Group and Friendly Finance.

Net cash flows used in investing activities were EUR 52.8 million in the year ended December 31, 2015, resulting primarily from (i) the purchase of property, equipment and intangible assets, which totaled EUR 20.3 million (mainly due to software development costs), (ii) the flow of loan issuance to related parties of EUR 32.9 million (see "*Related Party Transactions*" for more information), (iii) interest received on loans issued to related parties of EUR 1.7 million, and (iv) the effect of disposal and acquisition of subsidiaries EUR 1.2 million.

Net cash flows used in investing activities were EUR 3.5 million in the year ended December 31, 2014, resulting primarily from the purchase of property, equipment and intangible assets, which totaled EUR 4.2 million, partially offset by interest received on loans issued to related parties of EUR 0.8 million.

Cash flows generated from/ (used in) financing activities

Our cash flows from financing activities mainly reflect proceeds received from borrowings, the repayment of principal and interest on indebtedness and the payment of dividends.

Net cash flows used in financing activities were EUR 124.3 million in the year ended December 31, 2016 resulting primarily from proceeds from loans received and the issuance of our 2021 Notes of EUR 175.5 million, partially offset by repayment of loans of EUR 14.3 million and interest payments of EUR 36.2 million.

Net cash flows generated from financing activities were EUR 1.8 million in the year ended December 31, 2015, resulting primarily from loans received and the issuance of Notes of EUR 79.0 million, partially offset by repayment of loans of EUR 49.4 million and interest payments of EUR 27.3 million.

Net cash flows generated from financing activities were EUR 15.1 million in the year ended December 31, 2014, resulting primarily from proceeds from loans received and the issuance of our 2019 Notes in amount of EUR 86.6 million, partially offset by repayment of loans of EUR 52.5 million relating to the 2015 Notes and interest payments of EUR 18.7 million.

FINANCIAL POSITION

The following discussion compares our consolidated financial position as of December 31, 2016, 2015 and 2014.

Assets

We had total assets of EUR 931.4 million as of December 31, 2016, compared to EUR 438.2 million as of December 31, 2015, representing an increase of EUR 493.2 million, or 112.6%. This increase was primarily due to (i) an increase in loans due from customers to EUR 493.9 million (from EUR 308.3 million in 2015) (as further explained below), (ii) an increase in cash and cash equivalents to EUR 157.6 million (from EUR 56.9 million in 2015), itself primarily driven by an increase in our bank balances to EUR 79.3 million (representing an increase in borrowings and increase in deposit funding from TBI Bank) for the year ended December 31, 2016 from EUR 56.9 million for the year ended December 31, 2015, (iii) an increase in loans to related parties to EUR 67.2 million (from EUR 13.7 million in 2015), primarily related to the increase in the loan to V7 Limited to EUR 18.5 million for the year ended December 31, 2016 from EUR 3.5 million for the year ended December 31, 2015 and the increase in the loan to 4finance Group S.A. to EUR 31.5 million for the year ended December 31, 2016 from EUR 1.4 million for the year ended December 31, 2015 (see "*Related Party Transactions*" for more information), (iv) placements with other banks amounting to EUR 4.8 million as at December 31, 2016 (as opposed to nil as at December 31, 2015) and (v) cash held as the minimum statutory reserve of EUR 20.6 million as at December 31, 2016 (as opposed to nil as at December 31, 2015), mainly as a result of our acquisition of TBIF Group.

Finally, intangible assets and goodwill increased to EUR 83.2 million (from 18.0 million in 2015), primarily due to the goodwill recorded as a result of our acquisitions of TBIF Group and Friendly Finance. As of December 31, 2016 and December 31, 2015, 70.5% and 83.3%, respectively, of our assets were self-liquidating, *i.e.*, loans and advances due from customers and cash, as a percentage of total assets.

We had total assets of EUR 438.2 million as of December 31, 2015, compared to EUR 370.0 million as of December 31, 2014, representing an increase of EUR 68.2 million, or 18.4%. This increase was primarily due to an increase in cash and cash equivalents (including proceeds from borrowings) to EUR 56.9 million (from EUR 33.7 million in 2014), an increase in loans due from customers to EUR 308.3 million (from EUR 241.4 million in 2014), primarily due to an increase in our long term loans due from customers to EUR 16.3 million (from EUR 12.5 million in 2014) and an increase in our short term loans due from customers to EUR 292.0 million (from EUR 228.9 million in 2014), an increase in loans to related parties to EUR 13.7 million (from EUR 0.1 million in 2014) including a loan to Piressa Holdings Limited of EUR 5.1 million, a loan to V7 Limited of EUR 3.5 million, and a loan to 4finance Group S.A. of EUR 1.4 million and an increase in intangible assets and goodwill to EUR 18.0 million (from 2.8 million in 2014), primarily due to an increase in licenses and trademarks to EUR 2.0 million (from 0.8 million in 2014), an increase in software and other intangible assets to EUR 6.1 million (from 0.3 million in 2014) and an increase in development costs to EUR 8.2 million (from nil in 2014).

Loan Portfolio

As of December 31, 2016, our total net loan portfolio equaled EUR 493.9 million, compared to EUR 308.3 million as of December 31, 2015, representing an increase of EUR 185.6 million, or 60.2%. Our net loan portfolio accounted for 53.0% of total assets as of December 31, 2016 and 70.4% of total assets as of December 31, 2015. This principally reflected our acquisition of TBIF Group and its total net loan portfolio of EUR 177.5 million.

As of December 31, 2015, our total net loan portfolio equaled EUR 308.3 million, compared to EUR 241.4 million as of December 31, 2014, representing an increase of EUR 66.9 million, or 27.7%. Our net loan portfolio accounted for 65.2% of total assets as of December 31, 2014. This principally reflected an increase in both long term and short term loans issued to customers.

Our non-performing loan coverage ratio was 80.2% as of December 31, 2016 and 74.6% as of December 31, 2015. As of December 31, 2016, the average loss given default rate across our portfolios increased to 57%, compared to 53% as of December 31, 2015.

See "*Selected Statistical Information*" for further information on our loan portfolio.

Liabilities

We had total liabilities of EUR 701.2 million as of December 31, 2016 compared to EUR 265.0 million as of December 31, 2015, representing an increase of EUR 436.2 million, or 164.6%. This increase was mainly driven by an increase in loans and borrowings to EUR 397.2 million (from EUR 229.5 million in 2015), primarily due to the issuance of the 2021 Notes in May and November 2016, an increase in deposits from customers to EUR 237.1 million (from EUR 9.1 million in 2015), mainly resulting from the acquisition of TBIF Group and an increase in other liabilities to EUR 47.5 million (from EUR 19.0 million in 2015), primarily due to an increase in accrued expenses to EUR 12.4 million (from EUR 6.7 million in 2015) relating mainly to our largest operating entities in Poland, Spain, Denmark, Latvia and the Czech Republic due to ordinary general and administrative expenses. Other liabilities have also increased mainly due to our acquisition of TBIF Group and Friendly Finance. TBIF Group's other liabilities are EUR 3.5 million and Friendly Finance's other liabilities are EUR 0.8 million. Other liabilities mainly consist of salaries payable, overpayments received from clients, faulty payments received, and accounts payable to related parties.

We had total liabilities of EUR 265.0 million as of December 31, 2015, compared to EUR 257.0 million as of December 31, 2014, representing an increase of EUR 8.0 million, or 3.1%. The increase was primarily driven by an increase in employee benefits to EUR 2.4 million (from EUR 1 million in 2014), primarily due to provisions for unused vacations, and an increase in other liabilities to EUR 25.7 million (from EUR 17.3 million in 2014), primarily due to an increase in accrued expenses to EUR 6.9 million (from EUR 3.0 million in 2014) relating mainly to our largest operating entities in Poland, Spain, Denmark, Latvia and the Czech Republic due to ordinary general and administrative expenses.

Loans and borrowings

As of December 31, 2016 we had loans and borrowings of EUR 397.2 million, compared to EUR 229.5 million as of December 31, 2015. The increase was primarily driven by the issuance of the 2021 Notes in 2016, increasing our borrowing in the form of notes to EUR 379.0 million (from EUR 217.0 million in 2015) and through the acquisition of TBIF Group's and Friendly Finance. For example, EUR 3.5 million of our loans and borrowings for the year ended December 31, 2016 was attributable to the loans and borrowings of TBIF Group, and EUR 6.8 million of our loans and borrowings in the year ended December 31, 2016 was attributable to the loans and borrowings of Friendly Finance. Our loans and borrowings accounted for 56.6% of total liabilities as of December 31, 2016.

As of December 31, 2015, we had loans and borrowings of EUR 229.5 million, compared to EUR 231.6 million as of December 31, 2014. This increase was primarily driven by the issuance of the SEK Notes in 2015, increasing our borrowing in the form of notes to EUR 217.0 million (from EUR 208.6 million in 2014). Our loans and borrowings accounted for 86.6% of total liabilities as of December 31, 2015.

The table below sets forth the loans and borrowings as of the dates indicated. See "*—Contractual Obligations and Commercial Commitments*" below for a description of our loans and borrowings.

	As of December 31,		
	2016	2015	2014
	(in millions of EUR)		
Long term			
AS Trasta Komercbanka[(1)]	—	4.7	6.2
Loans from banks[(2)]	0.2	—	—
2021 Notes	140.6	—	—
2019 Notes	—	167.2	157.9
SEK Notes	38.4	40.8	—
FF Notes[(3)]	2.8	—	—
Other	4.9	0.7	12.6
Short term			
AS Trasta Komercbanka[(1)]	—	1.2	—
2015 Notes	—	—	43.4
2021 Notes	1.8	—	—
2019 Notes	194.3	7.8	7.3
SEK Notes	1.2	1.3	—
Other[(4)]	13.0	5.8	4.2
Total	**397.2**	**229.5**	**231.6**

Note:

(1) In May 2011, AS 4finance signed a credit line agreement with AS Trasta Komercbanka with a maximum credit line limit of EUR 7.7 million maturing in April 2015 and a fixed annual interest rate of 7% for the part of the credit line used and 0.5% for the unused part of the facility. This loan was repaid in November 2016.

(2) Includes loans from banks (relating to TBI Bank).

(3) On June 30, 2016, the Group acquired Friendly Finance. In November 2015, its subsidiary, Friendly Finance Poland, issued PLN 15 million (EUR 3.4 million) 10% notes due in May 2018.

(4) Other consists of loans from related parties, other debt attributable to Friendly Finance and a private placement in Sweden.

Equity

As of December 31, 2016 our total equity amounted to EUR 230.1 million, compared to EUR 173.3 million as of December 31, 2015, representing an increase of EUR 56.8 million, or 32.8%, which was mainly attributable to an increase in retained earnings. As at the date of this Offering Memorandum, we have not paid any dividends in respect of the year ended December 31, 2016.

As of December 31, 2015 our total equity amounted to EUR 173.3 million, compared to EUR 113.0 million as of December 31, 2014, representing an increase of EUR 60.3 million, or 53.4%. This increase was mainly due to an increase in profits in 2015 compared to 2014. We did not pay any dividends to our shareholder in respect of the year ended December 31, 2015.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The table below sets forth information regarding our contractual obligations and payments due by period as of December 31, 2016.

	Less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	Above 1 year	Total
			(in millions of EUR)			
Loans and borrowings	4.0	3.0	4.2	1.8	5.2	18.2
Bonds	11.5	—	—	185.7	181.8	379.0
Total	**15.5**	**3.0**	**4.2**	**187.5**	**187.0**	**397.2**

As of December 31, 2016, none of our outstanding indebtedness was secured by collateral.

As of December 31, 2016, we were in compliance with all payments of principal and interest under our outstanding indebtedness. The instruments governing our existing indebtedness contain certain covenants that limit the future actions we may take or transactions we may enter into. The following is a brief description of the principal terms of the TKB Line of Credit, the SEK Notes, the 2019 Notes, the 2021 Notes and the Friendly Finance Notes. See "*Description of Certain Indebtedness*" for further discussions of our indebtedness.

TKB Credit Line

In May 2011, AS 4finance, entered into the TKB Credit Line, which allowed borrowings of up to EUR 6.3 million. The TKB Credit Line was repaid in November 2016.

SEK Notes

In March 2015, 4finance S.A. issued SEK 225.0 million of 11.75% notes (the "**SEK Notes**") which are senior to all of our future subordinated debt. The SEK Notes are listed on the corporate bond list of Nasdaq Stockholm. In September 2015, a further SEK 150.0 million of SEK Notes were issued at par. As of December 31, 2016 the amount outstanding, including accrued and unpaid interest, under the SEK Notes was EUR 39.6 million. The SEK Notes will mature in March 2018.

Redemption of the SEK Notes

On March 30, 2017, the Issuer issued a conditional notice to redeem all the outstanding SEK Notes pursuant to the Redemption Option contained in the SEK Notes. The notice is conditional upon, amongst other things, the aggregate gross proceeds of the Offering being such that the Interest Coverage Ratio as set out in the SEK Notes would be below 2.5 to 1.0, on a pro forma basis. If the conditions are met, the SEK Notes will be redeemed at a price equal to 106% of the aggregate principal amount of SEK Notes outstanding plus accrued and unpaid interest, such redemption to occur on or about May 31, 2017. The Issuer has obtained a waiver of the requirement to meet the SEK Notes Interest Coverage Ratio of 2.5 to 1.0 during the period between closing of the Offering and redemption in full of the SEK Notes.

2019 Notes

In August 2014, we issued the 2019 Notes (a single tranche of USD 200 million 11.75% senior notes due August 2019). The 2019 Notes are listed on the Irish Stock Exchange and are senior to all of our future subordinated debt. As of December 31, 2016, the amount outstanding, including accrued and unpaid interest, under the 2019 Notes was EUR 194.3 million. The 2019 Notes are subject to a number of restrictive covenants. See "*Description of Certain Indebtedness—Senior Notes Due 2019*."

On March 29, 2017, the Issuer launched the Consent Solicitation and the 2019 Notes Tender Offer. Pursuant to the Consent Solicitation and 2019 Notes Tender Offer, the Issuer seeks to obtain consent to amend the 2019 Notes Indenture to remove certain covenants, terms and events of default in the indenture governing the 2019 Notes and invites the holders of the 2019 Notes to tender their 2019 Notes for purchase by the Issuer at a purchase price of USD 1,060 per USD 1,000 for holders of the 2019 Notes who tender prior to the early participation deadline, and a purchase price of USD 1,010 per USD 1,000 for holders of the 2019 Notes who tender after the early participation deadline but prior to the expiration deadline, and on the terms and conditions contained in the Tender Offer and Consent Solicitation Memorandum.

Pursuant to the Tender Offer and Consent Solicitation Memorandum, the acceptance for purchase by the Issuer of any of the 2019 Notes for purchase is subject to, among other things, the receipt of the Required Consents to the proposed amendments, receipt of the Requisite Minimum Tenders and the issuance of the Notes hereby.

2021 Notes

In May 2016, the Issuer issued EUR 100.0 million of 11.25% notes (the "2021 Notes"). 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.

The 2021 Notes are guaranteed on a senior unsecured basis by Holdco and by certain other direct and indirect subsidiaries of Holdco. The 2021 Notes constitute general, direct, unconditional, unsubordinated and unsecured obligations of the Issuer and shall at all times rank pari passu with all general, direct, unconditional, unsubordinated and unsecured obligations of the Issuer.

As of December 31, 2016, the amount outstanding and accumulated interest under the 2021 Notes was EUR 142.4 million.

Friendly Finance Notes

On June 30, 2016 the Group acquired Friendly Finance. In November 2015, its subsidiary, Friendly Finance Poland, issued PLN 15 000 thousand (EUR 3.4 million) 10% notes due in May 2018.

CAPITAL EXPENDITURES

In the year ended December 31, 2016, we invested EUR 27.6 million in capital expenditures, primarily related to other intangible assets. We historically have financed our capital expenditures mainly through operating cash flows, external financing and shareholder loans and, except for shareholder loans (which we do not expect to be a substantial source of financing in the future), expect to continue to do so in the future.

The following table sets forth our capital expenditures for the periods indicated:

	As of December 31,		
	2016	**2015**	**2014**
	(in millions of EUR)		
Trademarks and licenses	0.9	1.3	0.5
Other intangible assets	22.6	8.7	2.3
Leasehold improvements	0.6	1.1	—
Information systems and IT	1.7	2.3	1.0
Motor Vehicles	0.7	—	—
Other fixed assets	1.1	0.8	0.3
Total	**27.6**	**14.2**	**4.2**

KEY FINANCIAL RATIOS

	As of December 31,		
	2016	2015	2014
Net loans portfolio (in Euro millions)[(1)]	493.9	308.3	241.4
Capital/assets ratio[(2)]	25%	40%	35%
Capital/net loan portfolio[(3)]	47%	56%	47%
Interest coverage[(4)]	3.6x	4.1x	3.8x
Adjusted EBITDA margin[(5)]	35%	37%	41%
Profit margin[(6)]	21%	23%	28%
Return on average equity[(7)]	31%	41%	55%
Return on average assets[(8)]	9%	14%	16%
Operating expenses/interest income ratio[(9)]	48%	42%	36%
Net impairment to revenue ratio[(10)]	23%	24%	25%
Non-performing loans as a share of value of loans issued[(11)]	9.3%	9.0%	8.8%
TBI capital adequacy ratio	22.3%	19.5%	18.1%
Bank of Bulgaria statutory minimum capital adequacy requirement	13.5%	13.5%	13.5%

Notes:

(1) Gross loan portfolio less provisions for bad debts.

(2) Total equity/total assets. Adjusted for effect of 2015 Notes Defeasance in 2014.

(3) Total equity/net loan portfolio.

(4) Adjusted EBITDA/interest expense.

(5) Adjusted EBITDA/interest income.

(6) Profit before tax/interest income.

(7) Profit from continuing operations/average equity (sum of total equity as of the start and end of each period divided by two).

(8) Profit from continuing operations/average assets (sum of total assets as of the start and end of each period divided by two).

(9) General administrative expenses/interest income.

(10) Net impairment losses on loans and receivables/interest income.

(11) Non-performing loans with a delay of over 90 days/value of loans issued. The value of loans issued represents loans issued for the two-year period before commencement of the 90 day past-due period, *e.g.*, for December 31, 2016: October 1, 2014 to September 30, 2016.

EBITDA AND NET ASSETS OF THE ISSUER AND GUARANTORS

The table below sets forth EBITDA and net assets of each of: (i) the Issuer, (ii) the Guarantors (including Holdco) as a group and (iii) the non-guarantor subsidiaries as a group as of and for the year ended December 31, 2016 calculated on an aggregated basis without adjustments to intra-Group eliminations. The information in this section is based on our structure as of December 31, 2016.

	As of and for the year ended 31 December 2016			
	EBITDA (in millions of EUR)	% of EBITDA of the Group	Net assets (in millions of EUR)	% of net assets of the Group
Issuer	41.7	33.4%	94.5	41.1%
Guarantors.	204.9	164.1%	285.1	123.9%
Non-guarantor subsidiaries[(1)]	25.4	20.3%	86.5	37.6%
Consolidated adjustments[(2)]	(147.1)	(117.8%)	(235.9)	(102.5%)
Total	124.9	100.0%	230.1	100.0%

Notes:

(1) Includes TBIF Group companies as well as certain other entities.

(2) Intercompany transactions, including intra-group loans and interest payments, investments and dividends.

There were no Guarantors which individually comprised greater than 20% of our EBITDA for the year ended December 31, 2016 except for AS 4finance, which accounted for EUR 38.5 million, or 30.8% of our EBITDA and EUR 67.2 million or 29.2% of our net assets in 2016 and Vivus Finance sp.z.o.o. which accounted for EUR 31.0 million, or 24.8% of our EBITDA and EUR 37.2 million, or 16.2% of our net assets for the year ended December 31, 2016. There were no Guarantors which individually comprised greater than 20% of our net assets as of and for the year ended December 31, 2016 except for AS 4finance, which accounted for EUR 67.2 million or 29.2% of our net assets and EUR 38.5 million or 30.8% of our EBITDA for the year ended December 31, 2016. There are no risks specific to, or encumbrances on the assets of, the Company and Vivus Finance s.p.z.o.o. that could have a material adverse effect on its ability to meet its obligations under its guarantees. Please see the section entitled "*Description of Issuer and Guarantors*" for more information on the Issuer and Guarantors.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT RISK MANAGEMENT

We are exposed to various market risks associated with our income, loan portfolio, assets, liabilities and operations, including credit risk, concentration risk, liquidity risk, operational risks, currency risk, reputational risk, capital management risk, regulatory risk and interest rate risk. The objective of risk management is to manage and control risk exposures within acceptable parameters, while optimizing the return on such risk.

Credit risk

Credit risk is the risk of a financial loss, if a counterparty or a customer fails to meet its contractual obligations, and arises primarily in connection with our loans and advances to customers. Our credit policy sets forth lending guidelines in accordance with our business strategy and risk management policy that are designed to protect our assets as well as ensure compliance with local regulatory requirements. Lending policies differ from country to country depending on the availability of data relevant to our business model. Loan credit risk is managed by assessing multiple indicators that are analyzed prior to the loan being issued, including, but not limited to, customer credit history checks and income levels. The indicators are objective, based purely on statistical evidence and scored automatically. Specific credit scoring models are adjusted to specific social customer groups and country requirements which, for example, may impose special obligations in relation to customer solvency checks. Credit scoring models are periodically reviewed and, if necessary, adjusted to follow market and specific client group tendencies.

We have implemented specific country adjusted debt collection procedures to ensure the efficient and timely collection of debts. The repayment performance of delinquent customers is analyzed on a regular basis. Our management believes that current procedures are sufficient to effectively monitor the credit risk of our delinquent customers.

Concentration risk

Concentration risk arises if a significant percentage of our interest income is derived from a single geographic area subject to the possibility of an adverse regulatory change. In the year ended December 31, 2016, interest income generated in Poland represented 24% of our consolidated interest income, followed by Spain (14%), Latvia (11%), Georgia (9%), Denmark (9%), Sweden (6%), Finland (6%) and Lithuania (6%). In the year ended December 31, 2015, interest income generated in Poland represented 26% of our consolidated interest income, followed by Latvia (14%), Georgia (12%), Spain (11%), Lithuania (11%), Sweden (8%), Denmark (7%) and Finland (7%). The expansion of our business presence into new markets reduces concentration risk. Despite the significant impact of certain jurisdictions on our overall results, customer concentration generally does not pose a material risk as our loan portfolio consists of a high volume of small value loans.

Liquidity risk

Liquidity risk is the risk that we may encounter difficulty in meeting our obligations as they relate to financial liabilities settled through the delivery of cash or other financial assets as they fall due. Our liquidity position is enhanced by the structure of our balance sheet: our assets are mainly short term, while our liabilities are generally long term. To further manage liquidity risk, we fund our loans through a centralized treasury and an intra-Group funding process, whereby cash balances are monitored on a daily basis, three-month cash flow forecasts are performed on a weekly basis and funding is distributed through a single financial subsidiary, the Issuer. Funding requests that are within budgeted loans are approved by the centralized treasury, while requests in excess of budgeted amounts are subject to approval of the CFO. Cash is primarily held in the Issuer's bank accounts, with minimal cash balances remaining on the level of operating companies.

Operational risk

Operational risk is the risk of loss caused by human behavior, systems failures, inadequate internal processes, uncontrollable external events and external fraud. Operational risks are inherent in all of our operations.

Operational risks are managed by our CRO, local risk managers at our key operating subsidiaries and a full-time, Group-wide fraud analyst, whose mandate is solely to deal with fraud issues. To mitigate operational risks, we have instituted Group-wide operational risk event reporting, conduct risk assessment when launching new products, regularly re-assess existing risk-mitigation processes and have put into place a business continuity

management policy to handle low probability, high-impact events. Business continuity management is overseen by the CRO and is a critical feature of our operations in that clear guidelines have been developed to assist operating subsidiaries in the event business continuity is threatened. We have also developed a Continuity Policy and Plan, a disaster recovery plan in the event it becomes necessary to switch services from the main data center to a recovery center and a Crisis Communication Plan for all key management and employees. To protect our IT systems, we have located all key IT infrastructure in the United Kingdom and a recovery data center in the United States. Each database server has a redundancy service, and all routers and other main nodes of IT infrastructure are duplicated, with every pivotal device equipped with its own uninterruptable power supply. Internet connections in each of our subsidiaries are backed up by an additional internet provider.

To further protect against operational risk, we have developed and implemented guidelines that require (i) appropriate segregation of duties, including the independent authorization of business transactions, (ii) the reconciliation and monitoring of transactions, (iii) effective documentation of controls and procedures, (iv) compliance with regulatory and other legal requirements and (v) the periodic assessment of operational risks and the adequacy of controls and procedures in place to address such risks. We also organize training and professional development programs for both our management and employees and take out insurance where cost-effective and relevant.

Currency risk

Our assets mainly comprise loans and advances due from customers, which accounted for 53% of total assets as of December 31, 2016. As of such date, these loans and advances consisted of Single Payment Loans and Installment Loans extended in a variety of currencies, including the Euro (in Finland, Spain, Latvia and Lithuania), the Bulgarian Lev, the Czech Koruna, the Danish Krone, the Georgian Lari, the Polish Zloty and the Swedish Krona. No loans were denominated in US Dollars. As of December 31, 2016, 71% of our net loans and advances due from customers were denominated in non-Euro currencies. Our liabilities mainly comprise loans and borrowings denominated in US dollars, Swedish Kronor and Euros, with US dollar-denominated loans and borrowings accounting for 49% of our loans and borrowings as of December 31, 2016. Therefore, we are subject to certain shifts in currency valuations, namely, the depreciation against the US Dollar of the other currencies in which we extend loans and advances, and the depreciation against the Euro, which is our reporting currency, of the other currencies. Although we have entered into a cross-currency swap and several forward agreements as a hedge against the depreciation of the US Dollar against the Euro, such hedging has not provided us with 100% coverage, nor has it protected us from fluctuations in the Euro value of our other operating currencies. We have also entered into certain option agreements as a hedge against the fluctuation of the Polish Zloty and Georgian Lari.

The table below sets forth our material open currency positions converted into Euros at the official exchange rates as of December 31, 2016, together with the change in the value in Euros of each open currency position following a hypothetical 10% depreciation of such currency against the Euro.

	Amount (in millions of EUR)	Exchange rate (foreign currency/EUR)	Change in Euro value from 5% depreciation of foreign currency against Euro
Polish Zloty	1.1	4.410	—
Swedish Krona	(41.4)	9.552	4.1
Czech crown	0.7	27.021	(0.1)
Georgian Lari	0.5	2.782	(0.1)
US dollar	(175.0)	1.054	45.0

The table below sets forth the sensitivity of our net income and equity to changes in the foreign currency exchange rates of selected operating currencies based on positions existing as of the dates indicated, assuming a hypothetical 10% change in the SEK, CZK, PLN, USD and GEL to EUR exchange rates.

	December 31, 2016		December 31, 2015		December 31, 2014	
	Net income	**Equity**	**Net income**	**Net income**	**Net income**	**Net income**
			(in millions of EUR)			
10% appreciation of SEK against EUR	(4.1)	(4.1)	(4.1)	(4.1)	—	—
10% depreciation of SEK against EUR	4.1	4.1	4.1	4.1	—	—
10% appreciation of CZK against EUR	0.5	0.5	(0.1)	(0.1)	—	—
10% depreciation of CZK against EUR	(0.1)	(0.1)	0.4	0.4	—	—
10% appreciation of PLN against EUR	2.9	2.9	(0.2)	(0.2)	0.6	0.6
10% depreciation of PLN against EUR	—	—	1.7	1.7	(0.6)	(0.6)
10% appreciation of USD against EUR	(17.7)	(17.7)	(1.3)	(1.3)	1.9	1.9
10% depreciation of USD against EUR	45.0	45.0	11.7	11.7	(0.1)	(0.1)
10% appreciation of GEL against EUR	0.1	0.1	(0.6)	(0.6)	—	—
10% depreciation of GEL against EUR	(0.1)	(0.1)	0.7	0.7	—	—

Management does not consider there to be currency risk with respect to the Danish Krone since it is pegged to the Euro and its rate of exchange is likely only to change as a result of a change in macro-economic policy. In addition, on January 1, 2015, Lithuania adopted the Euro as its currency, replacing the Lithuanian Litas, which was previously pegged to the Euro.

We evaluate opportunities to hedge against open positions in foreign currencies. As of December 31, 2016, we maintained hedges against open positions in the following currencies: USD, CZK and PLN.

As of December 31, 2016, the fair value of these financial instruments was EUR 11.2 (December 31, 2015: EUR 10.6 million). See also "*Risk Factors—Risk Factors Relating to Our Business—Our operations in various countries subject us to foreign exchange risk*." See also "*Related Party Transactions*" for information about hedges entered into where the counterparty was a related party.

Reputational risk

Reputational risk is the risk that we may be the subject of negative publicity due to, among other things, the breach of applicable regulatory requirements. See "*Risk Factors—Risk Factors relating to our Business—Our business is highly regulated, and if we fail to comply with existing or newly introduced applicable laws, regulations, rules and guidance, as has recently occurred in Lithuania, we may be subject to fines or penalties, have to exit certain markets or be restricted from carrying out certain operations.*" Our management is aware of the scrutiny and interest in the operations of short-term lending institutions by regulators, special interest groups and members of the public. We seek to be transparent in the way we market our business, take steps to ensure that our operations are in compliance with all applicable legal requirements and cooperate extensively with regulators, when entering a new market and during consultations regarding proposed amendments to regulation.

Capital management

Capital management risk refers to managing the relationship between short-term assets and short-term liabilities and maintaining each at efficient levels. Our capital management is not governed by any requirements set by regulatory institutions or international bodies. Nevertheless, we review our capital position on a regular basis to ensure positive equity in all our subsidiaries and to maintain sufficient funds to ensure that medium- and long-term strategic goals are met. Our capital to assets ratio as of December 31, 2016 was 25%.

Regulatory risk

Regulatory risk is the risk that a change in laws and regulations in any of the jurisdictions in which we operate could affect the manner in which we are able to conduct our business and ultimately have a material adverse impact on our financial position, results of operations and cash flows. We proactively cooperate with regulators and closely monitor all changes in the regulatory regimes to identify associated risks and ensure compliance in a timely manner. See "*—Key Factors Affecting Results of Operations—Changes in the regulatory framework*."

Interest rate risk

Interest rate risk is the risk that movements in interest rates may affect our income or the value of our portfolio of financial assets and liabilities. We believe that interest rate risk is not material to our operations since all of our loans are issued and payable at fixed interest rates and most of our borrowings are long-term in nature and at fixed interest rates.

Interest rate risk on loans to customers arising from short-term repricing is not considered a material part of interest rate risk since only a small portion of the assets in our portfolio is linked to variable market rates.

OFF-BALANCE SHEET ARRANGEMENTS

Following the introduction of our Line of Credit product in September 2015, the Group had contractual obligations for undrawn credit facilities totaling EUR 0.8 million as of December 31, 2016. TBIF Group's undrawn online credit commitments for Corporate clients and individuals totaled EUR 3.0 million and EUR 5.3 million respectively, and guarantees for corporate clients amounted to EUR 0.5 million.

DISCUSSION OF CRITICAL ACCOUNTING POLICIES

Our financial condition and results of operations presented in the Financial Statements and selected statistical and other information appearing elsewhere in this Offering Memorandum are, to a large degree, dependent upon our accounting policies which in some cases involve a significant amount of management discretion. Our significant accounting policies are described in Note 3 to the 2014 Financial Statements on pages F-175 to F-183 of this Offering Memorandum. We have identified the following accounting policies as the most important policies for understanding our results of operations and financial condition.

Financial assets

We 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.

Specific impairment testing is not undertaken since our loan portfolio consists of a large number of small exposure loans that would make individual impairment testing impracticable. Allowances for impairment are assessed collectively, covering credit losses inherent in the loan portfolios and advances with similar credit risk characteristics, including the portfolio of defaulted loans, which are defined as past due for more than 90 days. In assessing collective impairment, we use statistical modeling of historical trends, taking into consideration such factors as probability of default rates calculated for each delinquency bucket (see below), loss given default rates, portfolio size and general economic conditions. Probability of default rates, timing of recoveries and the amount of loss incurred, adjusted for management's judgment 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 modeling. Default rates, loss given default rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment provisions are assessed by our risk department on a monthly basis separately for each delinquency bucket. Impairment provisions for each delinquency bucket are calculated pursuant to the following formula: loan portfolio amount multiplied by probability of default multiplied by loss given default.

The loan portfolio amount includes all active loans (including principal and interest) at the end of each month. Loan portfolio amounts are determined for each of the following delinquency buckets:

- No delay;
- 1-30 day delay;
- 31-60 day delay;
- 61-90 day delay;
- 91-360 day delay;
- 361-730 day delay; and

- delay for more than 730 days.

Restructured loans, *i.e.*, loans under a repayment plan, are classified as delayed in the applicable delinquency group.

Probability of default is the probability that a loan in a given delinquency bucket becomes overdue by 91 or more days. For each delinquency bucket, the probability of default is calculated by using a transition matrix, which analyzes the movement between delinquency buckets over a one-month period. A transition matrix analysis comprises of the following three steps:

1. determine how the balances in each delinquency bucket in the preceding month migrate into the delinquency buckets of the current month. A portion of such balances may be paid in the current month, a portion may remain in the same delinquency bucket as in the previous month and a portion may migrate into a new delinquency bucket.
2. calculate the percentage, or roll rate, of outstanding loan balances for each delinquency bucket of the previous month that fall into each delinquency bucket of the current month. To calculate the roll rate for each delinquency bucket, we look to the percentage of loans that are in worse status in the current month relative to the preceding month. For example, if 49% of non-delayed loans from the previous month remained non-delayed in the current month and 36% were paid off, 15% of non-delayed loans from the previous month would roll into worse status. Therefore, the roll rate for non-delayed loans from the previous month would be 15%.
3. multiply the roll rates for each delinquency bucket from the previous month to predict the probability of an account rolling from one delinquency bucket into default. For example, if the roll rates for the previous month were 14% for non-delayed loans, 34% for loans delayed for 1-30 days, 84% for loans delayed for 31-60 days and 88% for loans delayed for 61- 90 days, then the probability that a non-delayed loan from the previous month would default would equal 14% multiplied by 34% multiplied by 84% multiplied by 88%, or 3.5%.

Loss given default is the share of loans and receivables lost in the event of default. To calculate loss given default, we assume that we can collect cash from defaulted loans up to 21 months (for Single Payment Loans), or 36 months (for Installment Loans), after the month in which the respective default has occurred. Loss given default is equal to 1—recovery rate. The recovery rate is equal to discounted cash inflows (including principal interest, fees and commissions) received during the 21 or 36 months (depending on product type) following default. Cash inflows are decreased by external collection costs and discounted by using our weighted average cost of capital. Calculating loss given default is a multi-step process:

1. determine amount of loans that enter into default (*i.e.*, more than 90 days overdue) in each month and calculate the actual recovery of total incoming amounts for each of the 21/36 months after the month in which such loans defaulted.
2. for each of the 21/36 months after default, aggregate the recoveries for the 12 most recent vintage months (subtracting external collection costs from these recoveries) and divide this number by the total number of corresponding defaults. This gives the recovery percent for each month.
3. add the recovery percentages of each of the 21/36 months after default, and discount the sum by our weighted average cost of capital to determine the recovery rate.
4. for each month, calculate the loan given default rate as 1—recovery rate.

Management continuously monitors our recovery rates on delinquent loans and revises loss given default rates based on actual recoveries received and taking into account the extent to which data is available to calculate recovery rates for each of the 21/36 months following default or to conduct the 12-month vintage analysis. For example, if data is only available to calculate recovery rates for several months after default, we may use benchmark figures for those periods where we do not have our own historical data.

Impairment losses on the portfolio 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 on financial assets 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 take place. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed.

Any changes in debt collection laws or principles could affect cash inflows from non-performing loans as well as any changes in loan underwriting criteria or mistakes in outside databases or scorecards could lead to increased probabilities and defaults that could significantly impact the impairment of assets.

Non-financial assets

The carrying amounts of our 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. Goodwill, intangible assets with indefinite lives and intangible assets not yet ready for use are tested annually by comparing the carrying amounts of these assets with their recoverable amounts, irrespective of whether there is any indication that such assets may be impaired.

An impairment loss is recognized 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 largely are independent from other assets and groups. Impairment losses on non-financial assets are recognized in the statement of comprehensive income. Impairment losses recognized 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 (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.

Reversal of impairment losses

Impairment losses recognized 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 amortization, if no impairment loss had been recognized.

Cash and cash equivalents

Cash and cash equivalents comprise call deposits in banks that are subject to insignificant risk of changes in fair value and are used by us in the management of certain short-term commitments.

Financial instruments

Recognition

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

Measurement

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

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

- loans and receivables that are measured at amortized cost using the effective interest rate method. See "*—Income and expense recognition—Interest income and expense*" for a description of the effective interest rate method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Such investments are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for de-recognition, are measured at amortized cost. Amortized 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 amortized based on the effective interest rate of the instrument.

Fair value is the price that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which we have access at such date. The fair value of a liability reflects its non-performance risk. When applicable, the fair value of an instrument is measured using the 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. When there is no quoted price in an active market, we use valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

Our key financial instruments are cash, trade receivables and loans to customers and bonds issued, trade payables, deposits from customers and other creditors arising from business activities.

Derivative financial instruments, such as swap and forward instruments, are initially recognized at fair value on the date when the derivative contract is entered into and are subsequently re-measured 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 recognized immediately in the statement of comprehensive income.

We are engaged in hedging activities of our foreign exchange risk. We do not apply hedge accounting however. Given the low level of trading activity, the Group has estimated that any credit valuation adjustment or debit valuation adjustment would be immaterial and, as such, has not incorporated these into the fair value of derivatives.

Loans and advances

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

For the purposes of the Financial Statements, trade receivables and loans to customers are accounted for at amortized cost using the effective interest rate method. See "*—Income and expense recognition—Interest income and expense*" for a description of the effective interest rate method. An impairment loss allowance is recognized for credit losses.

We write off trade receivables and loans to customers when they are past due more than 730 days and are deemed to be uncollectible. See "*—Impairment*," above.

Provisions

A provision is recognized (provided it can be estimated reliably) in the statement of financial position when we have a legal or constructive obligation as a result of a past event, 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 the current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

Discontinued operations

A discontinued operation is a component of our business, the operations and cash flows of which can be clearly distinguished from the rest of our business and which (i) represents a separate major line of business or geographical area of operation, (ii) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operation and (iii) constitutes operations that are ceased. Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale. When an operation is classified as a discontinued operation, the statement of profit or loss and other comprehensive income for the comparative period is restated as if the operation had been discontinued from the start of the comparative year. See "*—Restatement of Accounts*" for a discussion of the discontinuation of certain of our operations.

Taxation

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

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

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 recognized for the following temporary differences: (i) the initial recognition of goodwill, (ii) 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 (iii) 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 recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. 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 realized.

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.

Interest income and expense

Interest income and expense are recognized 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, we estimate 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.

Penalty fee income

Income from penalty fees is recognized when received.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of our share of the net identifiable assets of such acquisition, calculated as of the date of acquisition. Goodwill on the acquisition of subsidiaries is included in intangible assets. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the associates or joint venture. Goodwill is allocated to cash-generating units and is stated at cost less impairment losses. Gains or losses on the disposal of an entity includes the carrying amount of goodwill related to the entity sold. Negative goodwill arising on an acquisition is recognized immediately in profit or loss.

Foreign currency

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Euros at the spot exchange rate on such date. The foreign currency gain or loss on monetary items is the difference between amortized cost in Euros at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized 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 on the date of the transaction. The income and expenses of

foreign operations are translated into Euros at the exchange rate prevailing on the date of the respective transaction and compared with the value of such transaction calculated at the exchange rate prevailing on the reporting date. Foreign currency differences arising on retranslation are recognized in the statement of comprehensive income.

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. Such assets are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on assets held for sale is allocated to the remaining assets and liabilities on a pro rata basis. Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortized or depreciated.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION OF TBIF GROUP

OVERVIEW

TBIF operates via a wholly owned subsidiary, TBI Bank, in Bulgaria and Romania. TBI Bank is primarily focused on banking operations, including the provision of retail (including cash loans, Point of Sale financing, and credit card products) and SME credit and operational leasing. For the year ended December 31, 2016, 75% (EUR 142.9 million) of TBI Bank's gross loan portfolio was attributable to its retail segment, and 25% (EUR 48.6 million) was attributable to the SME segment. For the retail segment, 50% of gross loans were cash loans, approximately 43% were Point-of-Sale financing and approximately 6% was in the form of credit cards.

TBI Bank has a customer base of approximately 1.4 million people. In its retail segment, customers are predominantly individuals with low to middle income. In the SME segment, TBI Bank has a range of clients, including from sectors such as agriculture and food, trade, construction and services industries.

For the year ended December 31, 2016, the average retail loan taken out by TBI Bank's customers was EUR 478, and the average loan taken out by TBI Bank's SME clients was EUR 63,624. During the year ended December 31, 2016, TBI Bank recorded a net increase in deposits from customers of EUR 34.6 million.

TBI Bank had consolidated assets of EUR 318.9 million as of December 31, 2016 (compared to EUR 274.2 million as of December 31, 2015), including EUR 194.3 million of net customer loans (including net finance leases of EUR 15.5 million). TBI Bank maintains a diversified loan portfolio consisting of loans to both consumers and SMEs. In addition, as of December 31, 2016 TBI Bank had EUR 88.8 million in cash on hand and balances with central banks and placements with other banks. Funding is predominantly through customer deposits of EUR 224.4 million, representing 92% of TBI Bank's total liabilities, as of December 31, 2016.

TBI Bank operates primarily in Bulgaria. TBI Bank operates in Romania through TBIB Bank Branch Bucharest ("**TBI Bank Branch**"). Other TBIF group companies, controlled by TBI Bank, include TBI Leasing SA ("**TBI Leasing**") and TBI Credit SA ("**TBI Credit**") in Romania, as well as TBI Rent EAD ("**TBI Rent**") in Bulgaria which is primarily engaged in divesting activities.

See "*Business—TBI Bank—Product Overview*" for more information on TBI Bank.

KEY FACTORS AFFECTING RESULTS OF OPERATIONS

Competition

TBI Bank is predominantly a retail bank. The retail banking market in Bulgaria and Romania has remained stable over the last five years, and there have been no significant new entrants into the market, nor any substantial change in the ranking of other market participants. TBI Bank is one of the smallest banks in Bulgaria and Romania based on market share, and so has been able to experience a period of significant growth since 2014, increasing its loan portfolio, and accumulating returning customers. TBI Bank has managed to leverage its customer base in Bulgaria due to brand recognition as a result of the retail business being formerly run by TBI Credit. When TBI Credit transferred the retail business to TBI Bank, customers were already familiar with the TBI brand.

Cost of funding

External factors in Bulgaria which directly impact TBU Bank's cost of funding have, in turn, an effect on its results of operations, revenue and profitability. For example, the interest rate on customer deposits has significantly reduced over the last two years. The banking market changed substantially in 2015, when the fourth largest commercial bank in Bulgaria, KTB, became insolvent. The insolvency of KTB triggered a decrease in interest rates paid on customer deposits. For example, in 2015, the average interest rate paid on customer deposits was approximately 2-3%. However, over the last two years, external market conditions have driven the interest rate to below 1%, in line with other EU banks. The impact on TBI Bank's operations is mitigated by its product diversification. For example, in 2016 approximately 44% of TBI Bank's retail portfolio in Bulgaria and Romania consisted of Point-of-Sale financing and other loans, meaning that TBI Bank is less reliant on attracting customer deposits than other banks, notwithstanding that the drop in interest rate has not caused deposits to decline.

Decrease in transactional business

As part of its transactional business, TBI Bank acted as an intermediary between "web-based" businesses for electronic payments. In 2016, TBI Bank began to discontinue its transactional business and refocused primarily on loans to consumers and SME / leasing. Nevertheless, TBI Bank managed to largely compensate the effect of this discontinuation by a more efficient usage of resources, increasing fees & commissions income. All non-lending income sources remained profitable in the year ended December 31, 2016, but given their volume and general disconnect from TBI Bank's main segments, they are classified as non-key factors.

General and administrative expenses

General and administrative expenses remain a key factor to affecting the results of operations of TBI Bank. Staff costs increased in the year ended December 31, 2016 due to an increase in wages and salaries, which in turn was caused by (i) hiring more employees in 2016 in line with the increase in the loan portfolio, and (ii) bonuses being paid to staff who achieved key performance indicators. Administrative expenses were EUR 10.1 million in 2016, compared to EUR 9.0 million in 2015, due to TBI Bank's expansion of its loan portfolio in 2016, meaning that, in turn, advertising expenses increased by 57.8% to EUR 0.8 million in 2016, and IT services increased by 98.3% to EUR 0.5 million in 2016.

DESCRIPTION OF KEY INCOME STATEMENT LINE ITEMS

Below is a description of key line items from the income statement of TBI Bank. See *"—Discussion of Critical Accounting Policies of TBI Bank*" and the notes to the Financial Statements of TBI Bank for further discussion of the accounting treatment of certain of these items.

Interest income

Interest income consists mainly of loans to customers. Impaired loans to customers comprised 18.7% of loans to customers in each of 2016 and 2015.

Interest expense

Interest expense consists mainly of customer deposits and, to a lesser extent, deposits from banks and financial institutions and other borrowings. Customer deposits accounted for 83.1% and 81.6%, respectively, of interest expense in 2016 and 2015.

Net interest income

Net interest income is interest income less interest expense.

Fee and commission income

Fee and commission income consists mainly of agent commissions (mainly arising from an insurance contract) and transfers and transactions. Agent commissions accounted for 73.8% and 44.6%, respectively, and transfers and transactions accounted for 23.3% and 42.2%, respectively, of fee and commission income in 2016 and 2015.

Fee and commission expense

Fee and commission expense consists mainly of agent commissions (mainly arising from a credit brokerage contract) and bank transaction expenses.

Net fee and commission income

Net fee and commission income is fee and commission income less fee and commission expense.

Net trading gain

Net trading gain consisted mainly of net gains on financial assets in 2016 and net foreign translation gains in 2015.

Other operating expenses

Other operating expenses consists mainly of staff costs, administrative expenses and, to a lesser extent, depreciation and amortisation and operating lease rentals and other related costs.

Staff costs comprised 51.6% and 47.0%, respectively, of other operating expenses in 2016 and 2015. Staff costs, in turn, consist of wages and, to a lesser extent, social security contributions. Wages accounted for 83.8% and 84.6%, respectively, of staff costs in 2016 and 2015.

Administrative expenses comprised 32.0% and 39.0%, respectively, of other operating expenses in 2016 and 2015. Administrative expenses, in turn, consist mainly of (i) expenses on consultancy, legal and other professional services, (ii) costs of hired services (i.e., courier services, postal services, and other ancillary services to the business) and (iii) tax expenses principally related to withholding tax on interest income received from Romanian operations, and to a lesser extent, (iv) advertising expenses, (v) IT services and (vi) annual contributions to deposit guarantee schemes required by national legislation.

Depreciation of property, plant and equipment and amortisation of intangible assets comprised 8.9% and 9.2%, respectively, of other operating expenses in 2016 and 2015.

Loss on impairment of financial assets

Loss on impairment of financial assets represents mainly impairment loss allowances on loans to customers. See "*—Discussion of Critical Accounting Policies of TBI Bank—Impairment to financial assets* for a description of TBI Bank's impairment policies and procedures.

Other operating income

Other operating income consists mainly of rental income from our car rental operations and operating lease activities. Rental income comprised 80.1% and 61.4%, respectively, of other operating income in 2016 and 2015.

Income tax expense

Income tax consists of current tax, and, to a lesser extent in 2016, deferred tax.

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2016 COMPARED TO THE YEAR ENDED DECEMBER 31, 2015

The table below sets forth the results of operations for TBI Bank for the year ended December 31, 2016 compared to the year ended December 31, 2015.

	Year ended December 31,	
	2016	**2015**
	(in millions of EUR)	
Interest income	46.8	33.9
Interest expense	(3.3)	(4.7)
Net interest income	**43.5**	**29.2**
Fee and commission income	8.6	10.1
Fee and commission expense	(1.7)	(1.9)
Net fee and commission income	**7.0**	**8.2**
Net trading gain	2.0	4.7
Other operating expenses	(31.7)	(23.1)
Loss on impairment of other financial assets	(5.9)	(4.2)
Impairment of other assets	(0.0)	(0.1)
Loss on derivatives	(0.5)	(0.4)
Other operating income	4.3	4.1
Profit before tax from continuing operations	**18.7**	**18.4**
Income tax expense	(2.1)	(1.8)
Profit for the period	**16.6**	**16.6**

Interest income

Interest income for the year ended December 31, 2016 was EUR 46.8 million, a 38.0% increase compared to EUR 33.9 million for the year ended December 31, 2015, primarily due to the growth of TBI Bank's loan portfolio during 2016. The increase in loan portfolio during 2016 was mainly due to a wider strategy of TBI Bank to grow the consumer leading business and to obtain a larger marker share in the Bulgarian market.

Interest expense

Interest expense for the year ended December 31, 2016 was EUR 3.3 million, a 29.8 % decrease compared to EUR 4.7 million for the year ended December 31, 2015, primarily due to a decrease in TBI Bank's cost of funding, itself due to increasing volumes of customer deposits. There was also a decrease in interest paid on customer deposits to EUR 2.7 million in the year ended December 31, 2016 from EUR 3.9 million for the year ended December 31, 2015, mainly due to a decrease in interest rates.

Net interest income

Net interest income for the year ended December 31, 2016 was EUR 43.5 million, a 49.0% increase compared to EUR 29.2 million for the year ended December 31, 2015, reflecting the corresponding increase in interest income and decrease in interest expense discussed above.

Fee and commission income

For the year ended December 31, 2016, TBI Bank generated fee and commission income of EUR 8.6 million, a 14.9% decrease compared to EUR 10.1 million for the year ended December 31, 2015. This was primarily attributable to a discontinuing of operations relating to TBI Bank's transactional business in 2016. As part of its transactional business, TBI Bank acted as an intermediary between "web-based" businesses for electronic payments. In 2016, TBI Bank discontinued its transactional business. Fee and commission income attributable to transfers and transactions for the year ended December 31, 2016 was EUR 2.0 million, compared to EUR 4.2 million for the year ended December 31, 2015.

Fee and commission expense

For the year ended December 31, 2016, TBI Bank recorded fee and commission expense of EUR 1.6 million, an 15.8% decrease compared to EUR 1.9 million for the year ended December 31, 2015. This was attributable to discontinuing part of the operations relating to TBI Bank's transactional business in 2016.

Net fee and commission income

Net fee and commission income for the year ended December 31, 2016 was EUR 7.0 million, a 14.6% decrease compared to EUR 8.2 million for the year ended December 31, 2015, reflecting the corresponding decreases in fee and commission income and fee and commission expense as discussed above.

Net trading gain

Net trading gain for the year ended December 31, 2016 was EUR 2.0 million, a 57.4 % decrease compared to EUR 4.7 million for the year ended December 31, 2015. This was primarily attributable to the reduction of TBI Bank's transactional business in 2016 due to the transactional business generating revenue in USD as well as EUR, and the net trading gain in 2015 being mainly attributable to such business. For example, net trading gain on financial assets was EUR 1.8 million for the year ended December 31, 2016 compared to a loss of EUR 18,000 for the year ended December 31, 2015.

Other operating expenses

Other operating expenses for the year ended December 31, 2016 amounted to EUR 31.7 million, a 37.2% increase compared to EUR 23.1 million for the year ended December 31, 2015. The key driver for the increase in other operating expenses was the increase in staff costs from EUR 10.9 million in 2015 to EUR 16.4 million in 2016. Staff costs increased due to an increase in wages and salaries, which in turn was caused by (i) hiring more

employees in 2016 in line with the increase in the loan portfolio, and (ii) bonuses being paid to staff who achieved key performance indicators. Administrative expenses were EUR 10.1 million in 2016, compared to EUR 9.0 million in 2015, due to TBI Bank's expansion of its loan portfolio in 2016, meaning that, in turn, advertising expenses increased by 57.8% to EUR 0.8 million in 2016, and IT services increased by 97.8% to EUR 0.5 million in 2016.

Loss on impairment of financial assets

Loss on impairment of financial assets amounted to EUR 5.9 million for the year ended December 31, 2016, a 40.4% increase compared to EUR 4.2 million for the year ended December 31, 2015, primarily due to the increase in the size of the loan portfolio.

Impairment of other assets

TBI Bank recorded EUR 0.04 million in impairment of other assets for the year ended December 31, 2016, compared to impairment of other assets of EUR 0.1 million for the year ended December 31, 2015.

Loss on derivatives

Loss on derivatives for the year ended December 31, 2016 was EUR 0.5 million, a 25.0% increase compared to EUR 0.4 million for the year ended December 31, 2015. This was primarily attributable to foreign exchange fluctuations. TBI Bank's exposure to derivative contracts is monitored as part of its overall market risk management strategy.

Other operating income

Other operating income for the year ended December 31, 2016 was EUR 4.3 million, a 4.8% increase compared to EUR 4.1 million for the year ended December 31, 2015. This was primarily attributable to an increase in income from operating lease activities to EUR 3.5 million for the year ended December 31, 2016 compared to EUR 2.5 million for the year ended December 31, 2015, itself mainly due to the activities of two operating companies in Bulgaria and Romania in car rental and operating leases. These operating companies typically have large contracts with established local corporations. Any income that TBI Bank receives from these entities is recorded as rental income.

Profit before tax

Profit before tax for the year ended December 31, 2016 was EUR 18.8 million, a 1.6% increase compared to EUR 18.4 million for the year ended December 31, 2015.

Income tax expense

Income tax expense for the year ended December 31, 2016 was EUR 2.1 million, a 16.7% increase compared to EUR 1.8 million for the year ended December 31, 2015, due to an increase in TBI Bank's profit before tax.

Profit for the period

In the year ended December 31, 2016, profit was EUR 16.6 million and, therefore, there was no material change compared to the year ended December 31, 2015 when profit was also EUR 16.6 million.

LIQUIDITY AND CAPITAL RESOURCES

TBI Bank's primary sources of liquidity are customer deposits (and, to a lesser extent, bank deposits). In 2016, deposits accounted for 70% of funding (82.5% of which comprised term deposits) and capital accounted for 23% of funding. TBI Bank also maintains for its SME business a EUR 3 million credit limit with the Bulgarian Development Bank. Going forward, TBI Bank's funding strategy includes expansion of deposits through different channels, including on-line, and markets, including Germany and Poland,

As of December 31, 2016 and 2015, deposits from customers amounted to EUR 224.4 million and EUR 189.8 million, respectively, and deposits from banks amounted to EUR 3.0 million and EUR 12.6 million, respectively. Cash and cash equivalents (see note 31 of the audited financial statements of TBI Bank as of and for the year ended December 31, 2016) amounted to EUR 63.5 million and 60.5 million, respectively, at year-end 2016 and 2015.

The table below sets forth our net cash flows from operating, investing and financing activities for the periods indicated.

	Year ended December 31,	
	2016	2015
	(in millions of EUR)	
Net cash flows generated from/(used in) operating activities	13.0	(1.4)
Net cash flows used in investing activities	(5.9)	(9.5)
Net cash flows generated from/(used in) financing activities	(4.1)	2.6
Net increase in cash and cash equivalents	3.0	(8.3)

Cash flows generated from/(used in) operating activities

TBI Bank's cash flows from operating activities reflect a variety of factors, including mainly loans to customers, deposits from customers and banks and the issuance of finance leases.

In 2016, net cash flows generated from operating activities were EUR 13.0 million, mainly due to a net increase in deposits from customers of EUR 34.6 million, driven, in large part, by a substantial increase in term deposits from customers. This increase in customer term deposits reflected the fact that the interest rates paid to customers on term deposits exceeded the market average in 2016. Partially offsetting this expansion in customer deposits were a EUR 18.5 million net increase in retail loans (reflecting TBI Bank's strategy to grow the business and increase its market share), and a EUR 15.5 million net increase in finance leases (reflecting the acquisition of TBI Leasing in Romania in 2016).

In 2015, net cash flows used in operating activities were EUR 1.4 million, reflecting mainly a EUR 27.3 million net increase in loans to customers (reflecting TBI Bank's strategy to grow the business and increase its market share), a EUR 8.2 million net decrease in total deposits from customers (reflecting TBI Bank's strategy to mitigate excess liquidity) and a EUR 5.5 million net increase in available-for-sale financial assets (reflecting new investment in government bonds issued by the Government of Romania). These outflows were partially offset by a variety of factors, including a EUR 12.0 million net increase in deposits from banks (reflecting TBI Bank's strategy to manage short-term liquidity needs on the money market).

Cash flows used in investing activities

TBI Bank's cash flows used in investing activities mainly include the purchase of property and equipment, proceeds from the disposal of property and equipment, held-to-maturity financial assets purchased by TBI Bank and the purchase of intangible assets.

In 2016, net cash flows used in investing activities were EUR 5.9 million, resulting primarily from the EUR 4.1 million purchase of corporate debt securities and the EUR 3.1 million purchase of property and equipment, offset by EUR 1.4 million in proceeds received from the disposal of property and equipment.

In 2015, net cash flows used in investing activities were EUR 9.5 million, resulting primarily from the EUR 8.7 million purchase of property and equipment (mainly motor vehicles).

Cash flows generated from/ (used in) financing activities

TBI Bank's cash flows from financing activities mainly reflect proceeds received from borrowings, payments made on borrowings, and share capital increases.

In 2016, net cash flows used in financing activities were EUR 4.1 million, resulting from the EUR 5.6 million in payments made on borrowings, including the early repayment of the subordinated loan facility with Novo Ljubljanska Banka d.d. (Slovenia), partially offset by EUR 1.5 million in proceeds received from the issuance of new shares.

In 2015, net cash flows generated from financing activities were EUR 2.6 million, resulting primarily from a share capital increase of EUR 4.2 million and payments received on borrowings of EUR 0.6 million, partially offset by payments made on borrowings of EUR 2.2 million

FINANCIAL POSITION

The following discussion compares the consolidated financial position of TBI Bank as of December 31, 2016 and 2015.

Assets

We had total assets of EUR 318.9 million as of December 31, 2016, compared to EUR 274.2 million as of December 31, 2015, representing an increase of EUR 44.7 million, or 16.3%. This increase was primarily due to an increase in loans to customers, deposits with banks and non-current assets held for sale, as well as the issuance of finance leases in 2016.

Net loans to customers (excluding finance leases) increased to EUR 178.8 million (from EUR 169.3 million as of year-end 2015) mainly due to an increase in retail loans, offset by a decline in loans to corporates. The balance of gross retail loans increased to EUR 142.9 million as of December 31, 2016, compared to EUR 114.0 million as of December 31, 2015.

Deposits with banks increased to EUR 50.2 million (from EUR 20.6 million as of year-end 2015) mainly due to a substantial increase in current accounts with foreign banks. The balance of such accounts was EUR 49.7 million as of December 31, 2016, compared to EUR 2.8 million as of December 31, 2015.

Non-current assets held for sale increased to EUR 15.4 million (from EUR 4.6 million in 2015) mainly due to an increase in the balance of repossessed assets and tangible assets. In 2016, TBI Bank repossessed assets under terminated or overdue loan agreements of EUR 7.5 million (compare to EUR 4.6 million in 2015); such assets mainly consisted of buildings and land.

Cash on hand and balances with central banks declined to EUR 33.9 million (from EUR 56.0 million as of year-end 2015).

Liabilities

We had total liabilities of EUR 244.3 million as of December 31, 2016 compared to EUR 217.5 million as of December 31, 2015, representing an increase of EUR 26.8 million, or 12.3%. This increase was mainly due to an increase in deposits from customers (reflecting in large part an increase in retail term deposits) to EUR 224.4 million (from EUR 189.8 million as of year-end 2015). It was partially offset by a decrease in deposits from banks to EUR 3.0 million (from EUR 12.6 million as of year-end 2015), reflecting TBI Bank's strategy to manage short-term liquidity needs on the money market.

Equity

As of December 31, 2016, TBI Bank's total equity amounted to EUR 74.7 million, compared to EUR 56.7 million as of December 31, 2015. The increase in equity was mainly due to retained earnings of EUR 29.3 million as of December 31, 2016, compared to retained earnings of EUR 14.3 million as of December 31, 2015.

CONTRACTUAL COMMITMENTS

The table below sets forth information regarding TBI Bank's contractual obligations and payments due by period as of December 31, 2016 (excluding off-balance sheet items, which are discussed further below):

As of 31 December 2016	Less than 1 month	1-3 months	3 -12 months	1-5 years	Total
		(in thousands of EUR)			
Deposits from banks	4.6	9.2	635	2,494	3,143
Derivatives	16	—	—	—	16
Deposits from customers	63,775	28,813	120,296	13,880	226,766
Other borrowings	38	40	139	272	489
Held-for-sale non-current liabilities	—	5,706	—	—	5,706
Other liabilities	8,510	2,242	762	—	11,514
Total liabilities (contractual maturity dates)	**72,345**	**36,810**	**121,832**	**16,647**	**247,636**

Off-Balance Sheet Arrangements

TBI Bank incurs contingent liabilities on loans and credit lines and irrevocable commitments (i.e., issuances of guarantees and letters of credit) in the ordinary course of its business. The following table shows TBI Bank's contingent liabilities and irrevocable commitments (excluding operating lease commitments) as of the dates indicated:

	Year ended December 31,	
	2016	2015
	(in thousands of EUR)	
Guarantees		
Corporate clients	950	1,787
Undrawn credit commitments		
Corporate clients	5,715	5,856
Individuals	10,513	9,262
Total contingent liabilities and irrevocable commitments	**17,178**	**16,905**

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT RISK MANAGEMENT

TBI Bank is exposed to a variety of risks, including credit risk, currency risk, liquidity risk and capital management risk, among others. See Note 2 of TBI Bank's 2016 Financial Statements for further discussion on the risks facing TBI Bank, as well as its risk management policies.

Credit risk

TBI Bank is exposed to the risk that a counterparty will be unable to pay amounts in full when they fall due. TBI Bank manages its credit risk by placing limits on exposure to one borrower or group of borrowers, geographical regions and industry segments. It also follows rigorous credit analysis procedures that includes phone calls with customers, during which credit analysts verify material customer information, employment references and confirmation on income sources.

TBI Bank classifies its credit exposure into four categories:

standard exposure, where the principal and interest are repaid currently in accordance with contractual terms or are past due up to 30 days (provided delay was accidental), the debtor uses the loan for the purposes stipulated in the loan agreement and TBI Bank has sufficient information on the debtor's financial position.

watch exposure, where principal or interest payments are past due by 31-90 days, the debtor uses the loan for purposes other than those stipulated in the loan agreement or the final maturity of a loan with bullet repayment granted to a newly established company or a company with a poor credit history has been renegotiated;

non-performing, where principal or interest payments are past due by 91-180 days or the debtor's financial position has deteriorated significantly and may jeopardize the repayment of his obligations;

loss, where principal or interest payments are past due by more than 180 days, the debtor suffers a permanent shortage of money, the debtor has been declared bankrupt or is in liquidation (and there is a risk that creditor demands will not be met, the amount due is subject to court proceedings or the court has awarded it to TBI Bank, but it has not yet been collected or other conditions exist to jeopardize repayment.

TBI Bank takes collateral for a share of its loans to customers. In 2016 and 2015, 25.9% and 26.3% of total gross loans to customers (loans before impairment) were covered by collateral. Mortgages are the most common form of collateral.

The allowance for impairment loss as a share of gross loans to customers was 6.5% in 2016 and 5.5% in 2015. As of December 31, 2016, TBI Bank's NPL share was 12.8% (compared to 13.4% as of December 31, 2015) and its NPL coverage ratio was 63.0% (compared to 63.7% as of December 31, 2015).

As of December 31, 2016, the ten largest loans to customers comprised 9.3% of TBI Bank's loan portfolio (net of provisions), compared to 14.5% as of December 31, 2015. In 2016, TBI Bank's net loan portfolio was evenly split between Bulgaria and Romania and consisted of 68% consumer loans and 32% SME/leasing loans. The table below sets forth TBI Bank's exposure to credit risk by geographic sector:

Financial assets	2016	2015
	(in thousands of BGN)	
Bulgaria	227,617	254,950
Romania	324,684	227,482
Other countries	13,696	6,674
Total financial assets	**565,997**	**489,106**
Exposures to credit risk related to contingent liabilities and irrevocable commitments:		
Bulgaria	12,873	11,760
Romania	4,305	5,142
Other countries	—	3
Total financial assets and contingent liabilities and irrevocable commitments	**583,175**	**506,011**

TBI Bank is well diversified by economic sector. In 2016, consumer loans comprised 74% of TBI Bank's gross loan portfolio, excluding finance leases (of which 50% were cash loans, 43% POS loans, 6% credit cards and 1% other loans), construction & real estate accounted for 10%, and other sectors represented less than 5% each. The table below sets forth TBI Bank's exposure to credit risk by economic sector:

	2016	2016	2015	2015
		(in thousands of BGN)		
Commerce	14,482	3.85%	25,520	7.22%
Agriculture	13,638	3.62%	10,991	3.11%
Construction and real estate	39,047	10.38%	42,913	12.14%
Services	10,089	2.68%	25,813	7.30%
Manufacturing	5,501	1.46%	5,025	1.42%
Tourism	12,193	3.24%	19,001	5.38%
Other financial institutions	81	0.02%	189	0.05%
Individuals	279,538	74.30%	223,010	63.10%
Staff	1,669	0.44%	941	0.27%
Total loans to customers	**376,238**	**100.00%**	**353,403**	**100.00%**

TBI Bank relies on so-called "soft" collection as well as "legal" collection procedures. Soft collection procedures are employed in respect of loans up to 120 days past due (or 209 days past due in Romania, as is required by Romanian legislation). 10 days after the maturity date, defaulting customers are divided into a series of buckets depending on the numbers of days delinquent. TBI Bank uses a variety of approaches to recover amounts overdue, including the use of behavior scoring and customer segmentation models. TBI Bank employs legal collection procedures for loans that are 120 days past due in Bulgaria and 180 days past due in Romania. In Bulgaria, when a loan reaches 180 days past due, TBI Bank obtains a writ of execution, which is executed by a bailiff. In Romania, when a loan reaches 209 days past due, matters are sent to the bailiff for collection.

Currency risk

TBI Bank does not maintain material open positions in currencies other than the Bulgarian Lev and the Euro. The Bulgarian Lev is pegged to the Euro at an exchange rate of BGN 1.95583 to EUR 1. TBI Bank maintains a partial hedge in the form of a forex swap on its open position in the Romanian Lei. As of December 31, 2016 and 2015, the hedge covered 77.5% and 70.1%, respectively, of such open position.

A hypothetical 10% depreciation of the Bulgarian Lev against foreign currencies (except the Euro) would have led to a Euro 3.6 million loss, as measured on December 31, 2016, and a Euro 1.7 million loss, as measured on December 31, 2015.

Liquidity risk

TBI Bank faces the risk that available cash resources may be insufficient to cover withdrawals on financial liabilities as they become due and the inability to replace funds when they are withdrawn. TBI Bank measures its

liquidity risk in a variety of ways, including regular review of liquidity ratios, including those set by the Group and by the competent regulatory authority. TBI Bank monitors on a daily basis the liquidity of its assets and liabilities by currency, amount and interest rate. With respect to a large portion of financial liabilities, comprising term deposits from individuals and legal entities, TBI Bank takes measures to encourage customers to renew their deposits.

TBI Bank's liquidity coverage ratio (highly liquid assets as a share of short-term liabilities) was 361.4% as of December 31, 2016. Its general liquidity ratio (i.e., cash and placements as a share of total liabilities) was 38.5% as of December 31, 2016 and 35.4% as of December 31, 2015. TBI Bank's policy regarding liquidity management is to maintain liquidity well above the 20% level require by the Bulgarian National Bank.

See "*—Contractual Commitments*" and "*—Off-Balance Sheet Arrangements*" for a discussion of TBI Bank's financial liabilities and commitments, including their maturity profile.

Capital management risk

TBI Bank manages its capital management risk by complying with capital requirements set by the regulators of the markets where TBI Bank operates, ensuring its ability to continue as a going concern and maintain a strong capital base. TBI Bank maintains two tiers of capital and applies the requirements of Regulations (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. See "*—Information regarding Regulatory Capital of TBI Bank*" for further discussion of the composition of TBI Bank's regulatory capital and risk-weighted assets as well as capital adequacy ratios.

Operational risk

Operational risk, including reputational risk, is the risk of loss due to inadequate or ineffective implementation of internal processes or systems operations, human error or other external factors. Operational risk includes the integrity of TBI Bank's information technology systems and the risk of loss due to a failure to adhere to legal requirements, sound banking practices, TBI Bank's internal regulations and code of conduct and best practice industry standards.

DISCUSSION OF CRITICAL ACCOUNTING POLICIES OF TBI BANK

TBI Bank has identified the following accounting policies as the most important policies for understanding its results of operations and financial condition. TBI Bank's significant accounting policies are described in further detail in Note 1 of its 2016 Financial Statements.

Interest income and expense

Interest income and expense are measured using the effective interest rate method. The effective interest rate method calculates the amortized cost of a financial asset or liability and allocates interest income and expense over the respective time period. It discounts the estimated future cash inflows and outflows over the expected life of the financial instrument, or a shorter period, to the net carrying amount of the financial asset or liability.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and in bank accounts, cash held with central banks and in nostro accounts with other banks, as well as bank deposits with an original maturity of less than three months.

Impairment of financial assets

TBI Bank classifies its financial assets into the following categories: financial assets at fair value, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other assets.

With respect to assets carried at amortized cost, such as loans and receivables, TBI Bank assesses at each balance sheet date whether objective evidence for impairment exists as a result of an event occurring after the asset's initial recognition that impacts the estimated future cash flows from the asset. Objective evidence may include the following:

- 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 competitive position of the debtor;
- decrease in the value of the loan collateral; and
- deterioration of the credit rating below the investment level.

TBI Bank measures impairment separately for individually significant financial assets and individually or on a portfolio basis for financial assets that are not individually significant. TBI Bank reviews its loan portfolios for impairment on at least a monthly basis. With respect to loans and receivables and held-to-maturity investments, if there is objective evidence of impairment, the loss is calculated as the difference between the carrying amount of the asset and the present value of the estimated cash flows, discounted at the original effective interest rate. The impairment loss is recognized in the statement of profit and loss. If subsequent to recognition of impairment, the impairment loss decreases and this decrease may be objectively attributed to an event occurring after the recognition of the loss (e.g., improvement of the debtor's credit rating), the impairment loss is reversed, and the amount of such reversal is recognized in the statement of profit and loss.

With respect to available-for-sale financial assets, i.e., assets 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, TBI Bank assesses whether objective data exists that such assets should be impaired. For equity investments classified as available for sale, a prolonged or significant decline in the fair value of the security below its cost is taken into account when considering impairment.

Renegotiated loans are considered performing at the time of 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.

Financial liabilities

Borrowings are initially recognized at the fair value of cash inflows upon origination of the liability (less transaction costs). Subsequently, borrowings are measured at amortized cost, with any difference between the net cash flows and the amortized cost recognized as profit or loss (using the effective interest rate method over the useful life of the liability). Deposits from banks and customers, subordinated term debt and other liabilities are recognized at amortized cost.

Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the liability (provided such liability can be measured reliably).

A new provisioning methodology in respect of consumer loans was introduced as of December 31, 2016. The new methodology is based on probability of default and loss-given default methodologies, rather than the previously used methodology of classifying fixed percentages of balance sheet exposure values to different delay buckets.

Financial guarantee contracts

TBI Bank issues financial guarantees to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other bank facilities. They are initially recognized at fair value on the date of issuance. Subsequently, they are measured at the higher of (i) the initial measurement less amortization calculated for the recognition the commission income earned over the life of the guarantee and (ii) the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date.

INFORMATION REGARDING REGULATORY CAPITAL OF TBI BANK

TBI Bank reports regulatory capital according to and in compliance with Basel Committee requirements as well as applicable EU directives, as adopted by the Bulgarian National Bank. TBI Bank measures risk-weighted assets according to specified requirements which reflect the varying levels of risk attached to assets and off-balance sheet exposures, and include amounts in respect of credit, market and other related risks.

The table below summarizes the composition of regulatory capital of TBI Bank and risk-weighted assets for the years ended December 31, 2016 and 2015:

	As of 31 December	
	2016	2015
	(in BGN)	
Tier-one capital		
Share capital	81,600	78,600
Reserves and accumulated profit/(loss) from prior years	31,971	(161)
Less:		
Intangible assets	(1,629)	(1,808)
Other deductions	(89)	(435)
Total tier-one capital	**111,853**	**76,196**
Tier-two capital		
Subordinated term debt	—	535
Total tier-two capital	**—**	**535**
Risk-weighted assets		
Balance sheet items	361,630	291,803
Off-balance sheet items	761	21
Total risk-weighted assets	**362,391**	**291,824**
Capital adequacy ratio	**22.34%**	**19.48%**

Risk-weighted assets increased to EUR 185.3 million as of December 31, 2016 from EUR 149.2 million as of December 31, 2015, mainly due to the increase in TBI Bank's loan portfolio.

The Bulgarian National Bank requires each bank to hold a minimum level of equity of BGN 10,000 thousand and to maintain a minimum total regulatory capital to risk-weighted assets ratio of 13.5%, comprising a capital adequacy ratio of at least 8%, a protective capital buffer of at least 2.5% and a systemic risk buffer of at least 3%.

The table below sets forth certain capital ratios in respect of TBI Bank:

	Year ended December 31,	
	2016	2015
Capital adequacy ratio	22.3%	19.48%
Common equity Tier 1 capital ratio	22.3%	19.35%
Liquidity ratio	38.5%	35.4%
Liquidity coverage ratio	361.4%	—
Leverage ratio	17.5%	13.8%

As of December 31, 2016, TBI Bank's capital adequacy ratio increased to 22.3% from 19.5% as of December 31, 2015 as the increase in risk-weighted assets from consumer loan growth was more than offset by increase in retained earnings during the period.

SELECTED STATISTICAL INFORMATION

THE GROUP

The following tables present certain of our selected statistical information and ratios for the periods indicated. The following information should be read in conjunction with the Financial Statements included elsewhere in this Offering Memorandum, as well as "*Management's Discussion and Analysis of Results of Operations and Financial Condition*" and "*Selected Financial Information and Operating Data*." The statistical information and discussion and analysis presented below for the years ended December 31, 2016, 2015 and 2014 are presented solely for the convenience of the reader for analytical purposes and, for certain items, differ from and are not comparable to the presentation in the Financial Statements, as the basis for calculating such information differs from that used in the Financial Statements.

Certain amounts and percentages included in this Offering Memorandum have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different contexts may vary slightly and figures in certain other contexts may not be an exact arithmetic result of the figures shown herein.

AVERAGE BALANCE SHEET AND INTEREST RATE DATA

Average balances for assets and liabilities are calculated based on nominal period averages. The average balance as of each of the years ended December 31, 2016, 2015 and 2014 is calculated as the average of the year-start and year-end figures. Total interest income (expense) for the period and interest income (expense) for each category reflect nominal amounts. The average rates earned on interest-earning assets and the average rates paid on interest-bearing liabilities are also nominal rates. The average interest rate for each of the years ended December 31, 2016, 2015 and 2014 is calculated as total interest income or expense, as applicable, for the year divided by the average balance for the year. We believe that the calculation of averages on this basis is appropriate since growth in our operations during the periods under review has generally been stable month-to-month.

AVERAGE ASSETS AND INTEREST RATES

The table below presents the average balance of assets, interest income and average interest rates for the periods indicated.

	Year ended December 31,								
	2016			2015			2014		
	Average balance	Interest income	Average interest rate	Average balance	Interest income	Average interest rate	Average balance	Interest income	Average interest rate
Interest-earning assets									
Loans and advances due from customers (gross)	545.3	393.2	71.2%	371.1	318.3	85.8%	268.5	220.3	82.0%
Finance leases (gross)	6.9	0.1	1.4%	—	—	—	—	—	—
Cash and cash equivalents	107.3	—	0.0%	45.3	—	—	25.4	—	—
Placements with other banks	2.4	—	—	—	—	—	—	—	—
Total interest-earning assets	**661.9**	**393.3**	**—**	**416.4**	**318.3**	**—**	**293.9**	**220.3**	**—**
Provisions	(144.6)	—	—	(96.3)	—	—	(58.8)	—	—
Assets held for sale	4.3	—	—	2.2	—	—	10.9	—	—
Fixed assets	8.3	—	—	3.2	—	—	2.0	—	—
Other assets	154.9	—	—	78.6	—	—	49.9	—	—
Total assets; total interest income	**684.8**	**393.3**	**—**	**404.1**	**318.3**	**—**	**297.7**	**220.3**	**—**

AVERAGE LIABILITIES, EQUITY AND INTEREST RATES

The table below presents the average balances of liabilities and total equity, interest expense and average interest rates for the periods indicated.

	Year ended December 31,								
	2016			2015			2014		
	Average balance	Interest expense	Average interest rate	Average balance	Interest expense	Average interest rate	Average balance	Interest expense	Average interest rate
Interest-bearing liabilities									
Loans and borrowings	436.4	38.7	8.9%	235.1	28.7	12.2%	180.4	23.8	13.1%
Other liabilities	33.2	—	—	18.7	—	—	14.1	—	—
Total interest-bearing liabilities	**469.6**	**38.7**	**—**	**253.8**	**28.7**	**—**	**194.5**	**23.7**	**—**
Liabilities held for sale	2.4	—	—	0.3	—	—	7.4	—	—
Non-interest-bearing liabilities	11.1	—	—	6.9	—	—	6.5	—	—
Total liabilities	483.0	—	—	261.0	—	—	208.3	—	—
Total equity	201.7	—	—	143.1	—	—	89.4	—	—
Total liabilities and equity; total interest expense	**684.7**	**38.7**	**—**	**404.1**	**28.7**	**—**	**297.8**	**23.7**	**—**

CHANGES IN INTEREST INCOME AND INTEREST EXPENSE—VOLUME AND RATE ANALYSIS

The following tables allocate changes in interest income and interest expense between changes in volume and changes in rates for the year ended December 31, 2016 compared to the year ended December 31, 2015 and for the year ended December 31, 2015 compared to the year ended December 31, 2014. Volume and rate variances are calculated based on movements in yearly average balances over the period and on changes in interest rates on average net loans and advances due from customers and average loans and borrowings. The portion of the net change attributable to change in volume is calculated by applying the prior year interest rate to the change in volume and the remainder is allocated to change in rates.

	2016/2015			2015/2014		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in:		
	Volume	Interest rate	Net change	Volume	Interest rate	Net change
	(in millions of EUR)					
Loans and advances due from customers						
Impact on interest income	112.0	(37.3%)	74.7	65.2	9.8%	6.4
Loans and borrowings						
Impact on interest expense	82.8	0.6%	0.5	50.1	(0.5%)	(0.3)

INTEREST-EARNING ASSETS—YIELD AND YIELD SPREAD

The following table sets forth certain information regarding our yield and yield spread for the periods indicated.

	Year ended December 31,		
	2016	2015	2014
Average outstanding net balance of loans and advances to customers	401.1	274.9	209.7
Interest income earned on loans and advances to customers	393.2	318.3	220.8
Net interest income earned (financial margin)[1]	354.5	289.6	196.6
Yield and Yield Spread			
Gross yield[2]	98%	116%	105%
Net yield[3]	88%	105%	94%
Yield Spread	10%	10%	11%

Notes:

(1) Net interest income earned (financial margin) is interest income on loans and advances to customers less interest expense.

(2) Gross yield is the average interest rate charged on loans and advances to customers. For each of the years ended December 31, 2016, 2015 and 2014, the average interest rate on loans and advances to customers is calculated as the interest income on loans and advances to customers divided by the average outstanding net balance of loans and advances to customers for the year.

(3) For each of the years ended December 31, 2016, 2015 and 2014, the net yield is calculated as the net interest income earned (financial margin) divided by the average outstanding net balance of loans and advances to customers.

(4) Yield spread is the difference between gross yield and net yield.

RETURN ON AVERAGE TOTAL ASSETS AND AVERAGE EQUITY

The following table presents selected financial data and ratios for the periods indicated.

	Year ended December 31,		
	2016	2015	2014
Profit for the period	63.2	64.1	46.3
Average total assets	684.8	404.1	297.7
Average equity	201.7	143.1	89.4
Net income as a percentage of:			
Average total assets	9.2%	15.9%	15.5%
Average equity[1]	31.3%	44.8%	51.7%
Average equity as a percentage of average total assets	29.5%	35.4%	30.0%

Notes:

(1) The percentage of earnings paid to shareholders in dividends.

The following table presents selected financial data and ratios for the periods indicated based on results from continuing operations.

	Year ended December 31,		
	2016	2015	2014
Net income from continuing operations	63.2	58.2	49.0
Average total assets	684,8	404.1	297.7
Average equity	201.7	143.2	89.4
Net income of continuing operations as a percentage of:			
Average total assets	9.2%	14.4%	16.5%
Average equity	31.3%	40.6%	54.8%

INTEREST RATE SENSITIVITY OF ASSETS AND LIABILITIES

We do not grant loans with floating interest rates. Our shareholder loans are contracted at fixed rates and denominated in Euros; our 2019 Notes bear a fixed interest rate of 11.75% and are denominated in US Dollars; our SEK Notes bear a fixed interest rate of 11.75% and are denominated in Swedish Krona and our 2021 Notes bear a fixed interest rate of 11.25% and are denominated in Euros. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Contractual Obligations and Commercial Commitments*."

Interest rate sensitivity

The following table reflects our interest-earning assets and interest-bearing liabilities as of December 31, 2016. Fixed-rate instruments were classified in this table according to their contractual maturity.

	As of December 31, 2016						
	0 - 30 days	31 - 89 days	90 - 179 days	180 - 365 days	Over 366 days	Non-rate sensitive	Total
	(in millions of EUR, except percentages)						
Assets							
Cash and cash equivalents	157.6	—	—	—	—	—	157.6
Placements with other banks	4.8	—	—	—	—	—	—
Loans and advances due from customers	155.5	45.0	62.9	20.7	106.0	103.8	493.9
Other interest-earning assets	1.1	7.9	5.8	4.9	75.9	1.4	97.0
Total assets	**319.0**	**52.9**	**68.7**	**25.6**	**181.9**	**105.2**	**753.3**
Liabilities and equity							
Loans and borrowings	15.4	3.0	4.2	225.9	148.6	—	397.1
Other interest-bearing liabilities	63.9	36.4	125.4	1.5	14.8	—	242.0
Other non-interest bearing liabilities	11.8	—	—	—	—	—	11.8
Total liabilities and equity	**91.1**	**39.4**	**129.6**	**227.4**	**163.4**	**—**	**650.9**
Interest rate sensitivity gap(1)	227.9	13.5	(60.9)	(201.8)	18.5	105.2	102.4
Cumulative interest rate sensitivity gap	227.9	241.4	180.5	(21.3)	(2.8)	102.4	
Cumulative gap as percentage of total interest-earning assets	71%	456%	263%	(83%)	(2%)	(97%)	

Note:
(1) Total assets less total liabilities and equity.

As of December 31, 2016, interest-earning assets totaled EUR 753.3 million. Our performing loan portfolio represented 65.6% of our interest-earning assets. All of our loans are fixed-rate loans.

Of our interest-bearing liabilities totaling EUR 650.9 million as of December 31, 2016, the 2019 Notes accounted for 29.9%, the SEK Notes accounted for 6.1%, the 2021 Notes accounted for 21.9%, Friendly Finance Notes for 0.5% and deposits from customers accounted for 36.4%.

CASH AND CASH EQUIVALENTS

We held cash and cash equivalents in the amount of EUR 157.6 million as of December 31, 2016, representing 16.9% of our total assets.

LOANS AND BORROWINGS

The following table sets forth our loans and borrowings for the periods indicated.

	Year ended December 31,					
	2016		2015		2014	
	Amount	Rate	Amount	Rate	Amount	Rate
SEK Notes						
At end of period	39.6	11.75%	42.1	11.75%	—	—
Average indebtedness during period[1]	40.9	—	42.1	—	—	—
2019 Notes						
At end of period	194.3	11.75%	175.0	11.75%	208.6	11.75%
Average indebtedness during period[1]	184.7	—	191.8	—	167.0	—
2021 Notes						
At end of period	142.4	11.25%	—	—	—	—
Average indebtedness during period[1]	142.4	—	—	—	—	—
Friendly Finance OÜ Notes						
At end of period	2.8	10.0%	—	—	—	—
Average indebtedness during period[1]	2.8	—	—	—	—	—
TKB Credit Line						
At end of period	—	—	5.9	7%	6.2	8.00%
Average indebtedness during period[1]	3.0	—	6.1	—	4.7	—
Ameriabank CJSC						
At end of period	0.2	15%	—	—	—	—
Average indebtedness during period[1]	0.2	—	—	—	—	—
Loans from related parties						
At end of period	3.7	14 - 15%	3.7	12 - 15%	16.8	12%-13.00%
Average indebtedness during period[1]	3.7	—	10.3	—	8.8	—
Other loans						
At end of period	14.2	2% - 15%	2.8	3% - 9%	—	—
Average indebtedness during period[1]	8.5	—	2.8	—	—	—

Note:

(1) Average indebtedness during the period is determined by taking the sum of indebtedness as of the first day of the relevant period and the last day of such period and dividing by two.

LOAN PORTFOLIO

Total loan portfolio amounts set forth in this section include the total principal amount of performing and non-performing loans outstanding as of the date presented. The terms "loan portfolio" and "total loan portfolio" include total performing loans plus total non-performing loans.

Our total gross loan portfolio as of December 31, 2016 and 2015 amounted to EUR 665.1 million and EUR 425.5 million, respectively. This increase was mainly due to an increase in the total number of active clients.

The following table illustrates the split of our online loan portfolio in terms of the duration for which the repayment of loans are delayed, as of December 31, 2016.

	As of December 31, 2016
Total loan portfolio by duration for which the repayment of loans are delayed[1]	
Not delayed	219.1
Restructured	(0)
Delayed 1-30 days	25.7
Delayed 31-60 days	17.9
Delayed 61-90 days	14.7
Delayed 91-360 days	103.3
Delayed over 361 days	93.3
Total	**474.0**

Note:

(1) Excluding TBIF Group.

Classification of our loan portfolio

The following table sets forth the classification of our online loan portfolio in terms of performing and non-performing loan portfolios as of the dates indicated.

	As of December 31,					
	2016		2015		2014	
	Amount	% of portfolio	Amount	% of portfolio	Amount	% of portfolio
Performing loan portfolio	277.4	58.5%	268.4	63.1%	208.3	66.8%
Non-performing loan portfolio	196.6	41.5%	157.1	36.9%	108.5	33.2%
Total loan portfolio[(1)]	**474.0**	**100.0%**	**425.5**	**100.0%**	**316.8**	**100.0%**

Note:

(1) Loan amounts include accrued interest.

Performing loan portfolio

The following table sets forth our online performing loan portfolio (including performing interest) by product as of the dates indicated.

	Year ended December 31,		
	2016	2015	2014
Performing loan portfolio by product:[(1)]			
Single Payment Loans	193.5	177.3	150.4
Installment Loans	81.0	90.6	57.9
Loan of Credit Loans	2.9	0.5	—
Total performing loan portfolio	**277.4**	**268.4**	**208.3**

Note:

(1) Loan amounts include accrued interest.

Loans by geographic concentration

The following table sets forth our gross loan portfolio based on countries of operation as of the dates indicated.

	As of December 31,					
	2016		2015		2014	
	Loan Amount[(1)]	% of portfolio[(2)]	Loan Amount	% of portfolio	Loan Amount	% of portfolio
Latvia	59.8	9%	61.7	15%	61.9	19.5%
Poland	114.0	17%	102.7	24%	80.7	25.5%
Lithuania	34.3	5%	63.2	15%	45.6	14.4%
Sweden	28.9	4%	43.3	10%	30.6	9.7%
Finland	27.5	4%	31.5	7%	26.8	8.5%
Denmark	46.3	7%	31.3	7%	17.1	5.4%
Spain	53.4	8%	37.4	9%	20.9	6.6%
Georgia	36.4	5%	38.0	9%	26.1	8.2%
TBIF Group	191.1	29%	—	—	—	—
Friendly Finance	43.6	7%	—	—	—	—
Other[(3)]	29.9	4%	16.4	4%	7.0	2.2%
Total gross loan portfolio	**665.1**	**100%**	**425.5**	**100%**	**316.8**	**100.0%**

Notes:

(1) Gross Loan portfolio amounts include accrued interest and non-performing loans.

(2) Percentage of portfolio equals the loan amount by country divided by the Group's total loan portfolio.

(3) Other includes Czech Republic, Bulgaria, Romania, Argentina, Armenia, Mexico and Dominican Republic.

Total loan portfolio by loan balance

The following table sets forth the composition of our loan portfolio as of the dates indicated according to the outstanding principal amount borrowed.

	As of December 31,					
	2016		2015		2014	
	Loan Amount[(1)]	% of portfolio	Loan Amount[(1)]	% of portfolio	Loan Amount[(1)]	% of portfolio
Outstanding Principal Amount Borrowed						
Less than EUR 200	40.8	9.5%	44.4	10.4%	92.1	29.1%
Between EUR 201 - 400	91.0	21.1%	101.1	23.8%	103.3	32.6%
Between EUR 401 - 600	68.2	15.9%	75.2	17.7%	61.1	19.3%
Between EUR 601 - 800	52.0	12.1%	52.3	12.3%	20.6	6.5%
Between EUR 809 - 1000	45.4	10.5%	42.8	10.0%	13.5	4.2%
Over EUR 1000	133.0	30.9%	109.7	25.8%	26.2	8.3%
Total loan portfolio	**430.4**	**100.0%**	**425.5**	**100.0%**	**316.8**	**100%**

Note:

(1) Loan amounts are gross and include accrued interest.

Non-performing loan portfolio

We only write-off those loans which are overdue for more than 730 days.

As of December 31, 2016, our online non-performing loan portfolio was EUR 196.6 million, 9.3% of the value of loans issued between October 1, 2013 and September 30, 2016. Our online non-performing loan portfolio as of December 31, 2016 represented 41.5% of online loans outstanding as of such date. Of the total non-performing loan portfolio as of December 31, 2016, EUR 17.0 million, or 9.5%, represented non-performing interest. Our online non-performing loan portfolio increased by EUR 39.5 million, or 25.1%, during the year ended December 31, 2016, compared to the year ended December 31, 2015, mainly as a result of a significant increase of portfolio.

As of December 31, 2015, our total non-performing loan portfolio was EUR 157.1 million, 9.0% of the value of loans issued between October 1, 2012 and September 30, 2014. Our non-performing loan portfolio as of December 31, 2015 represented 36.9% of online loans outstanding as of such date. Of the total non-performing loan portfolio as of December 31, 2015, EUR 13.5 million, or 8.6%, represented non-performing interest. Our total non-performing loan portfolio increased by EUR 48.6 million, or 44.8%, during the year ended December 31, 2015, compared to the year ended December 31, 2014, mainly as a result of a significant increase of portfolio.

The following table sets forth an analysis of our non-performing loan portfolio (including non-performing interest) by product as of the dates indicated.

	As of December 31,		
	2016	2015	2014
Non-performing loan portfolio by product:[(1)]			
Single Payment Loans	146.9	118.7	84.9
Installment Loans	48.8	38.4	23.6
Line of Credit Loans	0.9	—	
Total non-performing loan portfolio	**196.6**	**157.1**	**108.5**
Value of loans issued[(2)]	2 106	1 739	1 226
Non-performing loans as a share of value of loans issued	9.3%	9.0%	8.8%

Notes:

(1) Loan amounts include accrued interest.

(2) The value of loans issued as of a particular date represents loans issued during the two-year before commencement of the 90 days past-due period. Therefore, the applicable period for each reporting date is as follows: for December 31, 2016: October 1, 2014 to September 30, 2016; for December 31, 2015: October 1, 2013 to September 30, 2015; and for December 31, 2014: October 1, 2012 to September 30, 2014.

ALLOWANCE FOR LOAN LOSSES

We employ an incurred loss impairment methodology that is prepared in accordance with IFRS. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Discussion of Critical Accounting Policies—Impairment*." The following table sets forth certain information on our non-performing loan portfolio and allowances for loan losses.

	Year ended December 31,					
	2016		2015		2014	
	Loan Amount[(1)]	Allowances for loan losses	Loan Amount[(1)]	Allowances for loan losses	Loan Amount[(1)]	Allowances for loan losses
Non-performing loan by product:						
Single Payment Loans	146.9	97.8	118.7	70.2	84.9	45.8
Installment Loans	48.8	30.3	38.4	22.7	23.6	12.5
Line of Credit Loans	0.9	0.7	—	—	—	—
Total non-performing loan portfolio and allowances	**196.6**	**128.8**	**157.1**	**92.9**	**108.5**	**58.3**

Note:
(1) Loan amount includes accrued interest.

ANALYSIS OF ALLOWANCE FOR LOAN LOSSES

The following table sets forth an analysis of our allowance for loan losses for our online portfolio, including movements in the balance of such allowances, as well as amounts of loans written off.

	For the year ended December 31,		
	2016	2015	2014
Balance of loan loss allowance at beginning of period	**127.5**	**75.4**	**42.2**
Plus:			
Charge for loan loss allowance in continuing operations	104.3	84.7	55.7
Charge for loan loss allowances in discontinued operations	—	(0.4)	—
Less:			
Written-off on disposal of portfolio	(20.6)	(2.8)	(1.9)
Classified to assets held-for-sale	—	—	(1.7)
Loan write-offs	(51.5)	(36.3)	(16.7)
Acquired through business combinations	—	—	—
Currency effect	(2.1)	(3.4)	(2.2)
Balance of loan loss allowance at end of period	**157.6**	**117.2**	**75.4**

WORKOUT AND CREDIT RECOVERY

Debt recovery on loans that are up to 90 days past due are generally handled by our internal debt collection unit, although on occasion we outsource such recoveries to external debt collection agencies. For loans that are more than 90 days past due, we generally outsource debt recovery to debt collectors, but on occasion we handle such recoveries in-house. Loans are written-off when repayment is more than 730 days past due. Written-off loans become subject to consideration for further action, including the sale of any such loan at a discount. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Discussion of Critical Accounting Policies—Impairment*."

SELECTED STATISTICAL INFORMATION FOR TBIF GROUP

AVERAGE BALANCE SHEET AND INTEREST RATE DATA

Average balances for assets and liabilities are calculated based on nominal period averages. The average balance as of each of the years ended December 31, 2016 and 2015 is calculated as the average of the year-start and year-end figures. Total interest income (expense) for the period and interest income (expense) for each category reflect nominal amounts. The average rates earned on interest-earning assets and the average rates paid on interest-bearing liabilities are also nominal rates. The average interest rate for each of the years ended December 31, 2016 and 2015 is calculated as total interest income or expense, as applicable, for the year divided by the average balance for the year. We believe that the calculation of averages on this basis is appropriate since growth in our operations during the periods under review has generally been stable month-to-month.

AVERAGE ASSETS AND INTEREST RATES

The table below presents the average balance of assets, interest income and average interest rates for the periods indicated.

	2016			2015		
	Average balance	Interest income	Average interest rate	Average balance	Interest income	Average interest rate
			Unaudited			
Interest-earning assets						
Loans and advances due from customers (gross)	194.7	46.7	24.0%	168.9	33.5	19.8%
Cash, cash equivalents and balances with banks	41.4	—	0.0%	40.6	0.4	1.0%
Interest-earning investments[(1)]	8.1	0.1	1.2%	3.3	—	—
Total interest-earning assets	244.2	46.8	19.2%	212.8	33.9	15.9%
Provisions	(12.9)	—	—	(11.1)	—	—
Assets held for sale	10.0	—	—	2.5	—	—
Fixed assets	10.5	—	—	10.3	—	—
Other assets	44.7	—	—	45.5	—	—
Total assets; total interest income	296.5	46.8	15.8%	259.9	33.9	13.0%

Note:

(1) Interest-earning investments comprise debt securities classified as held for trading, available for sale, and held to maturity investments that generate interest income for TBI Bank.

AVERAGE LIABILITIES, EQUITY AND INTEREST RATES

The table below presents the average balances of liabilities and total equity, interest expense and average interest rates for the periods indicated.

	2016			2015		
	Average balance	Interest expense	Average interest rate	Average balance	Interest expense	Average interest rate
			Unaudited			
Interest-bearing liabilities						
Deposits, loans and borrowings (including held for sale)	220.3	3.9	1.8%	207.6	5.3	2.5%
Total interest-bearing liabilities	220.3	3.9	1.8%	207.6	5.3	2.5%
Liabilities held for sale	0.4	—	—	—	—	—
Non-interest-bearing liabilities	10.1	—	—	6	—	—
Total liabilities	230.8	3.9	1.6%	213.6	5.3	2.5%
Total equity	65.7	—	—	46.3	—	—
Total liabilities and equity; total interest expense	296.5	3.9	1.3%	259.9	5.3	2.0%

CHANGES IN INTEREST INCOME AND INTEREST EXPENSE—VOLUME AND RATE ANALYSIS

The following tables allocate changes in interest income and interest expense between changes in volume and changes in rates for the year ended December 31, 2016 compared to the year ended December 31, 2015. Volume and rate variances are calculated based on movements in yearly average balances over the period and on changes in interest rates on average net loans and advances due from customers and average loans and borrowings. The portion of the net change attributable to change in volume is calculated by applying the prior year interest rate to the change in volume and the remainder is allocated to change in rates.

	2016/2015		
	Increase (decrease) due to changes in		
	Volume	Interest rate	Net change
		Unaudited	
Loans and advances due from customers			
Impact on interest income	5.1	8.1	13.2
Deposits, loans and borrowings			
Impact on interest expense	0.3	(1.7)	(1.4)

INTEREST-EARNING ASSETS—YIELD AND YIELD SPREAD

The following table sets forth certain information regarding our yield and yield spread for the periods indicated.

	Year ended December 31,	
	2016	2015
	Unaudited	
Average outstanding net balance of loans and advances to customers	194.7	168.9
Interest income earned on loans and advances to customers	46.7	33.5
Net interest income earned (financial margin)[(1)]	43.5	29.2
Yield and Yield Spread		
Gross yield[(2)]	24.0%	19.8%
Net yield[(3)]	22.3%	17.2%
Yield Spread	1.7%	2.6%

Notes:

(1) Net interest income earned (financial margin) is interest income on loans and advances to customers less interest expense.

(2) Gross yield is the average interest rate charged on loans and advances to customers. For each of the years ended December 31, 2016, 2015 and 2014, the average interest rate on loans and advances to customers is calculated as the interest income on loans and advances to customers divided by the average outstanding net balance of loans and advances to customers for the year.

(3) For each of the years ended December 31, 2016, 2015 and 2014, the net yield is calculated as the net interest income earned (financial margin) divided by the average outstanding net balance of loans and advances to customers.

(4) Yield spread is the difference between gross yield and net yield.

RETURN ON AVERAGE TOTAL ASSETS AND AVERAGE EQUITY

The following table presents selected financial data and ratios for the periods indicated.

	Year ended December 31,	
	2016	2015
	Unaudited	
Profit for the period	16.6	16.6
Average total assets	296.5	259.9
Average equity	65.7	46.3
Net income as a percentage of:		
Average total assets	5.6%	6.4%
Average equity[(1)]	25.3%	35.9%
Average equity as a percentage of average total assets	22.2%	17.8%

Notes:

(1) The percentage of earnings paid to shareholders in dividends.

All the financial data and ratios in the above table relate to continuing operations. The group does not have any discontinued operations in the indicated periods.

INTEREST RATE SENSITIVITY OF ASSETS AND LIABILITIES

TBI Bank disburses loans to individuals and SME. SME products' return is based on floating or including for float clauses upon severe market changes interest rate. The predominating product of the bank—the retail one, has its return structured by list of elements, such as management fee, monthly fee, insurance commission and interest, where interest income is one of less frequent, in some cases—missing. The return on retail portfolio products is practically driven by market and competition and not so much depended on money markets.

On liability side, as bank is predominantly funded by deposits, again the cost is sensitive mostly on deposits markets both in Bulgaria and Romania following countries trends. Deposits products provided by bank have fixed rates.

Interest rate sensitivity

The following table reflects our interest-earning assets and interest-bearing liabilities as of December 31, 2016. Fixed-rate instruments were classified in this table according to their contractual maturity.

	As of December 31, 2016					
	0 - 30 days	31 - 89 days	90 - 365 days	Over 366 days	Non-rate sensitive	Total
Assets						
Cash, cash equivalents and balances with banks	88.8	—	—	—	—	88.8
Loans and advances due from customers	12.5	85.1	53.6	38.3	—	194.2
Other interest-earning assets	5.9	—	—	4.1	—	10.0
Total assets	**107.2**	**85.1**	**53.6**	**42.4**	**—**	**293.0**
Liabilities and equity						
Deposits, loans and borrowings	63.1	28.8	119.9	15.6	—	227.4
Total liabilities and equity	**63.1**	**28.8**	**119.9**	**15.6**	**—**	**227.4**
Interest rate sensitivity gap(1)	44.1	56.3	(66.3)	26.8	—	60.9

Note:

(1) Total assets less total liabilities and equity.

As of December 31, 2016, interest-earning assets totaled EUR 293.1 million. Customer loans accounted for the majority of our interest-earning assets. Deposits from customers accounted for 99 % of our interest-bearing liabilities.

CASH, CASH EQUIVALENTS AND BALANCES WITH BANKS

We held cash, cash equivalents and balances with banks in the amount of EUR 88.8 million as of December 31, 2016, representing 28.9 % of our total assets.

LOANS AND BORROWINGS

The following table sets forth our loans and borrowings for the periods indicated.

	As of December 31,			
	2016		2015	
	Amount	Rate	Amount	Rate
Deposits and C/A				
At end of period	224.4	1.2%	202.5	3.8%
Average indebtedness during period(1)	213.4	1.3%	202.6	3.8%
Other loans and borrowings				
At end of period	7,5	8.0%	6.2	14.5%
Average indebtedness during period(1)	6.9	8.7%	5.0	16.0%

Note:

(1) Average indebtedness during the period is determined by taking the sum of indebtedness as of the first day of the relevant period and the last day of such period and dividing by two.

LOAN PORTFOLIO

Total loan portfolio amounts set forth in this section include the total amount of performing and non-performing loans outstanding as of the date presented. The terms "loan portfolio" and "total loan portfolio" include total performing loans plus total non-performing loans.

Our total gross loan portfolio as of December 31, 2016 and 2015 amounted to EUR 208.6 million and EUR 180.7 million, respectively. This increase was mainly due to an increase in the total number of active clients.

The following table illustrates the split of our total portfolio in terms of the duration for which the repayment of loans are delayed, as of December 31, 2016. The part of the portfolio which consists of individually impaired loans is presented on a separate line.

	As of December 31,
	2016
Total loan portfolio by duration for which the repayment of loans are delayed	
Not delayed / not individually impaired	140.2
Delayed 1-30 days	22.8
Delayed 31-60 days	7.2
Delayed 61-90 days	2.2
Delayed over 91 days	13.3
Individually impaired	6.6

ASSETS BY GEORGRAPHIC CONCENTRATION

The following table sets forth our total assets based on countries of origination as of the dates indicated.

	As of December 31,			
	2016		2015	
	Loan Amount	% of portfolio	Loan Amount	% of portfolio
Bulgaria	116.4	40.2%	130.4	52.1%
Romania	166.0	57.4%	116.3	46.5%
Other countries	7.0	2.4%	3.4	1.4%
Total assets	289.4	100%	250.1	100%

ANALYSIS OF ALLOWANCE FOR LOAN LOSSES

The following table sets forth an analysis of our allowance for loan losses, including movements in the balance of such allowances, as well as amounts of loans written off.

	As of December 31,	
	2016	2015
Balance of loan loss allowance at beginning of period	11.4	10.9
Plus:		
Charge for loan loss allowance in continuing operations	1.4	3.3
Charge for loan loss allowances in discontinued operations	—	—
Less:		
Written-off on disposal of portfolio	(3.5)	(4.8)
Classified to assets held-for-sale	—	—
Loan write-offs	—	—
Currency effect	—	—
Balance of loan loss allowance at end of period	14.3	11.4

OVERVIEW

The European short-term loan market is a rapidly growing sector with considerable growth potential. The market is heterogeneous in terms of products offered and regulatory oversight across EU Member States. The provision of small, short-term unsecured loans to consumers operates within the larger context of the consumer lending industry. It is dominated by, but not comprised solely of, non-banking institutions.

Following the global financial crisis starting in 2008, the banking sector experienced a shift in market dynamics driven by increased regulation, *e.g.,* Basel III and CRD IV, banks' desires to improve their balance sheets and to focus on core products in domestic markets, in addition to an overall decline in tolerance for credit risk. As a consequence of the current regulatory environment, it has become more difficult for individuals to obtain short-term credit from commercial banks. Demand for credit remains high among European consumers, both on account of the regulatory environment and on higher consumer spending across Europe, many consumers have turned to non-traditional lenders. These non-traditional lenders typically offer smaller short-term loans, with repayment periods of less than one year.

The products and services offered by non-traditional lenders have become more visible in the media in recent years, increasing awareness amongst consumers of the possibility of taking a quick, unsecured loan. As these institutions establish themselves as a credible alternative to the types of short-term, unsecured lending traditionally offered by banks, non-bank lending is expected to become an increasingly important aspect of consumer lending.

Below is an overview of the small-loan consumer lending markets in certain of our key jurisdictions.

POLAND

Consumer lending market in Poland

Gross consumer lending in Poland increased by 4% in 2016 compared to 2015 (*Euromonitor International: Consumer Lending in Poland, November 2016)*.

The table below sets forth the amount and growth in gross lending of consumer credit and consumer lending institutions in Poland for the years 2011-2016:

	Value (PLN bn)						% Value Growth	
	2011	2012	2013	2014	2015	2016	2011 - 16 CAGR	2011/16 Total
Consumer Credit	92.3	95.2	108.0	113.8	118.8	123.6	6.0	33.8
Consumer Lending	141.6	134.3	144.5	150.6	158.2	164.1	3.0	15.9

Source: Euromonitor International from official statistics, trade associations, trade press, company research, trade interviews, trade sources

The table below sets forth the value and growth in the outstanding balance of consumer loans issued by consumer credit and lending institutions in Poland for the years 2011-2016:

	Value (PLN bn)						% Value Growth	
	2011	2012	2013	2014	2015	2016	2011 - 16 CAGR	2011/16 Total
Consumer Credit	213.0	211.5	219.2	230.6	240.0	250.4	3.3	17.6
Consumer Lending	526.7	527.8	550.0	580.9	614.0	646.9	4.2	22.8

Source: Euromonitor International from official statistics, trade associations, trade press, company research, trade interviews, trade sources

Source: Euromonitor International: Consumer Credit in Poland, November 2016 and Euromonitor International: Consumer Lending in Poland, November 2016

Small short-term loan market in Poland

In spite of stricter regulations for taking out personal loans and the Polish Act on Consumer Credit (ACC) that came into force in March 2016, some banks eased lending standards, and together with higher investment volumes, consumers benefited from improved credit availability. Slowly improving economic situation in the country and rising disposable incomes resulted in higher amounts borrowed. The ACC also influenced the non-bank lending business in Poland (such as payday loans).The main trend is the extension of the product offering of payday lenders (which offered mainly short-term and small loans to date) with longer term installment loans of higher value. (*Euromonitor International: Consumer Lending in Poland, November 2016*).

The number of new bank accounts in Poland increased in 2016, reducing the percentage of the unbanked population to 19% in 2016 from 21% in 2015. This decline was the result of several factors, including the following: In order to raise awareness of financial possibilities among the Polish unbanked population, the National Bank of Poland (NBP) launched an Academy of Accessible Finance (Akademia Dostepne Finanse). Poland also implemented an EU directive, which aimed to provide access to a basic bank account free of charge. (*Euromonitor International: Consumer Lending in Poland, November 2016).*

Competitive landscape

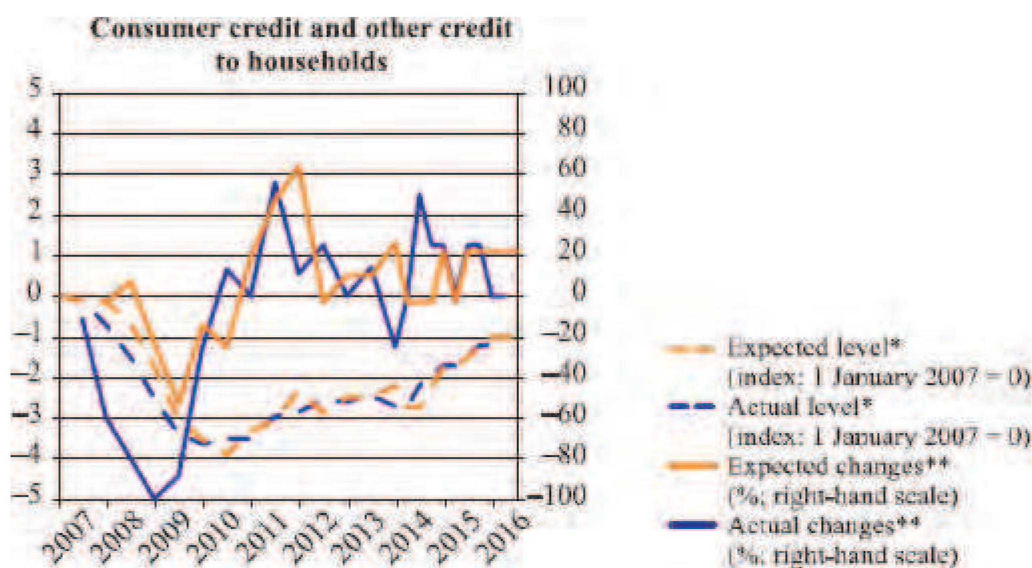
Consumer credit continues to be dominated by such retail banks. The major lenders are the leading commercial banks operating in Poland. The banks in Poland with the largest consumer credit portfolios include PKO Bank Polski, Pekao SA, Bank Zachodni WBK, mBank, and Deutsche Bank Polska. (*Euromonitor International: Consumer Lending in Poland, November 2016).*

However, those consumers who do not have a credit score to obtain a loan from a bank, or do not report any official income often choose to use non-bank lenders. (*Euromonitor International: Consumer Lending in Poland, November 2016).*

LATVIA

Consumer lending market in Latvia

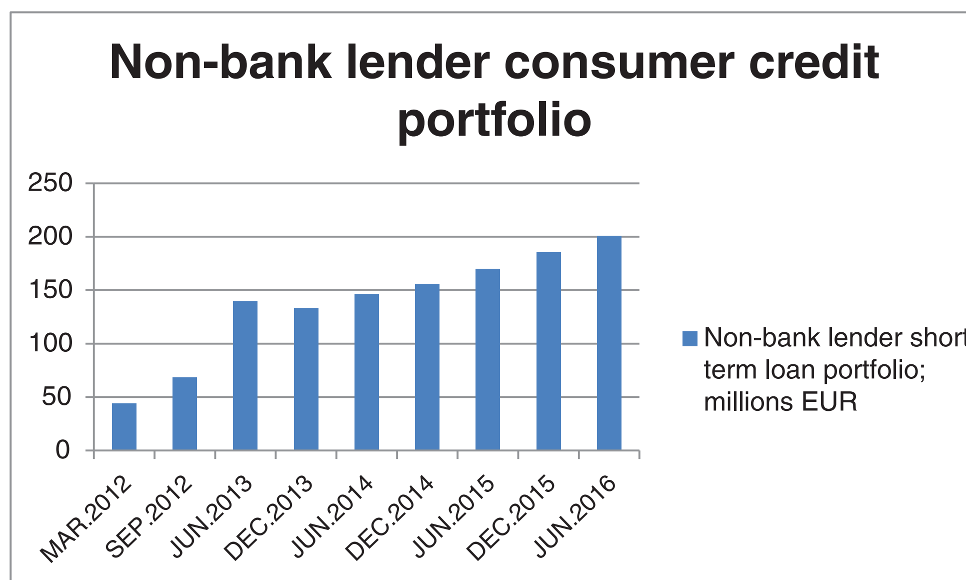
The chart below illustrates the changes in demand for consumer loans for the periods indicated.



Source: Bank of Latvia

Small short-term loan market of non-bank lenders in Latvia

The market for small, short-term consumer loans (so called "distance credits" or "payday loans" and "instalment loans") from non-bank lenders has grown since 2012, according to the Consumer Rights Protection Center (*Summary of non-bank lending market for 2012 and Overview of non-bank consumer lending sector activity in the first half of 2016*). The chart below sets out the volumes of portfolio of small, short-term consumer loans issued by non-bank lenders at the end of the periods indicated.



Source: Consumers Rights Protection Center

As a result of the increasing volume of loans issued by non-bank lenders, Latvia's consumer lending market has come under stricter regulation with changes in the regulatory framework adopted by the Latvian Parliament (*Saeima*). See "*Regulatory Framework—Latvia*." Nevertheless, we believe it is unlikely that this new level of oversight will materially impact the growth of the consumer lending industry going forward, since the introduced changes (for example, the obligation to evaluate consumers' solvency, stricter rules for marketing consumer loans and limitations on loan-related expenses) are designed more to define the common approaches non-bank lenders should take in regards to consumer lending processes, than to create difficulties for the market.

Competitive landscape

The types of lenders operating in the consumer lending market can be divided into two main groups—banks and non-bank lenders. According to the data of the Consumers Rights Protection Center and the Financial and Capital Market Commission, by the end of June 2016 there were 60 licensed non-bank lenders and 23 banks and branches of foreign banks in Latvia. These two groups are regulated by different authorities: the Consumers Rights Protection Center and the Financial and Capital Market Commission, respectively. According to the data of the Consumers Rights Protection Center, on June 30, 2016 there were 18 licensed non-bank lenders providing distance credits and payday loans (similar to our Single Payment Loans) and 19 licensed non-bank lenders providing consumer loans without collateral (similar to our Installment Loans).

LITHUANIA

Consumer lending market in Lithuania

The global financial crisis in 2008 had a negative impact on both the Lithuanian financial sector and on the economy as a whole. In 2009, GDP in Lithuania declined by 14.8% compared to 2008, according to Global Finance (*Global Finance Magazine, Global Data, Country Data, Lithuania, at http://www.gfmag.com/ global-data/country-data/lithuania- gdp-country-report*). In addition, the bankruptcy of the Lithuanian bank Snoras, in 2011 further exacerbated the negative impact on the financial sector. Since 2010, however, the Lithuanian economy in general and the financial sector in particular have improved, with GDP increasing year-on-year between 2010 and 2015, according to Global Finance.

In 2015, compared to 2014, the consumer loan market continued to expand—approximately 841,000 consumer loans were issued (a 7.3% increase from 2014), and, as of December 31, 2015, the total value of consumer credit totalled approximately EUR 429.7 million) (a 26.4% increase from December 31, 2014) (*The Bank of Lithuania review of the consumer credit market of 2015* in Lithuanian: *Lietuvos banko vartojimo kredito rinkos apžvalga 2015; the Bank of Lithuania review of the consumer credit market of 2014* in Lithuanian: *Lietuvos banko vartojimo kredito rinkos apžvalga 2014*).

Small short-term loan market in Lithuania

According to the Bank of Lithuania, there were 30 small, short-term loan providers operating in Lithuania in 2015, compared to 33 in 2014 and 39 in 2013 (*Review of consumer credit market of 2015; Review of consumer credit market of 2014; Review of consumer credit market of 2013*). In 2015 in Lithuania, small, short-term loan providers issued 551,060 small, short-term loans (a 22.0% decline from 2014) for a total amount of EUR 62.4 million (a 20.0% decline from 2014) (*Review of consumer credit market of 2015*).

The outstanding balance of small, short-term loans in Lithuania as of December 31, 2015 was EUR 24.3 million, a 22.0% decline from year-end 2014. As of December 31, 2015, there were 181,000 small, short-term loan consumers in Lithuania with outstanding small, short-term loans with approximately 36% of borrowers younger than 25 years old *(Review of consumer credit market of 2015*).

Competitive landscape

According to the Public List of Consumer Loans Providers, updated by the Bank of Lithuania on January 24, 2017, there were 137 entities providing consumer loans in Lithuania. Out of the 137 entities, 49 are non-licensed lenders (including four peer-to-peer lending platform operators), nine are banks and foreign bank branches, six are leasing entities belonging to banking groups and 73 are credit unions (licensed non-banking credit institutions).

The five largest consumer loan providers in Lithuania issued 67% of the total amount of consumer loans in 2015 (*Review of consumer credit market of 2015).* In 2015, peer-to-peer lending (*i.e.*, consumer loans granted by natural persons) commenced activity in Lithuania. From February 2016, such lending platforms must be included in the Public List of Peer-to-Peer Lending Platform Operators (*Review of the consumer credit market of 2015*).

SWEDEN

Consumer lending market in Sweden

The Swedish consumer credit landscape benefitted from the Swedish central bank's decision to adopt a negative interest rate policy from February 2015 and a general rise in economic confidence linked to a rise in house prices, however, growth was constrained by high household debt levels and a slower rise in real GDP in 2016 compared to 2015 (*Euromonitor International: Consumer Credit in Sweden, November 2016*). Both gross lending and the outstanding balances of consumer lending in Sweden recorded positive growth rates in 2016.

The Swedish consumer credit market expanded in 2016, compared to 2015, with both gross lending and outstanding balances of consumer lending recording positive growth rates in 2016 (*Euromonitor International: Consumer Credit in Sweden, November 2016*).

The table below sets forth the values and growth in the gross lending of consumer credit and consumer lending institutions in Sweden for the years 2011-2016.

	Value (SEK bn)						% Value Growth	
	2011	2012	2013	2014	2015	2016	2011 - 16 CAGR	2011/16 Total
Consumer Credit	321.0	327.8	346.4	355.4	369.1	379.2	3.4	18.1
Consumer Lending	682.6	700.3	731.4	757.7	784.5	828.3	3.9	21.4

Source: Euromonitor International from official statistics, trade associations, trade press, company research, trade interviews, trade sources

The table below sets forth the values and growth in the outstanding balance of consumer loans issued by consumer credit and lending institutions in Sweden for the years 2011-2016.

	Value (SEK bn)						% Value Growth	
	2011	2012	2013	2014	2015	2016	2011 - 16 CAGR	2011/16 Total
Consumer Credit	535.2	574.5	603.4	626.0	640.4	659.4	4.3	23.2
Consumer Lending	2660.9	2797.7	2944.0	3115.0	3220.6	3464.9	5.4	30.2

Source: Euromonitor International from official statistics, trade associations, trade press, company research, trade interviews, trade sources

Source: Euromonitor International: Consumer Credit in Sweden, November 2016 and Euromonitor International: Consumer Lending in Sweden, November 2016

Household indebtedness has been increasing in Sweden in recent years, while also growing faster than household income. The average debt-to-income ("**DTI**") ratio (i.e., total debt (mortgage, credit card and consumer loans, but excluding student loans) divided by after-tax income) has increased from 324% in July 2010 to 343% in July 2016, while the median DTI ratio has risen from 233% to 269% in the same period. Average DTI ratios are higher for lower income households. For example, in 2016, the average DTI ratio was 364% for households with an after-tax income of SEK 17,000, compared to 298% for households with an after-tax income of approximately SEK 53,000. Average DTI ratios are also higher for younger households. For example, in 2016, the average DTI ratio was 436% for households in the 31-36 age range, compared to 248%% for households win the 65-71 age range. (*The Indebtedness of Swedish households: Update for 2016, November 2016, Sveriges Riksbank).*

Small short-term loan market in Sweden

SMS loans emerged strongly in recent years. These offer easy-access loans, often arranged via mobile phones, with these however typically imposing high fees and interest rates. There was thus growing concern over borrowers taking on excessive debt via such loans. This resulted in the regulatory body Finansinspektionen introducing stricter credit checks and supervision in this area from July 2014, while interest rate caps, total loan amount caps and restrictions on marketing and loan extensions are set to be introduced from 2018 (*Euromonitor International: Consumer Credit in Sweden, November 2016*).

Competitive landscape

The competitive environment for consumer credit in Sweden is dominated by domestic retail banking entities. The leading retail banks (and Sweden's largest banks), namely Svenska Handelsbanken AB (publ), Nordea Bank AB (publ), Skandinaviska Enskilda Banken AB (publ) (SEB), and Swedbank AB (publ) all benefit from long-established positions in the market. These leading retail banks are able to leverage their market presence, including brand recognition and branch network, to acquire increasing market share in the small-loan consumer lending market. Nevertheless, aided by internet comparison sites, such as compricer.se, which allow borrowers to compare lending terms offered on the consumer lending market, Swedish consumers are increasingly open to borrowing small monetary amounts from internet-based entities that do not have a long-established position in the country (*Euromonitor International: Consumer Credit in Sweden, January 2014*).

FINLAND

Consumer lending market in Finland

According to the Federation of Finnish Financial Services, the outstanding balance of consumer loans in Finland amounted to EUR 14.5 billion in December 2016, reflecting an increase of 3.9% over the prior 12-month period (*Federation of Finnish Financial Services: Monthly Financial Statistics, February 2017*).

Small short-term loan market in Finland

According to a survey carried out in spring 2015, 1.8% of Finnish citizens have received small short-term unsecured loans granted by short-term loan companies during the last 12 months (*Federation of Finnish Financial Services: Savings, Credit Granting and Methods of Payment in Finland, October 2015*).

There was an increase in the amount of short-term loans granted in 2015, in terms of the number and aggregate value of such loans: in 2015, approximately 471,000 short-term loans were granted, compared to

approximately 410,000 in 2014 (an increase of 15% year-on-year), while the total value of new short-term loans issued was EUR 230 million (an increase of 38% from 2014) (*Statistics Finland: Outstanding Credit 2015, 4th Quarter, March 2016*). Effective June 1, 2013, an interest-rate cap has been imposed on loans of less than EUR 2,000. See "*Regulatory Framework—Finland*." This interest rate cap has also had an adverse impact on short-term loan companies, some of which have closed, while others altered their product offer focusing more on so-called flexible credit (*Statistics Finland: Outstanding Credit 2013, 4th Quarter, March 2014*). The said interest rate cap limits the annual interest rate applicable to loans for amounts of less than EUR 2,000 to no greater than 50% above the reference rate applied by the European Central Bank and notified by the Bank of Finland. According to annual report of the FCCA (2013), the interest rate cap, with certain other legislative amendments (See "*Regulatory Framework—Finland*"), has had the intended controlling effect on the consumer credit market.

Competitive landscape

The competitive environment for consumer lending is dominated by major retail banks in Finland. At the end of 2015, the outstanding balance of consumer loans granted by financial institutions (some of which may also be short-term loan companies) amounted to EUR 14 billion, compared to the outstanding balance of loans granted by short-term loan companies and pawn shops of EUR 2 billion (*Federation of Finnish Financial Services: Monthly Financial Statistics, January 2016, and Official Statistics of Finland (OSF): Outstanding credit, 4th Quarter of 2015, March 2016)*.

DENMARK

Consumer lending market in Denmark

The economic situation in Denmark was generally favorable in 2016. House prices increased, especially in and around Copenhagen, and most houses and apartments sold quickly. There were also some worrying economic signs, however, including higher than expected spending on the European refugee crisis by the Danish government and the damage that falling oil prices caused to the Danish economy. These and other factors led the Danish government to lower its GDP growth expectations for 2016 (*Euromonitor International*: *Consumer Credit in Denmark, November 2016*).

In general, lending standards have become more stringent in Denmark in recent years. As of 2016, however, quick loans and other types of lending that enjoyed strong expansion in recent years are yet to face stringent regulation (*Euromonitor International*: *Consumer Credit in Denmark, November 2016*).

The table below sets forth the values and changes in the gross lending of consumer credit and consumer lending institutions in Denmark for the years 2011-2016.

	Value (EUR bn)						% Value Growth	
	2011	2012	2013	2014	2015	2016	2011 - 16 CAGR	2011/16 Total
Consumer Credit	128.8	132.8	136.3	140.9	144.8	149.2	3.0	15.9
Consumer Lending	502.0	496.0	506.2	516.2	523.5	532.9	1.2	6.1

Source: Euromonitor International from official statistics, trade associations, trade press, company research, trade interviews, trade sources

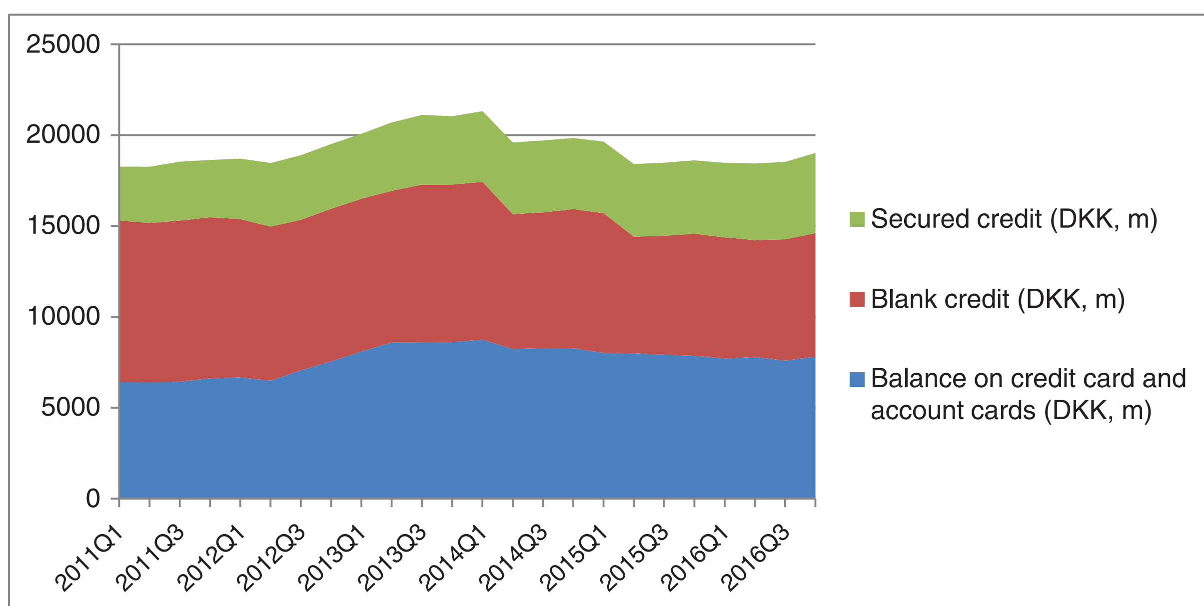
The table below sets forth the values and growth in the outstanding balance of consumer loans issued by consumer credit and lending institutions in Denmark for the years 2011-2016.

	Value (EUR bn)						% Value Growth	
	2011	2012	2013	2014	2015	2016	2011 - 16 CAGR	2011/16 Total
Consumer Credit	229.0	236.3	244.2	252.5	259.4	268.5	3.2	17.2
Consumer Lending	2116.1	2142.7	2195.4	2222.3	2245.1	2301.1	1.7	8.7

Source: Euromonitor International from official statistics, trade associations, trade press, company research, trade interviews, trade sources

Source: Euromonitor International: Consumer Credit in Denmark, November 2016 and Euromonitor International: Consumer Lending in Denmark, November 2016

Statistics presented by StatsBank Denmark, illustrated in the figure below, show that the consumer credit market remained relatively constant throughout 2015 and early 2016, with minor signs of recovery towards the end of 2016.



Small short-term loan market in Denmark

Most day-to-day banking transactions are managed by leading established banks. Danes will typically contact their own banks first when wishing to obtain a loan of any type. That said, some consumers, particularly young Danes who have reduced chances of borrowing from banks, are increasingly making use of quick loans. This area still lacks strong regulation, hence quick loans can be obtained with relative ease in a short period of time. Such loans are typically much more expensive than traditional bank loans. A trend in the advertising of quick loans is that providers state potential borrowers will have their applications accepted or denied in a matter of hours. Additionally, people who take out quick loans tend not to give much consideration to the terms and conditions of various providers. Instead, they will usually contact the providers they have heard of the most via internet and TV advertising, and typically fill out application forms online rather than contact providers personally (*Euromonitor International*: *Consumer Credit in Denmark, November 2016*).

Competitive landscape

Consumer credit in Denmark is for the most part split between a handful of banks, led by Danske Bank A/S and Nordea Bank AB. Other prominent players include Jyske Bank A/S, Sydbank A/S, Skandinaviska Enskilda Banken AB and Santander Consumer Bank AB. Danes tend to prefer to remain with the same bank for many years (*Euromonitor International*: *Consumer Credit in Denmark, November 2016*).

2014 saw the creation of a new leading Danish financial institution via the merger of Jyske Bank, Denmark's third largest bank, and BRFkredit, the fourth largest mortgage credit institution. Experts expect additional mergers of retail banks in the future, particularly larger banks' acquisition of smaller banks in the event regulators impose additional regulations on the industry. (*Euromonitor International*: *Consumer Credit in Denmark, November 2016*).

SPAIN

Consumer lending market in Spain

Despite high unemployment rates and political instability, the Spanish economy has shown signs of growth in recent years, with real GDP expanding in 2016 compared to 2015. In part due to economic growth as well as an expansive monetary policy, Spanish banks have begun to offer credit on terms more favorable to consumers; consequently, outstanding balances of consumer credits increased by 4% in 2016. Nevertheless, a large segment of the Spanish population remains without access to bank credit. (*Euromonitor International: Consumer Credit in Spain, November 2016*).

The table below sets forth the values and changes in the gross lending of consumer credit and consumer lending institutions in Spain for the years 2011-2016.

	Value (EUR bn)						% Value Growth	
	2011	2012	2013	2014	2015	2016	2011 - 16 CAGR	2011/16 Total
Consumer Credit	73.0	65.1	60.6	64.7	70.8	77.9	1.3	6.8
Consumer Lending	106.7	94.1	80.3	88.8	103.0	121.0	2.5	13.4

Source: Euromonitor International from official statistics, trade associations, trade press, company research, trade interviews, trade sources

The table below sets forth the values and growth in the outstanding balance of consumer loans issued by consumer credit and lending institutions in Spain for the years 2011-2016.

	Value (EUR bn)						% Value Growth	
	2011	2012	2013	2014	2015	2016	2011 - 16 CAGR	2011/16 Total
Consumer Credit	198.3	179.4	158.8	153.4	156.5	162.5	-3.9	-18.1
Consumer Lending	810.9	773.8	728.5	706.0	682.6	669.6	-3.8	-17.4

Source: Euromonitor International from official statistics, trade associations, trade press, company research, trade interviews, trade sources

Source: Euromonitor International: Consumer Credit in Spain, November 2016 and Euromonitor International: Consumer Lending in Spain, November 2016

Lending criteria of Spanish banks have remained largely unchanged since the financial crisis. In the face of low interest rates and high competition, Spanish banks are beginning to pursue new strategies to increase revenue by tightening their links with borrowers, including requiring borrowers to open bank accounts with them and to have their wages and salaries paid into these accounts, as well as having their financial cards, insurance packages, and other services with the lender and its affiliates. (*Euromonitor International: Consumer Credit in Spain, November 2016*).

Small short-term loan market in Spain

In recent years, there has been an increase in demand for consumer loans in Spain, particularly as traditional lenders continue to tighten their own lending standards. Within this context, non-traditional lenders have emerged as an increasingly popular alternative source of financing, offering consumers quick access to credit through internet platforms (*Euromonitor International: Consumer Credit in Spain, November 2016*).

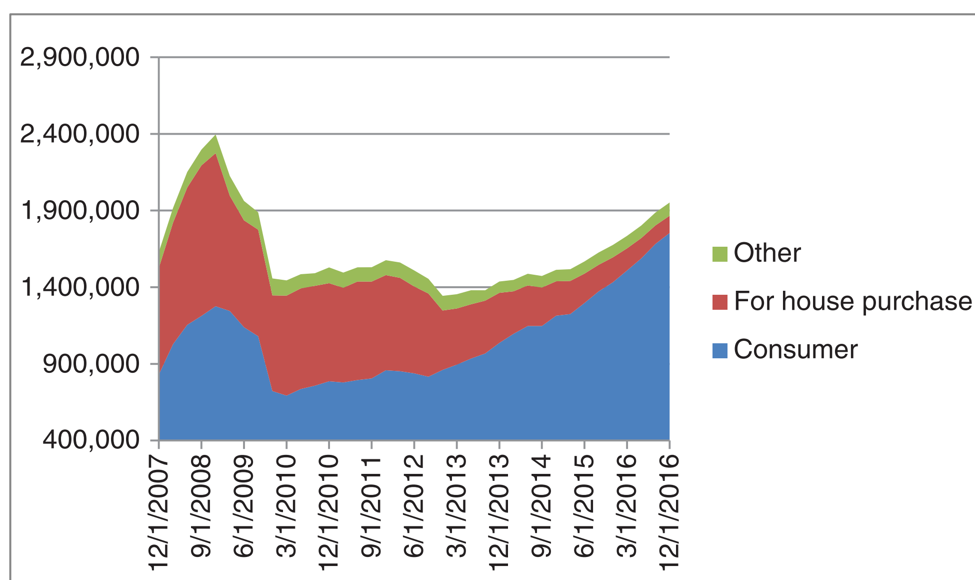
Competitive landscape

Retail and savings banks continue to be the main lenders in the Spanish consumer credit market. They include, among others, La Caixa, BBVA, Banco Santander, Banco Sabadell, Bankia and Banco Popular. Some of these lenders have created special entities dealing exclusively with consumer loans such as Santander Consumer Finance, Caixabank Consumer Finance, BBVA Consumer Finance and Bankinter Consumer Finance (*Euromonitor International: Consumer credit in Spain, November 2016*). However, as discussed above, non-traditional lenders have increased their presence in the consumer lending market in recent years.

BULGARIA

Consumer lending market in Bulgaria

The consumer lending market in Bulgaria has shown signs of recovery after the global financial crisis. The figure below displays the balance of consumer loans issued to households and non-profit institutions serving households in Bulgaria as of the dates indicated.



Source: Bulgarian National Bank: Corporations specializing in lending, 2016, http://www.bnb.bg/Statistics/StOtherFinancialInstitutions/StLendingCorporations/index.htm?toLang=_EN. Statistics of corporations specializing in lending do not include leasing companies, which are reporting agents of other statistics.

Small short-term loan market in Bulgaria

As shown in the chart above, the volume of consumer loans issued by financial institutions has steadily increased since the global financial crisis. As of December 31, 2009, the outstanding balance of consumer loans was BGN 722,809 thousand, compared to BGN 1,214,330 thousand, BGN 1,432,226, thousand and BGN 1,753,786 thousand as of December 31, 2014, 2015 and 2016, respectively.

CZECH REPUBLIC

Growth in consumer credit in the Czech Republic experienced mild growth in 2016, driven mainly by loan refinancings and consolidation. Gross lending of Microcredits offered by both banks and non-bank lenders grew by 4% in 2016, also contributing therefore to the overall growth in consumer credit. (*Euromonitor International: Consumer Credit in Czech Republic, November 2016*).

The table below sets forth the values and changes in the gross lending of consumer credit and consumer lending institutions in Czech Republic for the years 2011-2016.

	Value (CZK bn)						% Value Growth	
	2011	2012	2013	2014	2015	2016	2011 - 16 CAGR	2011/16 Total
Consumer Credit	146.5	152.9	158.7	162.3	171.9	182.0	4.4	24.3
Consumer Lending	281.2	317.2	332.5	362.9	354.4	359.0	5.0	27.6

Source: Euromonitor International from official statistics, trade associations, trade press, company research, trade interviews, trade sources

The table below sets forth the values and growth in the outstanding balance of consumer loans issued by consumer credit and lending institutions in Czech Republic for the years 2011-2016.

	Value (CZK bn)						% Value Growth	
	2011	2012	2013	2014	2015	2016	2011 - 16 CAGR	2011/16 Total
Consumer Credit	414.4	424.1	431.2	432.0	436.6	440.3	1.2	6.2
Consumer Lending	1133.8	1187.3	1234.1	1306.3	1365.3	1388.3	4.1	22.4

Source: Euromonitor International from official statistics, trade associations, trade press, company research, trade interviews, trade sources

Source: Euromonitor International: Consumer Credit in Czech Republic, November 2016 and Euromonitor International: Consumer Lending in Czech Republic, November 2016

Competitive landscape

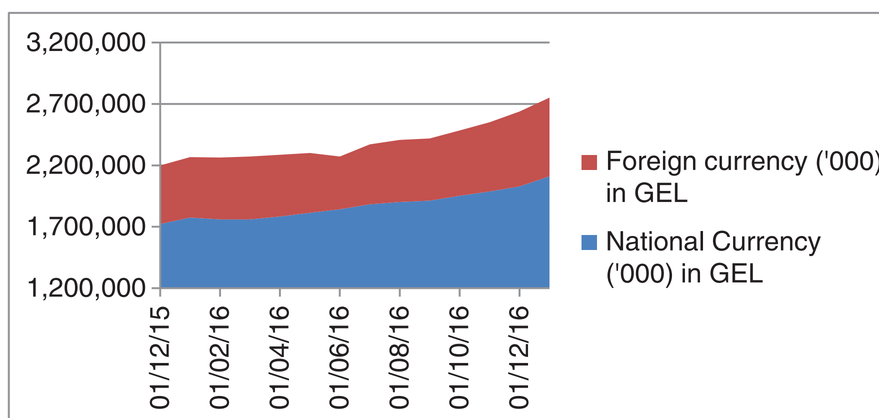
Major lenders in the Czech Republic are typically banks. The biggest lenders are the leading retail banks Ceska sporitelna, Ceskoslovenska obchodni banka and Komercni banka. Non-banking lenders account for around one-fifth of consumer credits by value, according to the Czech Statistics Office data. The biggest lenders are Cetelem, Home Credit and Provident Financial. Non-banking lenders typically offer credit cards, specialized loans and microcredit products (*Euromonitor International: Consumer credit in Czech Republic, November 2016*).

New legislation was introduced in December 2016, which increases capital requirements on all lenders, simplifies early repayment procedures (including lowering caps on penalties for early repayment) and imposes a maximum limit on the penalties that can be levied in respect of non-performing loans.(*Euromonitor International: Consumer credit in Czech Republic, November 2016*).

GEORGIA

Consumer lending market in Georgia

According to the National Bank of Georgia, and as indicated in the chart below, the consumer loan industry has expanded in Georgia in recent years (*National Bank of Georgia: Consumer Loans (stocks), February 2017*).



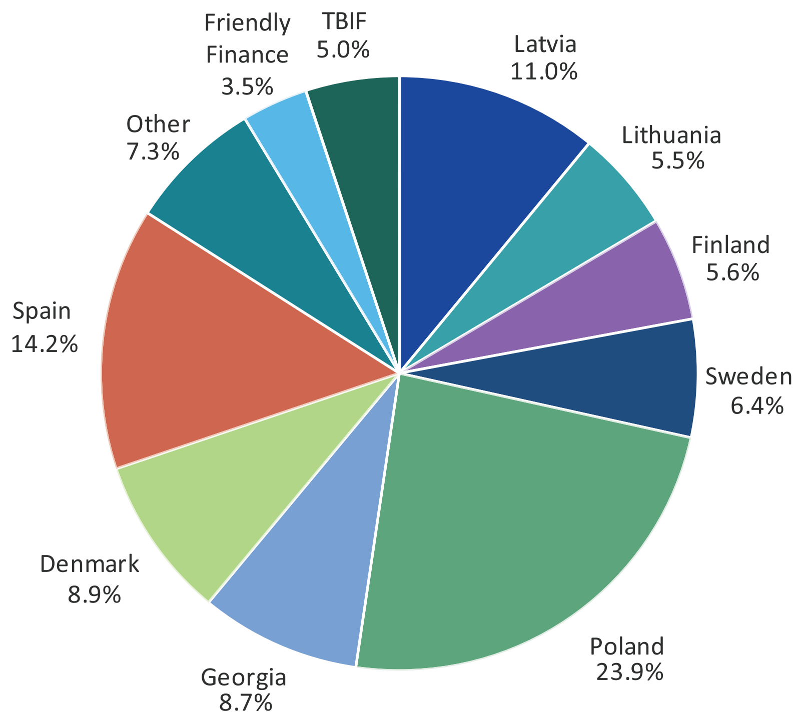
Source: National Bank of Georgia: Consumer Loans (stocks), http://www.nbg.gov.ge/index.php?m=306

BUSINESS

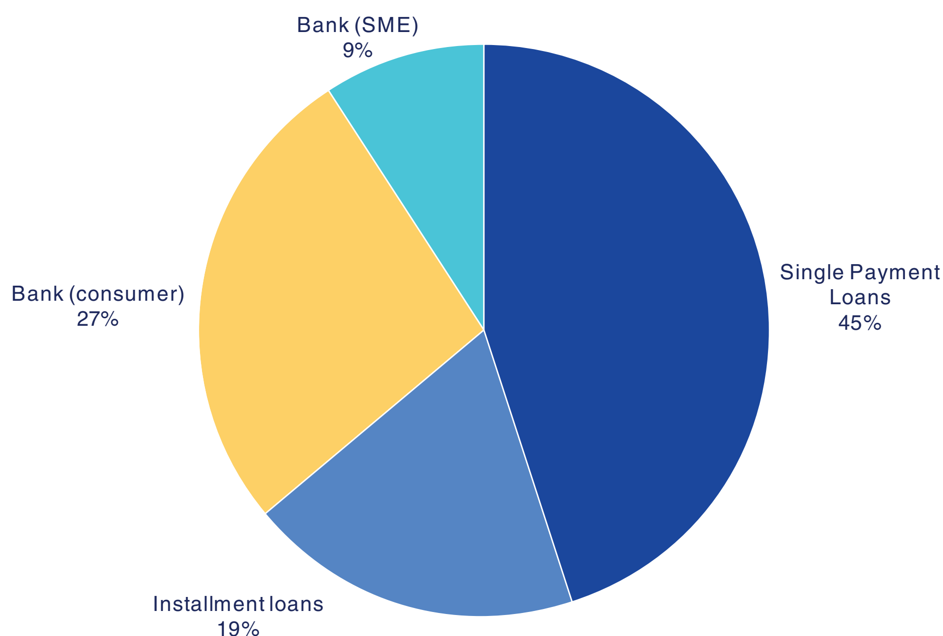
OVERVIEW

We are one of the largest online and mobile providers of unsecured consumer loans in our principal European markets based on market share. Our principal European markets are Latvia, Lithuania, Finland, Sweden, Denmark, Poland, Georgia and Spain. Our approximately 6.3 million registered online customers represent the growing number of consumers who use alternative financial services because of their convenience or because they are underserved by more traditional consumer credit providers such as banks and credit card companies. As a responsible lender, we work in close cooperation with the regulatory authorities in all of the jurisdictions in which we operate.

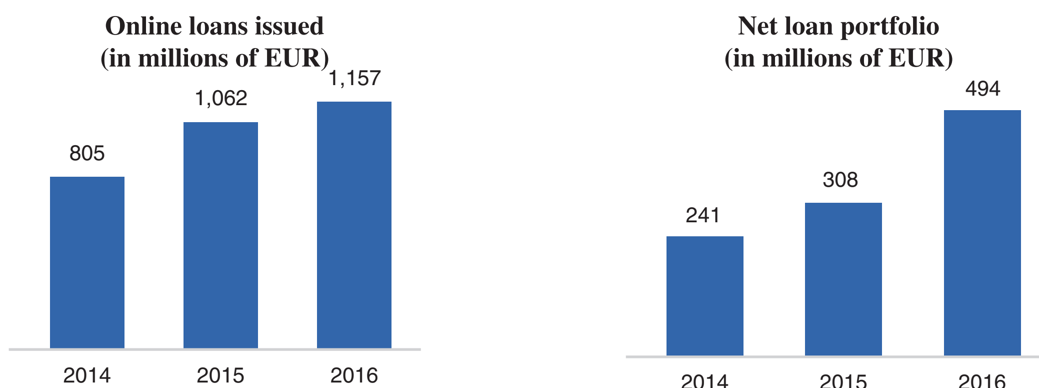
We are a diversified provider of consumer loans, currently operating in 16 countries: Argentina, Armenia, Bulgaria, the Czech Republic, Denmark, Dominican Republic, Finland, Georgia, Latvia, Lithuania, Mexico, Poland, Romania, Slovakia, Spain and Sweden. The chart below illustrates the percentage of our total interest income for the year ended December 31, 2016 across our key primary operating jurisdictions and business segments.



We offer Single Payment Loans with a term from one day up to 35 days and Installment Loans with a term from one month up to 24 months via websites and mobile and selected offline channels. In September 2015, we launched our third product, Credit Line, a revolving credit line, in Finland, and subsequently in Latvia in September 2016. We also offer a range of products through our banking operations. The chart below illustrates the composition of our net loan portfolio by product as of December 31, 2016.



As of December 31, 2016, our net loan portfolio, which represents our total loan portfolio less impairment, was EUR 493.9 million (of which, EUR 316.4 million was attributable to our online portfolio which excludes TBIF Group, and EUR 177.5 million was attributable to TBIF Group), compared to EUR 308.3 million as of December 31, 2015, and EUR 241.4 million as of December 31, 2014. Installment Loans represented approximately 30% of our net online loan portfolio as of December 31, 2016. The charts below illustrate our net online loans issued over each of the years ended, and our overall net loan portfolio as of, December 31, 2016, 2015 and 2014.



* 2016 online loans issued and net loan portfolio presented in the charts above are presented inclusive of TBIF Group and Friendly Finance, both of which were acquired during 2016; Friendly Finance contributed EUR 67 million to our 2016 online loans issued; TBIF Group contributed EUR 177.5 million, and Friendly Finance contributed EUR 26.2 million to our net online loan portfolio as of year-end 2016.

In August 2016, as part of our strategy to enter new markets and pursue selective expansion opportunities, the Group acquired TBI Bank (via the acquisition of TBI Bank's direct parent company, TBIF), a consumer-focused bank operating in Bulgaria and Romania. This acquisition enhanced the scale of our operations in these two existing markets. TBI Bank maintains a consumer portfolio, including small-size loans (of a similar profile in terms of size and maturity to our Installment Loans), Point of Sale financing and Credit Cards, as well as a portfolio of small-to-medium enterprise ("SME") loans, including leasing products. In 2016, the consumer portfolio and SME portfolio accounted for 68% (62% in 2015) and 32% (38% in 2015), respectively, of TBI Bank's net loan portfolio. We believe that having an EU licensed bank within our Group will enable us to

diversify our funding and lower funding costs by accepting deposits, broaden our product range (for example, allowing us to offer credit cards to our online customers) and operate in EU markets which require a banking license for consumer lending.

We have a strong brand portfolio which we deploy through diversified marketing channels to acquire customers, including traditional mass media (such as television and radio) as well as digital channels (such as cost-per-click, where we pay a fee each time our ad is clicked; search engine optimization (SEO) techniques, *i.e.*, enhancing the visibility of a website in a search engine's unpaid search results; and affiliate marketing, where a commission is paid for each successful transaction). While our offering is predominantly online and mobile, we also cooperate with partners in Latvia, Lithuania, Bulgaria, Romania, Spain, the Czech Republic and Poland, who help us acquire customers, many of whom ultimately become online customers, through physical points of sale, such as post offices, kiosks and brokers. Following the acquisition of Friendly Finance in mid-2016, we have multiple Single Payment Loan brands operating within many of our markets, allowing us to operate with different brand positioning in such jurisdictions.

Our sophisticated underwriting process mainly relies on data-driven statistical analysis, and is typically conducted in less than three seconds. If approved, money is transferred into our customers' accounts typically within 15 minutes. As of December 31, 2016, our proprietary database contained information from 27 million loan applications, including both traditional and alternative data points, that together with the historical performance of our customers provides us with an efficient underwriting and scoring process which we believe to be an important competitive advantage in our industry. We have a strong record for delivering high-quality customer service with local customer care teams in each operating market, with over 80% of our online lending volumes in 2016 issued to returning customers.

We seek to minimize defaults in our loan portfolio through a range of advanced data-driven customer assessment techniques. When defaults do occur, we aim to maximize recovery through an efficient debt collection process. Our portfolio of loans overdue for more than 90 days ("**non-performing loans**") as a share of online loans issued has remained relatively stable in recent years, at 9.3% for the year ended December 31, 2016 and 9.0% for the year ended December 31, 2015. Similarly, our ratio of net impairment (*i.e.,* impairment losses, net proceeds from debt sales and write-offs of loans not repaid within two years, less recoveries on loans written off) to revenue was 23% for the year ended December 31, 2016 and 24% for the year ended December 31, 2015.

For the year ended December 31, 2016, we generated profit before tax (after impairment losses on loans and receivables and general administrative expenses) of EUR 81.0 million and net profit of EUR 63.2 million. In 2015 and 2014, we generated profit before tax of EUR 73.8 million and EUR 60.6 million, respectively, and net profit of EUR 64.1 million and EUR 46.3 million, respectively.

We have strong EBITDA generation, recording EBITDA of EUR 124.9 million, EUR 110.0 million and EUR 82.6 million for the years ended December 31, 2016, 2015 and 2014, respectively (with an EBITDA margin of 31.8%, 34.5% and 37.5% respectively for those years). We are well capitalized, with total equity of EUR 230.1 million and EUR 173.3 million as of December 31, 2016 and December 31, 2015, respectively (with a ratio of total equity to net loan portfolio of 47% and 56% respectively as of those dates). TBIF Group's total capital adequacy ratio was 22.3% and 19.5% as of December 31, 2016 and December 31, 2015, respectively.

KEY STRENGTHS AND STRATEGY

Key strengths

Simple and transparent online/mobile product offering

We have designed our products to offer simplicity, convenience and transparency to our customers. Our convenient online and mobile loan products aim to protect customer privacy, provide easy online access to funding and offer easy-to-understand fee and interest structures. Single Payment Loans are loans with a term from one day up to 35 days with the customer having an option to extend maturity, and Installment Loans are loans with a term from one month up to 24 months. For Single Payment Loans, customers are charged interest, payable when the principal is repaid, ranging from 6% to 28% in Europe and 30% to 40% in Latin America. For Installment Loans, customers are charged annual nominal interest rates ranging from 58% to 96%, payable monthly on the outstanding principal, depending on the jurisdiction, loan amount and maturity. For Line of Credit, customers have a minimum monthly repayment, along with a monthly interest rate of 8.5% to 10.0 %. Maximum loan amounts under the Line of Credit are EUR 2,100.

We design our websites to be as simple and convenient as possible to use, with clear terms and conditions. With respect to our Single Payment Loans, we typically disburse loans to a customer's bank account within 15 minutes of approving an online application. We believe that our customers value our services as an important component of their personal finances because of the convenience and transparency of our products compared to other alternatives.

Strong brand awareness built on sophisticated marketing framework

We have put into place a sophisticated marketing framework, which is a vital component of our customer acquisition strategy. We utilize a three-phase, multi-channel country launch marketing strategy. When entering a new market, we employ online marketing channels to build initial interest and attract customers to the product. Online tools include cost per click advertising, where the most relevant promotion and placement has a higher likelihood of driving consumer action with greater efficiency; SEO, which enhances the visibility of our websites in a search engine's unpaid search results; affiliate marketing, where we pay a commission for each successful transaction; and other internet marketing, including website display advertising. In the second phase, known as the market rollout phase, we promote the proposition through offline channels, including TV, radio and billboards. In the third phase, which we implement in our more mature markets, we use performance marketing and customer management programmes to stimulate returning customers and brand endorsement. We also employ a dual-brand strategy in some markets, for example SMS Credit and Ondo Single Payment brands in Latvia and the addition of Friendly Finance brands to allow a different brand identity and positioning within a given market. We also provide sponsorships and support charitable projects. These activities require substantial investment; as a result, marketing expenses were EUR 55.4 million in 2016, or 14.1% of our 2016 revenues. They also help us maximize customer reach and create a strong positive brand awareness. Thanks in large part to our marketing efforts, we maintain a leading position in terms of brand awareness in a number of our markets.

Market innovation leader with sophisticated data-driven underwriting process

We have established ourselves as a leader in European online and mobile consumer lending with a reach across a large number of European markets. We believe that we have the expertise to remain a leader in terms of innovation in our services and product offerings, expansion capabilities, ease of use, customer convenience and anticipation of and compliance with regulatory changes. In addition, our IT systems have demonstrated a track record for reliability and performance.

We use data-driven analysis and decision making in all aspects of our business. This use of data improves our understanding of existing and potential customers, enabling us to optimize our marketing expenditure, enhance credit risk management and also to develop new products efficiently. For example, in our credit scoring, we evaluate predictive data from credit bureaus and alternative sources such as social networks and use technologies such as device fingerprinting to combat fraud.

We have built in-house expertise with our proprietary credit scoring databases containing information from 27 million loan applications as of December 31, 2016. Our databases include both traditional data points, such as address, income level and credit bureau data; and alternative data points, such as mobile carrier and device and social media presence and provide valuable insight into customer attitudes and behaviors in our existing markets. Since our inception through December 31, 2016, we have issued online loans in an aggregate of EUR 4.0 billion and, as of December 31, 2016, we had reached 6.3 million registered online customers (*i.e.*, loan applicants). Our information in relation to existing markets can provide us with an advantage when applied to new markets. We believe this targeted, data-driven approach brings us potential customers who are more likely to apply for our loans and reduces our cost per acquisition of new customers (an important component of operating costs).

We attract customers through a diversified multi-channel and data-driven marketing strategy, focusing on marketing to customers with the highest conversion potential. At the application stage, our customer identification methods are customized by country to reflect regulatory requirements and available sources of information. Within seconds, proprietary systems analyse the customer data and determine the creditworthiness of the applicant. Our dynamic credit scoring model aims to ensure that we capture the best mix of customers in terms of balancing risk and reward and optimizing the profitability of the business in both our existing and target markets. We look to set acceptance thresholds that both manage our risks and maximize our profitability. Our non-performing loans have remained stable in recent years as our business has matured. As a percentage of issued online loans, non-performing loans amounted to 9.3% as of December 31, 2016, compared to 9.0% as of December 31, 2015 and 8.8% as of December 31, 2014. Such ratio takes into account non-performing loans as of a specific date as a percentage of loans issued during the two year period finishing 90 days prior to that specific date.

High rates of returning customers reflect our high levels of customer satisfaction

We emphasize customer satisfaction and operational excellence in order to attract a high proportion of returning customers, one of the important pillars of our business model. Returning customers of Single Payment Loans represented over 80% of our Single Payment Loan customers (in terms of lending volumes) in the year ended December 31, 2016, and the average returning Single Payment Loan customer had three transactions per year with us. Returning customers allow us to leverage existing credit score databases and thus reduce the costs associated with new customer acquisition. They also help give us a stable customer base to which we can offer new products to help optimize our performance. We define a Single Payment Loan returning customer as a customer who had taken out a loan, repaid it in full, and later applied for a separate Single Payment Loan.

We have developed a customer service division with 738 full-time-equivalent ("FTE") specialists as of December 31, 2016, delivering customer support in local languages across all of our markets (in most of which we offer customer support on a 24/7 basis). We continuously work to improve customer satisfaction by creating personal contact with customers through telephone calls, e-mail and chats to, among other things, discuss product options, address customers' questions, inform customers of their payment due dates and encourage on time payment, discuss options for late payments and help customers with their applications. With approximately 64% of our customers millenials (*i.e.*, under 40 years old), we have adopted a diversified, multi-channel marketing approach, including such methods as cost-per-click (*i.e.*, where advertisers pay a fee each time one of their ads is clicked), search engine optimization (SEO) (*i.e.*, enhancing the visibility of a website in a search engine's unpaid search results) and affiliate marketing (*i.e.*, where a commission is paid for each successful transaction) and other internet marketing, including website display advertising. In addition, we carefully monitor different customer service quality ratios, including but not limited to abandoned-call and repeated-call rates. We also survey customers on their perception of our quality of service and we actively monitor net promoter scores. We have also started to work with external review sites such as TrustPilot that give independent and publicly available customer feedback. We have been recognized for our customer service, having won the Quality Service Star award in our largest online market, Poland, in 2014 and 2015. We have also recently launched external independent customer reviews via Trustpilot in some of our European markets. As of February 2017, the Trustpilot rankings are all above 8 out of 10 and mostly above 9 out of 10. We believe this strong level of customer satisfaction is one of the reasons why customers who wish to access credit again often return to us.

We have high rates of recovery on our non-performing loans

We mainly handle collection of payments delayed up to 90 days past maturity in-house and over the years we have gained substantial expertise in debt collection strategies. In certain countries, we outsource portions of our debt collection activities to leading international partners, such as Intrum Justititia, Euler Hermes and Svea Finance, which allows us to test and compare the efficiency of internal versus external debt collection. We monitor the results of debt collection procedures and implement what we deem to be the most appropriate and efficient procedure in each jurisdiction, thereby increasing the effectiveness of our debt collection process.

We have developed policies and procedures for debt collection that have resulted in a Single Payment Loan average recovery rate of 93.4% of the principal amount of Single Payment Loans issued with a maturity date during 2014 (such loans having been issued between January 2014 and December 2014) within two years after maturity, and an Installment Loan average recovery rate of 92.5% of principal amount of the Installment Loans issued with a maturity date during 2013 (such loans having been issued between May 2012 and April 2013) within three years after maturity (as defined in "*—Process—Debt Collection—Debt Collection Statistics*").

Emphasis on being a responsible lender

We operate as a responsible lender. Our product terms, including fee and interest structures, are easy to understand. Our underwriting and credit scoring process is rigorous. We have developed a robust proprietary credit scoring database that helps us optimize our customer mix, balancing risk and reward, and maintain stable non-performing loans ratios (both in terms of loans issued and total gross loans outstanding). While we charge penalty interest for delayed loans, which made up 9% of our interest income in 2016, we do not employ hidden fees, penalties, automatic loan extensions or compound interest, and we impose a maximum penalty limited to two times the principal on a defaulted loan (except in Latvia, where such penalty is limited to the principal amount of the loan). Our debt collection principles are designed to help customers find the best way to repay their loans. We do not employ controversial collection practices, such as the use of continuous payment authority or the direct debiting of monies from customers' bank accounts, and rely only on reputable and carefully selected external collection service providers. Not only do our business practices contribute to a high level of customer satisfaction, they also help us to maintain productive relationships with regulatory bodies in the jurisdictions where we operate as well as a positive brand image within the online lending industry.

We conduct our business in a highly regulated industry. We work in close cooperation with governmental authorities and consumer rights protection groups to support a fair and transparent market environment and legislative framework. We are actively involved in the principal trade associations in our principal markets and through these associations we may influence regulatory development as well as share knowledge with our peers.

Our Group and local legal and compliance teams continuously work to monitor the regulatory requirements to which we are subject in each jurisdiction. We also work with external legal advisors in different jurisdictions. Consequently we believe that we have the skills and capacity to manage the numerous regulatory requirements applicable to our business and to adapt to regulatory changes successfully. For instance, we have rapidly adapted our products to comply with new regulatory requirements in a number of jurisdictions in 2016, including Latvia, Lithuania and Poland, and will continue to do so in the future for changes expected in other markets, such as Sweden, Finland and Georgia.

Proven ability to adjust to regulatory change

We have the ability to dynamically adjust our business model in response to regulatory changes within a particular market, and have a track record of doing this successfully as regulation has increased in many of our markets in recent years. Our online lending business model has a number of key operating parameters at different stages of the customer lifecycle that we adjust to optimize performance in specific markets. At the initial marketing stage in a new country, we adjust application volumes by controlling how much we spend (and through which channels) to target a certain volume and type of potential customer to our websites. At the underwriting stage, we control and adjust our scorecards to change the credit scoring thresholds for being granted a loan. This helps drive our acceptance rate, which together with the cost of marketing forms the cost per acquisition. Subsequently, we monitor the loan repayments, extension characteristics and behaviour of those customers who are late with repayments. The short term nature of our Single Payment Loans and the monthly repayments on our Installment Loans and Line of Credit products mean this data is gathered on a timely basis. We use such data to determine our impairment provisions and cost-of-risk based on roll rates, probability of default and loss-given-default. We then assess how the cohorts of customers we have attracted and then selected in the first two stages are performing, and use this to feed back into either marketing to a different customer segment (*i.e.*, marketing specifically to attract the types of customers we want to accept from a credit perspective) and/or adjust the credit scoring to change acceptance rates for particular customer profiles.

As we develop in each market, we adjust these key operating levers to get the appropriate balance of cost of acquisition and cost of risk to ensure we have optimal ‘unit economics’ for each product in each market. This is aided over time as our customer base, presence and market share grows because returning customers represent an increasing proportion of lending volumes. For these returning customers, the cost of acquisition is substantially lower because they have already used our product and so are familiar with the brand, and the cost of risk is also lower because we have propriety data on their previous repayment behaviour.

This flexibility has allowed us to adapt to regulatory change. For example, if regulators introduce caps on pricing, we can seek to adjust our marketing spend and risk cut-offs in order to continue to operate in a profitable manner despite the lower revenue yield per customer. In Georgia, a 100% cap on effective interest rate was introduced in January 2017. Previously we charged 15% for a 30 day loan, with a first loan for free offer for new customers (resulting in a blended average yield of 13% per month). After the cap became effective, the pricing has been limited to 6% for a 30 day loan. To adjust for this change, we have withdrawn the ‘first loan for free’ offer and reduced our marketing spend, but still received an increased number of applications (driven by the lower pricing which increases natural demand) and tightened our acceptance criteria for new customers. Whilst the results in terms of profitability will depend on how extension behaviour and repayments develop in coming months, we believe our ability to adjust these key levers on a real-time basis will significantly mitigate the initial impact on our profitability from lower pricing.

As an additional measure, we also review the design of our products to see if it can be better adjusted to suit a modified regulatory framework. For example, we may offer customers a premium service (such as faster disbursement of funds) for an additional fee. An example of a more significant re-design occurred when Google introduced paid search restrictions on products with less than a 60-day maturity. We are now trialing a 61-day product in Poland that runs in parallel with our normal 30-day product.

Regulatory changes also affect the broader market. Not all of our competitors have the resources or experience to adjust to new regulatory regimes. This is particularly the case for pricing caps because our products already tend to cost less than those of our peers. For example, in Poland, our Single Payment Loan costs 16% for

30 days whereas most other operators charge 20-25% (closer to the current cap of 28%). If a new and lower cap is introduced, as is being currently considered by Polish regulators, the reduction in revenue for us will be proportionately lower. Over a longer time period, such as following the changes in Poland in March 2016, we tend to see an increase in market share as smaller competitors who are less able to adapt have a lower presence in the market or withdraw.

Strong financial position

We have a strong balance sheet and have demonstrated strong cash flow characteristics supported by a flexible business model and a disciplined growth strategy. We achieved an annualized return on average equity and an annualized return on average assets from continuing operations of 31% and 9%, respectively, in the year ended December 31, 2016, as well as a profit before tax and interest income growth for continuing operations of 10% and 24%, respectively, in the year ended December 31, 2016. We have achieved a profit before tax margin of 21% for the year ended December 31, 2016 compared to 23% for the year ended December 31, 2015. We are well capitalized with a capital to assets ratio of 25% as of December 31, 2016. We employ a conservative strategy regarding the maturity profile of our balance sheet. The majority of our borrowings are not due for at least one year, whereas our online loan portfolio is short term in nature, with 74.7% of the performing loan portfolio as of December 31, 2016 having a maturity of less than 90 days. The short term nature of our loan portfolio enables us to generate revenue and reinvest it into new loans to customers.

We operate a flexible cost base and infrastructure. 82% of our general administrative costs shown in our income statement for the year ended December 31, 2016 were variable costs which broadly correlate to loan sales (i.e., all marketing and sponsorship costs, personnel costs, application inspection costs, IT expenses, debt collection costs, communication expenses and bank services). Our revenue base is geographically diverse, which has helped us to naturally hedge our financial performance against foreign exchange rate movements in our markets. We believe this has supported our historic growth profile.

Experienced management with proven track record

Our executive team and country managers consist of experienced professionals who have worked in different segments of the international financial and banking sectors. Their knowledge, experience and support have proven to be significant assets to us both on the strategic front and in the development of new products and we believe such knowledge, experience and support provide us with a significant competitive advantage.

Strategy

Consolidate and strengthen our leadership position in our core markets and develop new markets

We are a leader in the Single Payment Loans market in our core markets and aim to maintain such position. Our net online Single Payment Loan portfolio in these markets amounted to EUR 187.8 million as of December 31, 2016. We plan to maintain our market leadership for Single Payment Loans in these core markets, in part, through our marketing efforts and by adapting quickly to new regulations and by focusing on achieving efficiencies.

At year-end 2016, nearly half of our products were less than 18 months old, with 15 out of the 33 online products being offered online having been launched since the third quarter of 2015. This range of products reflect our entry into new markets, such as Argentina, Mexico and Romania in 2015 and the Dominican Republic in August 2016, the roll-out and re-launch of Installment Loans in existing markets, like Spain and the Czech Republic, and the launch of new products, such as our Line of Credit offering in Finland and Latvia. We believe there are growth opportunities for these markets and products, which we plan to capture by further development of distribution channels and investments in marketing, IT and customer service.

More generally, we plan to invest in marketing in all markets of operations to maintain or increase our brand recognition and grow our market share. We aim to increase the number of distribution channels we use in order to attract new customers. We also plan to continue to refine our underwriting and debt collection processes in every market of operation and more significantly the markets in which we recently launched our operations, such as the Dominican Republic, Romania, Argentina, Armenia and Mexico.

Leverage our acquisition of TBI Bank, including use of our EU banking license

In August 2016, we acquired TBI Bank (via the acquisition of TBI Bank's direct parent company, TBIF), a consumer-focused bank operating in Bulgaria and Romania. TBI Bank maintains a consumer portfolio, including

small-size loans of a similar profile (in terms of size and maturity) to our Installment Loans, Point of Sale financing and Credit Cards, as well as an SME portfolio, including leasing. This acquisition expands our product offering and may serve as a platform for further expansion of such offerings. For example, TBI Bank currently offers credit cards in Bulgaria and Romania and in the future we may use this capability to offer card-based lending products in other markets. In February 2017, we secured Romanian and Polish regulatory approvals to use TBI Bank's credit card license in Poland. In addition, we anticipate the TBI Bank acquisition will allow us to diversify and lower our costs of funds as well as operate within certain jurisdictions, such as Germany, which require a banking license. It also gives us flexibility in the event that regulatory changes (in any EU jurisdiction) restrict lending business only to entities which have banking licenses.

Introduction of new products

We plan to continue our innovative approach, offering convenient online services and transparent and competitive lending products to customers not served by traditional lenders. We plan to continue to leverage our existing proprietary database to introduce Installment Loans in existing markets where we do not already offer them, and also develop new products in certain markets. For example, in 2015, we launched our third product, Line of Credit, in Finland which we later launched in Latvia in 2016. In the 4th quarter of 2016, we also commenced a trial of a Point of Sale product in Spain. Through our acquisition of TBI Bank, we have the capability to offer credit cards. TBI Bank currently offers these in Bulgaria and Romania and in the future we may use this capability to offer card-based lending products in other markets. We expect our continued investment in our products to drive continuing increase in our revenues.

Continue to maintain a high level of investment in technology

We plan to continue to invest in our underlying systems and technology. We aim to enhance our software platform to support more rapid product development and rollout of products across our countries of operation. We will continue to integrate the latest technologies into our business, including in the areas of digital marketing (*e.g.,* IPonWeb), anti-fraud (*e.g.*, lovation), risk tools (*e.g.,* Experian risk suite) and payment systems.

As we capture an ever broader range of traditional and alternative data, we plan to further develop our data management and governance capabilities so that the information can be effectively utilized in our marketing technology, credit scoring and risk management.

Continue to pursue selective expansion opportunities

We regularly evaluate strategic opportunities for our business, such as acquisition transactions in new countries, particularly in Latin America and Asia, as well as our existing markets, and offerings of securities in the international capital markets (including a possible public offering of our shares), and will continue to do so in the future. Making use of both organic growth and acquisitions, we aim to leverage our existing expertise to expand over time into countries which we believe have an attractive customer base and growth potential.

The decision to acquire an existing entity or expand through organic growth in a new market is driven by the analysis of several factors, including acquisition price, the cost and time required to build up a local operation, licensing requirements and the likelihood that we could successfully manage the integration of an existing entity into our Group operating model. For example, in 2015, we started greenfield operations in Romania and Mexico, but acquired small businesses in Armenia and Argentina that accelerated our entry into those markets.

As we aim to build one of the world's leading digital consumer finance businesses, we regularly review and consider potential acquisition opportunities around the world.

HISTORY

AS 4finance was founded in Latvia in February 2008 by a group of individuals and companies and commenced operations offering Single Payment Loans in July 2008 and Installment Loans in August 2009.

Our initial objective was to provide flexible and convenient consumer financial services to customers in four countries, Sweden, Finland, Lithuania and Latvia, and more broadly to become the leader in Northern European and Scandinavian markets for online Single Payment Loans. The services we originally provided focused on Single Payment Loans through e-commerce, such as using the Group's internet platform, phone calls or text messages. We introduced online Installment Loans in Sweden, Finland, Lithuania, Latvia and Poland, as well as online deposit-taking in Sweden. In 2012, we for the first time had days when we issued over 10,000 loans per day and achieved over 4,000 registrations per day. In September 2015, we launched our third product, Line of Credit, in Finland which we later launched in Latvia in 2016.

From 2009 to 2013, we initiated operations in Bulgaria, Canada, the Czech Republic, Denmark, Estonia, Finland, Georgia, Poland, Russia, Spain, Sweden and the United Kingdom, principally through the establishment of new start-up entities. During this period, we also started a Canadian-based company, which provided management and administration service to a U.S. third-party entity that provided Single Payment Loans to customers in the United States. In December 2013, we discontinued operations in the United Kingdom and North America business segments as part of a strategic decision to place greater focus on markets which provided, and which we believed would continue to provide, a higher return on investment. For the United Kingdom, our decision was also based on the uncertainty around a potential cap on annual percentage rates ("APR") chargeable on loans that U.K. regulatory authorities were considering introducing. We sold our North America business (including the loan operations in Canada and the management and administration services provided to the United States) to a related party on January 1, 2014. See "*Related Party Transactions.*" In December 2014, we decided to sell our operations in the Russian Federation, mainly due to political and economic uncertainties in the market. The Russian Federation business segment was sold to a related party outside the reporting group. The sale of 85% of the ceased operations in the United Kingdom was effective from January 1, 2015. In March 2015 and mainly due to unfavorable market conditions, we discontinued our operations in Estonia. See "*—Group Structure—Legal Structure*" below.

In 2015, we launched Installment Loans in Denmark, with further launches in Spain, Romania and the Czech Republic in 2016. In 2015, we also commenced operations in Romania and Mexico through the establishment of new start-up entities. In April 2015, we acquired GoodCredit Armenia, which holds a credit organization license from the Central Bank of Armenia. The main activities of GoodCredit Armenia are micro-/ SME business and consumer lending. This acquisition has enabled us to expand our activities in the Republic of Armenia.

In May 2015, we acquired Prestamo Movil in Argentina. The main activities of Prestamo Movil are consumer lending through Single Payment Loans. In October 2015, we started lending in Argentina under the Vivus brand.

In June 2016, the Group acquired 80% of the share capital of Friendly Finance OU (an online consumer lender active in the Czech Republic, Poland, Spain, Slovakia and Georgia) from Tirona, our controlling shareholder, for a purchase price of EUR 28.8 million. See "*Related Party Transactions*." The acquisition of Friendly Finance added additional brands to our portfolio and an additional database of over one million registered customers, reinforcing our position in our core markets.

In August 2016, we completed the purchase of TBI Bank through the acquisition of 100% of the share capital of TBI Bank's direct parent company, TBIF Financial Services B.V. from its parent company, Kardan N.V., for a sum of EUR 82 million. TBI Bank is a consumer-focused financial group in Bulgaria and Romania with consolidated assets of EUR 318.9 million as of December 31, 2016. TBI Bank maintains a diversified loan portfolio consisting of loans to both consumers and SMEs. Funding is predominantly through customer deposits and customer accounts of EUR 224.4 million, representing 91.8% of TBI Bank's total liabilities, as of December 31, 2016.

PRODUCTS

Single Payment Loans

We offer Single Payment Loans to customers in all of our countries of operation except for Armenia (where its offline/online hybrid business model does not suit the issuance of such loans). Single Payment Loans are short-term, unsecured loans provided via websites and mobile and selected offline channels in principal amounts of between approximately EUR 10 and EUR 2,120 for a term from one day up to 35 calendar days (or 30 or 31 days, depending on jurisdiction). The average size of our Single Payment Loans in 2016 was EUR 318. We generally disburse loans to a customer's bank account within 15 minutes of approving an online application. In Argentina and Mexico, such transfers can take between 12-24 hours due to local banking systems. Repayment amounts and dates are finalized at the application time. Customers have the option to repay the loan on the due date or pay a fee to extend the loan terms for a further fixed period of up to 30 days. A loan may be extended in such a way several times depending on the regulation in each country, and the Group policy is to limit such extensions to no more than a one year period. If a customer has extended for one year, the customer is contacted by one of our customer service representatives in order to agree a suitable repayment schedule. In each of our markets, the interest rates we charge range from 6% to 40% per 30 days. In certain countries, we offer new customers of Single Payment Loans a discounted or interest-free first loan, whereby the customer may repay a loan with no interest at the end of the first 30-day period. In Finland, customers are granted a credit line of up to EUR 2,010.

The table below describes key terms for returning customers (i.e., a customer who has taken at least one loan with us, repaid it, and then subsequently applied for and was approved for another loan) of Single Payment Loans in our countries of operation, ordered in accordance with the date of launch of operations in the respective countries. For the relevant websites used for the products, see "*Business—Intellectual property*."

Country	Launch / Acquisition Date	Product Name	Approx. Minimum Amount (EUR)	Approx. Maximum Amount (EUR)	Term (days)	Application
Latvia	July 2008	SMSCREDIT	50	425	10 - 30	Internet, phone, phone text message (sms), offline partners (e.g., post office, gas stations, kiosks) smartphone application
Latvia	October 2014	ONDO	50	425	10 - 30	Internet, phone, phone text message (sms), offline partners, smartphone application
Lithuania	November 2008	SMSCREDIT	50	750	14 - 30	Internet, phone, phone text message (sms), offline partners (post office, kiosks), smartphone application
Finland	May 2009	VIVUS	10	2,010	3 - 30	Internet, phone
Sweden	August 2010	VIVUS	50	2,120	30	Internet, phone
Denmark	April 2012	VIVUS	13	1,340	30	Internet
Poland	July 2012	VIVUS	23	1,150	1 - 30	Internet, phone, offline partners, smartphone application
Spain	December 2012	VIVUS	50	1,000	7 - 30	Internet, phone, offline partners, smartphone application, loan shops
Georgia	February 2013	VIVUS	20	255	7 - 30	Internet, phone, offline partners, including loan shops
Georgia	March 2013	MYCREDIT(1)	17	343	5 - 31	Internet
Czech Republic	May 2013	ZAPLO	37	740	7 - 30	Internet, phone, offline partners, smartphone application
Poland	August 2013	POZYCZKOMAT(1)	45	928	7 - 35	Internet
Slovakia	October 2013	POZICZKOMAT(1)	50	900	7 - 31	Internet
Bulgaria	December 2013	VIVUS	25	511	5 - 30	Internet, offline partners
Czech Republic	November 2014	PUJCKOMAT(1)	18	814	5 - 31	Internet
Romania	June 2015	ZAPLO	33	331	5 - 30	Internet, offline cash at the partner
Argentina	May 2015	VIVUS	60	351	7 - 30	Internet
Spain	November 2016	CREDITOCAJERO(1)	50	1,000	5 - 31	Internet
Mexico	November 2015	VIVUS	51	304	7 - 30	Internet
Dominican Republic	August 2016	VIVUS	20	297	7 - 30	Internet
Argentina	December 2016	MYCREDIT(1)	60	425	7 - 31	Internet

(1) Acquired as part of the Friendly Finance OU acquisition. In Scandinavia, certain products have different characteristics; in Finland, customers are granted a EUR 2,010 line of credit and can draw down up to that amount, with one single repayment. In Sweden and Denmark, there is a minimum-to-pay concept, rather than a fixed maturity, although in practice, many customers opt to make a full single repayment.

In all of our countries of operation, we offer Single Payment Loans via our internet platform. In addition, in certain countries, such as Latvia, Lithuania, Poland, Czech Republic, Spain, Georgia and Bulgaria, we also offer Single Payment Loans by phone, iOS and Android applications or through offline points of sale maintained either

by us or by partner organizations. In addition to these platforms, we also offer Single Payment Loans by text message (SMS) in Latvia, Lithuania, Georgia, Czech Republic, and Sweden.

Generally, the approximate maximum Single Payment Loan amount we offer does not exceed EUR 800. However, in certain jurisdictions with financially stronger customers, such as Finland, Denmark and Sweden, we offer higher maximum amounts, as described in the table above.

We expect to launch Single Payment Loans in the new jurisdictions in which we may operate in the future.

Installment Loans

Currently, we offer Installment Loans to customers in Latvia, Lithuania, Sweden, Poland, Armenia, Denmark, Spain, Romania and the Czech Republic. In those jurisdictions where we offer both Single Payment Loans and Installment Loans, we offer each product under different brands. As part of our overall strategy, we intend to offer Installment Loans in more of the jurisdictions where we currently only offer Single Payment Loans. Our Installment Loans are unsecured loans in amounts of between approximately EUR 50 and EUR 3,245 for a term of up to 24 months. Installment Loans generally require repayment of portions of the outstanding principal balance in multiple monthly installments, with the option to extend repayments for up to 30 days. As of December 2016, we charge a nominal annual interest rate of between 45% – 200% on our Installment Loan product. Our Installment Loans also allow customers to re-borrow amounts and increase installments in increments of their choosing, up to the provided loan limit. The customer may repay the outstanding loan balance in full at any time or make required minimum payments in accordance with the terms of the loan agreement.

We also offered Installment Loans in Finland from August 2012 until November 2015, when we suspended our offering of such products. We may re-launch Installment Loans in Finland depending on market evolution.

The table below describes key terms for returning customers of Installment Loans in the countries in which we operate.

Country	Launch Date	Product Name	Approx. Minimum Amount (EUR)	Approx. Maximum Amount (EUR)	Term (months)	Application
Latvia	August 2009	VIVUS	50	1,500	1 - 24	Internet
Lithuania	August 2011	VIVUS	100	3,000	3 - 24	Internet, offline partners, offline cash (loans paid in cash in post offices)
Sweden	October 2012	ONEA	54	3,182	3 - 24	Internet, phone
Poland	April 2014	ZAPLO	232	2,320	3 - 24	Internet, phone
Armenia	April 2015	KIMBI / GOOD CREDIT	96	385	12 - 24	Office
Denmark	June 2015	ZAPLO	670	2,680	3 - 18	Internet
Spain	May 2016	ZAPLO	300	2,500	3 - 24	Internet
Romania	July 2016	ONNEN	220	2,205	3 - 24	Internet
Czech Republic	December 2016	KIMBI	370	2,220	3 - 24	Internet

During 2016, the average Installment Loan principal amount at issued across all jurisdictions was EUR 578. The maturity of Installment Loans also varies by country. In Lithuania and Poland, prospective customers may apply for Installment Loans either through our internet platform or at an offline point of sale. In Armenia, prospective customers apply at the offices of GoodCredit. In the other countries where we offer Installment Loans, customers apply via our internet platform.

We expect to launch Installment Loans in the new jurisdictions in which we may operate in the future.

Line of Credit

In September 2015, we launched our third product, Line of Credit, in Finland. Line of Credit is an open-ended revolving credit line of up to EUR 2,100. Customers have a minimum monthly repayment, along with a monthly interest rate of 8.5% to 10%, and a drawdown fee. Pricing and fees charged to customers are transparent, and provided that the minimum monthly repayment fee is met, Line of Credit has flexible payment options, and customers can change their repayment date. The distribution channels for Line of Credit is online. In September 2016, we launched Line of Credit in Latvia with a maximum amount of up to EUR 1,500. We plan to expand Line of Credit to other countries of operation.

Online deposit-taking

In Sweden, we offer deposit-taking services online to individuals for terms of up to three years and also offer call deposits under the brand "4spar". As of December 31, 2016, total deposits of 4spar AB (a subsidiary in Sweden) were EUR 12.5 million. The activities of 4spar AB are primarily regulated by the Swedish Deposit-Taking Business Act (Sw. lag (2004:299) om inlåningsverksamhet). The maximum amount of any deposit that can be accepted from a customer is limited by Swedish law to SEK 50,000 (approximately EUR 5,400).

We offer six types of deposit products on the Swedish market, as detailed in the table below. Customer service for all deposit accounts is offered at no cost to the customer. Clients may also withdraw money directly from their profile page at www.4spar.se without contacting customer service beforehand.

Account	Interest type	Interest
Deposit account 6.5%	Floating	6.5%
Interest account 3 Month	Fixed	7.1%
Interest account 6 Month	Fixed	7.6%
Interest account 1 Year	Fixed	8%
Interest account 2 Year	Fixed	9.1%
Interest account 3 Year	Fixed	10%

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 currently is 6.5% *per annum*. The minimum amount for call deposits is SEK 1,000 (approximately EUR 115).

Deposits on interest accounts are offered for fixed terms of between three months to three years, and may not be withdrawn early by a customer without the loss of interest accrued on them. Deposits on interest accounts bear a fixed interest rate that currently is 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 10,000 (approximately EUR 1,150).

New Product Development

Our growth has been based on understanding our customers' needs and providing clear, flexible and convenient solutions to their problems. Continuing this tradition, we are developing products targeting customers in both the near-prime and sub-prime market segments. When determining whether to introduce a new product, we take into consideration costs, regulatory framework, competitive environment, as well as the following:

(i) **Customers' Profile**: we analyze a number of factors such as whether the customers' expenditure matches or exceeds their income, if they have limited or no savings, if they have recently been late on making any payments, if they have a limited credit history (for instance if customers are of a young age or recent immigrants), whether customers use financings to provide for lifestyle choices or necessities, whether they have relationships with banks and if they are employed by a third party or self-employed.

(ii) **Financial needs**: we analyze whether customers require financing in order to pay their bills, purchase consumer goods, purchase automobiles, pay for travel, social and family events, or pay for education or medical expenses or home improvements.

(iii) **Drivers**: we analyze whether the financing needs arise due to an emergency, whether they are spontaneous or pre-planned and whether customers are looking for speed and simplicity, to be able to perform monthly payments or to increase affordability.

TBI Bank—Product Overview

TBI Bank offers its customer base three main lending products: consumer loans, point-of-sale financing and credit cards. The bank also lends to SMEs, including leasing. The business is mainly funded by deposits and current accounts from both consumers and SMEs.

Retail

Consumer loans

Consumer loans (which are similar to Installment Loans offered elsewhere in the Group other than as to term) represent approximately half of TBI Bank's gross consumer lending portfolio as of December 31, 2016. Unsecured personal loans are offered with a maturity from 3 to 36 months in Bulgaria and from 6 to 60 months in Romania with average sizes of approximately EUR 598 and EUR 852, respectively. Loan applications are accepted primarily through the bank's branches. The average IRR (i.e., effective rate) on consumer loans is approximately 46.3% for Bulgaria and 49% for Romania (including application review fee, interest rate and insurance). We do not expect any cannibalism with respect to our existing Installment Loan products in these markets because of the large size of the market (approximately 27 million people) and the small size of our online lending portfolio in such markets.

Point-of-sale financing

Through its network of retailers, customers can finance purchases through loans granted at point-of-sale at over 4,000 sites. The approval process takes up to 15 minutes and, if accepted, customers are offered a repayment period of 3 to 48 months (Bulgaria) and 6 to 60 months (Romania). POS loans comprise 28.2% of TBI Bank's gross consumer loans as of December 31, 2016 with an average loan size of EUR 353 for Bulgaria and EUR 584 for Romania. The typical IRR is 35.9% for Bulgaria and 52.5% for Romania (including fees).

Credit Cards

Under its banking license TBI Bank is authorised to provide payment services and issues credit cards on the MasterCard network. Credit cards have an annual fee and interest is charged at an annual rate of 18-20%. Outstanding balances were 6% of TBI Bank's gross consumer loans as of December 31, 2016.

SME / leasing

TBI Bank offers a limited amount of corporate loans to SMEs. The portfolio is roughly 2/3 in Romania and 1/3 in Bulgaria with an average ticket size and tenor of approximately EUR 110,000 for 5 years in Romania and approximately EUR 67,000 for 3 years in Bulgaria. The majority of SME loans are collateralized by mortgages.

Deposits

Term deposits are offered to customers in BGN, RON and EUR at a range of interest rates from 1.5% to 2.5% for consumers and 0.7% to 2.0% for SMEs. The weighted average remaining contractual term for consumer deposits is approximately 8 months. Funding is also supplied by current account balances.

TBI Bank's customer deposits by client and type are shown below.

	December 31, 2016	December 31, 2015	% Change
	(in millions of EUR)		
Consumer deposits total	176	123	43%
—Current accounts	13	13	0%
—Term deposits	163	110	48%
SME deposits total	48	67	(28%)
—Current accounts	26	50	(48%)
—Term deposits	22	17	29%

MARKETING

Our customers include a growing number of consumers who use alternative financial services because of convenience or due to their limited access to more traditional forms of credit from banks, credit card companies

and other lenders. When customers need a bridge in income for emergency or other spending, or want to use a brand they trust for a larger expense that they can repay over a longer term, we want to be an active part of their consideration process and financial planning 'toolkit.' Therefore, marketing is key to our customer acquisition strategy and is essential in reaching those consumers at the right time and through the right media channels. We also have a dual-brand strategy in some markets, for example SMSCredit and Ondo Single Payment brands in Latvia and the addition of Friendly Finance brands to allow a different brand identity and positioning within markets to maximize customer reach.

We have invested in data-driven marketing analysis, allowing us to deploy a highly efficient marketing mix in each country and attract potential customers in a targeted manner. Our marketing investment during the year ended December 31, 2016 was EUR 55.4 million. Our marketing approach varies by market and competitive set in that market. In Georgia, for example, TV advertising is an inexpensive way to get good coverage of the target audience, while in Spain, it is a very competitive market and TV presence is closely correlated to business performance. We use a range of offline marketing channels besides TV, such as radio, advertising on billboards and public transport and sponsorship but in our more established markets Direct Response TV advertising is employed to great effect.

As part of our corporate responsibility program, we provide support to charity programs, which have historically attracted increased brand awareness. We have invested in a 'Borrow Responsibly' consumer campaign to support and educate people to better personal financial management, with consumer websites supporting the programme now active across our markets.

We utilize a three-phase country launch marketing strategy. When entering a new market, we employ online marketing channels to build initial interest and drive customers to the product while we optimize the risk profile and website conversion. In the second phase, known as the market rollout phase, we begin to promote the proposition through offline channels, including TV and radio. In the third phase, which we implement in our more mature markets, we use performance marketing and customer management programmes to stimulate returning customers and brand endorsement. Based on several marketing studies we have performed, we believe that in Denmark, Finland, Georgia, Latvia, Lithuania, Poland and Sweden our brand awareness is high and we use online and offline marketing channels to maintain this level of awareness. We also use a mix of online and offline marketing channels in the Czech Republic and Spain, where media costs are higher but competition is strong. In Latvia and Lithuania, which we consider to be more mature markets, we also provide sponsorships and support projects in sports, music, education, environment and other areas to maintain high visibility and create a strong positive brand reputation. For example, we support the Lithuanian Olympic Committee and also Olympic sportsmen and women in Latvia. In Armenia and Georgia, traditional advertising channels are a cost-effective means to maximize reach and frequency of message, supported by digital acquisition. In Bulgaria, Romania, Argentina and Mexico we have TV campaigns to stimulate demand but mainly focus on online marketing channels, with additional promotion on social media channels which are strong in those markets.

Our key routes to market include online marketing channels such as cost per click (CPC, also referred to as pay per click, PPC), which is a model of internet marketing in which advertisers pay a fee each time one of their ads is clicked. This is an important performance marketing channel, where the most relevant promotion and placement has a higher likelihood of driving consumer action with greater efficiency. An increasing focus of 4finance Marketing has been Search Engine Optimization (SEO), *i.e.,* enhancing the visibility of a website in a search engine's unpaid search results. As we prepared for the introduction of Google's policy on banning the advertising of short term credit under 61 days (July 2016), the focus moved to enhancing organic search results by increasing the depth of information and interaction in our websites, so content marketing and blogging have become an important part of our marketing mix. Affiliate marketing, where a commission is paid for each successful transaction, and other internet marketing, including website display advertising drive additional volume and coverage across our target audience. We also invested more in our own Programmatic advertising platform that allows us to buy display and video advertising more efficiently through better targeting of prospect and lookalike customers.

Our investment in marketing technology is key to our competitiveness. These platforms deliver more efficient, cost-effective marketing. As well as driving efficiencies, we learn more about our target audience and can optimize our communications automatically. Our platform investments include:

(i) Real-time Web Analytics platform: we work with a leading analytics engine, Webtrends, to understand our website traffic, where it is coming from and how we can make changes in the customer journey and user experience to drive increased conversion. We also use systems called Kissmetrics and ClickTale to run user testing and analyze user behavior in the customer journey;

(ii) Programmatic Trading engine: this is a complete real-time digital advertising engine, developed with a leading Advertising Technology company, Iponweb. We have implemented Real-Time Bidding for digital advertising (RTB). This allows us to promote and optimize online ad placements automatically through advanced machine learning based on those placements yielding the highest conversion rates or allowing us to target audience segments discretely. Through the platform, we connect to the world's top digital advertising exchanges directly rather than through third parties, thereby saving cost and ensuring control of all data. In a very competitive online display advertising market, by running this platform in-house (rather than with an agency) we are able to manage the channel more closely, maximize spend and learn directly about the best triggers to drive customer interest and action. At any one time, we can be running over 70 campaigns across 14 markets;

(**iii) Affiliate Marketing Platform**: affiliate publishers include a range of companies from financial comparison websites to content marketing companies that create financial information and guidance with a link for the consumer to apply for related products. The promoter, in this case the affiliate publisher, takes a commission payment based on converting the consumers who visit their sites into actual accepted customers, on a cost per loan basis. This is one of the most accountable and essential marketing channels as the affiliate publishers are responsible for driving traffic to their own properties and are conversion specialists, yet we only pay for success. They do, however require the lender to be providing additional marketing awareness and education support in ATL and other channels to make this model a true success. Our Affiliate Marketing engine is a first-party platform allowing us to retain direct relations with the most valuable affiliate publishers themselves and saves the cost of using an intermediary network for our larger publishers. This in turn means we can be even more competitive in the market with our commission rates;

(iv) SEO: this improves search optimization of websites and reduces the proportion of paid digital advertising needed. As the focus moves onto content marketing as well as more traditional keyword and website optimization, measuring the effectiveness of SEO activity is essential in creating differentiation from competitors. For example, we would know if new terms and words were indexing highly on Google in response to a market change or new story and would create content that would be found under these new internet searches with the help of our SEO platform;

(v) Autodialer/CTI (Computer Telephony Integration): an automated call center technology to improve customer call handling, efficiency/volume and call quality. Removing manual processes and automating call management in our contact centers improves our efficiency and throughput; and

(vi) Marketing Automation platform: this will allow us to adapt automatically the message and creative depending on the partner driving traffic to us or the marketing channel used. This will happen automatically based on the rules set within the engine and be driven by data on predictive behavior. It will allow us to configure and create landing pages and change page content based on target audience, timings and referral channels.

(vii) Media Attribution engine: this engine in development allows us to track and optimize the return on investment through each marketing channel, allowing for more efficient, performance-based media planning and reducing the cost of media planning at a third-party agency level. We analyze the performance of our media placements and related conversion data over the past 2 years, and use machine learning to automatically optimize our media plans;

We have a centralized marketing department at the Group level which sets out the framework for our marketing strategy and budget. In addition, in each of the jurisdictions in which we operate there is a local marketing department which coordinates local campaigns and market development with the Group marketing department. We maintain marketing agreements with multiple media and marketing agencies across the jurisdictions in which we operate, regularly reviewing agency performance and selection to ensure we are getting the most efficient market prices.

UNDERWRITING AND REVIEW

Overview of the underwriting and review process

The steps in both the Single Payment Loans and Installment Loans underwriting process include, in order: (i) customer application for a loan, (ii) customer registration and identification, (iii) credit scoring, and (iv) loan agreements and advancement. The underwriting process is mostly performed automatically using our proprietary IT systems and decision systems. The processes requires minimal manual intervention (mainly in the event of a fraud flag), and includes receipt of customers' applications at physical points of sale and manual customer identification. Any manual step underwriting process is handled by local offices in each country of operation.

The review process is divided into the following five stages. First, we check the age of the applicant. Generally, applicants under the age of 18 or over the age of 70 are denied, although the lower limit varies from 18 to 23 years of age and the upper limit varies from 60 to 80 years of age depending on the country. For new customers within the allowable age limit, we proceed to the identification stage. For returning customers, the second stage involves checking if there is an open loan. Returning customers without an open loan progress to the third stage. Returning customers with an open loan will be denied a new loan of the same type as the outstanding loan, unless the customer's credit score and the product allow higher credit than already drawn by the customer. If the application is for another type of loan (for example, the customer already has an open Single Payment Loan but the application is for an Installment Loan), the application will proceed to the third stage. The third stage, for those customers who have passed the first two stages, involves checking whether the customer is blacklisted. If the customer is not on any international blacklist, we proceed to the fourth stage wherein information in relation to the customer (using a variety of data sources including credit bureaus) is collected and a credit score for the customer is calculated. If the credit score is acceptable and the customer passes all the credit criteria set, the loan is approved, a loan agreement is entered into with the customer and the loan is paid out.

Customer application for a loan

Our prospective customers can apply for Single Payment Loans and Installment Loans via our internet platform, and, in certain of our countries of operation, by phone, text messaging or smartphone applications or via one of our offline partners. See "—*Offline channels and partners*," below. Application via text messaging is available to registered, returning customers, while smartphone applications allow prospective customers to apply by accessing the mobile version of our website remotely. The majority of our customers apply for loans online; in 2016, turnover from sales through offline partners did not exceed 9% of our annual turnover. In Spain, customers can also apply for loans by phone, although revenues from such telephone sales are minimal.

Customer registration and identification

When a customer enters our website, they are required either, in the case of a returning customer, to log in using their existing website account or, in the case of a new customer, to create a website account by filling out a registration form and providing key identification information such as ID number, date of birth, home address, place of work and contact details.

We employ three principal methods of customer identification: (i) nominal payment, such as transfer of at least 0.01 in local currency from the customer's bank account; (ii) electronic identification, where the customer is requested to log in to their existing internet third-party bank account and the third-party bank provides customer identity information to us which we can check against registration information provided by the customer; or (iii) manual identification, which is made either by us checking scanned copies of the prospective customer's identification documents and bank statements, or by one of our offline partner offices checking physical copies of such identification documents and bank statements. See "—*Offline channels and partners*" below. In some countries, electronic identification is made through electronic signatures or similar methods. The identification process also includes checking the customer's identity against available databases or data available from banks, depending on the country.

Credit underwriting & fraud risk assessment

We have an automated underwriting process which consists of three levels—policy rules, fraud rules and scoring. From our inception in 2008 up until December 31, 2016, we had analyzed approximately 7 million loan applications and have significant experience in credit scoring using the data collected. We have developed what we believe to be a high level of expertise in these markets with our proprietary, credit scoring databases that give us invaluable insight into customer behavior. We use an internally developed credit scoring model to score a prospective customer's credit rating. The longer we are active in a particular jurisdiction, the better customer data we are able to collect, which, in turn, generally, has a positive impact on non-performing loans and impairment levels in that jurisdiction.

Information that is collected and analyzed includes customer credit history and income levels, amounts borrowed by the customer, information on unpaid debts, information regarding the customer's previous requests for loans, declared and actual addresses, marital status, real estate owned by the customer and other data like web browsing history, mobile operator, email domain, social networks and the device from which the loan application is made. To obtain such information, we use internal and external databases, as well as, among other things, real estate registers, information from credit bureaus and/or criminal records run by governmental or regulatory bodies, depending on whether such information is publicly available in the country in question.

For an application to be successful, the customer must satisfy several criteria that we establish and adapt as necessary, including requirements in respect of, age, marital status, affordability, credit history, and an absence of overdue debt in the past. These criteria are used to create a scorecard and set credit policy rules for each country in which we operate. The exact criteria and specific requirements to meet each criterion set out in the scorecards vary slightly among our different countries of operation. We also apply separate scorecards for first-time and returning customers, as well as for Single Payment Loans, Installment Loans and Line of Credit products.

Fraud risk assessment is an integral part of the lending process and is fully automated involving the following steps:

- client personal data validation in the registration form including data crosschecks in external databases and data validation with predefined algorithms;
- client communication message verification in local languages to assure that communication does not disclose fraud check information;
- client online behavior monitoring and assessment by using device fingerprinting and IP address details, including building rules on velocities, monitoring device and IP address reputation, checking for online environment anomalies; and
- internal blacklisting (personal ID, address, device and IP blacklists), quality monitoring and analysis.

Our scorecards are prepared by our centralized risk department in close cooperation with our local risk managers. The scorecards are regularly evaluated and calibrated. We create scorecards based on the information provided by customers, credit bureaus, stored behavioral data, social network data, web browsing history, email domain and device data. We develop the first scorecard once we have processed 2,000 or more applications in the relevant jurisdiction. Typically, we can create a scorecard for a new jurisdiction within 12 to 18 months after a product has been launched. Before scorecards are developed for a jurisdiction, we compare the data collected for customers with estimated criteria based on research and available information on the relevant market. We do not increase the volume of loans in a new market until scorecards based on sufficient customer volume have been created for that jurisdiction.

We prepare credit scoring models on a regular basis for each of our loan products in each of our jurisdictions. These models are developed using local data based on availability. Using the data collected, we develop a scoring model by analyzing which variables have the biggest impact on performance and which are most likely to predict default. Once the model is developed, it is then validated against a separate sample to ensure that the scorecard works on independent data. Once the scorecard has been reviewed by the CRO, the country manager and, if applicable, the local risk manager, the card is put into testing mode. During this period, all incoming applications are scored but the score is not used in the actual credit decision. After this testing period, the results of the test are reviewed by the CRO, the country manager and, if applicable, the local risk manager. If performance is deemed acceptable, the scorecard is then moved into live mode and used in credit decisions. Scorecards are regularly reviewed for changes in quality and stability. If significant deterioration is noticed, the scorecard is redeveloped using the same process described above. We aim to continuously develop and evaluate our scorecards and have the flexibility to make relevant adjustments to our scoring process to adapt to any changes in the relevant market or regulatory requirements. Our scoring models are tailored to each country's requirements to take into account personal data usage restrictions and the availability of personal data as well as restrictions related to automatic data processing.

In general, we use separate underwriting approaches for new and returning customers. New customers are evaluated mainly using external data sources. For returning customers, we find our experience, *i.e.,* their internal credit history, a more reliable indicator of creditworthiness, although we still carry out external checks with respect to such customers. Generall As new customers carry significantly more risk, the initial amount of money we offer is on average 66% less than that available to our best performing returning customers. We also apply more strict credit and anti-fraud policies for new customers. This is a robust process, where emphasis is placed on the quality of the customer. In 2016, the average acceptance rate for new customers was 41% for Single Payment Loans and 20% for Installment Loans, while for returning customers the acceptance rate was over 88% for Single Payment Loans and over 54% for Installment Loans.

Key adverse triggers leading to a lower credit limit being offered or to the rejection of an application include negative internal credit history, negative entries in external credit bureaus, fraud attempts and, in some markets, insufficient salary data or data evidencing a low-income customer.

Loan agreements and advancement

Generally, after the scoring and decision-making process, the system generates a loan approval decision. The customer is then directed to our website to execute a loan agreement online. In some markets, the execution of a loan agreement by the customer precedes the scoring process, whereas in other markets loan issuance is contingent upon a successful scoring result. The terms of our loan agreements in different jurisdictions are modified to comply with local laws and regulatory guidance. Such modifications may cover interest rates, commission fees, penalty fees, personal information disclosure, customer withdrawal rights, direct debit rights, loan rollover (extension) terms and some other terms. In particular, local regulations may have an impact on the availability to customers of an electronic/digital signature mechanism with which to enter into the legally binding loan agreement with us.

We generally advance loans to customers by way of bank transfer, but also by way of cash payments through our offline distribution partners. Often, the customer's bank plays a role in clearing, or processing, the loan and the repayment of the loan. Our relationship with the clearing banks is commonly governed by an agreement between us and the clearing bank, and the clearing process is usually performed automatically by way of batch payments.

We have adopted an anti-money laundering policy for the Group which is applied in all of our countries of operation. In jurisdictions where it is required under local law and in certain other jurisdictions, we have also adopted local anti-money laundering policies. We are currently in the final stage of the process of adopting local anti-money laundering policies in all our countries of operations even though it is not required under local law. The country managers in each jurisdiction are responsible for money laundering prevention and anti-money laundering compliance, together with anti-money laundering officers appointed in jurisdictions where it is required by law. As the anti-money laundering regulation applicable to banks is normally more restrictive than the regulations applicable to our business, in most of our countries of operation, we often rely on the anti-money laundering check that was performed by our customer's bank during the process of opening a bank account for such customer. See "*Risk Factors—Risk Factors Relating to Our Business—Failure to comply with anti-money laundering laws could have an adverse effect on our reputation and business.*"

It typically takes between one minute to two hours for a new customer to receive the loan amount in their bank account after submitting a completed application, depending on the country, the time of the day at which the application is made and the relevant bank's availability for transfers at the time. No pledge or warranty is required from the customer in any jurisdiction. Generally, an e-mail containing the loan agreement and an invoice in PDF format is sent to the customer as soon as the loan is approved.

Financial intermediary

Our Gibraltar incorporated entity Intersale Services Limited acts as a financial intermediary provider to our Polish operating subsidiary Vivus Finance sp.z. o.o. under an agreement between the companies. Pursuant to the agreement, the sales of Vivus Finance sp.z. o.o. and some engagements of third-party marketing providers are handled by Intersale Services Limited. Similar financial intermediaries are used by Friendly Finance.

Offline channels and partners

In Armenia, Bulgaria, Czech Republic, Georgia, Latvia, Lithuania, Poland, Romania and Spain we operate a variety of offline channels for customers. The Group cooperates with partners who distribute our products in offline points of sale and, additionally, we operate our own stands in Georgia and Spain, and innovative ATMs with customer self-service and identification capabilities (*Kreditomats*) in Poland, and accept loan repayment with specialized cash terminals of our partners in Armenia, Bulgaria, and Georgia. 8% of our loan volume in 2016 was through offline channels and partners.

Our partners include:

- brokerage firms in Armenia, Czech Republic, Spain, and Poland;
- partner shops in Armenia, Bulgaria, Czech Republic, Georgia, Latvia, Lithuania, Poland and Spain;
- partner cash terminals in Armenia, Bulgaria, Georgia;
- post offices in Georgia, Latvia and Lithuania; and
- kiosks in Lithuania and Poland.

Our offline partners in those jurisdictions facilitate part of our customer identification and underwriting processes, based on the Group's policies and procedures, while we undertake the credit scoring and approval process of the application and have all contacts with the customer in this respect and thereafter.

Our partners undertake various processes whereby they provide us and our customers with a high quality of service and customer convenience. For example,

- offline kiosk partners in Lithuania and Poland facilitate receipt of loan applications and conditional loan agreement signing which takes effect if client scoring is positive;
- offline brokerage partners and offline lottery terminal partners organize receipt of loan applications and identification of customers and optionally also loan agreement signing for clients with positive scoring;
- partner shops provide loan application and customer identification services. Several of our partners use electronic terminals allowing faster loan applications. In Armenia our partners via their payment service providers accept cash via their points-of-sales and payments terminals;
- our partners operating a network of cash terminals in Armenia, Bulgaria, and Georgia allow customers to select our brand in the electronic terminal, and after inserting a loan number the customer inserts the displayed amount of cash to repay their outstanding loan; and
- in Georgia, Latvia and Lithuania, customers can submit loan applications to our post office partners. In Lithuania, customers can submit applications for both Single Payment Loans and Installments Loans to our post office partners. The post office partners perform the identification procedures of the prospective customers. In Latvia, we have accounts with the post office partners (which are postal banks) and the cash loans to customers are paid out directly from our accounts. In Latvia, the customers can also repay their loans in cash. In Lithuania, our post office partner pays out cash loans to the customer, for which we, in turn, compensate the partner.

We conduct financial settlement of loans cashed out by partners and loan repayments received by them frequently in order to minimize financial and operational risks and pay our offline partners commissions calculated according to our respective agreements with them.

Underwriting of deposit taking in Sweden

In Sweden, in addition to Single Payment Loans and Installment Loans, we offer online deposit-taking from individuals for terms of up to three years and also offer call deposits under the brand "4SPAR." See "*Business Products—Deposit-taking*." The key steps in the underwriting process in relation to deposit-taking for our customers in Sweden are generally similar to those in relation to the underwriting process described above and include: (i) customer registration, (ii) customer identification, (iii) customer account activation, and (iv) depositing into 4spar AB's account. These steps are performed automatically by our own internally-developed IT systems. The manual processes include approval and clearing of deposit withdrawals at the customer's request.

Customers initially either log-in to their existing personal account at www.4spar.se or create a new website account where they provide general information such as their home address, e-mail address and other data. The next step of registration includes a survey with 11 mandatory questions designed according to AML law and FATCA regulations. Customers identify themselves using an electronic signature, "BankID", that provides us with the first and last names of each customer and their personal identification code. To activate the newly created account, the customer follows the internet link that is sent to the customer's e-mail provided during customer registration.

Once a customer's account is activated, the customer will receive an email containing information about how to deposit funds. We use bank accounts (segregated from the bank accounts holding 4spar AB's own funds) at Nordea Bank AB (publ), opened under an agreement with Nordea Bank AB, for the provision of the deposit-taking services. The customer may transfer the deposit amount to us at any time after activation of his or her website account. The deposit amount may only be transferred by the customer using banking non-cash transfers. Once we receive the deposit amount, the customer receives a confirmation by email. A customer may monitor the total deposited amount at any time in his or her website account. A customer can at all times transfer amounts from flexible account to fixed term account from the customer's personal profile page at 4spar webpage.

If a customer decides to withdraw a deposit, he or she can order the withdrawal either by logging in to his or her personal profile page at 4spar's website or by contacting our customer support by phone or e-mail. Customer

service department then creates a payment to the customer from our Nordea account. All payments need to be confirmed twice by two different persons before the payment is performed. A report on all withdrawal requests from that day is created electronically and in paper form which is then signed by the finance department of 4spar AB, in conjunction with both the customer service department and finance department confirming the payments in the bank. In case of early withdrawal of any deposits made on fixed term accounts, customers forfeit any interest accrued on such deposits.

Once a deposit amount has been returned, exclusively by transfer to a Swedish bank pre-registered by the customer in their personal account, an e-mail confirmation is sent. Deposits made with 4finance Spar are not covered by local deposit insurance regime. The size of such deposits, however, are limited to SEK 50,000 (approximately EUR 5,000) per individual.

PROCESS

Customer service

As of December 31, 2016, we had a customer service division with 729 specialists delivering convenient remote customer support in local languages across all of the jurisdictions in which we operate. We have a centralized customer service department that ensures adherence to global best practices and standard operating procedures. We believe our high-quality customer service is a core competitive advantage.

The customer service division operates through distance channels, telephone calls, e-mails, online chats on our various website platforms, and, in certain jurisdictions, off-line kiosks and in-branch visits (Armenia and in respect of TBI Bank products). The responsibilities of the customer service division are to support and educate customers, manage customer relationship, improve customer experience, consult new customers on product options, address customers' questions, inform customers of their payment due dates, encourage on-time payment, discuss options of late payments and perform back office tasks, such as help customers finalize their applications or make manual payments, and detect fraud. The focus areas of the customer service division are customer satisfaction, speed of service and responsiveness to business needs.

The customer service division complies with a set of internal documents and procedures including: (i) the Customer Service Policy (containing customer service and quality principles within the Group); (ii) the Customer Service Management Procedure (containing repository of knowledge sharing for Group and customer service managers which combines the best practices and requirements for managing customer service departments across all operating jurisdictions); (iii) instructions and internal procedures in each country of operations and internal procedures; and (iv) manuals and standards of system usage; (v) the Complaint Escalation and Management Procedure (containing requirements for complaint escalation and handling across all operating jurisdictions); and (vi) the Quality Assurance Procedure (containing requirements for quality monitoring, reporting and improvement across all operating jurisdictions).

We motivate our employees in the customer service division to strive for efficiency by rewarding them for efficiency, performance and quality. We monitor key performance indicators to try to achieve consistent performance and improve our customer service. Each jurisdiction tracks performance on a regular basis, and receives monthly analyses to track efficiency, and performance is benchmarked against other jurisdictions' performance and budgets. To further assure quality and knowledge proficiency, the customer service department of each country maintains certain country-specific procedures and scorecards on customer service quality evaluation. Assessments are performed on a monthly basis across the Group. Each country customer service department also performs quarterly knowledge evaluations of agents, team leaders and managers.

In 2014 and 2015, our largest customer service department within the Group, the Polish department, was awarded "Quality Service Star" by Jakość Obsługi, the most prestigious customer service award in Poland. We believe this is an exceptional distinction, as this reward is based on research conducted on a group of 15,000 consumers.

In 2016, we obtained a Net Promoter score of 60 across our various markets. In markets where we obtain Trustpilot user ratings (an open internet service where customers can share feedback on companies they use), we had an average rating of over 9 out of 10 for the year ended December 31, 2016 (for example, vivus.pl was scored 9.7 and vivus.dk was scored 9.3).

Reminders and payment at maturity

In an effort to prevent delayed payments, a fully automated system sends out payment reminders to customers a few days before the loan due date through text messages, e-mail and/or physical mail. This process is

supervised by the Customer Service Division. In addition, customers are called before their repayment due date to remind them of their repayment options. The aim of our consultative approach is to reduce any delays in repayment.

In most cases, the customer repays the principal and the applicable interest on maturity of the loan, or, if such option is available in the relevant case, extends the loan for another 30 days (which occurs approximately 25% of the time with respect to Single Payment Loans).

Customer invoicing and billing processes are fully automated. All invoices and other relevant information are available to customers by email and in their user profile on our local website. We believe allowing customers to self-serve without speaking to an agent is an advantage. Customers make payments either through electronic-banking (in most cases) or at available offline point. Payments that are made through electronic banking are typically processed within 15 minutes of receipt of instructions by the customers' bank.

Once we have received the principal and applicable interest in full, a customer's repayment status is made available in his private account on our website and by means of text message/e-mail notification. Our debt collection system and the relevant customer's credit history maintained by us are automatically updated once the customer fully repays the loan.

Debt collection

Debt collection strategy and organization

Our debt collection strategy focuses on efficiency, time, quality and customer satisfaction. Our philosophy is to strive for successful debt collection by having a dialogue with the customer, rather than threatening them with enforcement. Through dialogue, we help our customers to find the best way to repay their loans and we improve customer payment habits through education. We have a centralized debt collection department that ensures adherence to best practice collections techniques and strategies, and adherence to standard operating procedures. We do not undertake any controversial debt collection practices, nor do we have access to our customers' bank accounts for payment collections.

All debt collection activities are recorded and controlled to ensure, that we have performed the right collection actions in the right manner and in accordance with our policies and regulations. We aim to continually evaluate and improve the debt collection process, for example, by maintaining scorecards on debt collection quality and by administering quarterly knowledge tests to agents, team leaders and managers.

To accomplish our debt collection strategy, we maintain a well-staffed local in-house debt collection team comprised of debt collection experts in all markets of operation. The team is divided, in line with our debt collection procedure, into "early collection" (days 1-30), "late collection" (days 31-90) and "recovery" (more than 90 days). The debt collection team assists in maintaining robust and detailed procedures, based on efficiency analysis and data-driven decisions. Furthermore, our employees who work in debt collection are rewarded based on their efficiency, performance and quality.

Apart from the local team of experts, the improvement of debt collection performance is driven by innovative technology, which is being deployed across our markets of operation. For example, a new debt collection system has been implemented in Czech Republic, and a predictive dialing system has been implemented in Latvia, Poland and Georgia.

Debt collection of loans delayed more than 90 days past maturity is generally outsourced to a range of debt collection agencies within our various jurisdictions. We cooperate with well-known debt collection companies, such as Intrum Justititia, Euler Hermes and Svea Finance. On occasion, debt collection becomes subject to court proceedings, generally by way of summary judgments and bailiff services. We generally do not handle these procedures in house. However, we do retain some of these cases in order to compare our results with the debt collection results of the debt collection agencies. We monitor the results of the debt collection cases that are outsourced through our debt surveillance (i.e., we monitor the activities of the debt collection agencies with which we collaborate), but make no communication with the client after this step. We also continuously consider the possibility of selling bad debt to debt collection agencies and other investors. We consider the sale of bad debts as the end-point of the debt collection process and analyze possibilities on a regular basis to ensure immediate cash inflows from bad debts. Before making decisions about taking actions that will incur costs for us (such as court proceedings or bailiff services), we evaluate each case and estimate the possible outcome. To

initiate court proceedings, we pay court fees upfront for which we would legally be entitled to be reimbursed by the defaulting customer. Generally, upon a court ruling and depending on the jurisdiction, all communication with the defaulting customer is conducted by court officials who take actions to collect the overdue debt from the customer, including by directly debiting the customer's bank account or by forced sale of the customer's assets.

Debt collection policy and process

For payments that are delinquent up to 90 days, we manage the debt-collection process in-house in accordance with standard operating procedures. Our internal debt collection policy and procedures include:

- The Group Debt Collection Policy, which sets out the main principles of debt collection to be followed by each company in the Group, including procedures for case handling, loan extension, payment schedules, outsourcing, debt write-off, performance management and internal communication;
- The Group Customer Care Standard, which is a set of guidelines for customer service;
- The Group Procedure on Processing of Fraud Cases, which prescribes the way in which the Group processes, records and stores cases of fraud in its debt collection system;
- The Group Procedure on Choosing External Debt Collection Partners, which provides for the procedure and form of tender and the execution of co-operation agreements;
- The Group Procedure on Cooperation with External Debt Collection Partners, which is designed to ensure a suitable outsourcing procedure and to measure and compare the effectiveness of partners' results; and
- Guidelines on Making Instructions, a checklist of instructions to ensure employees have all necessary information to follow procedures and regulations.

Debt collection practices vary by jurisdiction according to local legislation and cost efficiency considerations. All debt collection methods that we use comply with local legislation and reflect, in our view, best practices in the market. We believe that regulatory risks are significantly diminished since we do not pull money directly from bank accounts, utilize the practice of continuous payment authority or siphon money from customer bank accounts.

Debt collection in practice

The debt collection team is divided, in line with our debt collection procedure, into "early collection" (days 1-30), "late collection" (days 31-90) and "recovery" (more than 90 days).

The early collection phase is highly automated with customer reminders processed by our IT systems and is supervised by our early debt collection team. Multiple text message reminders are sent to the customer commencing a few days after the loan due date. Phone calls are also made encouraging the customer to make full repayment or offering the customer a repayment schedule. We grant overdue customers a grace period (typically of 3-5 days), during which no delay interest is applied to the outstanding amount. After the grace period, delay interest is calculated on a daily basis and varies from 16% per year to 0.75% per day depending on local interest rate cap restrictions.

Reminders are sent to overdue Single Payment Loans customers during the first 30 days following the overdue date offering an option to extend if the law in the relevant jurisdiction allows such an extension. For example, in Finland, loans can be extended only before the due date on the loan. Depending on the jurisdiction, a loan term may be initially extended for a further 7, 14 and/or 30 days, and may also be extended several additional times until a specified date. Customers of Installment Loans may extend the loan for a further 30 days. This option is available to customers in all countries where Installment Loans are offered and attracts a pre-specified fee.

The late collection phase is automated to a certain extent. Phone calls are made encouraging the customer to make full repayment or offering the customer a repayment schedule, and reminder letters are sent by mail and email. If the customer cannot be reached, we make an additional attempt to find the customer by using public databases and other public information. If the customer still cannot be found, the case is outsourced to an external debt collection company. If the customer is found, the case stays in-house.

Most cases with delays over 90 days are outsourced to external debt collection agencies in the relevant jurisdiction. See "*—Debt collection strategy*" above.

For customers who are not able to repay their loan and are in default, we offer an individual loan repayment restructuring plan that allows for repayments of loans by monthly repayments, typically not exceeding 12 months. This facility is available upon application by the customer and in certain countries customers must pay a fee. The plans provide for monthly repayments to be made by the defaulting customers, taking into consideration the amount of repayment that is feasible for each customer, which is usually mutually agreed. In the event that a customer does not comply with the restructuring plan, regular debt collection procedures are applied.

Debt collection statistics

We have developed policies and procedures for debt collection that have resulted in a Single Payment Loan average recovery rate of 93.4% of the principal amount of Single Payment Loans issued with a maturity date during 2014 (such loans having been issued between January 2014 and December 2014) within two years after maturity, and an Installment Loan average recovery rate of 92.5% of principal amount of the Installment Loans issued with a maturity date during 2013 (such loans having been issued between May 2012 and April 2013) within three years after maturity.

The table below sets forth the composition of overdue online loans in respect of our Single Payment Loans, Installment Loans, Line of Credit and Point-of-Sales customers as of the dates specified below.

	Gross receivables as of December 31,		
	2016[(1)]	**2015**	**2014**
	(in millions of EUR)		
Not overdue	201.6	215.4	159.6
Overdue less than 90 days	49.3	53.0	48.8
Overdue more than 90 days	179.6	157.0	108.5
Gross receivables	430.4	425.5	316.8
Allowances for doubtful debt	(140.3)	(117.2)	(75.4)
Net loan portfolio	290.1	308.3	241.4

(1) Figures for 2016 take into account the acquisitions of Friendly Finance OU.

Our recovery rate on non-performing loans is high in all markets of operations—42.9% as of December 31, 2016 across the Group (43.2% for Single Payment Loans and 42.8% for Installment Loans) which we believe is due to two main factors: the fact that each customer loan amount is relatively low and the fact that many debtors want to pay their debts in time in order to improve their ability to be granted new loans as well as potentially utilize alternative sources of financing, such as making credit purchases and subscribe for cable TV, internet and mobile subscriptions, in the future.

In order to offset some of the credit risk on the loan portfolio in Poland, we use derivative contracts. The counter-parties to these transactions include both third party financial institutions and Group companies.

TBI Bank—Underwriting and Collections

Underwriting

TBI Bank's underwriting and credit initiation process is based on standard client risk assessment methodologies, supported by verification and identification steps in accordance with banking regulatory practice (in particular the Bulgarian National Bank (BNB) requirements for TBI Bank). The bank offers Retail and SME loans, the majority of which are unsecured consumer loans. The loan origination process includes collection of customer application data and assessment against minimum eligibility criteria and verification and identification in accordance with compliance requirements (KYC/AML/CTF and internal register). We perform searches in credit bureaus and other governmental databases, e.g. the tax and revenue agency, national health insurance and ministry of interior database. We further apply our bespoke credit policy rules and internally developed scorecards, as well as our fraud identification checks. We regularly review and improve our loan underwriting strategies.

Collections

TBI Bank's retail collections activity is split in two key teams: i) soft collections, performing early and late stage collections and ii) legal enforcement, working on recovery and resolution. SME and leasing collection for overdue exposures of more than 90 days is performed by the SME and Leasing Collection Department with a mix of approaches: restructuring, legal enforcement, out-of-court settlement agreements, cession agreements, assigning collection to third party contractors. The soft collection is done by the SME department. Both Retail and SME portfolios are managed on a delinquency basis, while on the latter and for larger exposures we apply

classification methodology. Concentration and counterparty risk are strictly monitored. Our Allowance for Loans and Leases is based on the regulatory requirements of the Bulgarian National Bank, which is more conservative than traditional net flow and roll rate methodologies. Coverage for unsecured exposures is kept at over 100%. For asset based finance the liquidation value of collateral is also taken into account. The process of collection and recovery is delivering stable results.

Future Developments—Risk Infrastructure

The bank intends to enhance its risk infrastructure to support future growth, and we are implementing several changes in preparation, including deployment of new systems. This is concentrated in three areas: i) new front-end and decision engine systems; ii) analytics and model development capability; and iii) a new collection system.

GEOGRAPHIC MARKETS

Our revenues are principally derived from operations in Denmark, Finland, Georgia, Latvia, Poland, Spain and Sweden, which together accounted for 78.7%, 85.0% and 86.0% of our net loan portfolio as of December 31, 2016, 2015 and 2014, respectively, as described further in "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Results of Operations—Operating results analyses by key geographic markets*."

Our revenues are also derived from the other markets where we operate, including Bulgaria, Armenia, Argentina, Romania, Slovakia, Mexico and Dominican Republic. Our management expects that the proportion of these markets in our loan portfolio will increase in 2017 and beyond.

Before entering new markets, we carefully consider local regulatory and tax issues, typically hiring international or local legal and/or tax advisors for advice on such matters. We then also obtain general market research from our advisors on the new country market environment. Before commencing operations, we also commonly aim to collect statistical data on the industry overall, including competitive factors, the environment and potential customers in the potential new markets. Once a country is selected for expansion, we commence testing of the market and adjustment of scoring and decision-making systems for the country in question.

INFORMATION TECHNOLOGY

General

We have a Group-level IT department which supports the full lifecycle of product development and optimization. We embrace effective design principles with a strong emphasis on user-experienced-based design. This approach aims to build solutions based on validated customer needs, and maximizes customer conversion rates at minimal burden to our IT staff.

Our IT engineering group is focused on delivering stable solutions. To achieve this we have embedded proven test practices in the area of test automation and pipeline deployments. Automated quality assurance ("**QA**") ensures we do not deploy defects in our code. All teams have one QA engineer per two IT developers. QA engineers build and modify test scripts and conduct visual tests on front end sites/apps. The stability of the Group's customer websites is reflected in the high level of uptime achieved.

The systems which we use share a common code, which is substantially similar across our countries of operation. This ensures that our websites offer a modern look and functionality whether viewed on desktops or on mobile. This has historically allowed us to launch our business in a new country in approximately three months, and to launch businesses in several countries in parallel. Coupled with remote data center management, we have been able to quickly to replicate our business model in new markets and expect to be able to do so in the future.

We do not own data centers and instead use professional data centers provided by Rackspace and Amazon in the United Kingdom with disaster recovery sites in the United States. We have set up a series of dedicated servers formed in clusters, which ensures that countries operate independently and contains the risk of any application downtimes within a single country. We have a division dedicated to monitor potential security threats, and which is closely integrated with engineering functions to prevent attacks.

As of December 31, 2016, our IT department had approximately 240 full time employees. In addition, we also have a database of additional consultants available on a contingency basis to assist on bespoke projects as

necessary. This enables the department to quickly put together a team with the relevant skill sets for each individual project. Full time employees are located in one of our four core competency centers, namely Poland, Latvia, Lithuania and Czech Republic. The full time teams are the gatekeepers of the software applications which are used in our business operations. They ensure that the code developed is within our quality guidelines, deploy and manage infrastructure and make sure that our systems work fast and keep operational. Teams are connected using various online tools and a network of tele-conferencing terminals.

Our platform uses off-the-shelf solutions for collections, risk and other industry standard components. We have developed over three million lines of custom code to extend these solutions to deliver a platform (the "**Platform**") that enables us to expand and optimize markets, which at the same time meet regulatory demands.

We are also continually evaluating new technologies and approaches to improve our efficiency. The Platform is developed centrally and local teams can use its features or develop their own. This enables us to deploy best practices between countries, but at the same time does not impair local teams' creativity in developing their own software. Nevertheless, to maintain uniformity, certain functions relating to risk and underwriting remain strictly in the control of the team located in our central headquarters in Latvia.

The Platform consists of individual applications relating to:

- *User Interface*—We use the latest technology languages such as REACT (front-end technology used by many major internet platforms), Java and Ruby on Rails. We deliver our platform to customers via fully responsive, device agnostic websites compatible with tablets, mobile and desktop. We also provide native Android and iOS apps and a custom built partner tablet for processing loan applications face-to-face with customers.
- *Integration*—This application consists of Application Programming Interfaces ("**APIs**") which are used to link our systems to third-party tools, websites, mobile or tablet applications to maximize the acquisition channels through which we attract new clients. Using APIs, we are able to integrate our products with various external partners and applications, allowing our customers to manage their accounts across separate devices easily.
- *Analytical Application*—This application consists of highly flexible and predictive scorecards developed by the Group and implemented as part of a core solution for countries. Scorecards are regularly monitored and enhancements are made to improve them where possible.
- *Payments*—This application consists of integrated payment gateways that allow us to move money quickly using over 120 bespoke banking integrations and numerous payment gateway integrations to facilitate payments on credit cards, e-wallets and various other payment channels.
- *Back office*—A fully integrated back office provides optimal support for customer service and debt collection agents. Integration with telecommunication tools enhances agent performance and managers are able to view live progress.
- *Anti-fraud*—This application is a platform which helps us to identify potential fraud attempts speedily and deal with them at first instance.
- *Customer Intelligence*—This application provides secure access to credit bureau data and provides a parameterized scoring engine, optimized to use cached data when possible.
- *Correspondence*—This application provides the ability to create documents in a number of formats and send them to different channels.
- *Loan Management*—This application supports a number of loan products, and manages the payment schedule and reconciliation.
- *Meta Layer*—This application is a collection of repositories used to store data models, business process maps, API's and application meta models. This promotes re-use and provides impact assessment of business or technical changes.
- *Frameworks*—We have a number of frameworks that provide scalable and supportable methods for batch integration, online integration, software deployments and software testing.
- *Engine Layer*—This provides a workflow and business rules engine that, in turn, can be used to provide configurable processes to support the Platform in a number of countries.
- *Analytical Application*—This provides a number of capabilities to receive regulatory reporting, business intelligence and data science analysis.

CREDIT AND RISK MANAGEMENT

Risk management

Our risk management policy considers four main risk types: (i) credit risk, meaning the risk of financial losses due to failure on the part of our customers to repay the loans in a timely manner, including country and product concentration risks and banking credit risks; (ii) operational risk, meaning the risk of losses due to deficiencies in processes and our information systems, including legal, compliance, and personnel risks; (iii) market risk, meaning the risk of losses due to open positions in foreign exchange or interest rate markets, including liquidity risk; and (iv) business, strategic and reputational risks, meaning the risks of profit fluctuations due to changes in external factors such as market environment or loss of income due to reputational problems in connection with the Group.

Risk management is performed by a Group-level risk department that includes units in risk assessment, market risk, IT security, operation risk and compliance. The Group-level risk department is managed by our CRO who reports to our CEO. In addition to the Group-level risk department, we operate local risk departments in Poland, Latvia, Lithuania, Finland, Georgia and Spain to expand risk management and control. We plan to introduce local risk departments in our other jurisdictions, as well as to generally strengthen our centralized risk monitoring, in the future. Local risk departments are responsible for local fraud monitoring, monitoring of underwriting efficiency and for recommending changes in the underwriting processes. The local risk departments report to a Regional Risk Manager and to the local country managers, who in turn report to the Group CEO. We also have a fraud prevention division, headquartered in Latvia and stationed in the Czech Republic, Romania and Poland.

Generally, all individual managers, including the members of the respective boards of directors of Holdco and AS 4finance and the Executive Committee, the heads of functional groups, country managers and the heads of structural units are responsible for risk knowledge and risk management within their area of responsibility.

The main functions of the Group-level risk department are: the review and analysis of credit, operational, market, business, strategic and reputational risks; statistical analysis and preparing scorecards; development of internal risk management models; calculation of probabilities of default and loss given default numbers on group level and monitoring and improving credit scoring and decision-making systems at the Group-level. We continually seek to improve our credit scoring and underwriting models.

Audit and internal financial reporting

The Group's internal audit department currently reports directly to the Audit Committee and regularly performs an independent assessment of our processes. See "*Management—Management—Management of Holdco.*" The assessment is designed to ensure that all key aspects of risk management are of high quality.

The Group finance department's responsibilities include the following: finance planning and control, business analysis, treasury, tax and accounting. The country managers' report local financial results to the Group finance department, which then analyzes the reports and communicates the findings to the board of directors. In addition, the country managers regularly provide our Executive Committee with reports in relation to their business activities and financial results. See "*Management—Corporate Governance—The Executive Committee.*"

INVESTMENTS

Our investments relate primarily to developing the business in the jurisdictions where we operate, including introducing Installment Loans and other new products in some of those jurisdictions where we currently offer Single Payment Loans, and improving efficiency and IT systems.

In addition, we aim to continue pursuing attractive business opportunities by launching operations in selective geographic markets over the next few years. See "*—Key Strengths and Strategy—Strategy—Continue to pursue selective expansion opportunities*" for a discussion of our expansion strategy.

COMPETITION

Since 2008, backed by strong consumer demand for short term small denomination credit, the size of the alternative financial services industry in Europe, Armenia and Georgia has grown rapidly. The market in certain countries in Latin America, particularly Mexico and Argentina, has also started to develop. Some alternative

financial services industry players have started providing these products to their customers over the internet. New alternative financial services providers include large regional, national and international multi-service providers, and are active in many areas of alternative financial services, such as pawn loans, payday loans, credit lines and consumer loans, all of which are provided both online and through traditional points of sale. Growing internet usage, including via mobile devices, increasing e-commerce activity and customers moving financial affairs online, together with deteriorating median household income, are creating even larger opportunities for growth in this market.

In addition to consumer loan lenders, we also compete with financial institutions, such as banks, credit unions, other consumer lenders and retail businesses offering similar financial services. We believe that we also face indirect competition with respect to some of our products and services, such as bank overdraft facilities and banks' and retailers' insufficient funds policies, as many of these options may be less expensive than the consumer loan products and services offered by us. We believe that our services are easier to access by the end customer, including simpler and faster application, scoring and loan amount transfer to the customer.

Numerous competitors offer online consumer loan products and services, and many significant competitors in the local markets are privately held entities, making it difficult for us to determine their competitive position in the market. Storefront consumer loan lenders that offer loans online or in storefronts are also a source of competition in most of the markets where we operate. On the basis of the publicly available financial statements of some of our largest competitors, marketing research conducted by us from time to time and information available from trade associations of which we are a member, we believe that the competitive environments in our countries of operation are as described below.

Latvia

The Latvian Single Payment Loans and Installment Loans markets are mature with several companies offering such services. We believe, on the basis of publicly available information on companies that provide online lending services to individuals, that we account for a major share of the Latvian market with Creamfinance Group (*crediton.lv/*), VIA SMS Group (*viasms.lv*) and Ferratum Group (*ferratum.lv*) in the Single Payment Loans segment and IPF (*credit24.lv*) and OC Finance (*opencredit.lv*) in the Installment Loans segment being our major competitors. We believe that Ferratum Group's online lending model is the closest to ours as it has a presence in a number of European countries and provides online consumer loan products under multiple brand names and domains. We decided to offer a new product in Latvia—the Line of Credit—in September 2016. We believe that this market is relatively new and developing, with our competitors being Hedge Capital Company LLC (*nordcard.eu/lv*) and VIA SMS Ltd/Transaction pro Ltd (*savacard.lv/*).

Lithuania

In Lithuania, the Single Payment Loans market grew rapidly between 2009 and 2012.The market stabilized in 2013 due to local regulatory authorities taking measures to regulate the market, with further regulatory tightening in early 2016. Our main competitors in the Single Payment Loans and Installment Loans segments are SOHO Group UAB (*sohocredit.lt*), International Personal Finance (*credit24.lt*), Moment Credit UAB (*momentcredit.lt*) and BnP Finance AB (*bobutespaskola.lt*).

Finland

The Finnish market for Single Payment Loans is mature. We believe, on the basis of publicly available information on companies that provide online lending services to individuals, that we are among the top players in the Finnish market by number of customers and loan agreements (we have a market share of 42%) with our main competitors being Ferratum Group (*Ferratum.fi*), and those offering line of credit facilities such as Euroloan Group Plc (*euroloan.fi*) and OPR-Vakuus (*everyday.fi*). In order to expand the business in Finland, we decided to offer our third product, Line of Credit. We believe this market is still developing with only relatively few competitors operating in it. See "*—Products—Line of Credit*."

Sweden

In Sweden the short term Single Payment Loans market is mature, with fewer than 50 companies competing. We have been the largest provider of Single Payment Loans in Sweden since 2012 and on the basis of publicly available information we occupy a market share of more than 40%, putting us ahead of Ferratum Group (*ferratum.se*) and DFC Nordic Plc. (*risicum.se*), which we believe are our main competitors. The Installment Loan market is developing, with several competitors operating in the market offering longer term loans, providing larger flexibility to consumers in this market.

Poland

In Poland, the offline market of short term Single Payment Loans and Installment Loans is mature, while provision of the same loans to consumers online is still developing rapidly. On the basis of publicly available information on companies that provide online lending services to individuals, we believe that we have a leading position in the Single Payment Loans market in Poland, which is strengthened by our acquisition of Friendly Finance (*pozyczkomat.pl*). Our principal competitors include WDFC UK Limited (*wonga.pl*), Kreditech Holding SSL GmBH (*kredito24.pl*), Ferratum Group (*ekspreskasa.pl/*) and Creamfinance (*lendon.pl*).

Denmark

The Danish market for Single Payment Loans is still developing and is likely to continue to grow. We believe that our current share of this market is more than 70% with our main competitors being Ferratum Group (*ferratum.dk, kvikautomaten.dk*). Another segment also quite new and developing is the Installment Loan market. We have entered this market recently; we believe our main competitors include Ferratum Group (*ferratum.dk/*), Basisbank (*lanlet.dk*) and 3C Group A/S (*leasy.dk*).

Spain

In Spain, short term Single Payment Loans market is a relatively new market category, growing at a considerable pace. Based on publicly available information on companies providing online lending services to individuals, we believe that we are the largest operator in the market. Other relevant but lower profile competitors are Ferratum Group (*creditomovil.es*), WDFC UK Limited (*wonga.es*), International Personal Finance PLC (*creditomas.es*), Kreditech Holding SSL GmBH (*kredito24.es*) and VIA SMS Group (*viasms.es*). We have also recently entered the Installment Loan market in Spain, which is still developing in the online non-bank lender segment where our competitors are International Personal Finance (*credit.com/es/*) and Kreditech SSL Holding (*monedo.es/now/*).

Slovakia

The Slovakian Single Payment Loans market is still developing and is in its early stage of development. Currently, through the *pozickomat.sk* brand of Friendly Finance, we are the only company operating under a full license from the National Bank of Slovakia. After regulation introduced at the end of 2015, our main competitors closed their operations including Ferratum, Creamfinance and IPF.

Georgia

The short-term Single Payment Loans market in Georgia grew rapidly until 2016 and should stabilized in 2017 due to the introduction of new regulations. According to publicly available information on the companies that provide online lending services to individuals and our brand tracking research, we believe our market share currently is more than 60%. In Georgia, our direct competitors are Finabay LLC (*netcredit.ge*), MiniCredit Ltd (*minicredit.ge/*), CreamFinance (*crediton.ge*), Moneyman Lls (*moneyman.ge*) and Onlinecredit Llc (*onlinecredit.ge*).

Czech Republic

The short-term Single Payment Loans market is still developing, with several regulations that were introduced in 2016. The acquisition of Friendly Finance Group (*pujckomat.cz/*) approximately doubled our market share. We believe that our main competitors are Ferratum Group (*ferratum.cz*), Kreditech Holding SSL GmbH (*kredito24.cz/*) and Creamfinance Czech (*credito.cz/*). We introduced our second product, Installment Loans, in December 2016. We believe our main competitors in that market are IPF (*provident.cz*), BNP Paribas (*cetelem.cz*) and Home Credit Group (*homecredit.cz*)..

Bulgaria

The short-term Single Payment Loans market is still developing in Bulgaria, yet is competitive. We believe that our main competitors are the online-based Kredisimo AD (*credissimo.bg/*) and NetCredit (*netcredit.bg/*) as well as offline based Cash Credit (*cashcredit.bg*) and Ferratum Bulgaria (*ferratum.bg*).

Armenia

We entered the Armenian market through our acquisition of GoodCredit in 2015 and in August 2016 we launched an online Installment Loan. The short-term Single Payment Loans market is not yet developed in

Armenia. In the Installment Loans market, our competitors are banks who currently hold the key market positions and operate purely offline.

Argentina

We entered the Argentinian market through our acquisition of Novum Bank's company (*PrestamoMovil.com.ar*) in 2015. The short-term Single Payment Loans market is still developing in Argentina with Moni.tv (*moni.com.ar*) as our only competitor.

Romania

We entered the Romanian market in 2015 and offer both Single Payment Loans and, recently, Installment Loans. We believe that our main competitors are online-based Viva Credit (*vivacredit.ro*), Ferratum Group (*ferratum.ro*), Extra Finance (*ExtraSimplu.ro*) and Provident (*provident.ro*) and banks in the Installment Loan segment.

Mexico

We entered the Mexican market with the Single Payment Loan in 2015, and we believe that the market has room to develop. We believe that our main competitors are online-based Kreditech Holding SSL GmbH (*kredito24.mx*), Confinanze Digital (*credilike.me*), Credicohete (*cohete.mx*) and Ferratum (*ferratum.mx*).

Dominican Republic

We have recently entered the Dominican Republic market. The short-term Single Payment Loans market is new in the Dominican Republic. Accordingly, competition is just developing with some small companies operating in the market, such as FOR DIRECT S.R.L. (*fd.do/*) and Prestamos Express (*prestamoexpress.net/*).

Bulgaria and Romania—TBI Bank

TBI Bank is ranked 19th out of 22 registered banks in Bulgaria or 22nd out of 27 banks and branches in Bulgaria in terms of total assets. Its closest competitors in terms of assets are: TokudaBank, D Commerce Bank, BACB and International Asset Bank.

In addition to the traditional banks, TBI Bank faces competition in the consumer financing sector from large financial institutions such as Unicredit Consumer Financing and BNP Paribas Personal Financing.

The bank has a lower market share in Romania, with the Romania branch ranking 36th out of 40 credit institutions in terms of total assets.

INTELLECTUAL PROPERTY

Our principal operating activity is the advance of Single Payment Loans and Installment Loans predominantly via our internet platform. The table below sets forth the websites currently used by the Group to provide its internet-based services. The content of these websites is not part of this Offering Memorandum.

Country	Website	Launch or Acquisition Date
Poland	http://www.vivus.pl	July 2012
	http://www.vivus.com.pl	November 2011
	https://www.pozyczkomat.pl/	August 2013
	http://www.zaplo.pl	April 2014
Latvia	http://www.smscredit.lv	July 2008
	http://www.vivus.lv	August 2009
	https://www.ondo.lv	October 2014
	https://www.kimbi.lv/	September 2016
Lithuania	http://www.smscredit.lt	November 2008
	http://www.vivus.lt	August 2011
Sweden	http://www.vivus.se	August 2010
	http://www.4spar.se	April 2012
	http://www.onea.se	October 2012

Country	Website	Launch or Acquisition Date
Finland	http://www.vivus.fi	May 2009
	http://www.fleksiluotto.fi	September 2015
Denmark	http://www.vivus.dk	April 2012
	http://www.zaplo.dk	August 2015
Spain	http://www.vivus.es	December 2012
	https://www.zaplo.es/	May 2016
	https://www.creditocajero.es/	November 2015
Georgia	http://www.vivus.ge	February 2013
	https://mycredit.ge/	March 2013
Slovakia	https://www.pozickomat.sk/	October 2013
Bulgaria	http://www.vivus.bg	December 2013
Czech Republic	http://www.zaplo.cz	May 2013
	https://www.pujckomat.cz/	November 2014
Armenia	http://www.goodcredit.am	April 2015
Romania	http://www.zaplo.ro	June 2015
	https://www.onnen.ro/	July 2016
Argentina	http://vivus.com.ar	October 2015
Mexico	http://www.vivus.com.mx	November 2015
Dominican Republic	https://www.vivus.com.do/	August 2016

We operate under a number of brands, including VIVUS, ZAPLO, SMSCREDIT, ONNEN, ONEA and FLEKSILUOTTO. Internationally, we are filing applications for the protection of trademarks. Our registered figurative and word marks include: 4FINANCE, ZAPLO, VIVUS, VIVUS.ES, VIVUS.LV, VIVUS.LT, VIVUS.CO.UK, VIVUS.DK, VIVUS.SE, VIVUS.GE, VIVUS.FI, VIVUS.PL, VIVUS.COM.MX, SMSCREDIT.EU, ONDO, ONDO.LV, SMSCREDIT.LV, SMSCREDIT.LT pinigai žinutės atstumu, rahaa oikealla hetkellä, ONEA, ONEA.SE. Friendly Finance includes such trademarks as, amongst others, Pozickomat, Pujckomat, Mycredit, and Creditcajero.

We have registered all of our domain names and have intellectual property rights to IT software including: "COLA" which is software we developed for customer support and "DECO" which is software we developed for debt collection. In addition, we have rights to use certain third-party software.

PROPERTIES

We do not own any land or buildings. We lease a number of our premises and certain equipment under operating leases. The leases typically run for an initial period of up to five years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. Operating lease expenses totaled EUR 4.8 million for the year ended December 31, 2016.

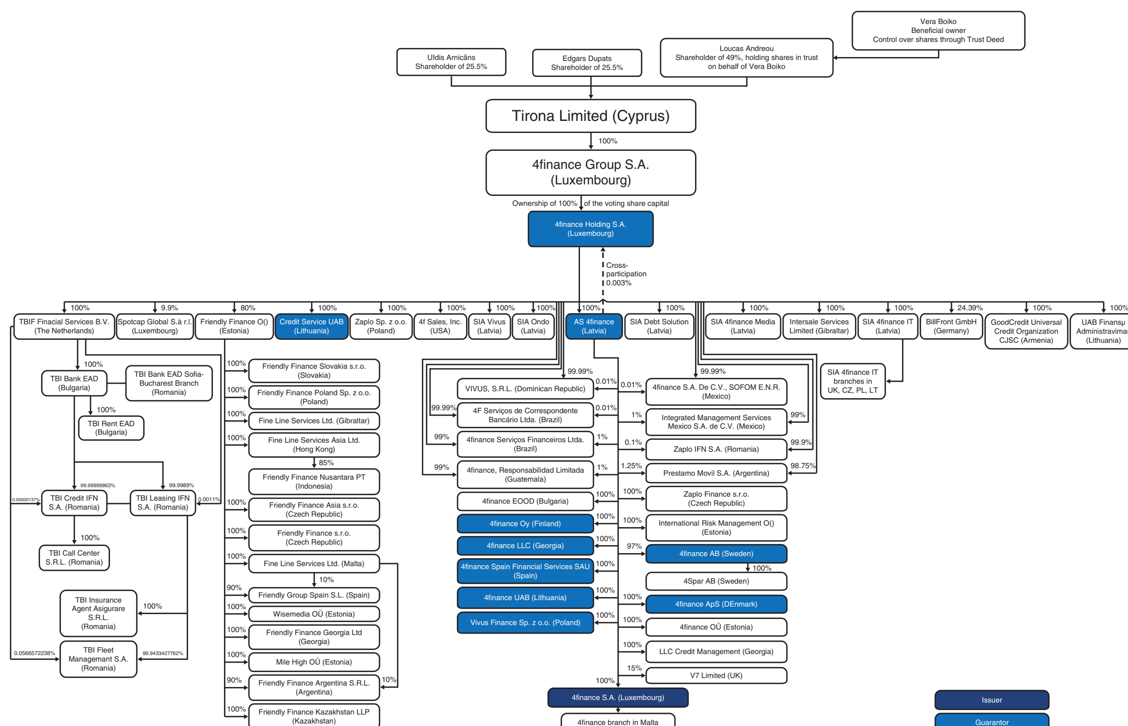
The total book value of our property and equipment was EUR 12.3 million as of December 31, 2016, compared to EUR 4.3 million as of December 31, 2015 and EUR 2.1 million as of December 31, 2014.

GROUP STRUCTURE

Legal structure

Since June 30, 2015, the parent holding company of the Group and direct shareholder of Holdco is 4finance Group S.A. (which holds 99.997% of Holdco). The sole shareholder of 4finance Group S.A. is Tirona. Tirona was until recently part of the Finstar Financial Group, one of the largest private investment groups in Russia, which is ultimately beneficially owned by Oleg Boyko. Holdco is now ultimately owned by several individual persons. Three individual persons, Uldis Arnicāns, Edgars Dupats and Vero Boiko have a significant ultimate ownership of the Group, owning 25.5%, 25.5% and 49%, respectively, in Tirona. Vera Boiko is related to Oleg Boyko. For further details see "*Principal Shareholders*" below as well as "*Management's Discussion And Analysis Of Results Of Operations And Financial Condition—Recent Developments*" and "*—History*" above.

The chart below sets forth the legal structure of the Group as of the date of this Offering Memorandum. In 4finance AB, 3% of the shares are owned by current managing directors.



The table below sets forth the principal operating entities of the Group and their business as of the date of this Offering Memorandum.

Entity	Domicile	Principal Business	Incorporation and Licensing Details
AS 4finance	Latvia	Single Payment Loans and Installment Loans	Registered as a joint stock company on February 11, 2008 under number 40003991692. The company carries a license for the provision of consumer credits issued by the Consumer Rights Protection Center of Latvia.
UAB 4finance	Lithuania	Single Payment Loans and Installment Loans	Registered as a limited liability company on September 24, 2008 under number 301881644. The company was excluded from the Public List of Consumer Credit Providers of the Bank of Lithuania as of December 18, 2015 and from the date thereof is not authorized to issue new loans to consumers in Lithuania.
4finance Oy	Finland	Single Payment Loans and Line of Credit	Registered as a limited liability company on April 17, 2009 under number 2257545-4. Registered by the Regional State Administrative Agency of Southern Finland as a provider of credits that does not require licensing.
4finance AB	Sweden	Single Payment Loans and Installment Loans	Registered as a private limited liability company on October 6, 2009 with the Swedish Companies Registration Office (Sw. Bolagsverket) under number 556790-4189. Registered by the Swedish Financial Supervisory Authority (Sw. Finansinpektionen) as a consumer credit institution (Sw. konsumentkreditinstitut). Obtained a consumer credit license

Entity	Domicile	Principal Business	Incorporation and Licensing Details
			(Sw. tillstand for konsumentkreditgivning) from the Swedish Financial Supervisory Authority on September 21, 2016.
4spar AB	Sweden	Deposit-taking	Registered as a private limited liability company on August 29, 2011with the Swedish Companies Registration Office under number 556862-8563. Registered by the Swedish Financial Supervisory Authority as a deposit-taking company (Sw. inlåningsföretag) on January 19, 2012. No license is required for deposit-taking from consumers.
4finance ApS	Denmark	Single Payment Loans and Installment Loans	Registered as a limited liability company on October 28, 2009 under number 32557864. No license required.
Vivus Finance Sp. z o.o.	Poland	Single Payment Loans	Registered as a limited liability company (*spółka z ograniczoną odpowiedzialnością*) on April 24, 2012 under KRS No. 0000418977. No license required.
Zaplo Sp. z o.o.	Poland	Installment Loans	Registered as a limited liability company (*spółka z ograniczoną odpowiedzialnością*) on November 4, 2013 under KRS No. 0000483782. No license required.
4finance Spain Financial Services S.A.U.	Spain	Single Payment Loans	Registered as a limited liability company on June 19, 2012 under number 10/5/203/30. No license required.
Zaplo Finance s.r.o.	Czech Republic	Single Payment Loans	Registered as a limited liability company on January 25, 2013 under number 29413575. No license required.
4finance LLC	Georgia	Single Payment Loans	Registered as a limited liability company on January 4, 2013 under identification code 401978605. Registered as a microfinance organization under identification code 1081216 on December 29, 2016 by the National Bank of Georgia.
4finance EOOD	Bulgaria	Single Payment Loans	Registered as a limited liability company in January 2013 under number 202393458. The capacity of financial institution is certified by certificate No BGR00313 for Registration as a Financial Institution with the Registry under Art. 3 of the Credit Institutions Act, issued by Bulgarian National Bank. It has no expiration date.
Prestamo Movil S.A.	Argentina	Single Payment Loans	Registered as corporation on June 12, 2012 under registration number 10648, acquired by the Group in May 2015.
GoodCredit Universal Credit Organization CJSC	Armenia	Single Payment Loans and Installment Loans	Closed joint stock company registered and licensed by the Central Bank of Armenia as of December 4, 2007 (license No 21 issued on December 4, 2007). Acquired by the Group in April 2015.
SIA Ondo	Latvia	Single Payment Loans	Registered as limited liability company on April 16, 2014 under registration number 40103780706. The company carries a license for the provision of consumer credits issued by the Consumer Rights Protection Center of Latvia.

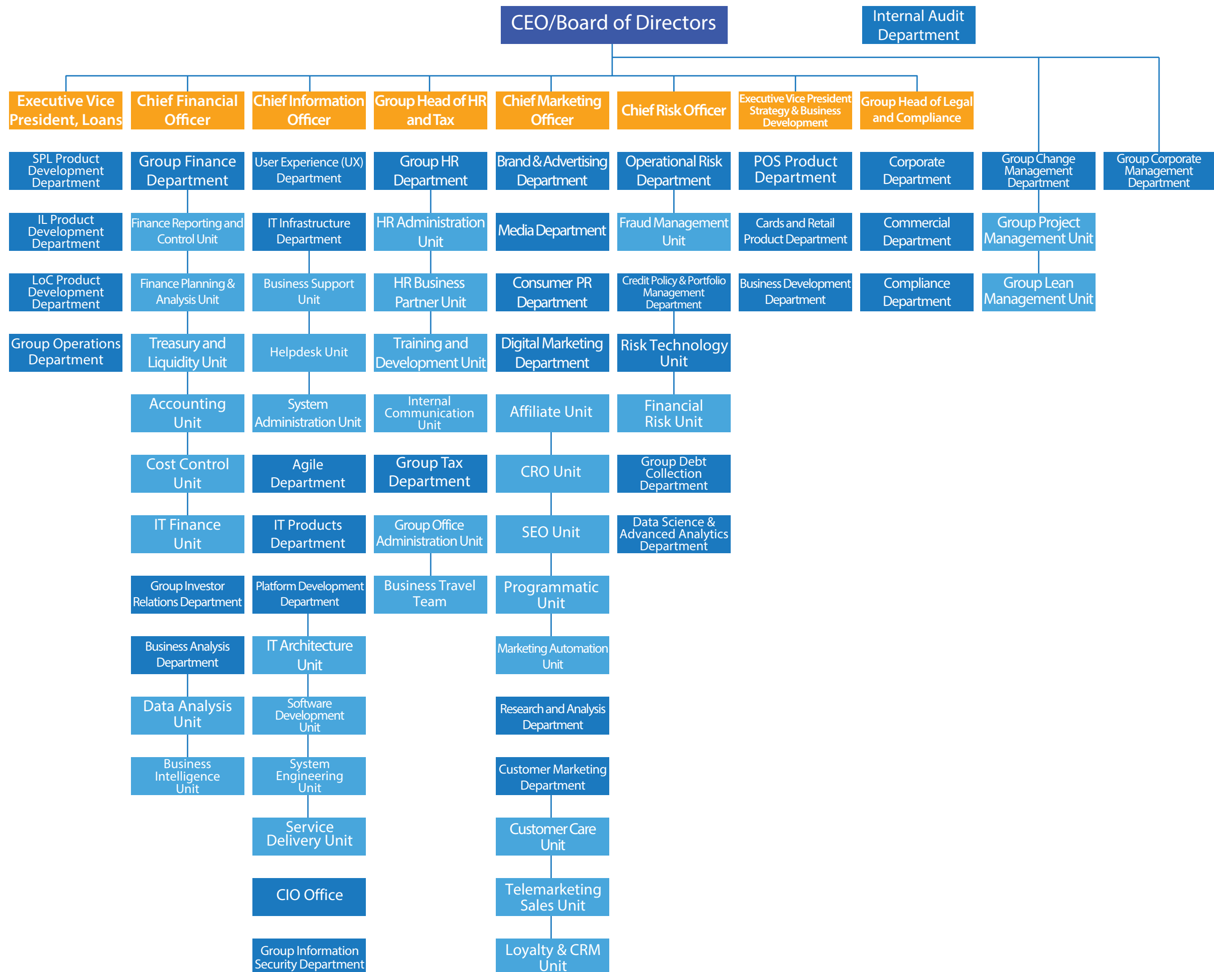
Entity	Domicile	Principal Business	Incorporation and Licensing Details
SIA Vivus	Latvia	Installment Loans	Registered as limited liability company on April 16, 2014 under registration number 40103780710. The company carries a license for the provision of consumer credits issued by the Consumer Rights Protection Center of Latvia.
4finance, S.A. de C.V., SOFOM E.N.R.	Mexico	Single Payment Loans	Registered as stock company on July 23, 2015 under registration number 539841-1. Registered in the Financial Entities Registry (SIPRES) under No.694714 on 19.10.2015.
Zaplo IFN S.A.	Romania	Single Payment Loans	Registered as joint-stock company on October 16, 2014 under registration number J40/12031/2014. Registered as a non-banking financial institution in the General Register of the National Bank of Romania under No.RG-PJR-41-110297 on May 19, 2015.
UAB Credit Service	Lithuania	Single Payment Loans and Installment Loans	Registered as a limited liability company on September 4, 2009 under number 302431575. The company is a financial institution under the Lithuanian Law on Financial Institutions and does not require licensing. The company was authorised as a consumer credit provider and included on the Public List of Consumer Credit Providers of the Bank of Lithuania as of June 2011.

__Organization structure__

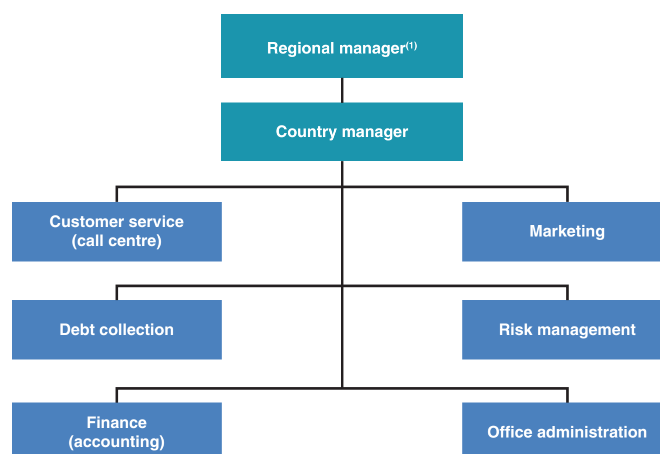
Overview

The Group is directed by the board of directors (*conseil d'administration*) of Holdco. The management is supported by the Executive Committee, the country managers and regional managers. See "*Management*."

The Group's organization structure is set out in the chart below.



The organization structure for the typical local operation unit in each jurisdiction is set out in the chart below. There is also a legal and compliance unit in several jurisdictions.



EMPLOYEES

As of December 31, 2016, we had 3,571 employees. The table below sets forth the number of employees based in each of our countries of operation as of the respective dates.

Country	December 31, 2016	December 31, 2015	December 31, 2014
Latvia (group functions)	462	278	165
Latvia (operations)	147	140	107
Lithuania	92	105	80
Finland	33	33	36
Sweden	40	41	30
Poland	306	340	226
Denmark	38	35	23
Spain	166	131	68
Czech Republic	93	115	60
Georgia	185	162	99
Bulgaria	54	43	15
Romania	40	31	1
Armenia	28	22	—
Argentina	57	14	—
Mexico	72	14	—
Miami (includes two in Brazil)	11	—	—
Dominican Republic	17	—	—
Friendly Finance	256	—	—
TBI	1,474	—	—
Total	**3,571**	**1,504**	**910**

Beginning in 2016, all IT employees are categorized under Latvia group functions, which explains the sharp increase in the figure for Latvia (group functions) as of December 31, 2016, compared to year-end 2015, as well as the decline in employee totals as of the same date in Lithuania, Poland and the Czech Republic.

The table below sets forth the allocation of our employees according to their labor function as of the respective dates.

Labor function	December 31, 2016	December 31, 2015	December 31, 2014
Management	28	26	39
Administration	50	36	23
Finance	126	117	64
Risk management	51	66	19
Customer service (number of employees)	738	598	329
Debt collection	319	283	232
IT and Product development	266	219	120
HR	54	39	26
Internal audit	9	7	5
Legal & compliance	53	41	8
Marketing	103	66	45
Lean Management	5	6	—
Analytics	39	—	—
Friendly Finance	256	—	—
TBI	1,474	—	—
Total	**3,571**	**1,504**	**910**

Social policy and employee benefits

We contribute to a number of employee benefit programs, including pension insurance (in Sweden and Czech Republic), medical insurance, unemployment insurance and maternity insurance in certain of our countries of operation. Medical insurance is provided to our employees in Latvia, Lithuania, Finland and Georgia. Our Spanish subsidiary, 4finance Spain Financial Services S.A.U., is party to a collective labor agreement with its employees that sets forth certain labor terms and conditions.

Our personnel management policy is aimed at developing a skilled and highly-productive staff that is successful in performing its responsibilities. We have developed a comprehensive training program which provides for both internal and external professional training of employees at all levels. We believe that our current compensation package is generally competitive compared to the packages offered by our competitors or employers in other industries which engage professionals with similar education and experience records.

We have not been party to any major labor dispute with its employees.

MATERIAL AGREEMENTS

Our material agreements are described in "*Description of Certain Indebtedness*" and "*Related Party Transactions*."

LITIGATION AND OTHER PROCEEDINGS

On December 18, 2015, the Bank of Lithuania removed UAB 4finance from the Public List of Consumer Credit Providers in Lithuania and suspended further issuance of consumer credit, alleging that it had violated certain consumer lending regulations with respect to its performance of customer solvency assessments. Pursuant to the Bank of Lithuania's decision, UAB 4finance, which accounted for 11% of our revenue in 2015, was barred from providing new consumer loans, although it was permitted to continue servicing existing customers until such time that the products with such existing customers mature or terminate. In response to this development, we restructured our Lithuanian operations so that we may continue to service new customers. In November 2015, 4finance Group S.A., Holdco's immediate parent company, bought a new entity in Lithuania, UAB Credit Service, and in January 2016 transferred 97% of the share capital in UAB Credit Service to Holdco pursuant to a share purchase agreement entered into between 4finance Group S.A. and Holdco. On January 23, 2016, we restarted lending services in Lithuania through UAB Credit Service, which is on the Public List of Consumer Credit Providers in Lithuania. In June 2016, we purchased the remaining 3% of the share capital of UAB Credit Service from the former local manager in order to acquire full ownership. Nevertheless, there can be no assurance that the Bank of Lithuania will not require us in the future to carry out potentially burdensome and/or costly, initiatives in connection with our re-launch of activities in Lithuania. In addition, we decided not to appeal

the Bank of Lithuania's decision to delete UAB 4finance from the Public List of Consumer Credit Providers and have not challenged it in Lithuanian courts. As a result, previous Bank of Lithuania decisions holding us in violation of local consumer lending regulations have come into force, exposing us to fines of approximately EUR 81,000.. See "*Risk Factors—Our business is highly regulated, and if we fail to comply with existing or newly introduced applicable laws, regulations, rules and guidance, we may be subject to fines or penalties, have to exit certain markets or be restricted from carrying out certain operations*."

On January 14, 2014 the Finnish Competition and Consumer Authority ("**FCCA**") issued a marketing ban in relation to certain marketing materials used by 4finance Oy in Finland due to non-compliance with the Finnish Consumer Protection Act. 4finance Oy no longer markets such banned material and has new marketing materials in place, which we believe are in compliance with the legislation and guidelines received from the Finnish authorities. In February 2014, the FCCA sent a request to 4finance Oy to clarify whether the business conducted by 4finance Oy (especially in relation to loan amounts set by the company (EUR 2,010) and the regulation regarding interests related thereto) was in compliance with the Consumer Protection Act. The company responded to the query in February 2014. Since then, the FCCA has contacted 4finance Oy during 2014 and 2015 and has requested further clarification in relation to credit granting processes and credit products. 4finance Oy provided the FCCA with the required clarifications, and held a meeting with the FCCA on November 3, 2015, in which the outstanding matters were discussed. Following the meeting, the FCCA required 4finance Oy to amend the terms and conditions and credit agreement form, which amendments have been made.

On July 14, 2016, the FCCA required that 4finance Oy cap its APR at 50% for all loans, even though we believe that local law imposes the 50% APR cap only on loans below EUR 2,000, and that extension fees be capped at the statutory penalty rate. 4finance Oy has challenged these FCCA requirements. In response, the FCCA brought a case against 4finance Oy in the Market Court in November 2016, claiming the following: (i) its failure to submit pre-contractual information to customers; (ii) its failure to show credit interest in the form of an annual interest rate; (iii) its failure to cap extension fees at the statutory penalty rate; and (iv) its charging of excessive penalty interest. 4finance Oy is currently changing its practices in order to address the first two claims. Preliminary hearings are expected to take place in April 2017. Were 4finance Oy to lose on the merits, the Market Court may impose a ban on its operations or, if such ban were not followed, impose a penalty (up to EUR 100,000 for each claim on which 4finance Oy loses on the merits).

On January 15, 2015, 4finance Oy received a guidance letter from the Finnish Data Protection Ombudsman (the "**DPO**") and since then 4finance Oy has been in continuous correspondence with the DPO regarding certain data protection issues relating to 4finance Oy's credit worthiness assessment process. The DPO has requested 4finance Oy to cease using certain services in connection with the credit worthiness assessment process in order for 4finance Oy to be compliant with the Finnish Data Protection Act. The DPO has brought the case to the Finnish Data Protection Board (DPB). On March 10, 2017, 4finance Oy has in its response to the DPB stated that it has commenced the re-assessment of its credit worthiness assessment process.

On July 4, 2016, the Latvian Consumer Rights Protection Centre (the "**CRPC**") launched an investigation in respect of AS 4finance's (and another local lender's) lending practices and loan extension fees. On February 21, 2017, the CRPC imposed a EUR 80,000 fine on AS 4finance for unfair commercial practices in respect of its extension fees up until November 2016. AS 4finance has appealed the fine in Administrative Court. Should the fine be upheld, customers may bring individual civil claims against AS 4finance to recover any extension fees imposed on them between January and November 2016.

With the exception of the above proceedings, no member of the Group is engaged in or, to our knowledge, has currently threatened against it, any governmental, legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this Offering Memorandum, a significant effect on our financial position or profitability. See, "*Regulatory Framework*."

INSURANCE

Our Group is considered to be "asset light" in that we do not hold many insurable assets. We do not own any real estate and use third-party provider data centers. We utilize cost-efficient approaches and where reasonable apply business-safe processes instead of insurance, such as IT systems that provide for instant replication of our databases and consumer information through cloud computing to avoid data loss. For more information on our IT systems, see "—Information Technology" above. We continually review our insurance policies and may in the future decide to obtain new insurance policies, such as cloud servers insurance.

Currently, we maintain medical insurance for our employees in certain countries. Further information on these insurance arrangements is set forth in "*—Employees—Social policy and employee benefits*" above.

REGULATORY FRAMEWORK

While the majority of our operating entities are financial institutions, we are not regulated as a bank, payment institution or e-money institution in most of our operating jurisdictions. The regulatory frame-work applicable to our operating entities varies depending on the jurisdiction in which we are operating. The relevant regulations relate to, *inter alia*, consumer rights protection, the processing of personal data, debt collection and the prevention of money laundering and financing of terrorism. Except as described in the sections "*Business*" and "*Legal Proceedings*", we have complied with all major regulations applicable to us across our countries of operation. Apart from the removal of UAB 4finance from the Public List of Consumer Credit Providers in Lithuania by the Bank of Lithuania—see "*Legal Proceedings*"—we have not been party to any material dispute with regulatory institutions.

Our principal strategy towards regulation is to play an active role in establishing, where necessary, and leading local non-banking lending associations in the jurisdictions where we operate. This allows us to exchange our experiences with those of other companies operating in the market, to actively cooperate with local regulatory authorities and to strive for industry self-regulation where possible, *i.e.*, through responsible marketing activities, the creation of a common blacklist of customers and responsible debt collection practices.

Poland

Single Payment Loans are considered to be "consumer credit" (*kredyt konsumencki*), as such term is defined under the Polish Act on Consumer Credit of May 12, 2011, as amended (the "**CC Act**"). Under the CC Act, consumer credit is an agreement wherein an entrepreneur (*przedsiębiorca*) grants or undertakes to grant to a consumer (*konsument*) a credit in the amount of up to PLN 255,550 (approximately EUR 61,000) or its equivalent in currency other than PLN. In August 2015, the Polish Parliament adopted wide-ranging amendments to the CC Act and Polish antitrust and interest rate laws, including the introduction of a cap on credit costs imposed on consumers, which entered into force in March 2016, and materially affected the market since many lenders derive a large part of their profits from credit costs.

Under Polish law currently in force, lenders are not required to obtain any license, permit or other similar administrative permission from any public authority in order to conduct business activities relating to consumer credit. However, lenders such as our Polish subsidiary which are categorized as "lending institutions" (*instytucje pożyczkowe)* must satisfy certain regulatory requirements, including the following: (i) being either a limited liability company or a joint-stock company); (ii) having a minimum share capital of PLN 200 000 (approximately EUR 50,000) paid for using cash from documented sources that are not loans, credits or bonds; and (iii) ensuring that each high-level staff hired has a clean criminal record. Furthermore, the CC Act imposes on all lenders certain obligations with respect to the granting and extension of consumer credits, including: (i) providing the customer with the updated terms after extension, (ii) requiring that advertisements which include information about consumer credit must representative examples and certain additional information, (iii) that the creditworthiness of a prospective customer must be assessed before granting a loan, (iv) that prospective customers must be informed of the terms and conditions of the loan agreement by means of an information form containing specified information regarding the agreement, and (v) that the credit agreement must be in writing or in equivalent form and must contain basic information on the terms and conditions of the credit, including the term, the annual percentage rate, the total amount payable by the customer and certain other information.

On January 1, 2016, an amendment to the Polish Civil Code of April 23, 1964 entered into force and changed the formula for calculating the maximum interest rate to the Polish National Bank's reference rate increased by a flat value, then multiplied by two instead of the lombard rate multiplied by four.

On March 11, 2016 the CC Act capped credit costs, defined as all consumer-borne costs relating to a consumer credit agreement with the exception of interest. The cap is calculated using a complex formula, which takes into account, among other things, the credit duration and amount. Additionally, the cost is hard-capped at the total amount of credit. The new provisions that cap credit costs also contain safeguards to prevent the bypassing of such provisions through granting of extra credit. Credit card issuers, and overdrafts on bank accounts are exempted from the cap on credit costs.

In addition, an amendment to the Polish Competition and Consumer Protection Act of February 16, 2007 became effective on April 17, 2016 and forbids the misselling of financial services, defined as offering to consumers financial services that either (i) do not correspond to consumer needs, as determined by reference to

available information on the characteristics of such consumers or (ii) are offered in a manner inappropriate to the character of those services. The amendment is intended to, among other things, eliminate certain market practices of non-bank lenders, such as extensive loan rollovers.

On February 1, 2016, a new asset-based tax on financial institutions has entered into force. The lending institutions (as defined in the CC Act) are subject to this asset-based tax and the tax rate is 0.0366% per month on a company's assets above the threshold of PLN 200,000,000 (approximately EUR 50,000,000). That threshold is calculated jointly for all payers of the tax on financial institutions that are controlled or jointly controlled by a single entity or a group of affiliated entities.

On February 24, 2017, the lower chamber of parliament adopted a bill (the Mortgage Credit Act) that is intended to implement the Mortgage Credit Directive (2014/17/EU) which Poland was obliged to implement by March 2016. Currently, the bill awaits the president's signature. Besides implementing EU law, the bill proposes several amendments to the CC Act. There are two major changes and a number of minor changes. The minor changes are primarily to definitions and obligations to inform under the CC Act (mainly concerning annual percentage rates).

The first major change is establishing registries that would be maintained by the Financial Supervision Commission: one for lending institutions and the other for credit intermediaries; they would both have to be registered before commencing business. The conditions for registering a lending institution would be the same as they are at present, while credit intermediaries would have to ensure that high-level staff do not have a criminal record.

Second, the amendments change advertising rules. Most notably, under current law, advertising that refers to credit costs must include the mandatory information specified in the CC Act. The bill changes the manner of providing the mandatory information; it would have to be provided in a manner that is as visible, legible, and audible as the specific content is that causes the obligation.

The Mortgage Credit Act, in addition to amending the CC Act, proposes to amend legislation governing complaints in the financial sector by extending its application to credit intermediaries (these regulations already apply to lending institutions). Further, the Act initially contained rules on the remuneration of mortgage credit intermediaries which would prohibit such intermediaries from receiving remuneration directly from creditors, but the provision was deleted from the draft bill adopted by the parliament. While this relates to mortgage credit intermediaries only, similar developments may also affect 'standard' credit intermediaries in the future. There are also discussions about similar rules applying to insurance intermediaries.

In December 2016, The Ministry of Justice published a proposal to limit interest and costs of credit. The proposal would amend much legislation and seeks to limit abuses in the loans market. Some of the amendments concern the CC Act and significantly lower the two credit cost caps that apply from 11 March, 2016: the formula-based cap is reduced by more than half whereas the hard cap is reduced from 100% to 75% of the total amount of credit. Additionally, the proposal would restrict the maximum value of loan collateral. Finally, there are harsher criminal penalties for breaches of the law. The Ministry of Finance, the National Bank of Poland (the central bank) and key industry participants have criticized the proposal, but it is still being considered at the government level.

Latvia

In Latvia, AS 4finance is required to comply with rules on consumer lending and consumer rights protection, the prohibition against unfair commercial practices, personal data processing requirements and debt collection legislation, as well as civil law, which is applicable in relation to Single Payment Loans, Installment Loans and Line of Credit. Legislation sets forth requirements in respect of the relationship between lending companies and their customers as they relate to marketing and remote selling of consumer loans, the terms of consumer loan agreements and information that must be disclosed to prospective customers prior to entering into a loan agreement, calculation of annual interest rates and limitations of penalties and interest, assessment of consumer solvency, as well as personal data processing and debt collection.

The supervisory authority in respect of consumer lending companies in Latvia is the Consumer Rights Protection Center. The Consumer Rights Protection Center issues licenses for consumer lending services; provided that the consumer lending company fulfils all preconditions prescribed in applicable legislation. Since

2016, special licenses are issued for an indefinite period. The Consumer Rights Protection Center may suspend a license for a period of up to six months or revoke it entirely on various grounds, including, *inter alia*, if AS 4finance or any of the members of its management or supervisory board does not satisfy or comply with the regulatory requirements applicable to them, the funds invested in the equity capital of AS 4finance are acquired in unusual or suspicious financial transactions or there is no documentary evidence verifying that the funds are obtained legally, non-compliance with the effective decisions of the Consumer Rights Protection Center, AS 4finance has overdue tax or duty payments, refusal to provide or provision of false information to the Consumer Rights Protection Center, the breach of laws and regulations concerning business activities, consumer rights protection or data protection, administrative sanctions applicable to AS 4finance or its management or supervisory board members in these areas, or a failure to comply with AS 4finance's policies on consumer lending, on the hearing of customer claims or on the determination of the customer's ability to repay the loans.

The supervisory authority for personal data protection in Latvia is the State Data Inspectorate. The State Data Inspectorate issues registration certificates for personal data processing.

On January 1, 2014, amendments to the Latvian Civil Law came into force. These amendments provide that contractual penalties and interest rates must be proportionate and consistent with fair business practice. If a party to a contract does not perform its obligations satisfactorily or in a timely manner, contractual penalties may be applied, provided that the penalty does not exceed 10% of the principal debt. The creditor is not allowed to demand both late payment interest and contractual penalties in the full amount. Contractual penalties for delinquent performance of obligations may not exceed the difference between the total amount of contractual penalties and total amount of late payment interest, which means that the total amount of the contractual penalty must be reduced by the late payment interest. The late payment interest must also be proportionate and consistent with fair business practice. In addition, the amendments provide that in the case of a partial payment, amounts paid must first be applied to outstanding interest amounts, then to the repayment of principal and lastly to the payment of contractual penalties. We believe these amendments do not have a material impact on AS 4finance's operations since AS 4finance charges its customers late payment interest and not contractual penalties.

Additionally, on April 4, 2014 the Consumer Rights Protection Center issued the Guidelines on the Application of Late Payment Interest and Contractual Penalties. These guidelines outline how the aforementioned amendments to the Latvian Civil Law should be applied in relation to consumer loan agreements. Pursuant to these guidelines, since January 1, 2015, consumer lending companies may not apply late payment interest in excess of 18% per annum (0.05% per day).

In July 2014, amendments to the Latvian Consumer Rights Protection Law came into force, introducing a stricter regime for assessing a consumer's ability to repay his loans. A failure to comply with these stricter standards may lead to the mandatory application of a statutory interest rate of 6% per annum for affected loans (even where the relevant loan agreement provides for a higher rate) and to a prohibition on contractual penalties or other forms of compensation for late payment. Under these amendments, the burden rests with the creditor to demonstrate that loans have not been made in the absence of adequate evaluation.

Additionally, on August 16, 2013 the Consumer Rights Protection Center issued the Guidelines for Non-bank Lenders on the Assessment of the Consumers' Ability to Repay Loans. These guidelines establish the main principles for assessing consumer solvency, determining the recommended amount of information and content that the consumer lending companies are required to obtain from consumers or by themselves. They also provide advice on the actions which consumer lending companies should take in order to properly assess a consumer's ability to repay the loans. In addition, according to the guidelines, if the monthly payments for an extended short-term loan increases or the price for extending a short-term loan is higher than the fee for usage of the loan (interest rate), then such short-term loan cannot be extended more than twice. At the end of 2016, the Consumer Rights Protection Center suggested to amend the Guidelines. The main amendments concern a threshold from which the consumer lending companies are obliged to verify the income of consumers and cannot rely solely on the information provided by such consumers. The Consumer Rights Protection Center has suggested to decrease this threshold from EUR 427 to EUR 100. In addition, the Consumer Rights Protection Center has suggested that in respect of open-ended loan agreements (such as Line of Credit) the consumer lending companies, while assessing the consumers' ability to repay the loans, should assume that the loan is granted to a consumer for a period of one year. The suggested amendments are currently being discussed between the Consumer Rights Protection Center and the industry. It is not clear if and when the amendments will be adopted and subsequently come into force.

On January 1, 2016 amendments to the Latvian Consumer Rights Protection Law came into force, which, *inter alia*, (i) prohibit the entry into loan agreements between 11 PM and 7 AM, (ii) limit the total daily expenses of the loan (such as interest, fees and commissions and any other payments to be paid by a consumer in respect of the loan agreement) to 0.55% of the principal amount within the period from the 1st day to the 7th day the loan has been used, to 0.25% of the principal amount within the period from the 8th day to the 14th day the loan has been used, to 0.2% of the principal amount starting from the 15th day the loan has been used and to 0.25% of the principal amount in cases where the loan is repayable upon request of the lender or where the repayment term of the loan exceeds 30 days; (iii) limit the total costs of the loan (including interest, default interest, penalties, fees and commissions (including extension fees) and any other payments related to the fulfillment of the loan agreement) to the principal amount of the loan where the repayment term of the loan does not exceed three months; (iv) provide an obligation to creditors to grant the loan recipients who have concluded the loan agreements by means of distance communication, *i.e.*, online or by phone, and whose loans have repayment terms in excess of one month a right to repay the borrowed amounts (principal and interest) gradually in installments at least once per month instead of repaying the principal amount together with accrued interest at maturity, (v) limit late payment interest which the creditor may charge to 36% per annum above the interest rate stipulated in the relevant loan agreement and (vi) cancel the requirement to renew a license for consumer lending services on an annual basis.

On July 9, 2016 and August 1, 2016 amendments to the Consumer Rights Protection Law came into force. These amendments are transposing legal norms from Directive 2013/11/EU of the European Parliament and of the Council of 21 May 2013 on alternative dispute resolution for consumer disputes and amending Regulation (EC) No 2006/2004 and Directive 2009/22/EC and witch arise from Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010.

On November 1, 2016 new Regulations On Consumer Credit by Cabinet of Ministers came into force. These regulations establish that an advertisement offering a consumer credit and indicating the interest rate or other numerical information regarding credit charges, in a clear, concise and prominent way by means of a representative example, shall include the annual percentage rate of charge and show it at least as big as the interest rate or other numerical information regarding credit charges.

Lithuania

The regulation of consumer loans in Lithuania covers three general areas: the protection of consumer rights relating to responsible lending, data protection and the prevention of money laundering. The Central Bank of Lithuania is the main supervisory body regulating consumer credit.

With respect to the protection of consumer rights, which is subject to extensive regulation in Lithuania, all providers of consumer loans relevant to the operations of UAB 4finance before December 18, 2015 and UAB Credit Service, must be identified as such in the Public List of Consumer Credit Providers compiled by the Central Bank of the Republic of Lithuania.

Requirements related to pre-contractual delivery of information to consumers, as well as the rights of consumers more generally, mostly correspond with relevant EU Directives on consumer credit. However, the newly amended Lithuanian law on Consumer Credit, effective from February 1, 2016 (the "**Amended CC Law**") (i) limits the maximum interest rate for consumer loans to 75%, (ii) limits the total cost of consumer credit to the total amount of consumer credit and (iii) sets out that all and any other costs and expenses which are included in the total price of consumer credit (excluding interest) are limited to 0.04% per day of the total amount of the consumer credit. In addition, the EU Directives provide that its provisions are not applied when the credit amount is less than EUR 200. However, Lithuanian legislation does not provide for this minimal credit amount threshold and the above limitations apply to all consumer loans. The Lithuanian legislation provides for some additional restrictions concerning termination of the credit agreement by the credit provider. For example, the Amended CC Law also includes restrictions concerning accepting payments from the customer in the form of bills of exchange, checks and IOUs.

Under the Amended CC Law, a lender must always collect sufficient information from consumers and inspect databases and available registers or (and) request the customer to provide additional documents proving customer's income and obligations whenever customer creditworthiness is assessed. Also while assessing the creditworthiness of the customer, the income and obligations of the customers' spouse have to be taken into consideration save for few exemptions. In addition, before every significant increase in the total amount of

consumer credit the lender must update available financial information about the consumer and reassess their creditworthiness. However, the Central Bank of Lithuania is of the view that the creditworthiness of the customer must be assessed before any increase in the total amount of consumer credit. Previously, the lender had a duty to do so only if information obtained from the customer was insufficient or unreliable. Under the Amended CC Law, a customer is released from payment of interest, as well as any default interests or fees resulting from late payment if the lender has not properly assessed the creditworthiness of such customer through no fault of the customer and the conditions that were not assessed are determined to be the cause of the late payment.

Further, the Amended CC Law introduces new restrictions. For example, (i) a lender may not enter into a consumer credit agreement with a person under the age of 18, a person who is legally incapable, or whose legal capacity is limited, and any person who is listed in the register of persons banned from taking consumer credit and (ii) consumer credit agreement cannot be concluded from 10 pm to 7 am. The Amended CC Law also introduces a "cooling-off" period, which allows the customer to cancel an agreement without specifying reasons and to repay the amount of consumer credit without paying interest or any other taxes, expenses or compensation. The "cooling-off" period is two calendar days from disbursement of the credit funds.

The Amended CC Law introduces new requirements in connection with the reputation of the management and shareholders of the consumer loan provider. In addition to that, all operating consumer credit lenders must disclose information regarding its managers (i.e. general manager, management board (if established) and supervisory board (if established)) and shareholders while asking to be included in the Public List of Consumer Credit Providers or when introducing any changes regarding foregoing. Failing to do will result in deletion from the Public List of Consumer Credit Providers. The Amended CC Law also sets out more stringent advertising requirements including, but not limited to, forbidding advertising activity in defined places and introduces more severe sanctions for infringement of consumer loan regulation.

Certain types of companies in Lithuania, including consumer lending institutions are required to collect and process the personal information of their customers (and, in some case, their spouses) and to register with the Personal Data Managers State Register, which is supervised by the Lithuanian State Data Protection Inspectorate. In addition, each consumer loan company is required to approve and strictly follow internal regulations regarding the prevention of money laundering and the financing of terrorism as coordinated and overseen by the Financial Crime Investigation Service.

New amendments were introduced in the Amended CC Law as of November 10, 2016, in accordance with which a consumer loan provider has to write off the loan and all related interest and fees if such loan has been granted to an incapable customer or the customer who has a limited capacity in a certain area, or a customer who needs assistance in taking a decision in a certain area. The negative consequences do not occur if the consumer credit provider has evidence that the credit agreement was concluded by or with the permission or assistance, as required, of the legal representative of the borrower.

In 2013, the Central Bank of the Republic of Lithuania introduced stricter creditworthiness checks which currently include a presumption of irresponsible borrowing when the monthly average amount paid by a customer to a lending company during a repayment term exceeds 40% of his or her monthly sustainable income. In such case the credit may not be granted. According to the amended Rules of Assessment of Creditworthiness and Responsible Lending adopted by the Central Bank of Lithuania, on January 28, 2016 and which came into effect on February 1, 2016, the definition of sustainable income also includes income (and obligations) of the family which is defined as married couple. Thus, the repayment of the family obligations cannot exceed 40 % of the family income. Notably, on January 24, 2017 the Central Bank of Lithuania introduced some exceptions with regard to the aforementioned 40% rule of sustainable income and exemption regarding the assessment of family income. However, those exemptions may only be applicable if the consumer credit provider has adequate evidence that application thereof is in line with responsible lending and respective preconditions stipulated by the Central Bank of Lithuania. The Central Bank of Lithuania may impose regulatory sanctions on consumer lenders that fail to follow this limitation when granting loans to consumers.

On December 18, 2015, the Bank of Lithuania removed UAB 4finance from the Public List of Consumer Credit Providers in Lithuania and banned issuance of new consumer credit, alleging that it had violated certain consumer lending regulations with respect to its performance of customer creditworthiness assessments. Pursuant to the Bank of Lithuania's decision, UAB 4finance, which accounted for 11% of our revenue in 2015, is no longer permitted to service new customers (effective December 18, 2015), although it may continue to service existing customers until such time that the products with such existing customers mature or terminate. We decided not to appeal the Bank of Lithuania's decision and have not challenged it in Lithuanian courts. However,

on January 23, 2016, we restarted lending services in Lithuania through UAB Credit Service, which is on the Public List of Consumer Credit Providers in Lithuania and may originate new consumer loans. See "*Legal Proceedings*." See also "*Risk Factors–Our business is highly regulated, and if we fail to comply with existing or newly introduced applicable laws, regulations, rules and guidance we may be subject to fines or penalties, have to exit certain markets or be restricted from carrying out certain operations*".

Sweden

Companies that offer online Single Payment Loans or online Installment Loans to Swedish customers, such as 4finance AB, qualify as consumer credit institutions (*Sw. konsumentkreditinstitut*) and need a consumer credit license (*Sw. tillstånd för konsumentkreditgivning*) from the Swedish Financial Supervisory Authority (*Sw. Finansinspektionen*) ("**SFSA**") pursuant to the Swedish Certain Consumer Credit-related Operations Act (*Sw. lag (2014:275) om viss verksamhet med konsumentkrediter*). 4finance AB obtained a consumer credit license on September 21, 2016. The SFSA requires the company's board of directors and chief executive officer to, among other things, have sufficient knowledge and experience to participate in the management of such company. The SFSA license also contains certain restrictions on the outsourcing of functions that are essential for the business of the consumer lending company. Such functions may only be outsourced if the consumer lending company undertakes to ensure that the operations being conducted by the contractor are performed under controlled and safe procedures, and that the outsourcing does not materially impair the quality of the company's internal control. A consumer lending company is also obliged to notify such outsourcing to the SFSA. In addition to the above, to obtain the SFSA license, a consumer lending company must ensure that the business is conducted in accordance with sound lending practice by, among other things, establishing internal rules for lending, documentation of credit issues and procedures for follow-up and handling of overdue loans. Furthermore, the company's articles of association must be approved in connection with the issuance of the license and all licensed companies must present to the SFSA on a quarterly basis, financial information such as interest income, fee income, the number of credits and credit losses. The SFSA has codified what it deems to be sound lending practices in its advisory guidelines on consumer loans effective as of July 1, 2014. In addition, when offering consumer loans, 4finance AB is required to comply with various provisions of the Swedish Consumer Credit Act (*Sw. konsumentkreditlagen (2010:1846)*) ("**SCCA**"). Under the SCCA, a company providing loans to Swedish consumers is under the general obligation to conduct its business in accordance with sound lending practices, to safeguard the interests of borrowers with appropriate care and to provide such information as is appropriate for consumers. The Swedish Consumer Agency (*Sw. Konsumentverket*) monitors 4finance AB's compliance with the SCCA. It has also issued advisory guidelines on consumer loans effective as of 1 February 2011, relating to marketing of consumer loans and information that must be provided by the lender to consumers before a consumer loan agreement may be entered into.

In October 2016 the Swedish government's Committee of Inquiry presented a proposed new law with the aim of enhanced consumer protection regarding high-cost credits. The new law which, *inter alia*, proposes to cap interest and credit cost, limit extensions, introduces a margin in the left-to-live-on calculation and intro-duce stricter demands for marketing. The new law is planned to come into force in July 1, 2018.

4spar AB, which conducts an online deposit-taking business, is registered with the SFSA as a deposit-taking company in accordance with the Swedish Deposit-Taking Businesses Act (*Sw. lag (2004:299) om inlåningsverksamhet*) ("**DTBA**"). As with financial institutions, the SFSA does not have supervisory authority over deposit-taking institutions, but rather monitors information on the owners and management of such institutions. A change in management or ownership of 4spar AB would need to be reported to the SFSA. The SFSA also monitors the existence and quality of a deposit-taking company's internal anti-money laundering regulations. 4spar AB is required to comply with certain provisions of the DTBA, including the requirement to inform its customers that the State Funded Deposit Guarantee Scheme does not apply to 4spar AB's deposit-taking business and the use of deposited funds. In order to comply with the DTBA and to be eligible to operate in the Swedish deposit market, 4spar AB must maintain a minimum share capital equivalent to, or in excess of, SEK 10 million (approximately EUR 1.1 million) at any given time.

Both 4finance AB and 4spar AB are governed by their respective articles of association and must comply with, *inter alia*, the Swedish Companies Act (*Sw. Aktiebolagslagen (2005:551*), the Swedish Act on Prevention of Money Laundering and the Financing of Terrorism (*Sw. lag (2009:62 om åtgärder mot penningtvätt och finansiering av terrorism*), the Swedish Debt Collection Act (*Sw. Inkassolag 1974:182*), and the Swedish Marketing Practices Act (*Sw. marknadsföringslagen (2008:486)*. In addition, both Swedish entities are under the supervision of the Swedish Consumer Agency, which monitors compliance with consumer protection rights.

Both 4finance AB and 4spar AB must comply with the Swedish Personal Data Act (*Sw. personuppgiftslagen (1998:204)*) ("**SPDA**"). The SPDA provides that, as a general rule, when processing individuals' personal data, the processing entity must notify the Swedish Data Inspection Board (*Sw. Datainspektionen*). However, there are several exemptions to this general rule. For example, if the entity that is processing personal data reports to the Swedish Data Inspection Board that a Personal Data Protection Officer has been appointed, no such notification is needed. The officer must keep a register over the processing activities that the data controller is responsible for, and the details in the register should correspond to the details that should have been given if there was an obligation to notify. Also, no notification has to be made in the event the processing is based on the data subject's consent. In the event a connection exists between the data controller and the data subject (such as a customer relationship), the notification process may be substituted by an internal register. The individual whose personal data is processed should be informed about the processing, for example by being provided with a privacy policy by the data controller. If the personal data is collected from the individual, the data controller must provide the information in connection with the collection of the data. Failure to notify the Swedish Data Inspection Board or to inform individuals about the processing may result in claims for damages. Pursuant to case law, the compensation for damages in the case of failure to notify the individual whose personal data is registered is normally approximately SEK 3,000. The fine that the Data Inspection Board may impose is conditional and will only be payable if the ordered corrective measures are not taken. There is no fixed amount for such conditional fine as it is decided on a case-by-case basis and is determined based on the size of the business of the registering entity. An individual failing to comply with the SPDA may be subject to criminal liability. Under the SPDA, the assignment of a Single Payment Loan or Installment Loan would be in compliance with the SPDA provided that the transferor, in its capacity as servicer, retains control over the personal data of the consumer whose loan is being transferred. If a consumer has not consented to a loan transfer, the transfer of personal data may still be carried out without the explicit consent of the consumer, taking into consideration the legitimate interests of the transferor and the transferee. Consumers must be notified of any transfer of personal data.

Finland

In Finland, 4finance Oy, as a provider of Single Payment Loans and Line of Credit, is required to comply with laws and regulations relating to consumer rights protection, the processing of personal data, debt collection and the prevention of money laundering and terrorist financing. Local regulations establish rules governing, *inter alia*, marketing and the remote selling of consumer loans, the terms of consumer loan agreements and information that must be disclosed to prospective customers in advance of their entering into a loan agreement, the methodology for calculating, and the level of annual percentage rates, personal data processing and debt collection.

The FCCA (the Finnish Competition and Consumer Authority) is the supervisory body that regulates consumer lending companies in Finland. Each company offering consumer loans must be included in the nationwide creditor register of companies offering consumer credit, which is maintained by the State Administrative Agency of Southern Finland acting as an additional supervisory authority alongside the FCCA. A company offering consumer loans is required to notify the State Administrative Agency of Southern Finland of any updates that need to be made to the register with respect to such company's information. The information in the creditor register in relation to the company includes, *e.g.*, the name and other business details of the company, such as the members of the Board of Directors, names of the persons whose trustworthiness has been investigated in connection with registration of the company in the credit register as specified in the Act on Registration of Certain Creditors (747/2010, as amended, *Laki eräiden luotonantajien rekisteröinnistä*) and names of the persons whose education and work experience relating to the consumer credit business has been investigated in connection with the registration of the company in the credit register as specified in the Act on Registration of Certain Creditors.

4finance Oy is subject to a marketing ban issued by the FCCA on January 14, 2014 since the marketing practiced by 4finance Oy was not in compliance with the Finnish Consumer Protection Act (38/1978, as amended, Kuluttajansuojalaki). 4finance Oy no longer utilizes such banned material and has new marketing materials in place, which we believe are in compliance with the legislation and guidelines received from the Finnish authorities. In February 2014, the FCCA sent a request to 4finance Oy to clarify whether the business conducted by the company (especially in relation to loan amounts set by the company (EUR 2,010) and the regulation regarding interests related thereto) is in compliance with the Consumer Protection Act. The company responded to the query in February 2014. Since then, the FCCA has contacted the 4finance Oy during 2014 and 2015 and has requested further clarification in relation to credit granting processes and credit products. 4finance Oy provided to the FCCA the required clarification, and held a meeting with the FCCA on November 3, 2015, in which the outstanding matters were discussed. Following the meeting, the FCCA required 4finance Oy to amend

the terms and conditions and credit agreement form, which amendments have been made. On July 14, 2016, the FCCA required that 4finance Oy cap its APR at 50% for all loans, even though we believe that local law imposes the 50% APR cap only on loans below EUR 2,000, and that extension fees be capped at the statutory penalty rate. 4finance Oy has challenged these FCCA requirements. In response, the FCCA brought a case against 4finance Oy in the Market Court in November 2016, claiming the following: (i) its failure to submit pre-contractual information to customers; (ii) its failure to show credit interest in the form of an annual interest rate; (iii) its failure to cap extension fees at the statutory penalty rate; and (iv) its charging of excessive penalty interest. 4finance Oy is currently changing its practices in order to address the first two claims. Preliminary hearings are expected to take place in April 2017. Were 4finance Oy to lose on the merits, the Market Court may impose a ban on its operations or, if such ban were not followed, impose a penalty (up to EUR 100,000 for each claim on which 4finance Oy loses on the merits).

In accordance with Finland's Personal Data Act (523/1999, as amended, *Henkilötietolaki*), each company that processes personal data must prepare a description of its personal data files and make it available to those whose data has been compiled. Any company, such as 4finance Oy, which makes automated credit decisions on the basis of such personal data, is required to inform the Finnish Data Protection Ombudsman. The recent adoption of Regulation 2016/679 (the General Data Protection Regulation or "**GDPR**") calls for a thorough revision of the Finnish legislation. The Finnish authorities and legislators are currently preparing the amendments to the domestic legislation. The GDPR will apply as of May 28, 2018, by which date the proposed changes to the domestic legislation and the directly applicable GDPR provisions must be adopted by 4finance Oy. In addition, any company which engages in debt collection on behalf of another company, on behalf of itself on debts that are acquired from the third party or is collecting its own debts otherwise than occasionally, must apply for a license to do so from the applicable Regional State Administrative Agency according to the Act on Registration of Certain Creditors (517/1999, as amended, *Laki perintätoiminnan luvanvaraisuudesta*). All of 4finance Oy´s external debt collection companies have the appropriate license.

On March 15, 2013, the Finnish Parliament passed significant amendments to the legislation regulating consumer loans. The amendments to the Consumer Protection Act, the Interest Act (633/1982, as amended, *Korkolaki*) and the Act on Registration of Certain Creditors came into effect on June 1, 2013, and amendments to the Debt Collection Act (513/1999, as amended, *Laki saatavien perinnästä*) came into effect on March 16, 2013. The amendments to the Consumer Protection Act, in particular, (i) limit the annual percentage rate applicable to loans for amounts of less than EUR 2,000 to no greater than 50 percentage points above the reference rate applied by the European Central Bank and notified by the Bank of Finland (ii) prohibit charging customers for communication costs during marketing stages, or in connection with the granting of credits or establishing a credit relationship, and (iii) require creditors to assess the income and financial condition of prospective customers in greater detail.

As a result of these amendments, (i) the mandatory provisions as regards late interest were clarified so that consumer companies could not circumvent the prohibitions concerning the ceiling (*i.e.*, the maximum amount of interest to be charged is limited, with certain exceptions, to 7% plus the reference rate) for late interest and late payments by, for example, calling such interest payments a "commission" or other undefined payment, (ii) consumer companies must store all documentation and information relating to consumer loans for five years after the respective loan's maturity date pursuant to the Act on Registration of Certain Creditors, and (iii) customers have been granted additional rights in connection with loan repayment periods and the amount of fees that can be levied on customers for collecting small debts pursuant to the Debt Collection Act. Depending on the type and amount of receivables, there are limits on the total aggregate amount of fees that can be levied on customers for collecting debts (EUR 60, where the principal receivable is a maximum of EUR 100, EUR 120, where the principal receivable is between EUR 100 and EUR 1,000, and EUR 210, where the principal receivable is over EUR 1,000).

In a report (OMML 11/2015) on the competence of consumer authorities by a committee set by the Ministry of Justice, it has been proposed to introduce punitive sanctions of up to EUR 100,000 for a breach of the Consumer Protection Act's rules on marketing. Such rules apply also to the marketing practices of consumer lending providers. The report was given in connection with the European Commission's proposal COM (2016) 283 on measures to replace Regulation No 2006/2004 on cooperation between national authorities responsible for the enforcement of consumer protection laws. Proceeding with the proposed domestic amendments is subject to the progress of the EU initiative.

When a lender takes a payment demand to the district court to begin enforcement procedures, the claim is typically processed in a summary procedure. On September 15, 2015, the Finnish Supreme Court issued a

judgment (*KKO:2015:60*), with precedential value, where the contractual term concerning a credit interest was deemed unreasonable for the consumer and thereby null and void on the basis of Council Directive 93/13/EEC on unfair terms in consumer contracts (implemented in Finland, *inter alia,* in Chapter 7 of the Consumer Protection Act). This judgment by the Supreme Court effectively expanded the scope of applicability of the interest rate ceiling to consumer credit loans of EUR 2,000 or above. Therefore contractual terms of credit products can be subject to application of Chapter 7, Section 17a of the Consumer Protection Act and be deemed as unreasonable despite the fact that their maximum credit limits are above EUR 2,000. The FCCA has stated to 4finance Oy that this case applies to the credit business of 4finance Oy, and has taken 4finance Oy to the Market Court as described above.

On 9 January 2016, an amendment to the Consumer Protection Act entered into force. According to the new provisions, a company that has a website should keep information on its website concerning alternative dispute resolution ("**ADR**") as well as concerning the competent ADR body, through a web-site link. In practice, companies are obliged to inform consumers on the possibility to have their disputes under a consideration of the Consumer Disputes Board, which is the competent ADR body in Finland. The decisions of the Consumer Disputes Board are recommendations and cannot be enforced by coercive measures. The new provisions require that this information on ADR should also be added to the company's general terms.

On October 20, 2016, discussions on amending the current cap of EUR 2,000 began in the Finnish parliament. There have been total of eight legislative proposals (LA 51-58/2016 vp) from the parliamentary groups and the initial proposal is to extend the cap to loans where the applied amount of the loan is higher than EUR 2,000, but the sum the applicant in fact receives is under EUR 2,000. The proposals are currently under the review of the parliament committees. There is no estimate on the timing or certainty of the formal legislative process and eventual form or entry into force of the amendments.

The fourth EU directive on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing (2015/849) will be implemented in Finland in 2017 and the proposal (HE 228/2016) on the amendments to the current legislation is under the legislative process in the Finnish parliament. This will affect the identification process of the customers and the required documentation on the know your client process.

Denmark

In Denmark, 4finance ApS is required to comply with a variety of laws and regulations including, but not limited to, those relating to consumer rights protection, the processing of personal data, and the prevention of money laundering and the financing of terrorism.

Local regulations establish rules governing*, inter alia,* marketing, the pre-contractual information that must be delivered to consumers in advance of their entering into a loan agreement, the form, terms and contents of loan agreements, the lender's obligation to assess the creditworthiness of a borrower, the calculation of the annual percentage rate, notification to the borrower of a change to the interest rate, a right of withdrawal for borrowers, a general clause pursuant to which an amount that the borrower is obliged to pay can be reduced if it is deemed unfair, remote-selling of loan agreements, reminder fees and registration of information and notification to authorities relating to money laundering and the financing of terrorism. These rules generally correspond with relevant EU Directives on consumer credit and money laundering and financing of terrorism.

As of January 1, 2017 the amended Danish Act on Credit Agreements introduced a mandatory cooling-off period for unsecured loans granted by non-banks with a term of maximum three months which are not conditional upon purchase of goods or services. For such loans, a consumer's acceptance of an offer for a loan is only valid if the acceptance is given no earlier than 48 hours after the lender has made the offer.

The Consumer Ombudsman in Denmark monitors compliance with consumer-related legislation (primarily the Marketing Practices Act) and investigates consumer complaints. Under Danish law, the Consumer Ombudsman has the authority to institute proceedings against a business for violating applicable law, including class actions on behalf of consumers. The Danish Financial Supervisory Authority monitors compliance with the Act on Measures to Prevent Money Laundering and the Financing of Terrorism.

Spain

Under Spanish law, consumer credit lenders, such as 4finance Spain Financial Services S.A.U., which are subject to the Consumer Credit Agreements Act 16/2011 of June 24, 2011 ("**CCAA**"), are not required to obtain a license or other similar administrative permission in order to conduct their operations. Consumer lending, rather, is subject to regulation in three areas: the protection of consumer rights, data protection and the prevention of money laundering and the financing of terrorism.

The law does not restrict interest and penalty rates, however, should these rates be substantially higher than the legal interest rates and manifestly disproportionate according to the circumstances of the case or, in conditions such that it results leonine, the risk of falling under the sanctions of the Usury Law may be of application. Thus, in July 2015, the Consumer Office of Cataluña initiated a penalty procedure, including an inspection of the entire micro lending sector. The Consumer Office of Cataluña considers that our interest and penalty rates are abusive and proposed a fine of EUR 32,500. In December of 2015, the Consumer Office of Madrid initiated another penalty procedure, including an inspection to be performed on our Spanish company, as they consider that the penalty rates are abusive and proposed a fine of EUR 6,000. 4finance Spain Financial Services S.A.U. has contested the proposed fines of the respective Consumer Offices in both cases and the proceedings are currently ongoing. See "*Legal Proceedings*."

With respect to the protection of consumer rights, the CCAA sets forth certain requirements related to the pre-contractual delivery of information to consumers and the rights of consumers more generally; such requirements generally correspond with relevant EU Directives on consumer credit. In addition, under Spanish law, a consumer credit lender must assess a customer's solvency before entering into a consumer credit agreement with such customer. The law does not require any particular procedure for such assessment, but it requires to have in place an internal procedure in order to assess the solvency of customers who apply for a loan which could be based in the information available in the Credit Bureaus, the information provided by the borrower or the information provided by other third parties.

With respect to data protection, the CCAA requires a consumer lender to gather and process certain data and other personal information related to its borrowers in compliance with local data protection regulation and to register the files with the Spanish Data Protection Agency ("**Agencia de Protección de Datos**"). Personal data protection is more generally regulated by the Organic Law 15/1999 on Personal Data Protection. In June, 2015, and in April, November and December of 2016, the Spanish Data Protection Agency initiated penalty procedures alleging infraction of the Data Protection Law. Currently, only one is closed with a penalty of EUR 20,000. The others still are open.

Each consumer lender is required under relevant Spanish law to approve and follow internal regulations regarding the prevention of money laundering and the financing of terrorism. SEPBLAC (Prevention of Money Laundering Service), an arm of the Bank of Spain, is vested with the authority to monitor compliance with the country's laws and regulations on money laundering.

Georgia

In Georgia, 4finance LLC, as a legal entity offering small loans to individuals, is required to comply with laws and regulations relating to personal data processing, advertisements and the marketing of services and products, as well as debt collection. Its activities are also subject to the Civil Code that regulates relationships between lenders and customers and regulations applicable to microfinance organizations, including consumer protection regulations.

4finance LLC's operations in Georgia involve the processing of customers' personal data. Personal data in Georgia is protected under the Law of Georgia on Protection of Personal Data, passed in 2011 (the "**Personal Data Law**"). Pursuant to the Personal Data Law, the collection, storage and disclosure of personal data and a wide range of further actions in respect of personal data constitute data processing, all of which is subject to regulation. Any infringement of data protection rules by 4finance LLC may result in the imposition of administrative sanctions, including monetary fines.

The Civil Code of Georgia imparts Georgian courts with the discretion to reduce any penalty amount that in the view of the courts, on a case-by-case basis, is disproportionately high. Should Georgian courts choose to exercise such discretion, 4finance LLC may not be able to collect default interest which is due under its loans to customers. In addition, there are statutorily prescribed limits and thresholds which apply to 4finance LLC's operations in Georgia. For example, (i) actual annual interest rate applicable to a loan may not exceed 100% of the principal amount of the loan, including in instances where the maturity date of the loan is extended (in

Georgia, issuing a new loan within 5 business days after repayment of the existing loan will be qualified as an extension); (ii) any fees, expenses, and default interest or other financial sanctions imposed on the borrower in connection with a breach of the loan agreement when aggregated shall not exceed 150% of the outstanding amount of the loan and (iii) prepayment premium and/or default interest and other penalties constituting the prepayment premium payable in connection with prepayment of the loan shall not exceed 2% of the outstanding amount of the loan. For the purposes of thresholds provided above, the actual interest rate will be determined in accordance with the formula prescribed by the National Bank of Georgia taking into account, *inter alia*, financial expenses incurred by the borrower in connection with the loan. These regulations, the purpose of which is to protect customers from high interest rates accrued on consumer loans, are anticipated to affect the profitability of the consumer loan business in Georgia due to the reduction in interest rates. It is possible that some companies which fail to adjust to the new regulatory environment may be forced to exit the market.. See "*Risk Factors—Risk Factors Relating to Our Business—Our business is highly regulated, and if we fail to comply with existing or newly introduced applicable laws, regulations, rules and guidance we may be subject to fines or penalties, have to exit certain markets or be restricted from carrying out certain operations*."

As at the date of this Offering Memorandum, 4finance LLC is not registered as a bank. Therefore, 4finance LLC may not accept customer deposits since such activity requires a banking license from the National Bank of Georgia. In addition, pursuant to recent legislative changes, any institution which collects funds, in any form, from more than 20 natural persons (including in form of loans), must ensure that funds collected from each person are not less than GEL 100,000 or its equivalent in a foreign currency. Once this requirement is met (*i.e.* number of customers exceeds 20 natural persons), the institution(s) shall repay all funds attracted from the customers which are less than GEL 100,000 (or its equivalent in a foreign currency) within one year after the occurrence of the trigger event described above. While such requirement does not apply to commercial banks, credit unions and brokerage companies (as well as public offerings of notes), microfinance organizations such as 4finance LLC are only temporarily exempt from this requirement. The restriction will apply to microfinance organizations from July 15, 2017 unless they are granted an extension to the temporary exemption by the National Bank of Georgia. Another recent amendment to the law which is relevant to 4finance LLC's operations in Georgia, restricts the issuance of loans to natural persons in a foreign currency so that all loans up to GEL 100,000 must be denominated in GEL. Indexed loans or loans which are linked in any form to a foreign currency will not be considered to be GEL denominated loans.

On November 18, 2016, 4finance LLC applied to the National Bank of Georgia to undergo registration as a microfinance organization. The application was granted, on December 29, 2016. Therefore, 4finance LLC is required to comply with the regulatory requirements applicable to microfinance organizations in Georgia and its activities are subject to supervision by the regulator. Microfinance organizations are not authorized to attract deposits from either individuals or legal entities; however they may engage in activities permitted by Georgian law, such as issuance of micro loans (consumer, pawn shop, secured, unsecured and other types of loans), investment in state and public securities, money transfers, micro leasing, factoring, currency exchange, bond issuance and other permitted financial services. Microfinance organizations are also authorized to perform functions of insurance agent in accordance with applicable regulations. Exposure of microfinance organizations to a single borrower shall not exceed GEL 50,000 at any time. At the same time, this is maximum amount that microfinance organization is allowed to lend to its customers. While microfinance organizations are entitled to determine interest and fees for their services, the regulator is authorized to impose terms and maximum amount of fees payable in respect of refinancing and early repayment of the micro loans issued by microfinance organization. These limits may be imposed in addition to the thresholds under general usury laws applicable from time to time as described above. In order to issue a micro loan, microfinance organization must enter into a written agreement with the borrower. Activities of microfinance organizations may become subject to even more extensive regulations and restrictions in future should the regulator consider such intervention necessary. For example, on December 23, 2016 the National Bank of Georgia adopted regulation on protection of consumer rights in the process of delivery of services by financial institutions which becomes effective as of May 1, 2017 (the "Consumer Protection Regulations") which applies to the activities of microfinance organizations, such as 4finance LLC. The Consumer Protection Regulations provide for more stringent consumer protection requirements, 4finance LLC's failure to comply with these new regulations may result in imposition of fines and civil claims.

4finance LLC, as a microfinance organization, is required to observe 'fit and proper' requirements applicable to its managers and shareholders/beneficial owners, capital adequacy requirements and certain other restrictions and reporting obligations provided by Georgian law. It is also required under Georgian law to comply with applicable KYC, AML and anti-terrorism financing regulations as well as to approve and follow internal regulations regarding the prevention of money laundering and the financing of terrorism. In view of the above, it

is not excluded that the regulator may request revisions to and/or the Guarantor may have to amend its existing operational model and procedures as may be required to comply with KYC, AML and other regulatory requirements applicable to microfinance organizations.

Failure of 4finance LLC to comply with aforementioned requirements and obligations may lead to imposition of fines and even revocation of registration. In addition, in case of a breach of certain regulatory provisions, the regulator can issue warnings, impose a cease and desist order on the infringer or issue an instruction to adhere to a particular line of conduct. Depending on circumstances of the case, criminal liability of the Guarantor or its officers may also be invoked.

Acquisition of substantial stake in microfinance organization requires prior written consent of the regulator. Any purported share transfer without such authorization would be invalid and unenforceable.

Bulgaria and Romania (TBI Bank)

Our banking subsidiary in Bulgaria, TBI Bank, is duly licensed as a credit institution by the Bulgarian National Bank (BNB) (*License B-30/13.08.2003, as amended and supplemented*) and has a registered branch in Bucharest, Romania (the "**Branch**"). TBI Bank, including its Branch act in compliance with the applicable EU legislation and at the same time are subject to various forms of domestic regulations, most important of which are set out below:

Credit institution: As a credit institution TBI Bank is regulated by the Credit Institutions Act ("**CIA**") and the applicable Ordinances of the BNB. The CIA is harmonized with all requirements set forth in the Directive 2013/36/EU (CRD IV) regarding the performed activity by credit institutions in Bulgaria and the prudential supervision over them. The CIA sets out the general rules for banks (establishment, licensing, management, requirements, registering of branches, freedom of service providing, etc.) where the specific requirements are subject to large number of ordinances and regulation issued by the BNB.

The main activities of TBI Bank are lending in two business lines – Retail and SME. The Bank Deposit Guarantee Act provides for guarantee payments by the Bulgarian Deposit Insurance Fund (the "**Fund**") (for covered deposits up to a level of EUR 100,000), with some exceptions for certain groups of clients. The Fund is financed by the banks by means of annual premium contributions. The Fund is obliged to repay the amounts of covered deposits held by depositors at branches set up in other Member States by Bulgarian banks through the deposit guarantee scheme of the host State.

TBI Bank is focused on consumer lending, and is regulated by the applicable consumer protection legislation, namely the Consumer Protection Act, Consumer Credit Act and the Remote Providing of Financial Services Act. The regulator is the Consumer Protection Commission ("**CPC**").

Payment institution: As a credit instition providing payment services TBI Bank is regulated by the Payment Services and Payments Systems Act. The regulator is the BNB. The payment services provided by TBI Bank include the opening of bank accounts and issuing of payment instruments in the form of TBI Bank cards (debit and credit). TBI Bank has a full license granted by MasterCard and participates in the Bulgarian and international payment systems. As a credit and payment institution in terms of AML/CTF TBI Bank is regulated by the Measures Against Money Laundering Act and the Measures Against Terrorism Financing Act. The regulator is the State Agency of National Security ("**SANS**"). Following the specific requirements, the Bank maintains and develops KYC politics, AML/CTF Rules, uses specialized IT solutions with the relevant modules (AML/FATCA/Fraud, etc.) and relies on a strong in-house Compliance team, independent from the operational management and business functions.

Investment firm: As a credit institution providing investment services TBI Bank is regulated by the Market of Financial Instruments Act. The regulator is the Supervisory Finance Commission ("**SFC**");

Administration of personal data: As an administrator of personal data TBI Bank is regulated by the Personal Data Protection Act. The regulator is the Personal Data Protection Commission ("**PDPC**").

Romania (TBI Bank—Bucharest Branch)

The Branch in Bucharest was registered in 2012 by notification to the BNB and the National Bank of Romania ("**NBR**"). In general, all the requirements applicable to TBI Bank in Bulgaria are accordingly applicable to the Branch, for example the Fund is also the guarantor of deposits attracted by the Branch in Romania.

Romania (Subsidiaries)

Besides the Branch, the Bank has five subsidiaries in Romania, specializing in non-banking consumer financial services, payment services, financial leasing, insurance intermediacy, collection and call center activities (TBI Credit, TBI Leasing, TBI Insurance Agent, TBI Fleet Management and TBI Call Centre). These entities are co-operating with TBI Bank and the Branch in order to take advantage of the experience and the capacity of the group to generate assets. These entities comply with all the relevant rules, including those related to consumer protection, AML/CFT, unfair commercial practices, insurance, personal data protection, as well as with the general requirements of the Romanian civil and commerce legislation. In particular, both TBI Credit and TBI Leasing are duly licensed by the Romanian National Bank as non-banking financial institutions and TBI Credit is licensed also as a payment institution. Both entities are under direct supervision of the NBR.

MANAGEMENT

Below we describe the management of the Issuer and Holdco. As part of our review of corporate governance structure, we introduced a supervisory board at 4finance Group S.A., in July 2016, and, given the enhanced scale and growth of our business, and appointed experienced Chief Risk and Finance officers, as well as regional managers.

In accordance with the Issuer's and Holdco's articles of association and the relevant provisions of the Luxembourg law of August 10, 1915 on commercial companies, as amended from time to time (the "**Luxembourg Company Law**") governing public limited liability companies (*sociétés anonymes*), the respective management of the Issuer and Holdco are divided between the board of directors (*conseil d'administration*) and the sole shareholder (*actionnaire unique*), or, in the instance of there being more than one shareholder, the shareholders' general meeting (*assemblée générale des actionnaires*).

The board of directors of Holdco is supported by the Executive Committee, which is responsible for providing high-level advice on decisions and business matters ranging from strategic planning, policy formulation, investment planning and risk assessment.

A brief description (which is not intended to be exhaustive) of the composition, roles and functioning of each of these bodies is set forth below.

Management

Management of the Issuer

The share capital of the Issuer is entirely held by AS 4finance. The sole shareholder exercises the power granted by the Luxembourg Company Law including (i) appointing and removing the directors as well as setting their remuneration, and the statutory (or independent) auditor, (ii) approving the annual financial statements of the Issuer, (iii) amending the articles of association of the Issuer, including the decrease and increase of the Issuer's share capital, (iv) deciding on the dissolution and liquidation of the Issuer, and (v) changing the nationality of the Issuer.

The Issuer is managed by a board of directors whose members have been appointed by the shareholder, AS 4finance. In accordance with Luxembourg Company Law, each director may be removed at any time without cause (*révocation ad nutum*).

Meetings of the board of directors are convened upon request of the chairman of the board of directors or any two directors of the Issuer as often as the interest of the Issuer so requires. The board of directors' meetings are validly held and decisions are validly taken if a majority of the directors is present or represented (and with at least the presence or representation of one director of each category). Any director may represent one or more other directors at a board of directors' meeting. A decision of the board of directors may also be passed in writing. Such decision shall be signed by each and every director.

The articles of association of the Issuer further vest the chairman of the board of directors with a casting vote in case of votes resulting in a tie.

The board of directors of the Issuer may also delegate its power to conduct the daily management (*gestion journalière*) of the Issuer to one or more directors, i.e., the managing director(s) (*administrateur(s) délégué(s)*), commit the management of the affairs of the Issuer to one or more directors or give special powers for determined matters to one or more proxy holders.

Pursuant to its articles of association, where the Issuer is administrated by the board of directors comprising several categories of directors, it shall be bound by the joint signatures of one director of each category.

The Issuer is currently managed by a board of directors composed of two directors of category A and two directors of category B as set out below, elected pursuant to resolutions of AS 4finance (acting in its capacity as sole shareholder of the Issuer), for a term as set out below. The directors may be removed before the expiration of the term. Based on the articles of association of the Issuer, directors of each category are vested with the same

individual powers and duties. Directors of category A are Luxembourg residents, whereas directors of category B are not Luxembourg residents and at the same time hold other positions within the Group. Each of the directors can be contacted at the registered office of the Issuer.

Name	Year of Birth	Term until	Position
Paul Goldfinch	1970	the annual general meeting of the Issuer to be held in 2020	Category B director and chairman
Caroline Goergen	1979	the annual general meeting of the Issuer to be held in 2020	Category A director
Marc Chong Kan	1964	the annual general meeting of the Issuer to be held in 2020	Category A director
Mārtiņš Baumanis	1979	the annual general meeting of the Issuer to be held in 2020	Category B director

Paul Goldfinch was appointed as the chairman of the Issuer in December 2016. Mr. Goldfinch is currently the CFO of the Group, appointed in September 2016, with the responsibility for the finance department, including investor relations. He is also director of Holdco and its parent, 4finance Group S.A. Prior to joining 4finance, Mr. Goldfinch was the CFO of the Corporate and Investment Bank Division of Sberbank, Russia's largest bank. Prior to that, Mr. Goldfinch held a number of senior roles at UBS, including EMEA Regional Head of Accounting and Controlling, and COO/CEO of UBS Bank Russia. He graduated from the University of Auckland in New Zealand and commenced his career with KPMG and Citibank before moving to Europe.

Mārtiņš Baumanis was appointed as a director of the Issuer in 2015 and of Holdco in 2014. He is also the Executive Vice President Loans of the Group, responsible for global product strategy, key product specifications and best practice transfer to our markets, as well as new country launches and payment operations. Mr. Baumanis previously held the position of Chief Commercial Officer of the Group. Before joining the Group in 2011, between 2010 and 2011, he was acting Head of Finance Division of AS Citadele banka, a leading local bank, and was also serving on the Procurement, Efficiency Enhancement, Product Development, Employee Valuation and other committees of the bank. Between 2003 and 2010 Mr. Baumanis served as the Head of Finance Planning and Control Department at AS Parex banka. Mr. Baumanis has gained substantial experience in all aspects of auditing and accounting while working at PricewaterhouseCoopers. Mr. Baumanis holds a Bachelor's degree in Economics and Business Administration from Stockholm School of Economics in Riga (Latvia) and a Master's degree from the University of Latvia in the same area. Mr. Baumanis is a member of the Association of Chartered Certified Accountants.

Caroline Georgen was appointed as director of the Issuer in December 2016. She is also a director of Holdco's parent company, 4finance Group S.A. Ms. Goergen has acquired over 12 years extensive experience in accounting (including consolidation, Luxembourg GAAP and IFRS) in "'Big 4" with multinational groups active in various industries in commercial companies and public sector. From 2005 to 2014 Ms Goergen was audit senior manager with PricewaterhouseCoopers S.C. (Luxembourg). Prior to that between 2002 to 2005 she was audit senior with BDO Compagnie Fiduciaire S.A. (Luxembourg). She holds a Master's Degree in Economics and Business Administration from ICHEC Brussels Management School (Belgium) and Executive Degree in Analysis, Control and Audit from HEC Liège Management School (Belgium).

Marc Chong Kan was appointed as director of the Issuer in 2015. He was also a director of Holdco from 2015 to early 2016. Since 2012, Mr. Chong Kan has served as client director at Capita Fiduciary S.A. (Luxembourg). Mr. Chong Kan has 14 years of experience in the financial sector in the UK, between 1983 and 1998, holding various positions, including Financial Director and International Treasurer. Between 1998 and 2000, Mr. Chong Kan worked as Manager Treasury Accounts Controls with Templeton Global Strategic Services S.A. (Luxembourg). He served as Assistant Vice President/Client Group Manager with State Street Bank Luxembourg S.A. between 2000 and 2003. Mr. Chong Kan was Financial Director at TMF Management Luxembourg S.A. between 2003 and 2005. Mr. Chong Kan served as Director in Real Estate Funds with CBRE Global Investors Luxembourg S.à r.l (formerly known as CB Richard Ellis Investors S.à r.l) between 2005 and 2011, and as Consultant/ Special Relationship Manager with Orangefield Trust (Luxembourg) S.A. between 2011 and 2012. Mr. Chong Kan holds a Master's degree in Business Administration from the City University Business School in London and Financial Studies Diploma from the Chartered Institute of Bankers (London).

The principal outside activities of Marc Chong Kan and Caroline Goergen comprise their employment with Capita Fiduciary S.A. in Luxembourg. In such capacity, they are also directors of other companies in Luxembourg. The directors of the Issuer confirm that, otherwise, there is no conflict of interest between their duties as directors of the Issuer and their principal and/or other outside activities

Management of Holdco

General meeting of shareholders of Holdco

The general meeting of shareholders is the highest governance body of Holdco (the sole voting shareholder being 4finance Group S.A.). The general shareholders' meeting must be held at least annually in relation to the approval of its annual accounts. The board of directors may convene any other extraordinary general shareholders' meeting on its own initiative or, in accordance with the Luxembourg Company Law, shareholder(s) holding in the aggregate not less than 10% of Holdco's share capital may convene an extraordinary general meeting. Each ordinary share issued by Holdco carries, in principle, the right to cast one vote at any general meeting. Holdco has also issued an insignificant amount of non-voting shares which are not entitled to vote except for cases and/or under circumstances provided in articles 44 to 46 of the Luxembourg Company Law.

In accordance with the Luxembourg Company Law and Holdco's articles of association, the general shareholders' meeting has the authority to: (i) appoint and remove Holdco's directors and statutory auditor as well as set their remuneration; (ii) approve Holdco's annual financial statements; (iii) approve the pledge, encumbrance or alienation of all or some of the shares that Holdco holds in its subsidiaries; (iv) amend the articles of association of Holdco, including the increase and decrease of Holdco's share capital; (v) dissolve and liquidate Holdco and (vi) change Holdco's domicile. Any resolutions relating to items (i) to (iii) must be adopted by a three-quarters majority of the shareholders authorized to vote and present or represented at a general meeting. Any resolutions relating to items (iv) and (v) must be adopted by a three-quarters majority of shareholders authorized to vote and present or represented at the general meeting, who represent at least three-quarters of the capital of Holdco (in case the quorum is not reached at the first general meeting, a second general meeting may be convened which shall validly deliberate regardless of the number of shares present or represented). Any resolutions relating to item (vi) must be passed by unanimous vote of the shareholders and/or the bondholders (as the case may be) of Holdco.

The board of directors of Holdco

In accordance with Holdco's articles of association, Holdco's board of directors comprises four directors appointed by the general meeting of shareholders. There are currently two categories of directors: category A directors and category B directors. Directors of each category are vested with the same individual powers and duties and directors may be elected for up to a maximum term of six years. Pursuant to the Luxembourg Company Law, any director of Holdco may be removed at any time without cause (*révocation ad nutum*). Meetings of the board of directors are convened upon request of the chairman of the board of directors or any two directors of Holdco. Meetings of the board of directors are validly held and decisions are validly taken if a majority of the directors and at least one director in each category is present or represented. Any director may represent one or more other directors at any board meeting. Any decision taken by the board of directors requires a simple-majority vote of the directors present or represented including the vote of at least one director of category A and one director of category B. Holdco's articles of association vest the chairman of the board of directors with a casting vote in case of ties. A decision of the board of directors may also be passed in writing. Such decision must be signed by each and every director, and ratified by the board of directors of Holdco during their next meeting.

Holdco's board of directors may also delegate its power to conduct the daily management (*gestion journalière*) of Holdco to one or more directors, *i.e.*, the managing director(s) (*administrateur(s) délégué(s)*), commit the management of the affairs of Holdco to one or more directors and give special powers for determined matters to one or more proxy holders.

In the event that Holdco is managed by several categories of directors, it is bound by the joint signatures of one director from each category.

Holdco is currently managed by a board of directors composed of two directors of category A and two directors of category B for the terms as set out below. The directors may be removed before the expiration of their term. The directors of category A are Luxembourg residents, whereas directors of category B are not Luxembourg residents and have other positions within the Group.

Name	Year of Birth	Term until	Position
George Georgakopoulos	1969	the annual general meeting of Holdco to be held in 2020	Category B director and chairman
Paul Goldfinch	1970	the annual general meeting of Holdco to be held in 2020	Category B director
Stephane Sabella	1980	the annual general meeting of Holdco to be held in 2020	Category A director
Philip Pascual	1980	the annual general meeting of Holdco to be held in 2020	Category A director

George Georgakopoulos was appointed as CEO of the Group in May 2016 and as director and chairman of the board of directors of both Holdco and its parent company, 4finance Group S.A. in December 2016. He is also chairman of the board of directors of AS 4finance, the direct holding company of most of the Group's operating companies. In this capacity Mr. Georgakopoulos assumes operating control of all 4finance business lines. Mr. Georgakopoulos has over 20 years banking experience at the most senior management positions and until joining 4finance was recently CEO of Bancpost, the retail focused Romanian bank, and Group Country CEO for Eurobank, with responsibility for over EUR 3.5 billion of assets. Prior to the CEO role, between 2011 and 2014 Mr. Georgakopoulos was Executive Vice-President of Bancpost directly managing over EUR 2 billion of personal lending portfolios and the bank's retail operations. Before joining Eurobank in 2008, he spent 13 years at Barclays Bank and at Barclaycard with senior roles including head of strategy for new business opportunities in IT/tech. From 1997 to 2000, he was seconded to EBA Clearing to establish the pan-European clearing system, working extensively with major banks across Europe and the European Central Bank. He has an MBA from Glasgow University in Great Britain and holds a law degree from the University of Athens in Greece.

Paul Goldfinch was appointed as director of Holdco in 2016. See *"—Management of the Issuer"* for Mr. Goldfinch's executive biography.

Stephane Sabella was appointed as director of Holdco in early 2016. He has been employed as Senior Manager corporate officer—Legal at Capita Fiduciary S.A. (Luxembourg) since 2013. Between 2007 and 2013 he was associated partner at Fiducenter S.A. in Luxembourg, where he was responsible for the legal department. Mr. Sabella holds a law degree from the University of Metz in France.

Philip Cesar Pascual was appointed as director of Holdco in early 2016. He has been employed as IFRS Consolidation Manager at Capita Fiduciary S.A. in Luxembourg since 2015. He was Audit Manager at Ernst&Young (Luxembourg) for three years since 2012. He has also worked as senior auditor at Ernst&Young in Ireland in 2011. Previously he has worked also at PricewaterhouseCoopers in Antigua as senior auditor between 2008 and 2010, and as senior associate at Ernst & Young in Philippines from 2005 to 2008. He holds a Bachelor of Science and Accountancy from University of the City of Manila and is a Certified Public Accountant.

The principal outside activities of Stephane Sabella and Philip Cesar Pascual comprise their activity as employees of Capita Fiduciary S.A. in Luxembourg. In such capacity, they are also directors of other companies in Luxembourg. The directors of the Issuer confirm that, otherwise, there is no conflict of interest between their duties as a director of the Issuer and their principal and/or other outside activities.

Corporate Governance

Supervisory board

In July 2016, we established a supervisory board at Holdco's parent company, 4finance Group S.A., a *société anonyme* incorporated and existing under the laws of the Grand Duchy of Luxembourg. The members of the supervisory board currently are the following:

Nicholas Jordan, chairman of the supervisory board, has over 30 years of financial services experience, including 20 years in senior positions with banks including Goldman Sachs (Co-CEO of Russia and CIS), UBS (Co-CEO of Russia and CIS), Nomura (Chairman & CEO of Russia and CIS) and Deutsche Bank (Vice Chairman). He is currently CEO of Finstar Financial Group.

William Horwitz, member of the supervisory board, is an independent fintech advisor with over 20 years of experience in financial services, including Barclays and Capital One. He was formerly president of WDFC SA (Wonga), guiding the restructuring of the company for FCA licensing and suitability.

Dr. Cornelius Boersch, member of the supervisory board, is the founder of the venture capital firm, Mountain Partners, and is an entrepreneur, investor and founder of numerous technology companies. He founded the smart card broker and RFID-producer ACG AG, which was listed on the Frankfurt Stock Exchange in 1999.

Mark Ruddock, member of the supervisory board since February 2017, is CEO of FinstarLabs and has over 15 years of leadership experience in venture-backed startups, spanning enterprise software, mobile applications and online financial services.

The Executive Committee

The Executive Committee is responsible for providing the board of directors of Holdco, as well as other entities of the Group, with high-level advice on decisions and business matters including strategic planning, policy formulation, investment planning and risk assessment. The Executive Committee performs an advisory function within the Group and is not authorized to make investment or strategic planning decisions on behalf of Holdco. Executive Committee meetings are convened as necessary, but at least on a bi-weekly basis. At least once a month, country managers (the country managers in each of the jurisdictions where we have operations) participate in a meeting of the Executive Committee without voting rights, during which they report on country financial and operating performance, regulatory changes and other country-specific matters.

The current membership of the Executive Committee is set forth in the table below.

Name	Year of Birth	Position
George Georgakopoulos	1969	CEO of the Group
Mārtiņš Baumanis	1979	Executive Vice President Loans of the Group
Sanda Laicena	1972	Group Head of Legal and Compliance
Nick Philpott	1960	Group Head of HR and Tax
George James Taylor	1964	Executive Vice President Strategy & Business Development of the Group
Stuart Watkins	1975	Chief Information Officer ("**CIO**") of the Group
Manu Panda	1970	Chief Risk Officer ("**CRO**") of the Group
Paul Goldfinch	1970	Chief Financial Officer ("**CFO**")

George Georgakopoulos was appointed as CEO of the Group and as director and chairman of the board of directors of Holdco and 4finance Group S.A. in 2016. See "*—Management of Holdco*" above for Mr. Georgakopoulos' executive biography.

Mārtiņš Baumanis is a director of the Issuer and Executive Vice President Loans of the Group. He previously served as CFO and joined the Group in 2011. See "*—Management of the Issuer*," above, for Mr. Baumanis' executive biography.

Sanda Laicēna has been the Head of Legal of AS 4finance since 2012 and was appointed the Group Head of Legal and Compliance in April 2014. From 2005 to 2010, she worked as Head of Customer Service Legal Department and Deputy Head of Legal Division in one of the biggest banks in the Baltics, Parex bank (after its restructuring known as Citadele bank). Her professional experience also includes legal positions in several law offices and in the Central Bank of Latvia. Ms. Laicēna holds a LL.B. from the University of Latvia.

Nick Philpott is Group Head of HR and Tax and joined the Group as Head of Tax in 2014 and was appointed the Chief Administrative Officer of the Group in 2015. Mr. Philpott is a Chartered Accountant with over 25 years of experience in the financial sector and the accounting profession, working in London, Moscow and Paris. He has been a Managing Director at Credit Suisse and at Renaissance Capital, as well as a partner at Ernst & Young. Mr. Philpott has a BA in History from the University of York.

George James Taylor joined 4finance in 2014 as the Head of Development of the Group, until appointed as Executive Vice President Strategy & Business Development of the Group in September 2016. His responsibilities include new country openings and emerging products, as well as the support of newly acquired subsidiaries of the Group (including Friendly Finance OU and TBI Bank). Mr. Taylor has spent over 27 years in the Consumer

Finance industry, covering major markets such as the UK, Russia, the Middle East and Africa. He started his career at NatWest before moving on to Cetelem (BNP Paribas), Renaissance Ukraine, RenCredit Africa and The Collinson Group. He has graduated from London University.

Stuart Watkins joined the Group as CIO in 2013. Mr. Watkins has spent nearly two decades establishing successful internet enterprises throughout Europe. This includes managing major web projects for high street banks and launching SAAS startups in the CEE region. Mr. Watkins has a proven record of delivering tangible business improvements through harnessing his technological expertise. From 2011 to 2013, Mr. Watkins was CTO at CashPlay.Co where he was responsible for strategy, and from 2007 to 2009 served as IT Manager at Iflow Solutions. From 2002 to 2007, Mr. Watkins worked as CEO at C2D. Mr. Watkins holds a bachelor's degree in Business Information Technology from South Essex College.

Manu Panda was appointed CRO of the Group in 2015. With a broad background and over 23 years' experience in consumer lending and credit card industries, Mr. Panda's risk experience spans various leadership positions at blue-chip companies, including Barclays, Citibank and GE Capital where he leveraged data and technology for decision making. Prior to his last role leading Information Services at MasterCard Asia Pacific, he was Managing Director and Head of Decision Analytics for Experian covering 12 markets across Asia Pacific. Mr. Panda has an MBA from The University of Chicago Booth School of Business and a Masters in Management Studies from the Birla Institute of Technology & Science in India.

Paul Goldfinch was appointed as the CFO of the Group in September 2016 and as a director of the Issuer and of Holdco in December 2016. See "*—Management of the Issuer*" for Mr. Goldfinch's executive biography.

Audit committee

The audit committee oversees the Group's financial reporting process to ensure the transparency and integrity of published financial information, the effectiveness of our internal control and risk management system, the effectiveness of the internal audit function, the effectiveness of our independent audit process including recommending the appointment and assessing the performance of the external auditor, and the effectiveness of the process for monitoring compliance with laws and regulations affecting financial reporting and code of business conduct (where applicable).

The audit committee, initially established under AS 4finance (the first parent company of the Group) is now established under 4finance Group S.A. and provides its services to the Group as a whole. The audit committee consists of Edgars Dupats (Chairman), Dmitry Kislyakov and Vladimir Borisov. The audit committee reports to the supervisory board of 4finance Group S.A., the main shareholder of Holdco. See "*—Management—Management of Holdco—The Board of Directors of Holdco*" above.

Remuneration committee

The remuneration committee oversees management remuneration and ensures that the remuneration arrangements are transparent, adequate (for supporting the Group's goals and recruiting, motivating and retaining top management) and in compliance with relevant regulatory and governance requirements and with the expectations of our shareholders.

The remuneration committee was initially established under AS 4finance as former parent of the Group. Now it is established under 4finance Group S.A. and provides its services to the Group as a whole. The remuneration committee consists of George Georgakopoulos (Chairman), Paul Goldfinch, Nick Philpott and Edgars Dupats. The remuneration committee reports directly to the board of 4finance Group S.A.. See "*—Management—Management of Holdco—The Board of Directors of Holdco*" above.

Executive remuneration committee

The executive remuneration committee develops and oversees the incentive plans for the top management and particular groups of employees of the Group and its entities. The committee ensures that incentive plans support the strategic aims of the Group's operations and enables recruitment, motivation and retention of the Group's top management. The committee also ensures compliance with the requirements of regulatory and governance bodies that the expectations of the shareholders are satisfied.

The executive remuneration committee was initially established under Holdco as former parent of the Group. Now it is established under 4finance Group S.A. and provides its services to the Group as a whole. The

executive remuneration committee consists of George Georgakopoulos (Chairman), Edgars Dupats, Nick Philpott and Annie Jordan. The executive remuneration committee reports directly to the board of directors of 4finance Group S.A..

Disclosure committee

In December 2016, we established a disclosure committee, composed of the CEO, CFO, Group Head of Legal and Compliance, Head of Corporate Unit at Group Lead and Compliance and Head of Investor Relations. The purpose of the committee is to ensure we comply with the obligations and conditions stipulated in the Market Abuse Regulation, which came into effect in 2016.

COMPENSATION

The table below sets forth total remuneration of the members of the boards of directors of Holdco for the periods indicated.

	Year ended December 31,		
	2016	**2015**	**2014**
	(in thousands of EUR)		
Members of the board of directors of Holdco	3,286	3,712	1,123

All members of the Executive Committee are employed by AS 4finance, with the exception of the CIO and the CMO, who, being based in London, are employed by the London branch of SIA 4finance IT (another Latvian entity).

As of the date of this Offering Memorandum, the aggregate amount of gross yearly salary of all members of the Executive Committee is EUR 1,981 thousand. In addition to their fixed salaries, Executive Committee members are entitled to an annual bonus based on performance results.

Each of the Executive Vice President Loans, CAO, CIO, the Head of Legal and Compliance and the CRO has agreed to a non-compete arrangement for a period of two years after termination of their respective employment. For that period, AS 4finance shall pay a monthly remuneration for the non-compete obligations corresponding to the average monthly earnings of each of the Executive Vice President Loans, CAO, CIO, the Head of Legal and Compliance and the CRO.

The CEO, Executive Vice President Loans, CRO, CMO, CIO and Head of Development have received awards under a Long Term Incentive Plan (LTIP) which is based on a percentage of the increase in value of the Group over a specified starting value. The awards vary in terms of starting value, the percentage and the vesting date. The LTIP is structured so that payments are settled by 4finance Group S.A. based on its share value, which in turn is linked to the consolidated profits of 4finance Group S.A.

D&O LIABILITY INSURANCE

We maintain a director and officer insurance policy with Allianz Global Corporate & Specialty SE. The policy stipulates a limitation of liability on all claims of EUR 20 million, with a liability cap of EUR 200,000 for non-executive directors. A standard set of exceptions apply, including for intentional criminal activity, unlawful profit, and pollution-related claims.

INTEREST OF DIRECTORS AND OFFICERS

The indirect shareholder of Holdco is Tirona. Tirona was until recently part of the Finstar Financial Group, one of the largest private investment groups in Russia. Holdco is now ultimately owned by several individual persons. Three individual persons, Uldis Arnicāns, Edgars Dupats and Vera Boyko have ultimate ownership of the Group, owning 25.5%, 25.5% and 49%, respectively, in Tirona. The 49% stake beneficially owned by Vera Boyko, who is related to Oleg Boyko, is held in trust on her behalf with Loucas Andreou.

As of the date of this Offering Memorandum, none of the members of the board of directors of the Issuer or Holdco has an ownership interest in the share capital of the Issuer or Holdco and, unless as otherwise disclosed elsewhere in this Offering Memorandum, there are no other potential conflicts of interest between any duties of the board of directors of the Issuer or the board of directors of Holdco and their private interests and/or other duties.

LITIGATION STATEMENT ABOUT DIRECTORS AND OFFICERS

As of the date of this Offering Memorandum, none of the members of the board of directors of the Issuer or Holdco:

- has had any convictions in relation to fraudulent offences; nor
- other than one of the Category A directors of the Issuer, has held an executive function in the form of a senior manager or a member of the administrative management or supervisory bodies, of any company, or a partner in any partnership, at the time of or preceding any bankruptcy, receivership or liquidation; nor
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party, in making financial or operational decisions, as defined in IAS 21 "*Related Party Disclosure*." In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely its legal form. We are and have been party to various agreements and other arrangements with certain related parties and interested parties, the most significant of which are described below. To the best of our knowledge, all agreements with related parties have been entered into on arm's length terms and on market terms and conditions.

The table below summarizes the value of our transactions entered into with shareholders and related parties for the years ended December 31, 2016, 2015 and 2014.

	Year ended December 31,		
	2016	2015	2014
	EUR thousands		
Receivables from related parties:			
Loans issued to related parties	5.8	5.6	—
Other receivables	0.3	0.1	—
	6.1	**5.8**	**—**
Income from related parties:			
Interest income	3.5	1.0	0.8
Income from services rendered	0.3	0.2	—
	3.8	**1.2**	**0.8**
Borrowings and payables to related parties:			
Loans and borrowings			
—Borrowings and payables at the end of the period	3.7	3.7	16.8
Interest expense to related parties:			
Interest expense	0.5	1.3	1.9
Gain on sale of North American entities:			
Gain on sale of discontinued operations	—	1.5	—
Financial instruments at fair value through profit or loss			
Financial assets at fair value through profit or loss at the end of the period	0.6	4.2	2.4
Gain/loss from revaluing derivatives with related parties:			
(Loss)/profit from financial instruments at fair value through profit or loss	(0.6)	1.7	2.4

The table below summarizes the value of our transactions entered into with the parent and related parties for the years ended December 31, 2016, 2015 and 2014.

	Year ended December 31,		
	2016	2015	2014
	EUR thousands		
Receivables from related parties:			
Loans issued to related parties	41.3	4.3	—
Other receivable	2.1	—	—
	43.3	**4.3**	**—**

	2016	2015	2014
	EUR thousands		
Income from related parties:			
Interest income	1.7	0.3	—
Income from services rendered	0.7	0.1	—
	2.4	**0.4**	**—**

The table below summarizes the value of our transactions entered into with other related parties for the years ended December 31, 2016, 2015 and 2014.

	Year ended December 31,		
	2016	2015	2014
		EUR'000	
Receivables from related parties:			
Loans issued to related parties	20.1	3.8	0.1
Other receivable	0.5	0.9	—
	20.6	**4.7**	**0.1**

	2016	2015	
		EUR'000	
Income from related parties:			
Interest income	1.5	0.2	—
Income from services rendered	0.6	0.8	—
	2.1	**1.0**	**—**

See "*Management—Compensation*" for a discussion of the remuneration of our directors and Executive Committee.

To finance our operations, AS 4finance or the Issuer issues loans to our operating subsidiaries pursuant to intra-Group credit facility arrangements. As of December 31, 2016, the total principal balance under such intra-Group loans was EUR 414.0 million.

As at December 31, 2016, loans to related parties include a loan issued to Piressa Holdings Limited of EUR 5.1 million and accrued interest EUR 0.7 million with an interest rate of 13.75% maturing May 2018; a loan issued to V7 Limited of EUR 18.5 million and accrued interest EUR 1.6 million with an interest rate of 13.75% maturing October 2018; a loan issued to 4finance Group S.A. of EUR 31.5 million and accrued interest EUR 48,000 with an interest rate of 13.75% maturing July 2019; a loan issued to 4finance US Holding Company, Inc. of EUR 4.0 million and accrued interest EUR 0.9 million with an interest rate of 13.75% maturing December 2019 and a loan issued to 0973915 B.C. Ltd. (one of the operating entities for our former North American operations and wholly owned by 4finance Group S.A.) of EUR 3.7 million and accrued interest of EUR 1.0 million with an interest rate of 13.75% maturing November 2018.

The loan to Piressa Holdings Limited was part of the agreement on the divestment of our operations in Russia. The principal amount of this loan is fixed and has remained the same since disposal. The loans to 4finance US Holding Company Inc and 0973915 B.C. Ltd relate to operations in North America, and both entities are now owned by 4finance Group S.A. The loan to V7 Limited relates to the Group's minority interest in UK operations, which were in pilot phase during 2016 (following receipt of a full Financial Conduct Authority license in February 2016). The loan made to V7 Limited was restructured and has resulted in an outstanding liability of 4finance Group S.A. to Holdco, and the loan to V7 Limited is now owed to an entity outside the Group. The aggregate of all loans made to formerly owned businesses is EUR 35.6 million in principal plus accrued interest.

Uldis Arnicāns (one of the beneficial owners of Holdco) has provided the Issuer with a loan in the amount of EUR 3.5 million, of which EUR 0.5 million was repaid in October 2015, and the balance extended to March 31, 2017. Such loan was fully repaid on the maturity date. The loan accrues interest at an annual rate of 14%. In addition, Mr. Arnicāns's wife has provided AS 4finance with a loan of EUR 700,000, which matures in February 2019 and accrues interest at an annual rate of 15%. Such loan was fully repaid in April 2017.

In June 2016, the Group acquired 80% of the share capital of Friendly Finance OU (an online consumer lender active in the Czech Republic, Poland, Spain, Slovakia and Georgia) from Tirona, our controlling shareholder, for a purchase price of EUR 28.8 million.

PRINCIPAL SHAREHOLDERS

Shareholding structure of the Issuer

The share capital of the Issuer is EUR 100,000,000 and is divided into 100,000,000 ordinary shares with the nominal value of EUR 1 each. No preferred shares are issued, authorized or outstanding.

100% of the Issuer's issued shares are fully paid and duly registered. The holder(s) of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Issuer. The share register of the Issuer is maintained by the Issuer and kept at its registered office. The Issuer is wholly owned by AS 4finance.

Shareholding structure of Holdco.

The share capital of Holdco is EUR 35,751,000 and is divided into 3,575,100,000 shares with the nominal value of EUR 0.01 each. 3,575,000,000 of these shares are ordinary shares and 100,000 are non-voting preferred shares.

100% of Holdco's issued shares are fully paid and duly registered. The holder(s) of non-voting preferred shares are entitled to receive a fixed preferential dividend as set out in article 29 of Holdco's articles of association but are not entitled to vote at general meetings of Holdco except as provided in articles 45 to 46 of the Luxembourg Company Law. In contrast, the holders of ordinary shares are entitled to receive the remaining profits (if any) as declared from time to time and are entitled to one vote per share at Holdco's general shareholders' meetings. Holdco's share register is maintained by Holdco and kept at its registered office.

The table below sets forth Holdco's shareholders as of the date of this Offering Memorandum (based on the information available to Holdco).

Name of Shareholder	Percentage of total issued share capital held and votes
4finance Group S.A. (Luxembourg)[1]	99.997%
AS 4finance (Latvia)	0.003%
Total	100%

Note:

(1) With a 100% shareholding in 4finance Group S.A., Tirona is the indirect controlling shareholder of the Group. Tirona was until early 2015 part of Finstar Financial Group, one of the largest private investment groups in Russia, which is ultimately beneficially owned by Mr. Oleg Boyko. The Group is now ultimately owned by several individuals. Three individuals, Uldis Arnicāns, Edgars Dupats and Vera Boyko (who is related to Oleg Boyko) have ultimate ownership of the Group, through their ownership of 25.5%, 25.5% and 49%, respectively, of Tirona. The 49% stake beneficially owned by Vera Boyko is held in trust on her behalf with Loucas Andreou. See "*Business–Group Structure–Legal structure*."

We are not aware of any arrangements in existence as of the date of this Offering Memorandum which could reasonably be expected to result in a change of control over the Group.

DESCRIPTION OF ISSUER AND GUARANTORS

The following sets forth certain information about the Issuer and the Guarantors.

ISSUER

Corporate information

The Issuer was incorporated on December 6, 2012 under the laws of Luxembourg as a public limited liability company (*société anonyme*).

The Issuer is registered with the Luxembourg Trade and Companies Register (*Registre de Commerce et des Sociétés de Luxembourg*) under number B173403.

The registered office of the Issuer is located at 9 Allée Scheffer, L-2520 Luxembourg and its telephone number is +352 44 09 29 3245.

The Issuer's business operations consist of providing financing to the Group companies. The Issuer is financed through its share capital, external debt and cash from the activities of the Group's operating companies. The Issuer's ability to pay principal, interest and premium, if any, on the Notes is therefore dependent on financing and cash transferred to it from the operating companies of the Group.

Share capital and shareholder

The Issuer has a fully paid-up share capital of EUR 100,000,000 divided into 100,000,000 ordinary shares each having a par value of EUR 1.00. All the Issuer's shares are held by AS 4finance. Holdco is the indirect parent company of the Issuer, holding 100% of the issued share capital of AS 4finance.

AS 4finance was incorporated on February 11, 2008 under the laws of Latvia as a joint stock company and is registered with the Latvian Register of Enterprises under registration number 40003991692. The Company's registered office is located at 17A-8 Lielirbes Street, LV-1046 Riga, Latvia.

GUARANTORS

Holdco

4finance Holding S.A.

Legal and commercial name	4finance Holding S.A.
Registration number	B 171059
Date and place of incorporation	July 24, 2012, Luxembourg City, Luxembourg
Registered office address	9 Allée Scheffer, L-2520 Luxembourg
Principal business activities	Holding activities

Subsidiary Guarantors

AS 4finance (Latvia)

Legal and commercial name	AS 4finance
Registration number	40003991692
Date and place of incorporation	February 11, 2008, Riga, Latvia
Registered office address	Lielirbes iela 17a-8, Riga, Latvia, LV-1046
Principal business activities	Consumer lending to individuals

UAB 4finance (Lithuania)

Legal and commercial name	UAB 4finance
Registration number	301881644
Date and place of incorporation	September 24, 2008, Lithuania
Registered office address	Jonavos g. 254a, LT-44132, Kaunas, Lithuania

UAB Credit Service (Lithuania)

Legal and commercial name	UAB Credit Service
Registration number	302431575
Date and place of incorporation	September 9 2009, Lithuania
Registered office address	Jonavos Str. 254A Kaunas, Lithuania
Principal business activities	Consumer lending to individuals

4finance ApS (Denmark)

Legal and commercial name	4finance ApS
Registration number	32557864
Date and place of incorporation	October 28, 2009, Denmark
Principal business activities	Consumer lending to individuals
Registered office address	Vesterbrogade 1L, 4., DK-1620, Copenhagen, Denmark

4finance Oy (Finland)

Legal and commercial name	4finance Oy
Registration number	2257545-4
Date and place of incorporation	April 17, 2009, Finland
Principal business activities	Consumer lending to individuals
Registered office address	Mikonkatu 15 A 00100 Helsinki, Finland

4finance LLC (Georgia)

Legal and commercial name	4finance LLC
Registration number	401978605
Date and place of incorporation	January 4, 2013, Georgia
Principal business activities	Consumer lending to individuals
Registered office address	T. Dadiani str. N7, commercial unit N b506, Tbilisi, Georgia

Vivus Finance Sp. z o.o. (Poland)

Legal and commercial name	Vivus Finance Sp. z o.o.
Registration number	0000418977
Date and place of incorporation	April 24, 2012, Poland
Principal business activities	Consumer lending to individuals
Registered office address	ul. 17 Stycznia, nr 56, 02-146 Warsaw, Poland

4finance Spain Financial Services S.A.U. (Spain)

Legal and commercial name	4finance Spain Financial Services S.A.U. (previously Vivus Finance S.A.)
Registration number	A-86.521.309
Date and place of incorporation	June 19, 2012, Spain
Principal business activities	Consumer lending to individuals
Registered office address	Calle Génova, número 27, 2ª planta, C.P. 28.004. Madrid, Spain

4finance AB (Sweden)

Legal and commercial name	4finance AB
Registration number	556790-4189
Date and place of incorporation	October 16, 2009, Sweden
Principal business activities	Consumer lending to individuals
Registered office address	Hammarby Alle 47, 120 30, Stockholm, Sweden

DESCRIPTION OF CERTAIN INDEBTEDNESS

The following summary of certain provisions of our indebtedness does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents.

SENIOR NOTES DUE 2019

On August 8, 2014, the Issuer issued the 2019 Notes (USD 200 million 11.75% senior notes due 2019). The 2019 Notes are traded on the GEM of the ISE and will mature on August 14, 2019.

The 2019 Notes are guaranteed on a senior unsecured basis by Holdco, the Issuer's indirect parent company, and by certain other direct and indirect subsidiaries of Holdco, including the Issuer's direct parent company. The Notes rank *pari passu* in right of payment to all of the Issuer's existing and future senior unsecured indebtedness and senior to all of the Issuer's subordinated indebtedness, if any.

The 2019 Notes contain covenants, that, among other things, limit the ability of Holdco and its restricted direct and indirect subsidiaries to, subject to certain limitations and exceptions, incur or guarantee additional indebtedness; pay dividends on, redeem or repurchase our capital stock; make certain restricted payments and investments, including dividends or other distributions with regard to the shares of Holdco or its restricted direct and indirect subsidiaries; create or incur certain liens; enter into agreements that restrict the restricted subsidiaries' ability to pay dividends or other distributions or make loans or advances to Holdco, the Issuer or any of the restricted subsidiaries; transfer or sell assets; merge or consolidate with other entities; and engage in certain transactions with affiliates.

As of December 31, 2016, the amount outstanding and accumulated interest under the 2019 Notes was EUR 194.3 million.

On March 29, 2017, the Issuer launched the Consent Solicitation and the 2019 Notes Tender Offer. Pursuant to the Consent Solicitation and 2019 Notes Tender Offer, the Issuer seeks to obtain consent to amend the 2019 Notes Indenture to remove certain covenants, terms and events of default in the indenture governing the 2019 Notes and invites the holders of the 2019 Notes to tender their 2019 Notes for purchase by the Issuer at a purchase price of USD 1,060 per USD 1,000 for holders of the 2019 Notes who tender prior to the early participation deadline, and a purchase price of USD 1,010 per USD 1,000 for holders of the 2019 Notes who tender after the early participation deadline but prior to the expiration deadline, and on the terms and conditions contained in the Tender Offer and Consent Solicitation Memorandum. The deadline for holders of the 2019 Notes to submit tender instructions is expected to expire on or around April 26, 2017 and settlement of the 2019 Notes Tender Offer is expected to occur on or around April 28, 2017.

The Issuer intends to use a portion of the proceeds of the Offering to repurchase the 2019 Notes tendered in the 2019 Notes Tender Offer and not validly withdrawn and to satisfy and discharge any 2019 Notes not tendered or validly withdrawn in such offer. See ''*Use of Proceeds*.''

SEK NOTES

On March 27, 2015, the Issuer issued SEK 225.0 million of 11.75% notes (the "**SEK Notes**") under its SEK 600.0 million Senior Unsecured Callable Fixed Rate Bonds program. The SEK Notes were listed on the corporate bond list of Nasdaq Stockholm in August 2015. In September 2015, a further SEK 150.0 million of SEK Notes were issued at par. The SEK Notes will mature in March 2018.

The SEK Notes are guaranteed on a senior unsecured basis by Holdco and by certain other direct and indirect subsidiaries of Holdco. The SEK Notes constitute general, direct, unconditional, unsubordinated and unsecured obligations of the Issuer and shall at all times rank *pari passu* with all general, direct, unconditional, unsubordinated and unsecured obligations of the Issuer.

The SEK Notes contain covenants similar to those in the 2019 Notes. In particular, the SEK Notes contain restrictions on the ability of the Issuer to incur or guarantee additional indebtedness. The Issuer may incur such guarantees or additional indebtedness, if, on a *pro forma* basis: (i) the ratio of EBITDA to net finance charges of the Group would have been at least 2.5 to 1.00 (the "**SEK Note Interest Coverage Ratio**"); and (ii) the capitalisation ratio of the Group on a consolidated basis (being the consolidated net worth of Holdco divided by the net loan portfolio is greater than 15%.

Under the terms of the SEK Notes, the Issuer may redeem all but not only some of the outstanding SEK Notes prior to its maturity date at a price equal to: (a) the make-whole amount if the redemption option is exercised before March 27, 2017 (b) 106% of the principal amount if exercised on or after March 27, 2017 and prior to September 27, 2017; or (c) 104% of the principal amount if exercised on or after September 27, 2017, plus, in each case, accrued and unpaid interest (together, the "**Redemption Option**").

On March 30, 2017, the Issuer issued a conditional notice to redeem all the outstanding SEK Notes pursuant to the Redemption Option contained in the SEK Notes. The notice is conditional upon the aggregate gross proceeds of the Offering being such that the Interest Coverage Ratio contained in the SEK Notes would be below 2.5 to 1.0, on a pro forma basis. If the conditions are met, the SEK Notes will be redeemed at a price equal to 106% of the aggregate principal amount of SEK Notes outstanding plus accrued and unpaid interest. Such redemption will occur on or about May 31, 2017. Additionally, such redemption in full is estimated to cost approximately EUR 42 million (including principal, redemption premium and accrued and unpaid interest). The Issuer has obtained a waiver letter with the agent of the SEK Notes to waive the requirement to meet the SEK Notes Interest Coverage Ratio of 2.5 to 1.0 during the period between closing of the Offering and redemption in full of the SEK Notes.

As of December 31, 2016, the amount outstanding and accumulated interest under the SEK Notes was EUR 39.6 million.

SENIOR NOTES DUE 2021

In May 2016, the Issuer issued EUR 100.0 million of 11.25% notes (the "**2021 Notes**"). 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.

The 2021 Notes are guaranteed on a senior unsecured basis by Holdco and by certain other direct and indirect subsidiaries of Holdco. The 2021 Notes constitute general, direct, unconditional, unsubordinated and unsecured obligations of the Issuer and shall at all times rank *pari passu* with all general, direct, unconditional, unsubordinated and unsecured obligations of the Issuer.

As of December 31, 2016, the amount outstanding and accumulated interest under the 2021 Notes was EUR 142.4 million.

LOANS FROM RELATED PARTIES

See "*Related Party Transactions*" for a discussion of loans from related parties.

DESCRIPTION OF NOTES

You can find the definitions of certain terms used in this description under the subheading "Certain Definitions." In this description, the word "**Holdco**" refers only to 4finance Holding S.A. and not to any of its Subsidiaries. "**The Issuer**" refers only to 4finance S.A. and not any of its Subsidiaries and "**we**," "**our**," and "**us**" refer to Holdco and its Restricted Subsidiaries.

The Issuer will issue the notes under an indenture among itself, the Guarantors, Banque Internationale à Luxembourg S.A., as paying agent, and TMF Trustee Limited, as trustee, in a private transaction that is not subject to the registration requirements of the Securities Act. See "*Notice to Investors*." The terms of the notes will include those stated in the indenture. The indenture will not be qualified under, and will not be subject to, the U.S. Trust indenture Act of 1939, as amended (the "**TIA**"). Consequently, the holders of the notes (the "**Holders**") will not be entitled to the protections provided under the TIA to holders of debt securities issued under a qualified indenture, including those requiring the trustee to resign in the event of certain conflicts of interest and to inform the holders of notes of certain relationships between it and the Issuer or the Guarantors.

The following description is a summary of the material provisions of the indenture. It does not restate the indenture in its entirety. We urge you to read the indenture because it, and not this description, define your rights as Holders. Copies of the indenture are available as set forth below under "*—Additional Information*." Certain defined terms used in this description but not defined below under "*—Certain Definitions*" have the meanings assigned to them in the indenture.

On the Issue Date, the notes will be fully and unconditionally guaranteed on a senior unsecured basis by Holdco (the "**Holdco Guarantee**") and by AS 4finance, 4finance ApS, 4finance Oy, UAB 4finance, UAB Credit Service, Vivus Finance sp.z.o.o., 4finance AB, 4finance Spain Financial Services S.A.U. and 4finance LLC (the "**Subsidiary Guarantees**"). In addition, if required by the covenant described under "*Certain Covenants—Additional Note Guarantees*," certain other Restricted Subsidiaries may provide a guarantee in the future. The TBI Group will not Guarantee the notes.

The registered holder of a note will be treated as the owner of it for all purposes. Only registered holders will have rights under the indenture.

Brief Description of the notes and the Note Guarantees

The notes

The notes:

- will be general unsecured obligations of the Issuer;
- will be *pari passu* in right of payment with all existing and future unsecured senior Indebtedness of the Issuer;
- will be senior in right of payment to all existing and future subordinated Indebtedness of the Issuer;
- will be effectively subordinated to all existing and future secured Indebtedness of the Issuer to the extent of the value of the collateral securing such indebtedness;
- will be structurally subordinated to all the obligations of any existing and future Subsidiaries of the
- Issuer that are not guarantors of the notes; and
- will be unconditionally guaranteed by the Guarantors.

See "*Risk Factors—Risks related to the notes and the Guarantees—The notes will be effectively subordinated to our and our guarantors' secured indebtedness to the extent of the value of the collateral securing such indebtedness*" and "*Risk Factors—Risks related to the notes and the Guarantees—The notes will be structurally subordinated to all indebtedness of those of our existing or future subsidiaries that are not, or do not become, guarantors of the notes*."

The Holdco Guarantee

The Holdco Guarantee:

- will be *pari passu* in right of payment with all existing and future unsecured senior Indebtedness of Holdco;

- will be a general unsecured obligation of Holdco;
- will be senior in right of payment to all existing and future subordinated Indebtedness of Holdco;
- will be effectively subordinated to all existing and future secured Indebtedness of Holdco to the extent of the value of the collateral securing such indebtedness; and
- will be structurally subordinated to all the obligations of any existing and future Subsidiaries of Holdco that are not guarantors of the notes.

The Subsidiary Guarantees

Each Subsidiary Guarantee:

- will be a general unsecured obligation of that Subsidiary Guarantor;
- will be *pari passu* in right of payment with all existing and future unsecured senior Indebtedness of that Subsidiary Guarantor;
- will be senior in right of payment to all existing and future subordinated Indebtedness of that Subsidiary Guarantor; and
- will be effectively subordinated to all existing and future secured Indebtedness of that Subsidiary Guarantor to the extent of the value of the collateral securing such indebtedness.

Not all of Holdco's Subsidiaries will guarantee the notes. In the event of a bankruptcy, liquidation or reorganization of any of these non-guarantor Subsidiaries, the non-guarantor Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to us. The Issuer generated EBITDA of EUR 41.7 million, representing 33.4% of our EBITDA for the year ended December 31, 2016, and had net assets of EUR 94.5 million, representing 41.1% of our total consolidated net assets as of December 31, 2016. The Guarantors generated EBITDA of EUR 204.9 million, representing 164.1% of our EBITDA for the year ended December 31, 2016, and had net assets of EUR 285.1 million, representing 123.9% of our total consolidated net assets as of December 31, 2016.

As of the Issue Date, all of Holdco's Subsidiaries will be "Restricted Subsidiaries." However, under the circumstances described below under the caption "*—Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries,*" we will be permitted to designate certain of our Subsidiaries as "Unrestricted Subsidiaries." Our Unrestricted Subsidiaries will not be subject to many of the restrictive covenants in the indenture. Our Unrestricted Subsidiaries will not guarantee the notes.

The obligations of the Guarantors will be contractually limited under the applicable Guarantees to reflect limitations under applicable law with respect to maintenance of share capital, corporate benefit, fraudulent conveyance and other legal restrictions applicable to the Guarantors and their respective shareholders, directors and general partners. For a description of such contractual limitations, see "*Limitations on validity and enforceability of the Guarantees and the notes and Certain Insolvency Considerations*". By virtue of this limitation, a Guarantor's obligation under its Guarantee could be significantly less than amounts payable with respect to the notes, or a Guarantor may have effectively no obligation under its Guarantee. See also "*Risk Factors—Risks related to the notes and the Guarantees—Each Guarantee will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defenses that may limit its validity and enforceability.*"

A significant portion of the operations of Holdco are conducted through its Subsidiaries (other than the Issuer). As a result, each of the Issuer and Holdco depends on the cash flow of those Subsidiaries to meet its obligations, including its obligations under the notes.

Principal, Maturity and Interest

The Issuer will issue USD 325.0 million in aggregate principal amount of notes in this offering. The Issuer may issue additional notes under the indenture from time to time after this offering. Any issuance of additional notes is subject to all of the covenants in the indenture, including the covenant described below under the caption "*—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock.*" The notes and any additional notes subsequently issued under the indenture will be treated as a single class for all purposes under the indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase;

provided, however, that in the event any additional notes are not issued either in a "qualified reopening" for U.S. federal income tax purposes, or otherwise as part of the same "issue" for U.S. federal income tax purposes, or with no more than a de minimis amount of original issue discount, such additional notes will be issued with a separate CUSIP, ISIN or other identifying number so that they are distinguishable from the notes. The Issuer will issue notes in minimum denominations of USD 200,000 and integral multiples of USD 1,000 in excess thereof. Interests in each Global Note will be exchangeable for definitive registered notes only in certain limited circumstances. See "*Book Entry, Delivery and Form*." The notes will mature on May 1, 2022.

Interest on the notes will accrue at the rate of 10.75% per annum and will be payable semi-annually in arrears on May 1 and November 1, commencing on November 1, 2017. The Issuer will make each interest payment to the holders of record on the immediately preceding April 30 and October 31.

Interest on the notes will accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of 12 30-day months.

Methods of Receiving Payments on the notes

Principal, premium, if any, interest and Additional Amounts (defined below), if any, on the Global notes (as defined below) will be payable at the specified office or agency of one or more Paying Agents; *provided* that all such payments with respect to notes represented by one or more Global notes registered in the name of or held by a nominee of Euroclear or Clearstream, as applicable, will be made by wire transfer of immediately available funds to the account specified by the Holder or Holders thereof.

Principal, premium, if any, interest and Additional Amounts, if any, on any certificated securities ("**Definitive Registered notes**") will be payable at the specified office or agency of our Paying Agent in Luxembourg maintained for such purposes. In addition, interest on the Definitive Registered notes may be paid by check mailed to the person entitled thereto as shown on the register for the Definitive Registered notes. See "*—Paying Agent and Registrar for the notes.*"

Paying Agent and Registrar for the notes

The Issuer will use reasonable endeavors to appoint and thereafter maintain a paying agent (a "**Paying Agent**") in a member state of the European Union that will not be obliged to withhold or deduct tax. The initial Paying Agent will be Banque Internationale à Luxembourg S.A. in Luxembourg (the "**Paying Agent**"). The Issuer will also maintain a registrar (the "**Registrar**") and a transfer agent. The initial Registrar will be Banque Internationale à Luxembourg S.A. The initial transfer agent will be Banque Internationale à Luxembourg S.A. The Registrar will maintain a register reflecting ownership of Definitive Registered Notes outstanding from time to time and will make payments on and facilitate transfer of Definitive Registered Notes on the behalf of the Issuer. The transfer agent shall perform the functions of a transfer agent.

The Issuer may change any Paying Agent, Registrar or transfer agent for the notes without prior notice to the Holders of the notes. The Issuer or any of its Subsidiaries may act as Paying Agent or Registrar in respect of the notes. For so long as the notes are listed on the Official List of the Irish Stock Exchange and the rules of the Irish Stock Exchange so require, the Issuer will publish a notice of any change of Paying Agent, Registrar or transfer agent in a newspaper having a general circulation in Ireland.

Transfer and Exchange

A holder may transfer or exchange notes in accordance with the provisions of the indenture. The notes will initially be issued in the form of registered notes in global form without interest coupons, as follows:

- The notes sold within the United States to qualified institutional buyers pursuant to Rule 144A under the Securities Act will initially be represented by one or more global notes in registered form without interest coupons attached (the "**144A Global notes**").
- The 144A Global notes will, upon issuance, be deposited with and registered in the name of the nominee of the common depositary for the accounts of Euroclear and Clearstream.
- The notes sold outside the United States pursuant to Regulation S under the Securities Act will initially be represented by one or more global notes in registered form without interest coupons attached (the "**Regulation S Global notes**" and, together with the 144A Global notes, the "**Global notes**").

- The Regulation S Global notes will, upon issuance, be deposited with and registered in the name of the nominee of the common depositary for the accounts of Euroclear and Clearstream.

Ownership of interests in the Global notes ("**Book-Entry Interests**") will be limited to persons that have accounts with Euroclear or Clearstream or persons that may hold interests through such participants. Ownership of interests in the Book-Entry Interests and transfers thereof will be subject to the restrictions on transfer and certification requirements summarized below and described more fully under "*Notice to Investors.*" In addition, transfers of Book-Entry Interests between participants in Euroclear or participants in Clearstream will be effected by Euroclear or Clearstream, as applicable, pursuant to customary procedures and subject to the applicable rules and procedures established by Euroclear or Clearstream, as applicable, and their respective participants.

Book-Entry Interests in the 144A Global notes may be transferred to a person who takes delivery in the form of Book-Entry Interests in the Regulation S Global notes only upon delivery by the transferor of a written certification (in the form provided in the indenture) to the effect that such transfer is being made in accordance with Regulation S under the Securities Act.

Prior to the date that is 40 days after the date of initial issuance of the notes, ownership of Book Entry Interests in Regulation S Global notes will be limited to persons that have accounts with Euroclear or Clearstream or persons who hold interests through Euroclear or Clearstream, and any sale or transfer of such interest to U.S. persons shall not be permitted during such period unless such resale or transfer is made pursuant to Rule 144A under the Securities Act. Subject to the foregoing, Regulation S Book Entry Interests may be transferred to a person who takes delivery in the form of 144A Book Entry Interests only upon delivery by the transferor of a written certification (in the form provided in the indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a "qualified institutional buyer" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under "Notice to Investors" and in accordance with any applicable securities law of any other jurisdiction.

Any Book Entry Interest that is transferred as described in the immediately preceding paragraphs will, upon transfer, cease to be a Book Entry Interest in the Global Note from which it was transferred and will become a Book Entry Interest in the Global Note to which it was transferred. Accordingly, from and after such transfer, it will become subject to all transfer restrictions, if any, and other procedures applicable to Book Entry Interests in the Global Note to which it was transferred.

If Definitive Registered notes are issued, they will be issued only in minimum denominations of USD 200,000 aggregate principal amount and integral multiples of USD 1,000 in excess thereof, upon receipt by the Registrar of instructions relating thereto and any certificates, opinions and other documentation required by the indenture. It is expected that such instructions will be based upon directions received by Euroclear or Clearstream, as applicable, from the participant that owns the relevant Book-Entry Interests. Definitive Registered notes issued in exchange for a Book-Entry Interest will, except as set forth in the indenture or as otherwise determined by the Issuer to be in compliance with applicable law, be subject to, and will have a legend with respect to, the restrictions on transfer summarized below and described more fully under "*Transfer Restrictions.*"

Subject to the restrictions on transfer referred to above, notes issued as Definitive Registered notes may be transferred or exchanged, in whole or in part, in minimum denominations of USD 200,000 in aggregate principal amount and integral multiples of USD 1,000 in excess thereof. In connection with any such transfer or exchange, the indenture will require the transferring or exchanging holder to, among other things, furnish appropriate endorsements and transfer documents, to furnish information regarding the account of the transferee at Euroclear or Clearstream, as applicable, to furnish certain certificates and opinions, and to pay any taxes, duties and governmental charges in connection with such transfer or exchange. Any such transfer or exchange will be made without charge to the Holder, other than any taxes, duties and governmental charges payable in connection with such transfer.

The Issuer will not be required to transfer or exchange any note selected for redemption. Also, the Issuer will not be required to transfer or exchange any note for a period of 15 days before a selection of notes to be redeemed.

Note Guarantees

The Note Guarantees will be joint and several obligations of the Guarantors. The obligations of the Guarantors will be contractually limited under the applicable Guarantees to reflect limitations under applicable

law with respect to maintenance of share capital, corporate benefit, fraudulent conveyance and other legal restrictions applicable to the Guarantors and their respective shareholders, directors and general partners. For a description of such contractual limitations, see "*Limitations on validity and enforceability of the Guarantees and the notes and Certain Insolvency Considerations.*" By virtue of these limitations, a Guarantor's obligation under its Note Guarantee could be significantly less than the amount payable with respect to the notes, or a Guarantor may have effectively no obligation under its Guarantee. See "*Risk Factors—Risks related to the notes and the Guarantees—Each Guarantee will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defenses that may limit its validity and enforceability.*"

The Note Guarantee of a Guarantor will automatically be released:

(1) except in the case of the Holdco Guarantee, in connection with (x) any sale or other disposition of Capital Stock whether by direct sale or sale of a holding company (other than Holdco) of that Guarantor or by way of merger, consolidation or otherwise or (y) any sale or other disposition of all or substantially all of the assets of that Guarantor to a Person that is not (either before or after giving effect to such transaction) Holdco or a Restricted Subsidiary, if the sale or other disposition does not violate the provisions set forth under "*—Repurchase at the option of Holders—Asset Sales*" and (in the case of clause (x) only) the relevant Guarantor ceases to be a Restricted Subsidiary as a result of the sale or other disposition*;*

(2) except in the case of the Holdco Guarantee, if the Issuer designates any Restricted Subsidiary that is a Guarantor (or a Parent Entity of such Guarantor) to be an Unrestricted Subsidiary in accordance with the applicable provisions of the indenture;

(3) upon legal defeasance, covenant defeasance or satisfaction and discharge of the indenture as provided below under the captions "*—Legal Defeasance and Covenant Defeasance*" and "*—Satisfaction and Discharge;*"

(4) in the case of any Restricted Subsidiary that after the Issue Date is required to provide a Note Guarantee pursuant to the first paragraph of the covenant described under *"—Certain covenants—Additional Note Guarantees,"* upon the release or discharge of the guarantee of Indebtedness by such Restricted Subsidiary which resulted in the obligation to provide such Note Guarantee so long as no other Indebtedness is at that time guaranteed by the relevant Guarantor that would result in the requirement that such Guarantor provide a Note Guarantee pursuant to the covenant described under the caption *"—Certain covenants—Additional Note Guarantees;"*

(5) upon full and final repayment of the notes and performance of all obligations of the Issuer and the Guarantors under the indenture and the notes;

(6) as described under "*—Amendment, Supplement and Waiver*;" or

(7) with respect to an entity that is not the Successor Subsidiary Guarantor or the surviving entity, as applicable, as a result of any transaction permitted under the second paragraph or clause (c) of the final paragraph under the covenant described under the caption "*Certain Covenants—Merger, Consolidation or Sale of Assets*" but, solely in the case of a lease of all or substantially all assets of the Subsidiary Guarantor's assets, the Subsidiary Guarantor will not be released from the obligation to pay the principal of, premium, if any, and interest on the Note Guarantee.

Optional Redemption

At any time prior to May 1, 2019, the Issuer may on any one or more occasions redeem up to 40% of the original aggregate principal amount of notes issued under the indenture (including any additional notes), upon not less than 10 nor more than 60 days' notice, at a redemption price equal to 110.75% of the principal amount of the notes redeemed, plus accrued and unpaid interest and Additional Amounts, if any, to, but not including, the date of redemption (subject to the rights of holders of notes on the relevant record date to receive interest on the relevant interest payment date), in an amount not to exceed the net proceeds from an Equity Offering by Holdco provided that:

(1) at least 60% of the original aggregate principal amount of notes issued under the indenture (excluding notes held by Holdco and its Subsidiaries) remains outstanding immediately after the occurrence of such redemption; and

(2) the redemption occurs within 120 days of the date of the closing of such Equity Offering.

The Issuer may at any time prior to May 1, 2019 on any one or more occasions redeem all or a part of the notes, upon not less than 10 nor more than 60 days' notice, at a redemption price equal to 100% of the principal amount of the notes redeemed, plus the Applicable Premium as of, and accrued and unpaid interest and Additional Amounts, if any, to, but not including, the date of redemption, subject to the rights of holders of notes on the relevant record date to receive interest due on the relevant interest payment date.

On or after May 1, 2019, the Issuer may on any one or more occasions redeem all or a part of the notes, upon not less than 10 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest and Additional Amounts, if any, on the notes redeemed, to the applicable date of redemption, if redeemed during the twelve-month period beginning on May 1 of the years indicated below, subject to the rights of holders of notes on the relevant record date to receive interest on the relevant interest payment date:

Year	Redemption Price
2019	105.3750%
2020	102.6875%
2021 and thereafter	100.0000%

Except pursuant to the preceding paragraphs and "*Redemption for Taxation Reasons*," the notes will not be redeemable at the Issuer's option.

Unless the Issuer defaults in the payment of the redemption price, interest will cease to accrue on the notes or portions thereof called for redemption on the applicable redemption date.

Mandatory Redemption

The Issuer is not required to make mandatory redemption or sinking fund payments with respect to the notes. However, under certain circumstances, the Issuer may be required to offer to purchase the notes as described under "*Repurchase at the Option of Holders.*" Holdco and any Restricted Subsidiary may at any time and from time to time purchase notes on the open market or otherwise.

Repurchase at the Option of Holders

Change of Control

If a Change of Control occurs, unless the Issuer has previously or concurrently mailed or sent a redemption notice with respect to all of the outstanding notes as described under "*Optional Redemption,*" each holder of notes will have the right to require the Issuer to repurchase all or any part (equal to USD 200,000 or an integral multiple of USD 1,000 in excess thereof) of that holder's notes pursuant to a Change of Control Offer on the terms set forth in the indenture. In the Change of Control Offer, the Issuer will offer a Change of Control Payment in cash equal to 101% of the aggregate principal amount of notes repurchased, plus accrued and unpaid interest and Additional Amounts, if any, on the notes repurchased to, but not including, the date of purchase, subject to the rights of holders of notes on the relevant record date to receive interest due on the relevant interest payment date. Within thirty days following any Change of Control, unless the Issuer has previously or concurrently mailed or sent a redemption notice with respect to all of the outstanding notes as described under "*Optional Redemption,*" the Issuer will mail a notice to each holder describing the transaction or transactions that constitute the Change of Control and offering to repurchase notes on the Change of Control Payment Date specified in the notice, which date will be no earlier than 10 days and no later than 60 days from the date such notice is mailed, pursuant to the procedures required by the indenture and described in such notice. The Issuer will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the notes as a result of a Change of Control. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the indenture, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control provisions of the indenture by virtue of such compliance.

On the Change of Control Payment Date, the Issuer will, to the extent lawful:

(1) accept for payment all notes or portions of notes properly tendered pursuant to the Change of Control Offer;

(2) deposit with the paying agent an amount equal to the Change of Control Payment in respect of all notes or portions of notes properly tendered; and

(3) deliver or cause to be delivered to the trustee for cancellation the notes properly accepted together with an officers' certificate stating the aggregate principal amount of notes or portions of notes being purchased by the Issuer.

The paying agent will promptly mail to each holder of notes properly tendered the Change of Control Payment for such notes, and the trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each holder a new note equal in principal amount to any unpurchased portion of the notes surrendered, if any. The Issuer will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

Except as described above with respect to a Change of Control, the indenture does not contain provisions that permit the holders of the notes to require that the Issuer repurchase or redeem the notes in the event of a takeover, recapitalization or similar transaction.

The Issuer will not be required to make a Change of Control Offer upon a Change of Control if (1) a third party (including an affiliate of the Issuer) makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the indenture applicable to a Change of Control Offer made by the Issuer and purchases all notes properly tendered and not withdrawn under the Change of Control Offer, or (2) notice of redemption has been given pursuant to the indenture as described above under the caption "*—Optional Redemption,*" unless and until there is a default in payment of the applicable redemption price. Notwithstanding anything to the contrary contained herein, a Change of Control Offer may be made in advance of a Change of Control, conditioned upon the consummation of such Change of Control, if a definitive agreement is in place for the Change of Control at the time the Change of Control Offer is made.

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the properties or assets of Holdco and its Subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of notes to require the Issuer to repurchase its notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of the Issuer and its Subsidiaries taken as a whole to another Person or group may be uncertain.

The provisions under the indenture relative to the obligations of the Issuer to make an offer to repurchase the notes as a result of a Change of Control may be waived or modified with the written consent of the holders of a majority in principal amount of the notes.

Asset Sales

Holdco will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless:

(1) Holdco or any of its Restricted Subsidiaries receives consideration at the time of the Asset Sale at least equal to the Fair Market Value (measured as of the date of the definitive agreement with respect to such Asset Sale) of the assets or Equity Interests issued or sold or otherwise disposed of; and

(2) at least 75% of the consideration received in the Asset Sale by Holdco or any of its Restricted Subsidiaries is in the form of cash or Cash Equivalents. For purposes of this provision, each of the following will be deemed to be cash:

    (a) any liabilities, as shown on Holdco's most recent consolidated balance sheet, of Holdco or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the notes or any Note Guarantee) that are assumed by the transferee of any such assets or are discharged pursuant to an agreement that releases Holdco or the relevant Restricted Subsidiary from any further liability in connection therewith or indemnifies them against any such further liability;

    (b) any securities, notes or other obligations received by Holdco or any such Restricted Subsidiary from such transferee that are within 180 days of such Asset Sale, subject to ordinary settlement periods, converted by Holdco or such Restricted Subsidiary into cash or Cash Equivalents, to the extent of the cash or Cash Equivalents received in that conversion;

(c) Indebtedness of any Restricted Subsidiary of Holdco that is no longer a Restricted Subsidiary as a result of such Asset Sale, to the extent that Holdco and its Restricted Subsidiaries following such Asset Sale are released from or indemnified against any guarantee of payment of such Indebtedness in connection with such Asset Sale;

(d) the Fair Market Value of any stock or assets of the kind referred to in clauses (3) or (5) of the next paragraph of this covenant; and

(e) any Designated Non-cash Consideration received by Holdco or such Restricted Subsidiary in such Asset Sale having an aggregate Fair Market Value, taken together with all other Designated Non-cash Consideration received pursuant to this clause (e) that has not previously been converted to cash not to exceed the greater of €20.0 million and 2.15% of Consolidated Total Assets at the time of receipt of such Designated Non-cash Consideration.

Within 365 days after the receipt of any Net Proceeds from an Asset Sale (and, in the case of clause (3), (4) and (5) below, a binding commitment entered into within such 365-day period shall be treated as a permitted application of the Net Proceeds so long as such Net Proceeds shall be applied to satisfy such commitment within 180 days of the date of such amount of such Net Proceeds), at its option:

(1) towards an offer to purchase the notes (including any additional notes) made to all Holders at a purchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest and Additional Amounts, if any, to and including the date of purchase;

(2) to purchase, prepay, redeem or repay Indebtedness and other Obligations which are *pari passu* in right of payment with the notes or any Note Guarantee, plus accrued and unpaid interest and Additional Amounts, if any, to and including the date of purchase (and, if the Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto); provided that if such Indebtedness constitutes Public Debt, Holdco or a Restricted Subsidiary makes an offer on a *pro rata* basis to all holders of the notes at a purchase price not less than 100% of the principal amount outstanding thereof plus accrued and unpaid interest and Additional Amounts, if any, to the date of purchase for all notes validly tendered and not validly withdrawn; for the avoidance of doubt, no reduction of Indebtedness in accordance with this clause (2) shall prohibit the incurrence of Indebtedness by Holdco or any of its Restricted Subsidiaries of Permitted Debt in compliance with the covenant described below under the caption "*—Incurrence of Indebtedness and Issuance of Preferred Stock*," unless expressly prohibited thereunder*;*

(3) to acquire all or substantially all of the assets of, or any Capital Stock of, another Permitted Business, if, after giving effect to any such acquisition of Capital Stock, the Permitted Business is or becomes (or is merged with or consolidated into Holdco) a Restricted Subsidiary of Holdco;

(4) to make one or more capital expenditures;

(5) to acquire other assets that are not classified as current assets under IFRS and that are used or useful in a Permitted Business or replace the assets subject to this covenant;

(6) with respect to Asset Sales of assets of a Restricted Subsidiary of Holdco that is not an Obligor, to purchase, prepay, redeem or repay Indebtedness of a Restricted Subsidiary of Holdco that is not an Obligor (and, if such Indebtedness is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto), other than Indebtedness owed to Holdco or another Subsidiary of Holdco; for the avoidance of doubt, no reduction of Indebtedness in accordance with this clause (6) shall prohibit the incurrence of Indebtedness by Holdco or any of its Restricted Subsidiaries of Permitted Debt in compliance with the covenant described below under the caption "*—Incurrence of Indebtedness and Issuance of Preferred Stock*" unless expressly prohibited thereunder;

(7) to purchase, prepay, redeem, repay or otherwise acquire for value any Indebtedness that is (or, immediately prior to such Asset Sale, was) secured by a Permitted Lien on any of the properties or assets which are subject of such Asset Sale; for the avoidance of doubt, no reduction of Indebtedness in accordance with this clause (7) shall prohibit the incurrence of Indebtedness by Holdco or any of its Restricted Subsidiaries of Permitted Debt in compliance with the covenant described below under the caption "*—Incurrence of Indebtedness and Issuance of Preferred Stock*" unless expressly prohibited thereunder; and/or

(8) a combination of the uses permitted by the foregoing clauses (1), (2), (3), (4), (5), (6) and (7).

Pending the final application of any Net Proceeds, Holdco or any of its Restricted Subsidiaries may temporarily reduce revolving credit borrowings or otherwise invest the Net Proceeds in any manner that is not prohibited by the indenture.

If the Net Proceeds exceed the aggregate amount within the applicable time period, such excess amount that has not been applied or invested as provided in the second paragraph of this covenant will constitute "**Excess Proceeds**." When the aggregate amount of Excess Proceeds exceeds €30.0 million, within twenty days thereof, the Issuer will make an offer (an "**Asset Sale Offer**") to all holders of notes and all holders of other Indebtedness that is *pari passu* with the notes containing provisions similar to those set forth in the indenture with respect to offers to purchase, prepay or redeem with the proceeds of sales of assets to purchase, prepay or redeem the maximum principal amount of notes and such other *pari passu* Indebtedness (plus all accrued interest on the Indebtedness and the amount of all fees and expenses, including premiums, incurred in connection therewith) that may be purchased, prepaid or redeemed out of the Excess Proceeds. The offer price in any Asset Sale Offer will be equal to (and in the case of *pari passu* Indebtedness, no more than) 100% of the principal amount, plus accrued and unpaid interest and Additional Amounts, if any, to, but not including, the date of purchase, prepayment or redemption, subject to the rights of holders of notes on the relevant record date to receive interest due on the relevant interest payment date, and will be payable in cash. If any Excess Proceeds remain after consummation of an Asset Sale Offer, the Issuer may use those Excess Proceeds for any purpose not otherwise prohibited by the indenture. If the aggregate principal amount of notes and other *pari passu* Indebtedness tendered in (or required to be prepaid or redeemed in connection with) such Asset Sale Offer exceeds the amount of Excess Proceeds, the trustee will select the notes and such other *pari passu* Indebtedness to be purchased on a *pro rata* basis, based on the amounts tendered or required to be prepaid or redeemed (with such adjustments as may be deemed appropriate by the Issuer so that only notes in denominations of USD 200,000, or an integral multiple of USD 1,000 in excess thereof, will be purchased). For the purposes of calculating the principal amount of any such Indebtedness not denominated in US dollars, such Indebtedness shall be calculated by converting any such principal amounts into their Euro Equivalent determined as of the Business Day immediately prior to the date on which the Asset Sale Offer is announced. Upon completion of each Asset Sale Offer, the amount of Excess Proceeds will be reset at zero. To the extent that the aggregate amount of notes and any *pari passu* Indebtedness tendered pursuant to an Asset Sale Offer is less than the aggregate amount of unapplied Excess Proceeds, Holdco may use any remaining Excess Proceeds for any purpose not otherwise prohibited by this indenture.

The Issuer will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with each repurchase of notes pursuant to a Change of Control Offer or an Asset Sale Offer. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control or Asset Sale provisions of the indenture, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control or Asset Sale provisions of the indenture by virtue of such compliance.

The agreements governing the Issuer's other Indebtedness contain, and future agreements may contain, prohibitions of certain events, including events that would constitute a Change of Control or an Asset Sale and including repurchases of or other prepayments in respect of the notes. The exercise by the holders of notes of their right to require the Issuer to repurchase the notes upon a Change of Control or an Asset Sale could cause a default under these other agreements, even if the Change of Control or Asset Sale itself does not, due to the financial effect of such repurchases on the Issuer. In the event a Change of Control or Asset Sale occurs at a time when the Issuer is prohibited from purchasing notes, the Issuer could seek the consent of its creditors to the purchase of notes or could attempt to refinance the borrowings that contain such prohibition. If the Issuer does not obtain a consent or repay those borrowings, the Issuer will remain prohibited from purchasing notes. In that case, the Issuer's failure to purchase tendered notes would constitute an Event of Default under the indenture which could, in turn, constitute a default under the other indebtedness. Finally, the Issuer's ability to pay cash to the holders of notes upon a repurchase may be limited by the Issuer's then existing financial resources. See "*Risk Factors—Risks related to the notes and the Guarantees—We may not have the ability to raise the funds necessary to finance the change of control offer required by the Indenture governing the Notes and the change of control put right may not be triggered in certain circumstances.*"

Selection and Notice

If less than all of the notes are to be redeemed at any time, the trustee or the registrar will select notes for redemption on a *pro rata* basis (or, in the case of notes issued in global form as discussed under "*—Book-Entry, Delivery and Form,*" based on a method that most nearly approximates a *pro rata* selection as the trustee deems fair and appropriate) unless otherwise required by law or applicable stock exchange or depositary requirements.

No notes of USD 200,000 or less can be redeemed in part. Notices of redemption will be mailed by first class mail (or transmitted otherwise in accordance with the procedures of Euroclear or Clearstream) by the Issuer

at least 10 but not more than 60 days before the redemption date to each holder of notes to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the notes or a satisfaction and discharge of the indenture. So long as any notes are listed on the Official List of the Irish Stock Exchange and the rules of the Irish Stock Exchange so require, any such notice to the Holders of the relevant notes shall to the extent and in the manner permitted by such rules be posted on the official website of the Irish Stock Exchange.

Any redemption and notice of redemption may, at the Issuer's discretion, be subject to the satisfaction of one or more conditions precedent (including, in the case of a redemption related to an Equity Offering, the consummation of such Equity Offering).

If any note is to be redeemed in part only, the notice of redemption that relates to that note will state the portion of the principal amount of that note that is to be redeemed. A new note in principal amount equal to the unredeemed portion of the original note will be issued in the name of the holder of notes upon cancellation of the original note. notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on notes or portions of notes called for redemption.

Redemption for Taxation Reasons

The Issuer or Successor Issuer, as defined below, may redeem the notes in whole, but not in part, at any time upon giving not less than 10 nor more than 60 days' notice to the Holders of the notes (which notice will be irrevocable) at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed for redemption (a "**Tax Redemption Date**") (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date) and all Additional Amounts (see "*—Withholding Taxes*"), if any, then due and which will become due on the Tax Redemption Date as a result of the redemption or otherwise, if any, if the Issuer, Successor Issuer or any Guarantor determine in good faith that, as a result of:

(1) any change in, or amendment to, the law or treaties (or any regulations or rulings promulgated thereunder) of a Relevant Taxing Jurisdiction (as defined below) affecting taxation; or

(2) any change in, or amendment to, or the introduction of, an official position regarding the application, administration or interpretation of such laws, treaties, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction) of a Relevant Taxing Jurisdiction (each of the foregoing in clauses (1) and (2), a "**Change in Tax Law**"),

the Issuer, Successor Issuer or Guarantor are, or on the next interest payment date in respect of the notes would be, required to pay any Additional Amounts, and such obligation cannot be avoided by taking reasonable measures available to the Issuer, Successor Issuer or Guarantor (including, for the avoidance of doubt, the appointment of a new Paying Agent where this would be reasonable but not including assignment of the obligation to make payment with respect to the notes). In the case of redemption due to withholding as a result of a Change in Tax Law in a jurisdiction that is a Relevant Taxing Jurisdiction at the date of this offering memorandum, such Change in Tax Law must become effective on or after the date of this offering memorandum. In the case of redemption due to withholding as a result of a Change in Tax Law in a jurisdiction that becomes a Relevant Taxing Jurisdiction after the date of this offering memorandum, such Change in Tax Law must become effective on or after the date the jurisdiction becomes a Relevant Taxing Jurisdiction, unless the Change in Tax Law would have applied to the predecessor of the Successor Issuer. Notice of redemption for taxation reasons will be published in accordance with the procedures described under "*—Selection and Notice*." Notwithstanding the foregoing, no such notice of redemption will be given (a) earlier than 90 days prior to the earliest date on which the Payor (as defined below) would be obliged to make such payment of Additional Amounts if a payment in respect of the notes were then due and (b) unless at the time such notice is given, such obligation to pay such Additional Amounts remains in effect. Prior to the publication or mailing of any notice of redemption of the notes pursuant to the foregoing, the Issuer or Successor Issuer will deliver to the trustee (a) an Officer's Certificate stating that it is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to its right so to redeem have been satisfied and that it would not be able to avoid the obligation to pay Additional Amounts by taking reasonable measures available to it and (b) a written opinion of an independent tax counsel of recognized standing who are qualified to provide tax advice under the laws of the relevant Taxing Jurisdiction to the effect that the Issuer, Successor Issuer or Guarantor has or have been or will become obligated to pay Additional Amounts as a result of a Change in Tax Law. The trustee will accept such Officer's Certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, without further inquiry, in which event it will be conclusive and binding on the Holders.

The foregoing will apply *mutatis mutandis* to any jurisdiction in which any successor to the Issuer is incorporated or organized or any political subdivision or taxing authority or agency thereof or therein.

Withholding Taxes

All payments made by the Issuer, a Successor Issuer or a Guarantor (a "**Payor**") on the notes or the Guarantees will be made free and clear of and without withholding or deduction for, or on account of, any Taxes unless the withholding or deduction of such Taxes is then required by law. If any deduction or withholding for, or on account of, any Taxes imposed or levied by or on behalf of:

(1) Latvia, Luxembourg or any political subdivision or Governmental Authority thereof or therein having power to tax;

(2) any jurisdiction from or through which payment on any such note or Guarantee is made by the Issuer, Successor Issuer, Guarantor or their agents, or any political subdivision or Governmental Authority thereof or therein having the power to tax; or

(3) any other jurisdiction in which the Payor is incorporated or organized, resident for tax purposes, or any political subdivision or Governmental Authority thereof or therein having the power to tax (each of clause (1), (2) and (3), a "**Relevant Taxing Jurisdiction**"), will at any time be required from any payments made by a Payor with respect to any Note or Guarantee, including payments of principal, redemption price, premium, if any, or interest, the Payor will pay (together with such payments) such additional amounts (the "**Additional Amounts**") as may be necessary in order that the net amounts received in respect of such payments by the Holders or the trustee, as the case may be, after such withholding or deduction (including any such deduction or withholding from such Additional Amounts), will equal the amounts which would have been received in respect of such payments on any such Note or Guarantee in the absence of such withholding or deduction; *provided, however*, that no such Additional Amounts will be payable for or on account of:

    (a) any Taxes that would not have been so imposed but for the existence of any present or former actual or deemed connection between the relevant Holder or the beneficial owner of a note (or between a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of power over the relevant Holder or beneficial owner, if the relevant Holder or beneficial owner is an estate, nominee, trust, partnership, limited liability company or corporation) and the Relevant Taxing Jurisdiction (including being a citizen or resident or national of, or carrying on a business or maintaining a permanent establishment in, or being physically present in, the Relevant Taxing Jurisdiction) but excluding, in each case, any connection arising solely from the acquisition, ownership or holding of such note or the receipt of any payment in respect thereof;

    (b) any Taxes that are imposed or withheld by reason of the failure by the Holder or the beneficial owner of the note to provide certification, information, documents or other evidence concerning the nationality, residence or identity in connection with the Relevant Taxing Jurisdiction of the Holder or such beneficial owner or to make any declaration or similar claim or satisfy any other reporting requirement relating to such matters, which is required by a statute, treaty, regulation or administrative practice of the Relevant Taxing Jurisdiction as a precondition to exemption from all or part of such Taxes;

    (c) any Taxes that are payable otherwise than by deduction or withholding from a payment of the principal of, premium, if any, or interest, if any, on the notes;

    (d) any estate, inheritance, gift, sales, excise, transfer, personal property or similar tax, assessment or other governmental charge;

    (e) any Taxes imposed in connection with a note presented for payment (where presentation is permitted or required for payment) by or on behalf of a Holder or beneficial owner who would have been able to avoid such Tax by presenting the relevant Note to, or otherwise accepting payment from, another paying agent;

    (f) any Taxes imposed pursuant to, or under an intergovernmental agreement entered into between the United States and the government of another country in order to implement the requirements of sections 1471 through 1474 of the Internal Revenue Code of 1986, as amended, the regulations thereunder, any official interpretations thereof or any agreements, law, regulation or other official guidance implementing an intergovernmental approach thereto; or

    (g) any combination of the above.

Such Additional Amounts will also not be payable (x) if the payment could have been made without such deduction or withholding if the beneficiary of the payment had presented the note for payment (where presentation is permitted or required for payment) within 15 days after the relevant payment was first made available for payment to the Holder or (y) where, had the beneficial owner of the note been the Holder, such beneficial owner would not have been entitled to payment of Additional Amounts by reason of any of clauses (a) to (g) inclusive above.

In addition, no Additional Amounts shall be paid with respect to any payment to any Holder who is a fiduciary or a partnership or other than the sole beneficial owner of such notes to the extent that the beneficiary or settlor with respect to such fiduciary, the member of such partnership or the beneficial owner of such notes would not have been entitled to Additional Amounts had such beneficiary, settlor, member or beneficial owner held such notes directly.

The Payor will (i) make any required withholding or deduction and (ii) remit the full amount deducted or withheld to the Relevant Taxing Jurisdiction in accordance with applicable law. The Payor will use all reasonable efforts to obtain certified copies of tax receipts evidencing the payment of any Taxes so deducted or withheld from each Relevant Taxing Jurisdiction imposing such Taxes, in such form as provided in the ordinary course by the Relevant Taxing Jurisdiction and as is reasonably available to the Payor and will provide such certified copies to the trustee. Such copies shall be made available to the Holders upon request, or if so required by applicable law.

If any Payor will be obligated to pay Additional Amounts under or with respect to any payment made on any note or Guarantee, at least 30 days prior to the date of such payment, the Payor will deliver to the trustee an Officer's Certificate stating the fact that Additional Amounts will be payable and the amount so payable and such other information necessary to enable the Paying Agent to pay Additional Amounts to Holders on the relevant payment date (unless such obligation to pay Additional Amounts arises less than 45 days prior to the relevant payment date, in which case the Payor may deliver such Officer's Certificate as promptly as practicable after the date that is 30 days prior to the payment date). The trustee will be entitled to rely solely on such Officer's Certificate as conclusive proof that such payments are necessary.

Wherever in either the indenture, the Guarantees or this "*Description of Notes*" there are mentioned, in any context:

(1) the payment of principal;

(2) purchase prices in connection with a purchase of notes or premium, if any;

(3) interest; or

(4) any other amount payable on or with respect to any of the notes, including payments thereof made pursuant to a Guarantee,

such reference shall be deemed to include payment of Additional Amounts as described under this heading to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

The Payor will pay any present or future stamp, issue, registration, court or documentary Taxes, or any other property or similar Taxes, charges or levies that arise in any jurisdiction from the execution, delivery, registration or enforcement of any notes, the indenture or any other document or instrument in relation thereto (other than a transfer of the notes) excluding any such Taxes, charges or levies imposed by any jurisdiction that is not a Relevant Taxing Jurisdiction, and the Payor agrees to indemnify the Holders for any such Taxes paid by such Holders. The foregoing obligations of this paragraph will survive any termination, defeasance or discharge of the indenture and will apply *mutatis mutandis* to any jurisdiction in which any successor to the Issuer is organized or any political subdivision or taxing authority or agency thereof or therein.

Certain Covenants

Restricted Payments

Holdco will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly:

(1) declare or pay any dividend or make any other payment or distribution on account of Holdco's or any of its Restricted Subsidiaries' Equity Interests (including, without limitation, any payment in connection with any merger or consolidation involving Holdco or any of its Restricted Subsidiaries) or similar payments to the direct or indirect holders of Holdco's or any of its Restricted Subsidiaries' Equity Interests in their capacity as such (other than dividends or distributions payable in Equity Interests (other than Disqualified Stock) of Holdco or in the form of Subordinated Shareholder Debt and other than dividends or distributions payable to Holdco or a Restricted Subsidiary of Holdco);

(2) purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger or consolidation involving Holdco) any Equity Interests of Holdco or any direct or indirect parent of Holdco (other than in exchange for Equity Interests of Holdco (other than Disqualified Stock) or Subordinated Shareholder Debt);

(3) make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Subordinated Indebtedness of Holdco or any Obligor (excluding any intercompany Indebtedness between or among Holdco and any of its Restricted Subsidiaries and any Subordinated Shareholder Debt) (except a payment of interest or a payment of principal at the Stated Maturity thereof and the purchase, repurchase, redemption, defeasance or other acquisition or retirement of Subordinated Indebtedness purchased in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of purchase, repurchase, redemption, defeasance or other acquisition or retirement);

(4) make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Subordinated Shareholder Debt (other than any payment in the form of Equity Interests (other than Disqualified Stock) of Holdco or additional Subordinated Shareholder Debt); or

(5) make any Restricted Investment

(all such payments and other actions set forth in these clauses (1) through (5) above being collectively referred to as "**Restricted Payments**"),

unless, at the time of and after giving *pro forma* effect to such Restricted Payment:

(a) no Default or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Payment;

(b) Holdco would, at the time of such Restricted Payment and after giving *pro forma* effect thereto as if such Restricted Payment had been made at the beginning of the applicable four-quarter period, have been permitted to incur at least €1.00 of additional Indebtedness pursuant to the first paragraph of the covenant described below under the caption "*—Incurrence of Indebtedness and Issuance of Preferred Stock*;" and

(c) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by Holdco and its Restricted Subsidiaries since the Issue Date (excluding Restricted Payments permitted by clauses (2), (3), (4), (5), (6), (7), (8), (10), (12), (14), (16) and (17) of the next succeeding paragraph), is less than the sum, without duplication, of:

(1) 50% of the Consolidated Net Income of Holdco for the period (taken as one accounting period) from the beginning of the fiscal quarter during which the Issue Date occurs to the end of Holdco's most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment (or, if such Consolidated Net Income for such period is a deficit, less 100% of such deficit); plus

(2) 100% of the aggregate net cash proceeds, and the Fair Market Value of property or marketable securities, received by Holdco since the Issue Date as a contribution to its common equity capital or from Subordinated Shareholder Debt or from the issue or sale of Qualifying Equity Interests (other than Excluded Contributions) of Holdco or any Parent Entity or from the issue or sale of convertible or exchangeable Disqualified Stock of Holdco or any Parent Entity or convertible or exchangeable debt securities of Holdco or any Parent Entity, in each case that have been converted into or exchanged for Qualifying Equity Interests of Holdco or Subordinated Shareholder Debt (other than Qualifying Equity Interests and convertible or exchangeable Disqualified Stock or debt securities sold to a Subsidiary of Holdco); plus

(3) to the extent that any Restricted Investment that was made after the Issue Date is (a) sold or otherwise cancelled, liquidated or repaid, 100% of the aggregate amount received in cash and the Fair Market Value of marketable securities and other property received, or (b) made in an entity that subsequently becomes a Restricted Subsidiary of Holdco (or is merged or consolidated with or into Holdco or a Restricted Subsidiary), the Fair Market Value of such Restricted Investment as of the date such entity becomes a Restricted Subsidiary or is so merged or consolidated; plus

(4) the amount by which Indebtedness of Holdco or a Restricted Subsidiary is reduced on Holdco's consolidated balance sheet upon the conversion or exchange (other than by Holdco or its Restricted Subsidiary) subsequent to the Issue Date of any Indebtedness of Holdco or a Restricted Subsidiary convertible or exchangeable for Capital Stock (other than Disqualified Stock) of Holdco or Subordinated Shareholder Debt (less the amount of any cash, or the Fair Market Value of any other property, distributed by Holdco or a Restricted Subsidiary upon such conversion or exchange); plus

(5) in the case of an Investment (other than a Permitted Investment) that is a guarantee made by Holdco or a Restricted Subsidiary to any Person (other than Holdco or a Restricted Subsidiary) after the Issue Date pursuant to paragraph (c), an amount equal to the amount of such guarantee upon the full and unconditional release of such guarantee; plus

(6) to the extent that any Unrestricted Subsidiary of Holdco designated as such after the Issue Date is redesignated as a Restricted Subsidiary after the Issue Date, the Fair Market Value of Holdco's Restricted Investment in such Subsidiary as of the date of such redesignation, after deducting the amount of any Investment in such Unrestricted Subsidiary that constitutes a Permitted Investment; plus

(7) the amount of the cash and the Fair Market Value of property or assets or of marketable securities received by Holdco or any Restricted Subsidiary in connection with:

(a) the sale or other disposition (other than to Holdco or a Restricted Subsidiary or an employee stock ownership plan or trust established by Holdco or any Subsidiary of Holdco for the benefit of its employees, to the extent funded by Holdco or any Restricted Subsidiary) of Capital Stock of an Unrestricted Subsidiary of Holdco; and

(b) 100% of any dividend or distribution made by an Unrestricted Subsidiary to Holdco or a Restricted Subsidiary after the Issue Date, provided that no amount will be included in Consolidated Net Income for purposes of the preceding clause (1) to the extent that it is included under this clause (7); plus

(8) €15.0 million.

The preceding provisions will not prohibit:

(1) the payment of any dividend or the consummation of any irrevocable redemption within 60 days after the date of declaration of the dividend or giving of the redemption notice, as the case may be, if at the date of declaration or notice, the dividend or redemption payment would have complied with the provisions of the indenture;

(2) the making of any Restricted Payment in exchange for, or out of or with the net cash proceeds of the substantially concurrent sale (other than to a Subsidiary of Holdco) of, Equity Interests of Holdco (other than Disqualified Stock) or Subordinated Shareholder Debt or from the substantially concurrent contribution of common equity capital to Holdco; provided that the amount of any such net cash proceeds that are utilized for any such Restricted Payment will not be considered to be net proceeds of Qualifying Equity Interests for purposes of clause (c)(2) of the preceding paragraph and will not be considered to be net cash proceeds from an Equity Offering for purposes of the "Optional Redemption" provisions of the indenture;

(3) the payment of any dividend (or, in the case of any partnership or limited liability company, any similar distribution) by a Restricted Subsidiary of Holdco to the holders of its Equity Interests on a *pro rata* basis or on a basis that results in the receipt by Holdco or any other Restricted Subsidiary of dividends or distributions of greater value than Holdco or such Restricted Subsidiary would receive on a *pro rata* basis;

(4) the repurchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of Holdco or any Obligor with the net cash proceeds from a substantially concurrent incurrence of Permitted Refinancing Indebtedness;

(5) so long as no Default or Event of Default has occurred and is continuing, the repurchase, redemption or other acquisition or retirement for value of any Equity Interests of Holdco or any Restricted Subsidiary of Holdco held by any future, current or former officer, consultant, director or employee of Holdco or any of its Restricted Subsidiaries (or any permitted transferee of such current or former officers, directors, consultants or employees) pursuant to any equity subscription agreement, stock option

agreement, shareholders' agreement or similar agreement; provided that the aggregate price paid for all such repurchased, redeemed, acquired or retired Equity Interests may not exceed €5.0 million in any fiscal year or €10.0 million in the aggregate, *provided*, *further*, that such amount in any fiscal year may be increased by (A) the cash proceeds of any key-man life insurance policies received by Holdco and its Restricted Subsidiaries and (B) an amount not to exceed the cash proceeds from the sale of Equity Interests of Holdco to members of management or directors of Holdco, any of its Restricted Subsidiaries or any of its direct or indirect parent companies to the extent the cash proceeds from the sale of Equity Interests have not otherwise been applied to the making of Restricted Payments pursuant to clause (c) of the preceding paragraph or clause (2) of this paragraph or to an optional redemption of notes pursuant to the "*Optional Redemption*" provisions of the indenture;

(6) the repurchase of Equity Interests deemed to occur upon the exercise of stock options, warrants or other convertible or exchangeable securities to the extent such Equity Interests represent a portion of the exercise price of those stock options, warrants or other convertible or exchangeable securities;

(7) so long as no Default or Event of Default has occurred and is continuing, the declaration and payment of regularly scheduled or accrued dividends to holders of any class or series of Disqualified Stock of Holdco or any preferred stock of any Restricted Subsidiary of Holdco issued on or after the Issue Date in accordance with the covenant described below under the caption "*—Incurrence of Indebtedness and Issuance of Preferred Stock*;"

(8) payments of cash, dividends, distributions, advances or other Restricted Payments by Holdco or any of its Restricted Subsidiaries to allow the payment of cash in lieu of the issuance of fractional shares upon (i) the exercise of options or warrants or (ii) the conversion or exchange of Capital Stock of any such Person;

(9) payments pursuant to any tax sharing agreement or arrangement among Holdco and its Restricted Subsidiaries and other Persons with which Holdco or any of its Restricted Subsidiaries is required or permitted to file a consolidated tax return or with which Holdco or any of its Restricted Subsidiaries is a part of a consolidated group for tax purposes or any tax advantageous group contribution made pursuant to applicable legislation in amounts not otherwise prohibited by the indenture; *provided*, *however*, that such payments will not exceed the amount of tax that Holdco and its Restricted Subsidiaries would owe on a standalone basis and the related tax liabilities of Holdco and its Restricted Subsidiaries are relieved thereby;

(10) Restricted Payments (including loans or advances) in an aggregate amount outstanding at any time not to exceed the aggregate cash amount of Excluded Contributions, or consisting of non-cash Excluded Contributions, or Investments to the extent made in exchange for or using as consideration Investments previously made under this clause (10);

(11) so long as no Default or Event of Default has occurred and is continuing, other Restricted Payments in an aggregate amount not to exceed the greater of €20.0 million and 2.15% of Consolidated Total Assets at any time outstanding;

(12) so long as no Default or Event of Default has occurred and is continuing, the repurchase, redemption or other acquisition or retirement for value of any Subordinated Indebtedness pursuant to provisions similar to those described under the captions "*Repurchase at the Option of Holders—Change of Control*" or "*—Asset Sales*;" *provided* that all notes tendered by holders in connection with a Change of Control Offer or Asset Sale Offer, as applicable, have been repurchased, redeemed or acquired for value;

(13) so long as no Default or Event of Default has occurred and is continuing (or would result therefrom), the declaration and payment by Holdco of, or loans, advances, dividends or distributions to any Parent Entity of Holdco to pay, dividends or distributions on, or repurchases, redemptions, acquisitions or retirements of, the common stock or common equity interests of Holdco or any Parent Entity following an Initial Public Offering of such common stock or common equity interests, in an amount not to exceed in any fiscal year the greater of (a) 6% of the net cash proceeds received from such Initial Public Offering by Holdco in any such Initial Public Offering or any subsequent Public Offering of such Capital Stock, or the net cash proceeds of any such Initial Public Offering or subsequent Public Offering of such Capital Stock of any Parent Entity that are contributed in cash to Holdco's equity (other than through the issuance of Disqualified Stock or through an Excluded Contribution) and (b) an amount equal to the greater of (i) 6% of the Market Capitalization and (ii) 6% of the IPO Market Capitalization; provided that in the case of this clause (13)(b), after giving *pro forma* effect to such Restricted Payments, the Consolidated Leverage Ratio of Holdco would not exceed 3.00 to 1.00;

(14) dividends or other distributions of Capital Stock of Unrestricted Subsidiaries;

(15) so long as no Default or Event of Default has occurred and is continuing (or would result therefrom), any Restricted Payment; *provided* that, on the date of any such Restricted Payment, the Consolidated Leverage Ratio for Holdco and its Restricted Subsidiaries does not exceed 2.50 to 1.00 on a *pro forma* basis after giving effect thereto;

(16) the payment of any Securitization Fees and purchases of Securitization Assets and related assets in connection with Securitization Repurchases relating to a Receivables Financing; and

(17) dividends, loans, advances or distributions to any Parent Entity of Holdco or other payments by Holdco or any Restricted Subsidiary to any Parent Entity of Holdco in amounts equal to (without duplication):

  (a) the amounts required for any Parent Entity, without duplication, to pay any Parent Expenses or any Related Taxes; or

  (b) amounts constituting or to be used for purposes of making payments of fees and expenses incurred to the extent specified in clauses (1), (4) and (11) of the second paragraph under "—*Limitation on Affiliate Transactions*."

The amount of all Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by Holdco or such Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. For purposes of this covenant, if a particular Restricted Payment involves a non-cash payment, including a distribution of assets, then such Restricted Payment shall be deemed to be an amount equal to the cash portion of such Restricted Payment, if any, plus an amount equal to the Fair Market Value of the non-cash portion of such Restricted Payment. For purposes of determining compliance with this covenant, if a Restricted Payment meets the criteria of more than one of the exceptions described in clauses (1) through (17) above, or is entitled to be made according to the first paragraph of this covenant, Holdco may, in its sole discretion, classify the Restricted Payment in any manner that complies with this covenant. If any Investment is made, which Investment constitutes a Restricted Investment when made, thereafter becomes a Permitted Investment in accordance with the indenture, such Investment shall no longer be counted as a Restricted Investment for purposes of calculating the aggregate amount of Restricted Payments pursuant to clause (c) of the first paragraph under this covenant to the extent such Investment would otherwise be so counted.

Incurrence of Indebtedness and Issuance of Preferred Stock

Holdco will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, "incur") any Indebtedness (including Acquired Debt) or issue any Disqualified Stock and will not permit any of its Restricted Subsidiaries to issue any shares of preferred stock; provided, however, that:

(1) Holdco may incur Indebtedness (including Acquired Debt) or issue Disqualified Stock, the Issuer may incur Indebtedness (including Acquired Debt) and the Guarantors may incur Indebtedness (including Acquired Debt) and issue preferred stock, if (a) the Fixed Charge Corporate Debt Coverage Ratio for Holdco's most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional Indebtedness is incurred or such Disqualified Stock or such preferred stock is issued, as the case may be, would have been at least 2.0 to 1.0, determined on a *pro forma* basis (including a *pro forma* application of the net proceeds therefrom), as if the additional Indebtedness had been incurred or the Disqualified Stock or the preferred stock had been issued, as the case may be, at the beginning of such four-quarter period and (b) the Capitalization Ratio of Holdco is greater than 15%, determined on a *pro forma* basis (including a pro forma application of the net proceeds therefrom), at the time of and immediately after giving *pro forma* effect to such incurrence; and

(2) any member of the TBI Group may incur Indebtedness (including Acquired Debt) and issue preferred stock if at the time of incurrence or issuance and after giving effect to the incurrence of such Indebtedness or issuance of such preferred stock and the application of the proceeds thereof on a *pro forma* basis the TBI Group shall comply with the TBI Own Funds Requirement.

The first paragraph of this covenant will not prohibit the incurrence of any of the following items of Indebtedness (collectively, **"Permitted Debt"**):

(1) the incurrence by Holdco or any Restricted Subsidiary of Holdco of Indebtedness under any Credit Facility (including in respect of letters of credit or bankers' acceptances issued or created thereunder) in an aggregate principal amount at any one time outstanding under this clause (1) not to exceed (i) the greater of (x) €30.0 million and (y) 3.22% of Consolidated Total Assets, *plus* (ii) in the case of any refinancing of Indebtedness permitted under this clause (1), the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses incurred in connection with such refinancing;

(2) the incurrence by Holdco and its Restricted Subsidiaries of the Existing Indebtedness (after giving effect to the completion of the transactions described under the "*Use of Proceeds*" section of this Offering Memorandum);

(3) the incurrence by the Issuer and the Guarantors of Indebtedness represented by the notes and the related Note Guarantees to be issued on the Issue Date;

(4) the incurrence by Holdco or any of its Restricted Subsidiaries of Indebtedness represented by Capital Lease Obligations, mortgage financings or purchase money obligations or other Indebtedness, in each case, incurred for the purpose of financing or refinancing all or any part of the purchase price or cost of design, development, construction, lease, installation or improvement of property, plant, equipment or other assets (including Equity Interests of any Person owning such assets) used or useful in the business of Holdco or any of its Restricted Subsidiaries and including any reasonable related fees or expenses incurred in connection with such acquisition or development, in an aggregate principal amount not to exceed the greater of (x) €15.0 million and (y) 1.61% of Consolidated Total Assets at any time outstanding;

(5) the incurrence by Holdco or any of its Restricted Subsidiaries of Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to renew, refund, refinance, replace, defease or discharge any Indebtedness (other than intercompany Indebtedness) that was permitted by the indenture to be incurred under clauses (1) and (2) of the first paragraph of this covenant or clauses (2), (3), (5) or (16) of this paragraph;

(6) incurrence by Holdco or any of its Restricted Subsidiaries of intercompany Indebtedness between or among Holdco and any of its Restricted Subsidiaries; provided, however, that:

   (a) if:

      (1) the Issuer or any Guarantor is the obligor on such Indebtedness, and

      (2) the lender is not the Issuer or a Guarantor,

   then such Indebtedness must be unsecured and expressly subordinated to the prior payment in full in cash of all Obligations then due with respect to the notes, in the case of the Issuer, or the Note Guarantee, in the case of a Guarantor; and

   (b)

      (1) any subsequent issuance or transfer of Equity Interests that results in any Indebtedness incurred under this clause (6) being held by a Person other than Holdco or a Restricted Subsidiary of Holdco; and

      (2) any sale or other transfer of any Indebtedness incurred under this clause (6) to a Person that is not either Holdco or a Restricted Subsidiary of Holdco

   will be deemed, in each case, to constitute an incurrence of such Indebtedness by Holdco or such Restricted Subsidiary, as the case may be, that was not permitted by this clause (6);

(7) the issuance by any of Holdco's Restricted Subsidiaries to Holdco or to any of its Restricted Subsidiaries of shares of preferred stock; provided, however, that:

   (a) any subsequent issuance or transfer of Equity Interests that results in any such preferred stock being held by a Person other than Holdco or a Restricted Subsidiary of Holdco; and

   (b) any sale or other transfer of any such preferred stock to a Person that is not either Holdco or a Restricted Subsidiary of Holdco,

   will be deemed, in each case, to constitute an issuance of such preferred stock by such Restricted Subsidiary that was not permitted by this clause (7);

(8) the incurrence by Holdco or any of its Restricted Subsidiaries of Hedging Obligations not for speculative purposes (as determined by a responsible accounting or financial officer of Holdco);

(9) the Guarantee by Holdco or any Restricted Subsidiary of Indebtedness of Holdco or a Restricted Subsidiary of Holdco, to the extent that the guaranteed Indebtedness was permitted to be incurred by another provision of this covenant; provided that, (x) if the Indebtedness being guaranteed is subordinated to or *pari passu* with the Notes, then the Guarantee must be subordinated or *pari passu*, as applicable, to the same extent as the Indebtedness guaranteed and (y) if the Indebtedness being guaranteed was issued or incurred by any member of the TBI Group and such member is not an Obligor, no Obligor may guarantee such Indebtedness in reliance on this clause (9);

(10) the incurrence by Holdco or any of its Restricted Subsidiaries of Indebtedness in respect of letters of credit, workers' compensation claims, self-insurance obligations, bankers' acceptances, discounted bills of exchange or the discounting or factoring of receivables for credit management purposes, bank guarantees, performance and surety bonds, completion guarantees, guarantees to service providers and credit, store and charge card counterparties, bid bonds, appeal bonds and similar obligations, in each case, in the ordinary course of business;

(11) the incurrence by Holdco or any of its Restricted Subsidiaries of Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently drawn against insufficient funds, so long as such Indebtedness is covered within five Business Days;

(12) [*reserved*];

(13) the incurrence by Holdco or any of its Restricted Subsidiaries of Indebtedness in respect of endorsements of negotiable instruments in the ordinary course of business;

(14) the incurrence by Holdco or any of its Restricted Subsidiaries of Indebtedness consisting of the financing of insurance premiums in the ordinary course of business;

(15) the incurrence by Holdco or any of its Restricted Subsidiaries of Indebtedness arising from agreements of Holdco or its Restricted Subsidiaries providing for working capital adjustments, purchase price adjustments, non-competes, consulting, deferred compensation, earn-out obligations, contingent consideration, contributions and similar obligations incurred in connection with any Permitted Investment or disposition of any business, other than guarantees of Indebtedness incurred by any Person acquiring all or any portion of such business for the purpose of financing such Permitted Investment; provided, however, that with respect to dispositions, the maximum assumable liability in respect of all such indebtedness shall at no time exceed the gross cash proceeds actually received by Holdco and its Restricted Subsidiaries in connections with such disposition;

(16) Indebtedness (a) of any Person that becomes a Restricted Subsidiary (or of any Person not previously a Restricted Subsidiary that is merged or consolidated with or into Holdco or a Restricted Subsidiary) after the Issue Date (including pursuant to any acquisition of assets and assumption of related liabilities) or (b) incurred by Holdco or any Restricted Subsidiary to provide all or any portion of the funds utilized to consummate the transaction or series of related transactions pursuant to which a Person became a Restricted Subsidiary or was otherwise acquired by Holdco or a Restricted Subsidiary or was merged or consolidated with or into Holdco or a Restricted Subsidiary; *provided*, in each case, that after giving effect to such acquisition or transaction, (x) Holdco would be permitted to incur at least €1.00 of additional Indebtedness pursuant to the first paragraph of this covenant after giving *pro forma* effect to the incurrence of such Indebtedness pursuant to this clause (16) or (y) each of the Fixed Charge Corporate Debt Coverage Ratio and the Capitalization Ratio for Holdco and its Restricted Subsidiaries would not be lower than it was immediately prior to giving effect to such acquisition or other transaction;

(17) any customary cash management, cash pooling or netting or setting off arrangements in the ordinary course of business;

(18) [*reserved*];

(19) Indebtedness in an aggregate principal amount (or accreted value, as applicable) which, when taken together with the principal amount of any other Indebtedness incurred and outstanding pursuant to this clause (19) will not exceed the greater of €20.0 million and 2.15% of Consolidated Total Assets; provided that the aggregate outstanding principal amount of Indebtedness incurred by Restricted Subsidiaries that are not Guarantors pursuant to this clause (19) does not exceed the greater of €10.0 million and 1.07% of Consolidated Total Assets at any one time outstanding;

(20) Indebtedness of the Issuer and any Restricted Subsidiary in an aggregate outstanding principal amount (or accreted value, as applicable) at any time outstanding, not to exceed 100% of the net proceeds

received by Holdco from the issuance or sale (other than to a Restricted Subsidiary of Holdco) of its Capital Stock (other than Disqualified Stock) or otherwise contributed to the equity (other than through the issuance of Disqualified Stock or Excluded Contributions) of Holdco or from the issuance or sale (other than to a Restricted Subsidiary of Holdco) of Subordinated Shareholder Debt other than Excluded Contributions, in each case, subsequent to the Issue Date; *provided*, however, that (i) any such net proceeds that are so received or contributed shall be excluded for purposes of making Restricted Payments under the first paragraph and clauses (2), (5)(B) and (10) of the second paragraph of the covenant described under the caption "*—Restricted Payments*" to the extent the Issuer or any Restricted Subsidiary incurs Indebtedness in reliance thereon; and (ii) any net proceeds that are so received or contributed shall be excluded for purposes of incurring Indebtedness pursuant to this clause (20) to the extent Holdco or any of its Restricted Subsidiaries makes a Restricted Payment under the first paragraph or clause (2), (5)(B) or (10) of the second paragraph of the covenant described under the caption "*—Restricted Payments*" in reliance thereon;

(21) Indebtedness owed on a short-term basis of no longer than thirty Business Days to banks and other financial institutions incurred in the ordinary course of business of the Restricted Subsidiaries with such banks or financial institutions that arises in connection with ordinary banking arrangements to manage cash balances of Holdco and its Restricted Subsidiaries; and

(22) Indebtedness of Holdco and its Restricted Subsidiaries owed to their employees in connection with loan stock and/or preferred stock issued under employee stock purchase plans so long as the aggregate principal amount of Indebtedness under this clause (22) shall not exceed €5.0 million outstanding at any one time.

The Issuer will not incur, and will not permit any Guarantor to incur, any Indebtedness (including Permitted Debt) that is contractually subordinated in right of payment to any other Indebtedness of the Issuer or such Guarantor unless such Indebtedness is also contractually subordinated in right of payment to the notes and the applicable Note Guarantee on substantially identical terms; provided, however, that no Indebtedness will be deemed to be contractually subordinated in right of payment to any other Indebtedness of Issuer solely by virtue of being unsecured or by virtue of being secured on a junior priority basis.

For purposes of determining compliance with this "*Incurrence of Indebtedness and Issuance of Preferred Stock*" covenant, in the event that an item of Indebtedness meets the criteria of more than one of the categories of Permitted Debt described in clauses (1) through (22) above, or is entitled to be incurred pursuant to the first paragraph of this covenant, Holdco will be permitted to classify such item of Indebtedness on the date of its incurrence, or later reclassify all or a portion of such item of Indebtedness, in any manner that complies with this covenant. Indebtedness under Credit Facilities (except for the Existing Notes) outstanding on the date on which notes are first issued and authenticated under the indenture will initially be deemed to have been incurred on such date in reliance on the exception provided by clause (1) of the definition of Permitted Debt and may not be reclassified. For purposes of determining any particular amount of Indebtedness under this "*Incurrence of Indebtedness and Issuance of Preferred Stock*" covenant, obligations in the form of undrawn letters of credit, guarantees or Liens, in each case supporting Indebtedness otherwise permitted to be incurred pursuant to this "*Incurrence of Indebtedness and Issuance of Preferred Stock*" covenant shall not be included. The accrual of interest or preferred stock dividends, the accretion or amortization of original issue discount, the payment of interest on any Indebtedness in the form of additional Indebtedness with the same terms, the reclassification of preferred stock as Indebtedness due to a change in accounting principles, and the payment of dividends on preferred stock or Disqualified Stock in the form of additional shares of the same class of preferred stock or Disqualified Stock will not be deemed to be an incurrence of Indebtedness or an issuance of preferred stock or Disqualified Stock for purposes of this covenant; provided, in each such case, that the amount thereof is included in Fixed Charges of Holdco as accrued. For purposes of determining compliance with any euro-denominated restriction on the incurrence of Indebtedness, the euro-equivalent principal amount of Indebtedness denominated in a foreign currency shall be utilized, calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was incurred. Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that Holdco or any Restricted Subsidiary may incur pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in exchange rates or currency values.

The amount of any Indebtedness outstanding as of any date will be:

(1) the accreted value of the Indebtedness, in the case of any Indebtedness issued with original issue discount;

(2) the principal amount of the Indebtedness, in the case of any other Indebtedness;

(3) with respect to any Person, in the case of any Hedging Obligations, the net amount payable if such Hedging Obligations were terminated at that time due to default by such Person (after giving effect to any contractually permitted set-off); and

(4) in respect of Indebtedness of another Person secured by a Lien on the assets of the specified Person, the lesser of:

  (a) the Fair Market Value of such assets at the date of determination; and

  (b) the amount of the Indebtedness of the other Person.

Liens

Holdco will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur or assume any Lien of any kind securing Indebtedness on any asset now owned or hereafter acquired (such Lien, the "**Initial Lien**"), except (a) Permitted Liens and (b) Liens on assets that are not Permitted Liens if the notes and the indenture (or a Note Guarantee in the case of Liens on assets of a Guarantor) are directly secured equally and ratably with, or prior to in the case of Liens with respect to Subordinated Indebtedness, the Indebtedness secured by such Initial Lien for so long as such Indebtedness is so secured.

Any Lien created for the benefit of the Holders pursuant to clause (b) of the preceding paragraph shall provide by its terms that such Lien shall be automatically and unconditionally released and discharged upon (or, where not automatically released and discharged, the Person having granted such security will be entitled to seek such Liens' unconditional release and discharge) under any one or more of the following circumstances:

(1) the release and discharge of the Initial Lien to which it relates;

(2) in connection with the sale or disposition or transfer of the assets which are subject to such Liens (including by way of merger, consolidation or otherwise) to a Person that is not (either before or after giving effect to such transaction), Holdco or a Restricted Subsidiary of Holdco, if the sale or disposition does not violate the provisions set forth under "*—Repurchase at the option of Holders—Asset Sales;*"

(3) in connection with the sale or disposition of Capital Stock of the Restricted Subsidiary that has granted such Liens (or Capital Stock of a Parent Entity of the relevant Restricted Subsidiary (other than Holdco)) to a Person that is not (either before or after giving effect to such transaction) Holdco or a Restricted Subsidiary of Holdco, if (i) after giving effect to such sale, disposition or transfer, such Person is no longer a Restricted Subsidiary of Holdco and (ii) the sale or disposition does not violate the provisions set forth under "*—Repurchase at the option of Holders—Asset Sales;*"

(4) upon legal defeasance, covenant defeasance or satisfaction and discharge of the indenture as provided under the captions "*—Legal defeasance and covenant defeasance*" and "*—Satisfaction and discharge*;"

(5) if the relevant Restricted Subsidiary is designated as an Unrestricted Subsidiary (or is a Subsidiary of such designated Subsidiary) and such designation complies with the other applicable provisions of the indenture, in which case the release of Liens on the assets of such Restricted Subsidiary shall be effected;

(6) upon full and final repayment of the notes and performance of all obligations of the Issuer and the Guarantors under the indenture and the notes; or

(7) as described under "*—Amendment, Supplement and Waiver.*"

Upon any event or circumstance that gives rise to the release and discharge of a Lien created for the benefit of the Holders pursuant to the first paragraph of this covenant "*Liens,*" the trustee (subject to receipt of an Officer's Certificate and an Opinion of Counsel certifying that (A) such event or circumstance has occurred and (B) the release of the relevant Lien fully complies with the indenture) will execute any documents reasonably requested by the Issuer in order to effect such release and discharge.

Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

Holdco will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

(1) pay dividends or make any other distributions on its Capital Stock to Holdco or any of its Restricted Subsidiaries, or with respect to any other interest or participation in, or measured by, its profits, or pay any indebtedness owed to Holdco or any of its Restricted Subsidiaries;

(2) make loans or advances to Holdco or any of its Restricted Subsidiaries; or

(3) sell, lease or transfer any of its properties or assets to Holdco or any of its Restricted Subsidiaries.

However, the preceding restrictions will not apply to encumbrances or restrictions existing under or by reason of:

(1) any agreement in existence on the Issue Date, including agreements governing Existing Indebtedness as in effect on the Issue Date and any amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings of those agreements; *provided* that the amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings are not materially more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in those agreements on the Issue Date or would not materially impair the ability of the Issuer and the Guarantors to make payments of amounts due in respect of the notes and the Note Guarantee, as the case may be (as, in each case, determined in good faith by a responsible accounting or financial officer of Holdco);

(2) the indenture, the notes and the Note Guarantees;

(3) agreements governing other Indebtedness permitted to be incurred under the provisions of the covenant described above under the caption "*—Incurrence of Indebtedness and Issuance of Preferred Stock*" and any guarantees thereof and Liens related thereto and any amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings of those agreements and instruments; provided that (x) either (i) the encumbrance or restriction applies only in the event of and during the continuance of a payment default or a default with respect to a financial covenant contained in such Indebtedness, guarantees or liens or (ii) Holdco determines at the time any such Indebtedness is Incurred (and at the time of any modification of the terms of any such encumbrance or restriction) that any such encumbrance or restriction will not materially affect the Issuer's or a Guarantor's ability to make principal or interest payments on the notes and the Note Guarantees and (y) the encumbrance or restriction is not materially more disadvantageous, taken as a whole, to the Holders than is customary in comparable financings or agreements (as determined in good faith by a responsible accounting or financial officer of Holdco);

(4) applicable law, rule, regulation or order or governmental licenses, concession, franchises, permits or any similar restriction or other control by any government or governmental authority;

(5) any instrument or agreement governing Indebtedness or Capital Stock of a Person acquired by Holdco or any of its Restricted Subsidiaries or merged with or into a Restricted Subsidiary as in effect at the time of such acquisition or merger (except to the extent such Indebtedness or Capital Stock was incurred in connection with or in contemplation of such acquisition or merger), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired or merged; provided that, in the case of Indebtedness, such Indebtedness was permitted by the terms of the indenture to be incurred;

(6) customary non-assignment provisions and provisions restricting sub-letting or sub-licensing in contracts, leases, sub-leases, licenses and sub-licenses entered into in the ordinary course of business;

(7) purchase money obligations for property acquired in the ordinary course of business and Capital Lease Obligations that impose restrictions on the property purchased or leased of the nature described in clause (3) of the preceding paragraph;

(8) any agreement for the sale or other disposition of assets, including without limitation, a Restricted Subsidiary that restricts distributions by that Restricted Subsidiary pending such sale or other disposition;

(9) Permitted Refinancing Indebtedness; provided that the restrictions contained in the agreements governing such Permitted Refinancing Indebtedness are not materially more restrictive, taken as a whole, than those contained in the agreements governing the Indebtedness being refinanced;

(10) Liens permitted to be incurred under the provisions of the covenant described above under the caption "*—Liens*" that limit the right of the debtor to dispose of the assets subject to such Liens;

(11) provisions limiting the disposition or distribution of assets or property in joint venture agreements, asset sale agreements, sale-leaseback agreements, stock sale agreements and other similar agreements (including agreements entered into in connection with a Restricted Investment) in the ordinary course of business, which limitation is applicable only to the assets that are the subject of such agreements;

(12) which exists with respect to a Person that becomes a Restricted Subsidiary or merges with or into a Restricted Subsidiary of Holdco on or after the Issue Date, which is in existence at the time such Person becomes a Restricted Subsidiary, but not created in connection with or in anticipation of such Person becoming a Restricted Subsidiary, and which is not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person becoming a Restricted Subsidiary;

(13) any encumbrances or restrictions imposed by any amendments or refinancings of the contracts, instruments or obligations referred to in clauses (5) and (12) above; provided that such amendments or refinancings are not materially more restrictive, taken as a whole, than such encumbrances and restrictions prior to such amendment or refinancing, determined in good faith judgment by a responsible financial or accounting officer of Holdco;

(14) restrictions on cash or other deposits or net worth imposed by customers under contracts entered into in the ordinary course of business; and

(15) any encumbrances or restrictions effected in connection with a Qualified Securitization Financing that, in the good faith determination of a responsible financial or accounting officer of Holdco, are necessary or advisable to effect such Qualified Securitization Financing.

Nothing contained in this "*Limitation on Dividends and Other Payment Restrictions Affecting Restricted Subsidiaries*" covenant shall prevent Holdco or any Restricted Subsidiary from (i) creating, incurring, assuming or suffering to exist any Liens otherwise permitted in the "*—Limitation on Liens*" covenant or (ii) restricting the sale or other disposition of property or assets of Holdco or any of its Restricted Subsidiaries that secure Indebtedness of Holdco or any of its Restricted Subsidiaries incurred in accordance with the indenture.

For purposes of determining compliance with this covenant, (1) the priority of any preferred stock in receiving dividends prior to distributions being paid on common equity shall not be deemed a restriction on the ability to make distributions on Equity Interests and (2) the subordination of loans or advances made to Holdco or a Restricted Subsidiary to other Indebtedness incurred by Holdco or any such Restricted Subsidiary shall not be deemed a restriction on the ability to make loans or advances.

Merger, Consolidation or Sale of Assets

Holdco and Issuer

Holdco and the Issuer will not, directly or indirectly: (1) consolidate or merge with or into another Person (whether or not it is the surviving corporation) or (2) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of it and its Restricted Subsidiaries taken as a whole, in one or more related transactions, to another Person, unless:

(1) either: (a) it is the surviving Person (in the case of the Issuer, the "**Successor Issuer**"); or (b) the Person formed by or surviving any such consolidation or merger (if other than Holdco or the Issuer, as the case may be) or to which such sale, assignment, transfer, conveyance or other disposition has been made is an entity organized or existing under the laws of any member states of the European Union, Switzerland, Canada, any state of the United States or the District of Columbia;

(2) the Person formed by or surviving any such consolidation or merger (if other than Holdco or the Issuer, as the case may be) or the Person to which such sale, assignment, transfer, conveyance or other disposition has been made assumes all the obligations of Holdco or the Issuer, as the case may be, under the Holdco Guarantee, the notes and the indenture (as applicable) pursuant to agreements reasonably satisfactory to the trustee;

(3) immediately after such transaction, no Default or Event of Default exists;

(4) Holdco, the Issuer or the Person formed by or surviving any such consolidation or merger (if other than Holdco or the Issuer), or to which such sale, assignment, transfer, conveyance or other disposition has been made, as the case may be, would, on the date of such transaction after giving *pro forma* effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period (i) be permitted to incur at least €1.00 of additional Indebtedness pursuant to the first paragraph of the covenant described above under the caption "*—Incurrence of Indebtedness and Issuance of Preferred Stock*" or (ii) have both a Fixed Charge Corporate Debt Coverage Ratio and a Capitalization Ratio not lower than it was immediately prior to giving effect to such transaction; and

(5) Holdco or the Issuer, as the case may be, delivers to the trustee an Officer's Certificate and Opinion of Counsel, in each case, stating that such consolidation, merger or transfer and such supplemental indenture comply with this covenant and, if Holdco or the Issuer is not the surviving entity, as the case may be, that the accession agreement executed in connection therewith is the legally valid and binding obligation of the successor Person enforceable (subject to customary exceptions and exclusions) in accordance with their terms; provided that in giving an Opinion of Counsel, counsel may rely on an Officer's Certificate as to any matters of fact.

Subsidiary Guarantors

A Subsidiary Guarantor may not sell or otherwise dispose of all or substantially all of its assets to, or consolidate with or merge with or into (whether or not such Subsidiary Guarantor is the surviving Person) another Person, other than the Issuer or another Guarantor, unless:

(1) immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing; and

(2) either:

   (a) a Subsidiary Guarantor is the continuing Person;

   (b) the Person acquiring the property in any such sale or disposition or the Person formed by or surviving any such consolidation or merger (the "**Successor Subsidiary Guarantor**") becomes a Guarantor under the indenture pursuant to a supplemental indenture satisfactory to the trustee; or

   (c) the transaction constitutes a sale or other disposition (including by way of consolidation or merger) of the Subsidiary Guarantor or the sale of all or substantially all of the assets of such Subsidiary Guarantor (in each case other than to Holdco or a Restricted Subsidiary) otherwise permitted by and conducted in compliance with the covenant described under "*—Repurchase at the Option of Holders—Asset Sales*" above.

This "*Merger, Consolidation or Sale of Assets*" covenant will not apply to (a) any consolidation or merger of any Restricted Subsidiary that is not a Guarantor into the Issuer or a Guarantor (including Holdco); (b) any consolidation or merger among Guarantors (other than Holdco merging into another Guarantor where Holdco is not the surviving entity); (c) any consolidation or merger among the Issuer and any Guarantor; provided that, if the Issuer is not the surviving entity of such merger or consolidation, the relevant Guarantor is an entity organized or existing under the laws of any member state of the European Union, Switzerland, Canada, any state of the United States or the District of Columbia, and will assume the obligations of the Issuer under the indenture, the notes and any intercreditor agreement; or (d) any sale, assignment, transfer, conveyance, lease or other disposition of assets among the Restricted Subsidiaries that are not Guarantors. Clauses (3) and (4) of the first paragraph and clause (1) of the second paragraph of this covenant will not apply to any merger or consolidation of the Issuer or any Guarantor with or into an Affiliate solely for the purpose of reincorporating the Issuer or such Guarantor in another jurisdiction; provided that the Person formed by or surviving such merger or consolidation (if other than the Issuer or such Guarantor) assumes all the obligations of the Issuer or such Guarantor under the indenture, the notes and the Guarantees, as applicable.

Transactions with Affiliates

Holdco will not, and will not permit any of its Restricted Subsidiaries to, make any payment to or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate of Holdco (each, an "**Affiliate Transaction**") involving aggregate value in excess of €2.0 million, unless:

(1) the Affiliate Transaction is on terms that, taken as a whole, are not materially less favorable to Holdco or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by Holdco or such Restricted Subsidiary with a Person who is not an Affiliate of Holdco; and

(2) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of €5.0 million, Holdco delivers to the trustee:

   (a) a resolution of the Board of Directors of Holdco set forth in an Officer's Certificate certifying that such Affiliate Transaction complies with paragraph (1) above and that such Affiliate Transaction

has been approved by a majority of the disinterested members of the Board of Directors of Holdco or, if there is only one disinterested member of the Board of Directors, such member; or

(b) in the case that there are no disinterested members of the Board of Directors of Holdco or with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of €10.0 million, an opinion in form and substance satisfactory to the trustee issued by an accounting, appraisal or investment banking firm of international standing stating that the transaction or series of related transactions is (i) fair from a financial point of view taking into account all relevant circumstances or (ii) on terms not less favorable than might have been obtained in a comparable transaction at such time on an arm's length basis from a Person who is not an Affiliate of Holdco.

The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of the prior paragraph:

(1) any employment agreement, employee benefit plan, officer or director indemnification agreement, severance arrangement or any similar arrangement entered into by Holdco or any of its Restricted Subsidiaries in the ordinary course of business and payments pursuant thereto;

(2) transactions between or among Holdco and/or its Restricted Subsidiaries;

(3) transactions with a Person (other than an Unrestricted Subsidiary of Holdco) that is an Affiliate of Holdco solely because Holdco owns, directly or through a Restricted Subsidiary, an Equity Interest in, or controls, such Person;

(4) payment of reasonable and customary fees and reimbursements of expenses (pursuant to indemnity arrangements or otherwise) of officers, directors, employees or consultants of Holdco or any of its Restricted Subsidiaries;

(5) any issuance of Equity Interests (other than Disqualified Stock) of Holdco to Affiliates of Holdco;

(6) any Permitted Investment (other than as described in clause (3) of the definition thereof);

(7) Restricted Payments (other than Permitted Investments) that do not violate the provisions of the indenture described above under the caption "—*Restricted Payments*;"

(8) transactions pursuant to, or contemplated by any agreement in effect on the Issue Date and transactions pursuant to any amendment, modification or extension to such agreement, so long as such amendment, modification or extension, taken as a whole, is not materially more disadvantageous to the holders of the notes than the original agreement as in effect on the Issue Date;

(9) any issuance of Equity Interests (other than Disqualified Stock) of Holdco; receipts of cash capital contributions from Affiliates in exchange for Equity Interest in Holdco (other than Disqualified Stock) or the incurrence of Subordinated Shareholder Debt;

(10) payments to an Affiliate in respect of the notes or any other Indebtedness of Holdco or any Restricted Subsidiary on the same basis as concurrent payments made or offered to be made in respect thereof to non-Affiliates;

(11) (a) issuances or sales of Capital Stock (other than Disqualified Stock or Designated Preference Shares) of Holdco or options, warrants or other rights to acquire such Capital Stock or Subordinated Shareholder Debt; *provided* that the interest rate and other financial terms of such Subordinated Shareholder Debt are approved by a majority of the members of the Board of Directors in their reasonable determination and (b) any amendment, waiver or other transaction with respect to any Subordinated Shareholder Debt in compliance with the other provisions of the indenture;

(12) transactions with customers, clients, lenders, suppliers or purchasers or sellers of goods or services or lessors or lessees of property or providers of employees or other labor, in each case in the ordinary course of business and otherwise in compliance with the terms of this indenture that are fair to Holdco or its Restricted Subsidiaries, in the reasonable determination of the members of the Board of Directors of Holdco or a responsible financial or accounting officer thereof, or are on terms at least as favorable as might reasonably have been obtained at such time from an unaffiliated Person; and

(13) any transaction effected as part of a Receivables Financing.

Business Activities

Holdco will not, and will not permit any of its Restricted Subsidiaries to, engage in any business other than Permitted Businesses, except to such extent as would not be material to Holdco and its Restricted Subsidiaries taken as a whole.

Additional Note Guarantees

Holdco will not cause or permit any of its Restricted Subsidiaries that are not Guarantors, directly or indirectly, to Guarantee any Indebtedness of Holdco or any other Obligor, and any refinancing thereof in whole or in part, unless such Restricted Subsidiary becomes a Guarantor on the date on which such other Guarantee is Incurred and, if applicable, executes and delivers to the trustee a supplemental indenture in the form attached to the indenture pursuant to which such Restricted Subsidiary will provide a Note Guarantee, which Note Guarantee will be senior to or *pari passu* with such Restricted Subsidiary's Guarantee of such other Indebtedness.

A Restricted Subsidiary that is not a Guarantor may become a Guarantor if it executes and delivers to the trustee a supplemental indenture in the form attached to the indenture pursuant to which such Restricted Subsidiary will provide a Guarantee.

This covenant shall not be applicable to any guarantees by any Restricted Subsidiary:

(1) that existed at the time such Person became a Restricted Subsidiary if the guarantee was not incurred in connection with, or in contemplation of, such Person becoming a Restricted Subsidiary; or

(2) to the extent any such guarantee constitutes a Lien not prohibited by the covenant described under—*Certain Covenants—Liens*;" or

(3) given to a bank or trust company incorporated in Switzerland, any member of the European Union or any commercial banking institution that is a member of the U.S. Federal Reserve System (or any branch, Subsidiary or Affiliate thereof) in each case having combined capital and surplus and undivided profits of not less than €500 million, whose debt has a rating, at the time such guarantee was given, of at least A or the equivalent thereof by S&P and at least A2 or the equivalent thereof by Moody's in connection with the operation of cash management programs established for Holdco's, the Issuer's or such Restricted Subsidiary's benefit.

Each additional Note Guarantee will be limited as necessary to recognize certain defenses generally available to guarantors (including those that relate to fraudulent conveyance or transfer, voidable preference, financial assistance, corporate purpose, capital maintenance or similar laws, regulations or defenses affecting the rights of creditors generally) or other considerations under applicable law.

Notwithstanding the foregoing, Holdco shall not be obligated to cause such Restricted Subsidiary to Guarantee the notes to the extent that such Guarantee by such Restricted Subsidiary would reasonably be expected to give rise to or result in a violation of applicable law which, in any case, cannot be prevented or otherwise avoided through measures reasonably available to Holdco or the Restricted Subsidiary or any liability for the officers, directors or shareholders of such Restricted Subsidiary.

Holdco shall be permitted to add and remove Subsidiary Guarantors subject to and in accordance with the provisions of the indenture. For the avoidance of doubt, Holdco will be permitted after the Issue Date to cause additional Restricted Subsidiaries to become Subsidiary Guarantors under the indenture that are not required at such time to become Guarantors pursuant to the first paragraph of this covenant (such Guarantors "Optional Guarantors"). Holdco will be entitled to release any such Optional Guarantor from its Guarantee obligations provided (x) no Default or Event of Default would result from such release, (y) such Optional Guarantor is not at the time of the proposed release otherwise required to be a Guarantor pursuant to this covenant and (z) at such time such Optional Guarantor does not have any outstanding Indebtedness that was incurred directly or indirectly in reliance on such Optional Guarantor being a Subsidiary Guarantor. Upon any release of a Guarantee contemplated under this "*—Certain Covenants—Additional Note Guarantees*" section, the trustee shall execute any documents required in order to evidence such release, discharge and termination in respect of such Guarantee.

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors of Holdco may designate any Restricted Subsidiary (including any newly acquired or newly formed Subsidiary or Person that becomes a Subsidiary through merger or consolidation or Investment therein) to be an Unrestricted Subsidiary if that designation would not cause a Default. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate Fair Market Value of all outstanding Investments owned by Holdco and its Restricted Subsidiaries in the Subsidiary designated as an Unrestricted Subsidiary will be deemed to be an Investment made as of the time of the designation and will reduce the amount available for Restricted Payments under the covenant described above under the caption "*—Restricted Payments*" and/or under one or more clauses of the definition of Permitted Investments, as determined by Holdco. That designation

will only be permitted if the Investment would be permitted at that time and if the Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary. The Board of Directors of Holdco may redesignate any Unrestricted Subsidiary to be a Restricted Subsidiary if that redesignation would not cause a Default.

Any designation of a Subsidiary of Holdco as an Unrestricted Subsidiary will be evidenced to the trustee by filing with the trustee a certified copy of a resolution of the Board of Directors giving effect to such designation and an Officer's Certificate certifying that such designation complied with the preceding conditions and was permitted by the covenant described above under the caption "*—Restricted Payments.*" If, at any time, any Unrestricted Subsidiary would fail to meet the preceding requirements as an Unrestricted Subsidiary, it will thereafter cease to be an Unrestricted Subsidiary for purposes of the Subsidiary of Holdco as of such date and, if such Indebtedness is not permitted to be incurred as of such date under the covenant described under the caption "*—Incurrence of Indebtedness and Issuance of Preferred Stock*," Holdco will be in default of such covenant. The Board of Directors of Holdco may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary of Holdco; provided that such designation will be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of Holdco of any outstanding Indebtedness of such Unrestricted Subsidiary, and such designation will only be permitted if (1) such Indebtedness is permitted under the covenant described under the caption "*—Incurrence of Indebtedness and Issuance of Preferred Stock*," calculated on a *pro forma* basis as if such designation had occurred at the beginning of the applicable reference period; and (2) no Default or Event of Default would be in existence following such designation.

Payments for Consent

Holdco will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any holder of notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the indenture or the notes unless such consideration is offered to be paid and is paid to all holders of the notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

Notwithstanding the foregoing, any payment of consideration for, or as an inducement to, any consent, waiver or amendment of any of the terms or provisions of the indenture, the notes or the Note Guarantees in connection with an exchange offer, Holdco and any of its Restricted Subsidiaries may exclude (i) holders or beneficial owners of the notes that are not "qualified institutional buyers" as defined in Rule 144A under the Securities Act, "non-U.S. Persons" as defined in Regulation S under the Securities Act, or institutional "accredited investors" as defined in subparagraphs (a)(1), (2), (3) or (7) of Rule 501 under the Securities Act and (ii) holders or beneficial owners of the notes in any jurisdiction (other than the United States) where the inclusion of such holders or beneficial owners would require Holdco or any such Restricted Subsidiary to comply with the registration requirements or other similar requirements under any securities laws of such jurisdiction, or the solicitation of such consent, waiver or amendment from, or the granting of such consent or waiver, or the approval of such amendment by, holders or beneficial owners in such jurisdiction would be unlawful under applicable law, in each case as determined by Holdco in its sole discretion.

Maintenance of Listing

The Issuer will use commercially reasonable efforts to have the notes admitted to listing and trading on the Irish Stock Exchange after the Issue Date and will use commercially reasonable efforts to maintain the admission to listing of the notes on the Official List of the Irish Stock Exchange for so long as such notes are outstanding; *provided* that if at any time the Issuer determines that it will not maintain such admission to listing and trading, it will obtain prior to the delisting of the notes from the Official List of the Irish Stock Exchange, and thereafter use its best efforts to maintain, a listing of such notes on another recognized stock exchange.

Suspension of Certain Covenants when notes Rated Investment Grade

If on any date following the Issue Date:

(1) the notes have achieved Investment Grade Status; and

(2) no Default or Event of Default shall have occurred and be continuing on such date,

then, beginning on that day and continuing until such time, if any, at which the notes cease to have Investment Grade Status (such period, the "*Suspension Period*"), the covenants specifically listed under the following captions will no longer be applicable to the notes and any related default provisions of the indenture will cease to be effective and will not be applicable to Holdco and its Restricted Subsidiaries:

(1) "*—Repurchase at the Option of Holders—Asset Sales*;"

(2) "*—Restricted Payments*;"

(3) "*—Incurrence of Indebtedness and Issuance of Preferred Stock*;"

(4) "*—Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries*;"

(5) "*—Designation of Restricted and Unrestricted Subsidiaries*;"

(6) "*—Transactions with Affiliates*;" and

(7) clause (4) of the first paragraph of the covenant described under "*—Merger*, *Consolidation or Sale of Assets*."

Such covenants will not, however, be of any effect with regard to the actions of Holdco and the Restricted Subsidiaries properly taken during the continuance of the Suspension Period*; provided* that (1) with respect to the Restricted Payments made after any such reinstatement, the amount of Restricted Payments will be calculated as though the covenant described under the caption "*—Restricted Payments*" had been in effect prior to, but not during, the Suspension Period, (2) all Indebtedness incurred, or Disqualified Stock or preferred stock issued, during the Suspension Period will be classified to have been incurred or issued pursuant to clause (2) of the second paragraph of the caption "*—Incurrence of Indebtedness and Issuance of Preferred Stock*;" and (3) any encumbrance or restriction on the ability of any Restricted Subsidiary to take any action described in clauses (1) through (3) of the first paragraph of the covenant described under "*—Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries*" that becomes effective during any Suspension Period shall be deemed to be permitted pursuant to clause (1) of the second paragraph of the covenant described under "*—Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries*." Upon the occurrence of a Suspension Period, the amount of Excess Proceeds shall be reset at zero. In addition, the indenture will also permit, without causing a Default or Event of Default, Holdco and any Restricted Subsidiary to honor any contractual commitments entered into during the Suspension Period as long as the contractual commitments were not entered into in contemplation of the Suspension Period ending and Holdco reasonably believed that such action would not result in the Suspension Period ending. For purposes of the preceding sentence, reasonable belief shall be as determined in good faith by a responsible financial or accounting officer of Holdco.

The Issuer shall notify the trustee that the two conditions set forth under the first paragraph of this covenant have been satisfied; provided that such notification shall not be a condition for the suspension of the covenants set forth above to be effective.

There can be no assurance that the notes will ever achieve or maintain Investment Grade Status.

Reports

For so long as any notes are outstanding, Holdco will provide to the trustee the following reports:

(1) within 120 days after the end of Holdco's fiscal year beginning with the first fiscal year ending after the Issue Date, annual reports containing, to the extent applicable the following information: (a) audited consolidated balance sheets of Holdco as of the end of the two most recent fiscal years and audited consolidated income statements and statements of cash flow of Holdco or its predecessor for the three most recent fiscal years, including required footnotes to such financial statements and the report of the independent auditors on the financial statements; (b) unaudited *pro forma* income statement information and balance sheet information of Holdco (which, for the avoidance of doubt, shall not include the provision of a full income statement or balance sheet to the extent not reasonably available or only available at unreasonable expense, in which case Holdco will provide, in the case of material acquisitions, acquired company financials), together with explanatory footnotes, for any material recapitalizations that have occurred since the beginning of the most recently completed fiscal year and any material acquisitions or dispositions that have occurred since the beginning of the most recently completed fiscal year and individually represent 25% or more of Holdco's consolidated net income, EBITDA or assets on a *pro forma* basis; (c) an operating and financial review of the audited financial statements, including a discussion of the results of operations, financial condition, EBITDA

and liquidity and capital resources of Holdco (as well as a calculation of the TBI Own Funds Requirements), and a discussion of material commitments and contingencies and critical accounting policies which is similar in scope to the information provided in this Offering Memorandum; (d) description of the business, management and shareholders of Holdco, all material affiliate transactions and a description of all material contractual arrangements, including material debt instruments which is similar in scope to the information provided in this Offering Memorandum; and (e) a description of material risk factors and material recent developments;

(2) within 60 days following the end of the first three fiscal quarters in each fiscal year of Holdco all quarterly reports of Holdco containing the following information: (a) an unaudited condensed consolidated balance sheet as of the end of such quarter and unaudited condensed statements of income and cash flow for the most recently completed quarter year-to-date period ending on the unaudited condensed balance sheet date, and the comparable prior year periods, together with condensed footnote disclosure; (b) unaudited *pro forma* income statement information and balance sheet information of Holdco (which, for the avoidance of doubt, shall not include the provision of a full income statement or balance sheet to the extent not reasonably available or only available at unreasonable expense, in which case Holdco will provide, in the case of acquisitions, acquired company financials), together with explanatory footnotes, for any material recapitalizations that have occurred since the beginning of the relevant quarter or any acquisitions or dispositions that have occurred since the beginning of the relevant quarter and that individually represent 25% or more of the consolidated net income, EBITDA or assets of Holdco on a *pro forma* basis, in each case, unless such *pro forma* information has been provided in a previous report pursuant to clause (1) or (3) of this covenant; (c) an operating and financial review of the unaudited financial statements, including a discussion of the results of operations, financial condition, EBITDA and material changes in liquidity and capital resources of Holdco, and a discussion of material changes not in the ordinary course of business in commitments and contingencies since the most recent report (and setting forth a calculation of the TBI Own Funds Requirements); and (d) material recent developments and any material changes to the risk factors disclosed in the most recent annual report; and

(3) promptly after the occurrence of any material acquisition, disposition, restructuring, merger or similar transaction or material change in the TBI Group's Own Funds Requirement or other material regulatory change affecting the Group, or any senior executive officer changes at Holdco or change in auditors of Holdco or any other material event that Holdco or any of its Restricted Subsidiaries announces publicly, a report containing a description of such event.

All financial statements and *pro forma* financial information shall be prepared in accordance with IFRS in effect on the date of such report or financial statement (or otherwise on the basis of IFRS then in effect). Except as provided for below, no report needs to include separate financial statements for any Subsidiaries of Holdco.

At any time that any of Holdco's Subsidiaries are Unrestricted Subsidiaries and any such Unrestricted Subsidiary or group of Unrestricted Subsidiaries, if taken together as one Subsidiary, constitutes a Significant Subsidiary of Holdco, then the annual and quarterly financial information required by the clauses (1) and (2) of this covenant shall include either (i) a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, of the financial condition and results of operations of Holdco and its Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of Holdco or (ii) stand-alone audited or unaudited financial statements, as the case may be, of such Unrestricted Subsidiary or Unrestricted Subsidiaries (as a group or otherwise) together with an unaudited reconciliation to the financial information of Holdco and its Subsidiaries, which reconciliation shall include the following items: revenue, EBITDA, net income, cash, total assets, total debt, shareholders equity and interest expense.

Substantially concurrently with the issuance to the trustee of the reports specified in (1), (2) and (3) above, Holdco shall also (a) use its commercially reasonable efforts (i) to post copies of such reports on Holdco's website or (ii) otherwise to provide substantially comparable public availability of such reports (as determined by Holdco in good faith) or (b) to the extent Holdco determines in good faith that it cannot make such reports available in the manner described in the preceding clause (a) owing to applicable law or after the use of its commercially reasonable efforts, furnish such reports to the Holders and, upon their request, prospective purchasers of the notes.

The Issuer will also make available copies of all reports required by clauses (1) through (3) of the first paragraph of this covenant at the offices of the Paying Agent or post such reports on the official website of the Irish Stock Exchange.

Holdco will, either (i) within ten Business Days after the delivery of each report discussed in the first paragraph of this section above, conduct a conference call to discuss such report and answer questions about such report, which conference call will be open to all holders of notes or (ii) provide holders of notes with access to and the opportunity to participate in any public conference call, investor presentation, webcast or other event, the primary purpose of which is to discuss results of operations or any material event referenced in the first paragraph of this section above with investors in the Capital Stock of Holdco or any of Holdco's Parent Entities. Details of such conference calls will either (x) be delivered with each report or (y) posted on an electronic website that is used by Holdco to communicate to the equity holders generally for which holders of the notes have been, prior to the posting of such notice, informed of the website address and relevant password specifications, if any, which notice shall constitute reasonable notice of such public calls for the purpose of this paragraph.

In addition, so long as any notes are "restricted securities" (as defined in Rule 144 under the Securities Act) and during any period during which Holdco is not subject to Section 13 or 15(d) of the Exchange Act nor exempt therefrom pursuant to Rule 12g3-2(b), Holdco shall furnish to the Holders and, upon their request, prospective purchasers of the notes, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Events of Default and Remedies

Each of the following is an "**Event of Default:**"

(1) default for 30 days in the payment when due of interest on the notes;

(2) default in the payment when due (at maturity, upon redemption or otherwise) of the principal of, or premium, if any, on, the notes;

(3) failure by Holdco or any of its Restricted Subsidiaries to comply with the provisions described under the captions "*—Repurchase at the Option of Holders—Change of Control,*" "*—Repurchase at the Option of Holders—Asset Sales,*" or "*—Certain Covenants—Merger, Consolidation or Sale of Assets;*"

(4) failure by the Issuer or any Guarantor for 60 days after notice to Holdco by the trustee or the holders of at least 25% in aggregate principal amount of the notes then outstanding voting as a single class to comply with any of the other agreements in the indenture;

(5) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by Holdco or any of its Restricted Subsidiaries (or the payment of which is guaranteed by Holdco or any of its Restricted Subsidiaries), whether such Indebtedness or Guarantee now exists, or is created after the Issue Date, if that default:

 (a) is caused by a failure to pay principal of, premium on, if any, or interest, if any, on, such Indebtedness prior to the expiration of the grace period provided in such Indebtedness on the date of such default (a "**Payment Default**"); or

 (b) results in the acceleration of such Indebtedness prior to its Stated Maturity,

 and, in each case, the principal amount of any such Indebtedness that is due and has not been paid or which has been accelerated, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates €20.0 million or more;

(6) failure by Holdco or any of its Restricted Subsidiaries to pay final and non-appealable judgments entered by a court or courts of competent jurisdiction aggregating in excess of €20.0 million (not covered by independent third-party insurance as to which liability has not been denied by such insurance carrier), which judgments are not paid, waived, satisfied, discharged or stayed, for a period of 60 days;

(7) except as permitted by the indenture, any Note Guarantee is held in any judicial proceeding to be unenforceable or invalid or ceases for any reason to be in full force and effect, or any Guarantor, or any Person acting on behalf of any Guarantor, denies or disaffirms its obligations under its Note Guarantee; and

(8) certain events of bankruptcy or insolvency described in the indenture with respect to Holdco or any of its Restricted Subsidiaries that is a Significant Subsidiary or any group of its Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary.

In the case of an Event of Default arising from certain events of bankruptcy or insolvency, with respect to Holdco, any Restricted Subsidiary of Holdco that is a Significant Subsidiary or any group of Restricted Subsidiaries of Holdco that, taken together, would constitute a Significant Subsidiary, all outstanding notes will become due and payable immediately without further action or notice. If any other Event of Default occurs and is continuing, the trustee or the holders of at least 25% in aggregate principal amount of the then outstanding notes may, by written notice to Holdco (and to the trustee if notice is given by such holders), declare all the notes to be due and payable immediately.

In the event of any Event of Default specified in clause (5) above, such Event of Default and all consequences thereof (excluding any resulting payment default, other than as a result of acceleration of the notes) shall be annulled, waived and rescinded, automatically and without any action by the trustee or the holders of notes, if within 60 days after such Event of Default arose, Holdco delivers an Officers' Certificate to the trustee stating that:

(1) (A) the Indebtedness or guarantee that is the basis for such Event of Default has been discharged or (B) holders thereof have rescinded or waived the acceleration, notice or action (as the case may be) giving rise to such Event of Default;

(2) the annulment of the acceleration of the notes would not conflict with any judgment or decree of a court of competent jurisdiction; and

(3) all existing Events of Default, except non-payment of principal, premium or interest on the notes that became due solely because of the acceleration of the notes, have been cured or waived.

Subject to certain limitations, holders of a majority in aggregate principal amount of the then outstanding notes may direct the trustee in its exercise of any trust or power. The trustee may withhold from holders of the notes notice of any continuing Default or Event of Default if it determines that withholding notice is in their interest, except a Default or Event of Default relating to the payment of principal of, premium on, if any, and interest.

Subject to the provisions of the indenture relating to the duties of the trustee, in case an Event of Default occurs and is continuing, the trustee will be under no obligation to exercise any of the rights or powers under the indenture at the request or direction of any holders of notes unless such holders have offered to the trustee reasonable indemnity or security against any loss, liability or expense. Except to enforce the right to receive payment of principal, premium, if any, when due, no holder of a note may pursue any remedy with respect to the indenture or the notes unless:

(1) such holder has previously given the trustee written notice that an Event of Default is continuing;

(2) holders of at least 25% in aggregate principal amount of the then outstanding notes make a written request to the trustee to pursue the remedy;

(3) such holder or holders offer and, if requested, provide to the trustee security or indemnity reasonably satisfactory to the trustee against any loss, liability or expense;

(4) the trustee does not comply with such request within 60 days after receipt of the request and the offer of security or indemnity; and

(5) during such 60-day period, holders of a majority in aggregate principal amount of the then outstanding notes do not give the trustee a direction inconsistent with such request.

The holders of a majority in aggregate principal amount of the then outstanding notes by written notice to the trustee may, on behalf of the holders of all of the notes, rescind an acceleration or waive any existing Default or Event of Default and its consequences under the indenture, if the rescission would not conflict with any judgment or decree, except a continuing Default or Event of Default in the payment of principal of, premium on, if any, or interest on the notes.

Holdco is required to deliver to the trustee annually within 120 days after the end of each fiscal year a statement regarding compliance with the indenture. Upon becoming aware of any Default or Event of Default, Holdco is required to deliver to the trustee a statement specifying such Default or Event of Default.

No Personal Liability of Directors, Officers, Employees and Stockholders

No director, officer, employee, incorporator or stockholder of the Issuer or any Guarantor, as such, will have any liability for any obligations of the Issuer or the Guarantors under the notes, the indenture, the Note Guarantees or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of notes by accepting a note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the notes. The waiver may not be effective to waive liabilities under the federal securities laws.

Acts by Holders

In determining whether the Holders of the required aggregate principal amount of the notes have concurred in any direction, waiver or consent, any notes owned by Holdco or by any Person directly or indirectly controlled, or controlled by, or under direct or indirect common control with, Holdco will be disregarded and deemed not to be outstanding.

Legal Defeasance and Covenant Defeasance

The Issuer may at any time, at the option of its Board of Directors evidenced by a resolution set forth in an Officer's Certificate, elect to have all of its obligations discharged with respect to the outstanding notes and all obligations of the Guarantors discharged with respect to their Note Guarantees ("**Legal Defeasance**") except for:

(1) the rights of holders of outstanding notes to receive payments in respect of the principal of, premium on, if any, or interest on such notes when such payments are due from the trust referred to below;

(2) the Issuer's obligations with respect to the notes concerning issuing temporary notes, registration of notes, mutilated, destroyed, lost or stolen notes and the maintenance of an office or agency for payment and money for security payments held in trust;

(3) the rights, powers, trusts, duties and immunities of the trustee under the indenture, and the Issuer's and the Guarantors' obligations in connection therewith; and

(4) the Legal Defeasance and Covenant Defeasance provisions of the indenture.

In addition, the Issuer may, at its option and at any time, elect to have the obligations of the Issuer and the Guarantors released with respect to certain covenants (including its obligation to make Change of Control Offers and Asset Sale Offers) that are described in the indenture ("**Covenant Defeasance**") and thereafter any omission to comply with those covenants will not constitute a Default or Event of Default with respect to the notes. In the event Covenant Defeasance occurs, all Events of Default described under "*—Events of Default and Remedies*" (except those relating to payments on the notes or bankruptcy, receivership, rehabilitation or insolvency events) will no longer constitute an Event of Default with respect to the notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(1) the Issuer must irrevocably deposit with the trustee, in trust, for the benefit of the holders of the notes, cash in US dollars, non-callable Government Securities, or a combination thereof, in amounts as will be sufficient, in the opinion of a nationally recognized investment bank, appraisal firm or firm of independent public accountants, to pay the principal of, premium on, if any, or interest on the outstanding notes on the stated date for payment thereof or on the applicable redemption date, as the case may be, and the Issuer must specify whether the notes are being defeased to such stated date for payment or to a particular redemption date;

(2) in the case of Legal Defeasance, the Issuer must deliver to the trustee an Opinion of Counsel reasonably acceptable to the trustee confirming that (a) the Issuer has received from, or there has been published by, the U.S. Internal Revenue Service a ruling or (b) since the Issue Date, there has been a change in the applicable U.S. federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel will confirm that, the holders of the outstanding notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Legal Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(3) in the case of Covenant Defeasance, the Issuer must deliver to the trustee an Opinion of Counsel reasonably acceptable to the trustee confirming that the holders of the outstanding notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(4) no Default or Event of Default has occurred and is continuing on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit (and any similar concurrent deposit relating to other Indebtedness), and the granting of Liens to secure such borrowings);

(5) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under, any material agreement or instrument (other than the indenture and the agreements governing any other Indebtedness being defeased, discharged or replaced) to which the Issuer or any of the Guarantors is a party or by which the Issuer or any of the Guarantors is bound;

(6) the Issuer must deliver to the trustee an Officer's Certificate stating that the deposit was not made by the Issuer with the intent of preferring the holders of notes over the other creditors of the Issuer with the intent of defeating, hindering, delaying or defrauding any creditors of the Issuer or others; and

(7) the Issuer must deliver to the trustee an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

Amendment, Supplement and Waiver

Except as provided in the next two succeeding paragraphs, the indenture or the notes or the Note Guarantees may be amended or supplemented with the consent of the holders of at least a majority in aggregate principal amount of the then outstanding notes (including, without limitation, additional notes, if any) voting as a single class (including, without limitation, consents obtained in connection with a tender offer or exchange offer for, or purchase of, the notes), and any existing Default or Event of Default (other than a continuing Default or Event of Default in the payment of the principal of, premium on, if any, interest on the notes, except a payment default resulting from an acceleration that has been rescinded) or compliance with any provision of the indenture or the notes or the Note Guarantees may be waived with the consent of the holders of a majority in aggregate principal amount of the then outstanding notes (including, without limitation, additional notes, if any) voting as a single class (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, notes).

Without the consent of the holders of at least 90% in aggregate principal amount of the then outstanding notes (including, without limitation, additional notes, if any) voting as a single class (including, without limitation, consents obtained in connection with a tender offer or exchange offer for, or purchase of, the notes), an amendment, supplement or waiver may not (with respect to any notes held by a non-consenting holder):

(1) reduce the principal amount of notes whose holders must consent to an amendment, supplement or waiver;

(2) reduce the principal of or change the fixed maturity of any note or alter or waive any of the provisions with respect to the redemption of the notes (except those provisions relating to the covenants described above under the caption "*—Repurchase at the Option of Holders*");

(3) reduce the rate of or change the time for payment of interest, including default interest, on any note;

(4) waive a Default or Event of Default in the payment of principal of, premium on, if any, or interest on the notes (except a rescission of acceleration of the notes by the holders of at least a majority in aggregate principal amount of the then outstanding notes and a waiver of the payment default that resulted from such acceleration);

(5) make any note payable in money other than that stated in the notes;

(6) make any change in the provisions of the indenture relating to waivers of past Defaults or the rights of holders of notes to receive payments of principal of, premium on, if any, or interest on the notes;

(7) waive a redemption payment with respect to any note (other than a payment required by one of the covenants described above under the caption "*—Repurchase at the Option of Holders*");

(8) release any Guarantor from any of its obligations under its Note Guarantee or the indenture, except in accordance with the terms of the indenture; or

(9) make any change in the preceding amendment and waiver provisions.

Notwithstanding the preceding, without the consent of any holder of notes, the Issuer, the Guarantors and the trustee may amend or supplement the indenture, the notes or the Note Guarantees:

(1) to cure any ambiguity, defect or inconsistency;

(2) to provide for uncertificated notes in addition to or in place of certificated notes;

(3) to provide for the assumption of the Issuer's or a Guarantor's obligations to holders of notes and Note Guarantees in the case of a merger or consolidation or sale of all or substantially all of the Issuer's or such Guarantor's assets, as applicable;

(4) to make any change that would provide any additional rights or benefits to the holders of notes or that does not adversely affect the legal rights under the indenture of any holder in any material respect;

(5) to conform the text of the indenture, the notes, the Note Guarantees to any provision of this Description of Notes to the extent that such provision in this Description of Notes was intended to be a verbatim recitation of a provision of the indenture, the notes or the Note Guarantees, which intent may be evidenced by an Officer's Certificate to that effect;

(6) to evidence and provide the acceptance of the appointment of a successor trustee under the indenture;

(7) to allow any Restricted Subsidiary to become a Guarantor in accordance with the provisions of the indenture, to add Guarantees with respect to the notes, to add security to or for the benefit of the notes, or to effect, confirm and evidence the release, termination or discharge of any Guarantee or Lien with respect to or securing the notes when such release, termination or discharge is provided for under the indenture;

(8) to provide for the issuance of additional notes in accordance with the limitations set forth in the indenture as of the Issue Date; or

(9) to allow any Guarantor to execute a supplemental indenture and/or a Note Guarantee with respect to the notes and to release any Guarantor from its Note Guarantee in accordance with the terms of the indenture.

The consent of the Holders is not necessary under the indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

Satisfaction and Discharge

The indenture will be discharged and will cease to be of further effect as to all notes issued thereunder, when:

(1) either:

  (a) all notes that have been authenticated, except lost, stolen or destroyed notes that have been replaced or paid and notes for whose payment money has been deposited in trust and thereafter repaid to the Issuer, have been delivered to the trustee for cancellation; or

  (b) all notes that have not been delivered to the trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption (or delivering such notice of redemption in accordance with the procedures of Clearstream and Euroclear) or otherwise or will become due and payable within one year and the Issuer or any Guarantor has irrevocably deposited or caused to be deposited with the trustee as trust funds in trust solely for the benefit of the holders, cash in US dollars, non-callable Government Securities, or a combination thereof, in amounts as will be sufficient, in the opinion of an accounting, appraisal or investment banking firm of international standing without consideration of any reinvestment of interest, to pay and discharge the entire Indebtedness on the notes not delivered to the trustee for cancellation for principal of, premium on, if any or interest on the notes to the date of maturity or redemption;

(2) in respect of clause (1)(b), no Default or Event of Default has occurred and is continuing on the date of the deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit and any similar deposit relating to other Indebtedness and, in each case, the granting of Liens to secure such borrowings) and the deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which the Issuer or any Guarantor is a party or by which the Issuer or any Guarantor is bound (other than with respect to the borrowing of funds to be applied concurrently to make the deposit required to effect such satisfaction and discharge and any similar concurrent deposit relating to other Indebtedness, and in each case the granting of Liens to secure such borrowings);

(3) the Issuer or any Guarantor has paid or caused to be paid all sums payable by it under the indenture; and

(4) the Issuer has delivered irrevocable instructions to the trustee under the indenture to apply the deposited money toward the payment of the notes at maturity or on the redemption date, as the case may be.

In addition, the Issuer must deliver an Officer's Certificate and an Opinion of Counsel to the trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

Concerning the trustee

If the trustee becomes a creditor of the Issuer or any Guarantor, the indenture limits the right of the trustee to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest it must eliminate such conflict within 90 days or resign.

The holders of a majority in aggregate principal amount of the then outstanding notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the trustee, subject to certain exceptions. The indenture provides that in case an Event of Default has occurred and is continuing, the trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request of any holder of notes, unless such holder has offered to the trustee reasonable indemnity or security satisfactory to it against any loss, liability or expense.

The Issuer and the Guarantors will indemnify the Trustee for certain claims, liabilities and expenses incurred without gross negligence or willful misconduct on its part arising out of or in connection with the acceptance or administration of the trusts created by the Indenture or in connection with the exercise or performance of any of its powers or duties under the Indenture.

Currency Indemnity and Calculation of Euro-Denominated Restrictions

US dollars the sole currency of account and payment for all sums payable by the Issuer and the Guarantors under or in connection with the notes and the relevant Guarantees, as the case may be, including damages. Any amount received or recovered in a currency other than US dollars, whether as a result of, or the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer, any Guarantor or otherwise by any Holder or by the trustee, in respect of any sum expressed to be due to it from the Issuer or a Guarantor will only constitute a discharge to the Issuer or such Guarantor, as applicable, to the extent of the US dollar amount, which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

If that US dollar amount is less than the US dollar amount expressed to be due to the recipient or the trustee under any Note, the Issuer and the Guarantors will indemnify them against any loss sustained by such recipient or the trustee as a result. In any event, the Issuer and the Guarantors will indemnify the recipient or the trustee on a joint or several basis against the cost of making any such purchase. For the purposes of this currency indemnity provision, it will be prima facie evidence of the matter stated therein for the Holder of a note or the trustee to certify in a manner reasonably satisfactory to the Issuer (indicating the sources of information used) the loss it Incurred in making any such purchase. These indemnities constitute a separate and independent obligation from the Issuer's and the Guarantors' other obligations, will give rise to a separate and independent cause of action, will apply irrespective of any waiver granted by any Holder of a note or the trustee (other than a waiver of the indemnities set out herein) and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any note, any Guarantee or to the trustee.

Except as otherwise specifically set forth herein, for purposes of determining compliance with any euro-denominated restriction herein, the Euro Equivalent amount for purposes hereof that is denominated in a non-euro currency shall be calculated based on the relevant currency exchange rate in effect on the date such non-euro amount is Incurred or made, as the case may be.

Notices

For so long as any notes are represented by Global notes, all notices to Holders of the notes will be delivered to Euroclear and Clearstream, each of which will give such notices to the holders of Book-Entry Interests. In the case of Definitive Notes, all notices to Holders of notes will be validly given if mailed to them at their respective addresses in the register of the Holders of the notes, if any, maintained by the Registrar. In addition, for so long as any of the notes are listed on the Irish Stock Exchange and the rules of the Irish Stock Exchange shall so require, notices with respect to the notes will be published in a newspaper having general circulation in Ireland or, to the extent and in the manner permitted by such rules, posted on the official website of the Irish Stock Exchange. Such notices may also be published on the website of the Irish Stock Exchange, to the extent and in the manner permitted by the rules of the Irish Stock Exchange.

Each such notice shall be deemed to have been given on the date of such publication or, if published more than once on different dates, on the first date on which publication is made; *provided* that, if notices are mailed, such notice shall be deemed to have been given on the later of such publication and the seventh day after being so mailed. Any notice or communication mailed to a Holder shall be mailed to

such Person by first-class mail or other equivalent means and shall be sufficiently given to such Holder if so mailed within the time prescribed. Failure to mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

Prescription

Claims against the Issuer or any Guarantor for the payment of principal, or premium, if any, on the notes will be prescribed five years after the applicable due date for payment thereof. Claims against the Issuer for the payment of interest on the notes will be prescribed three years after the applicable due date for payment of interest.

Additional Information

Anyone who receives this offering memorandum may obtain a copy of the indenture without charge by writing to 4finance S.A., 9 Allée Scheffer, L-2520 Luxembourg, and registered with the Luxembourg Trade and Companies Register under number B173403.

So long as the notes are admitted to the Official List of the Irish Stock Exchange and admitted for trading on the Global Exchange Market and the rules of the Irish Stock Exchange shall so require, copies, current and future, of all of Holdco's annual audited consolidated financial statements and Holdco's unaudited consolidated interim financial statements may be obtained, free of charge, during normal business hours at the offices of the Paying Agent in Ireland or, to the extent and in the manner permitted by such rules, on the official website of the Irish Stock Exchange.

Consent to Jurisdiction and Service of Process

The indenture will provide that the Issuer and each Guarantor will appoint CT Corporation as its agent for service of process in any suit, action or proceeding with respect to the indenture, the notes and the Guarantees brought in any federal or state court located in the City of New York and will submit to such jurisdiction where the right to a trial by jury has been waived.

Enforceability of Judgments

Since all of the assets of the Issuer and the Guarantors are outside the United States, any judgment obtained in the United States against the Issuer or any Guarantor may not be collectable within the United States.

Governing Law

The indenture, the notes and each Note Guarantee, and the rights and duties of the parties thereunder shall be governed by and construed in accordance with the laws of the State of New York.

Certain Definitions

Set forth below are certain defined terms used in the indenture. Reference is made to the indenture for a full disclosure of all defined terms used therein, as well as any other capitalized terms used herein for which no definition is provided.

"***2019 Notes***" means, the USD 200.0 million 11.75 per cent. senior notes due 2019 issued by the Issuer on August 14, 2014.

"***Acquired Debt***" means, with respect to any specified Person:

(1) Indebtedness of any other Person existing at the time such other Person is merged with or into or became a Subsidiary of such specified Person, or expressly assumed in connection with the acquisition of assets from any such Person, whether or not such Indebtedness is incurred in connection with, or in

contemplation of, such other Person merging with or into, or becoming a Restricted Subsidiary of, such specified Person; and

(2) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

"***Affiliate***" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control," as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise; provided that beneficial ownership of 10% or terms "controlling," "controlled by" and "under common control with" have correlative meanings.

"***Applicable Premium***" means, with respect to any note on any redemption date, the greater of:

(1) 1.0% of the principal amount of the note; or

(2) the excess of:

(a) the present value at such redemption date (i) the redemption price of the note at May 1, 2019 (such redemption price being set forth in the table appearing under the third paragraph under the heading "*—Optional Redemption*" above) plus (ii) all required interest payments due on the note through May 1, 2019 date (excluding accrued but unpaid interest to the redemption date), computed using a discount rate equal to the Treasury Rate as of such redemption date plus 50 basis points; over

(b) the principal amount of the note,

as calculated by the Issuer or on behalf of the Issuer by such Person as the Issuer shall designate. For the avoidance of doubt, the calculation of the Applicable Premium shall not be an obligation or duty of the Trustee, Registrar, Transfer Agent or any Paying Agent.

"***Asset Sale***" means:

(1) the sale, lease, conveyance or other disposition of any assets or rights by Holdco or any of Holdco's Restricted Subsidiaries; provided that the sale, lease, conveyance or other disposition of all or substantially all of the assets of Holdco and its Restricted Subsidiaries taken as a whole will be governed by the provisions of the indenture described above under the caption "*—Repurchase at the Option of Holders—Change of Control*" and/or the provisions described above under the caption "*—Certain Covenants—Merger, Consolidation or Sale of Assets*" and not by the provisions of the Asset Sale covenant; and

(2) the issuance of Equity Interests by any of Holdco's Restricted Subsidiaries or the sale by Holdco or any of Holdco's Restricted Subsidiaries of Equity Interests in any of Holdco's Restricted Subsidiaries,

in the case of either clause (1) or (2), whether in a single transaction or a series of related transactions that have a Fair Market Value in excess of the greater of (x) €2.5 million and (y) 0.27% of Consolidated Total Assets.

Notwithstanding the preceding, none of the following items will be deemed to be an Asset Sale:

(1) a transfer of assets between or among Holdco and its Restricted Subsidiaries;

(2) an issuance of Equity Interests by a Restricted Subsidiary of Holdco to Holdco or to a Restricted Subsidiary of Holdco;

(3) the sale, lease or other transfer of inventory, products, services, accounts receivable, consumer loans or participations therein or other assets in the ordinary course of business and any sale or other disposition of damaged, worn-out or obsolete assets in the ordinary course of business or properties or assets that are no longer used or useful in the course of Holdco's and the Restricted Subsidiaries' business (including the abandonment or other disposition of intellectual property that is, in the reasonable judgment of Holdco, no longer economically practicable to maintain or useful in the conduct of the business of Holdco and its Restricted Subsidiaries taken as whole);

(4) leases, subleases, non-exclusive licenses or sublicenses of any property (including intellectual property) in the ordinary course of business;

(5) any surrender or waiver of contract rights or settlement, release, recovery on or surrender of contract, tort or other claims in the ordinary course of business;

(6) the granting of Liens not prohibited by the covenant described above under the caption "—*Liens*;"

(7) the sale or other disposition of cash or Cash Equivalents, Temporary Cash Investments or Investment Grade Securities;

(8) transfers of property or assets subject to casualty, condemnation or similar event upon receipt of the casualty and condemnation proceeds thereof;

(9) assignments of insurance or condemnation proceeds provided to landlords (or their mortgagees) pursuant to the terms of any lease and Liens or rights reserved in any lease for rent or for compliance with the terms of such lease;

(10) sales, transfers and other dispositions of joint ventures to the extent required by, or made pursuant to, customary buy/sell arrangements between the joint venture parties set forth in joint of joint ventures;

(11) a Restricted Payment that does not violate the covenant described above under the caption "—*Certain Covenants—Restricted Payments*" or a Permitted Investment;

(12) dispositions of receivables in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings (other than factoring or similar arrangements) or any sale of assets received by Holdco or any of its Restricted Subsidiaries upon the foreclosure of a Lien granted in favor of Holdco or its Restricted Subsidiaries;

(13) foreclosure, condemnation, taking by eminent domain or any similar action with respect to any property or other assets;

(14) any sale, transfer or other disposition of Securitization Assets in connection with or related to any Qualified Securitization Financing or any Securitization Repurchase;

(15) any sale, transfer or other disposition of Securitization Assets in connection with any Receivables Financing; and

(16) Permitted TBI Portfolio Investments.

"***Asset Sale Offer***" has the meaning assigned to that term in the indenture governing the notes.

"***Attributable Debt***" in respect of a sale and leaseback transaction means, at the time of determination, the present value of the obligation of the lessee for net rental payments during the remaining term of the lease included in such sale and leaseback transaction including any period for which such lease has been extended or may, at the option of the lessor, be extended. Such present value shall be calculated using a discount rate equal to the rate of interest implicit in such transaction, determined in accordance with IFRS; provided, however, that if such sale and leaseback transaction results in a Capital Lease Obligation, the amount of Indebtedness represented thereby will be determined in accordance with the definition of "*Capital Lease Obligation.*"

"***Beneficial Owner***" has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act. , except that in calculating the beneficial ownership of any particular "person" (as that term is used in Section 13(d)(3) of the Exchange Act), such "person" will be deemed to have beneficial ownership of all securities that such "person" has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only after the passage of time. The terms "Beneficially Owns" and "Beneficially Owned" have a corresponding meaning.

"***Board of Directors***" means:

(1) with respect to a corporation, the board of directors of the corporation or any committee thereof duly authorized to act on behalf of such board;

(2) with respect to a partnership, the Board of Directors of the general partner of the partnership;

(3) with respect to a limited liability company, the managing member or members or any controlling committee of managing members thereof; and

(4) with respect to any other Person, the board or committee of such Person serving a similar function.

"***Business Day***" means any day other than Saturday, Sunday or other day on which banking institutions in New York or Luxembourg or a place of payment under the indenture are authorized or required by law to close.

"***Capital Lease Obligation***" means, at the time any determination is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalized on a balance sheet prepared in accordance with IFRS, and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be prepaid by the lessee without payment of a penalty.

"***Capital Stock***" means:

(1) in the case of a corporation, corporate stock;

(2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;

(3) in the case of a partnership or limited liability company, partnership interests (whether general or limited) or membership interests; and

(4) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person, but excluding from all of the foregoing any debt securities convertible into Capital Stock, whether or not such debt securities include any right of participation with Capital Stock.

"***Capitalization Ratio***" means, for any Person as of any date of determination, the result (expressed as a percentage) obtained by dividing (x) Consolidated Net Worth of such Person (calculated as of the end of the last completed fiscal quarter ending on or prior to the date of the transaction giving rise to the need to calculate Consolidated Net Worth) by (y) Net Loan Portfolio as of such date of determination.

"***Cash Equivalents***" means:

(1) securities issued or directly and fully Guaranteed or insured by the United States or Canadian governments, a member state of the European Union (other than Spain, Greece, Ireland, Portugal and Italy), Switzerland or Norway or, in each case, any agency or instrumentality of thereof (provided that the full faith and credit of such country or such member state is pledged in support thereof), having maturities of not more than two years from the date of acquisition;

(2) certificates of deposit, time deposits, eurodollar time deposits, overnight bank deposits or bankers' acceptances (in each case, including any such deposits made pursuant to any sinking fund established by Holdco or any Restricted Subsidiary) having maturities of not more than one year from the date of acquisition thereof issued by any lender party to a Credit Facility or by any bank or trust company (a) whose commercial paper is rated at least "A-1" or the equivalent thereof by S&P or at least "P-1" or the equivalent thereof by Moody's (or if at the time neither is issuing comparable ratings, then a comparable rating of another Nationally Recognized Statistical Rating Organization), (b) (in the event that the bank or trust company does not have commercial paper which is rated) having combined capital and surplus in excess of €500.0 million or (c) in the event that no bank or trust company in a jurisdiction in which Holdco or any Restricted Subsidiary is engaged in a Permitted Business meets the criteria set out in (a) or (b) above, any of the three highest-rated banks (as evaluated by an internationally recognized agency) in such jurisdiction for deposits in the currency of such jurisdiction;

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clauses (1) and (2) entered into with any bank meeting the qualifications specified in clause (2) above;

(4) commercial paper rated at the time of acquisition thereof at least "A-2" or the equivalent thereof by S&P or "P-2" or the equivalent thereof by Moody's or carrying an equivalent rating by a Nationally Recognized Statistical Rating Organization, if both of the two named rating agencies cease publishing ratings of investments or, if no rating is available in respect of the commercial paper, the issuer of which has an equivalent rating in respect of its long-term debt, and in any case maturing within one year after the date of acquisition thereof;

(5) readily marketable direct obligations issued by any state of the United States of America, any province of Canada, any member of the European Union (other than Greece and Portugal), Switzerland or Norway or any political subdivision thereof, in each case, having one of the two highest rating categories obtainable from either Moody's or S&P (or, if at the time, neither is issuing comparable ratings, then a comparable rating of another Nationally Recognized Statistical Rating Organization) with maturities of not more than two years from the date of acquisition;

(6) Indebtedness or Preferred Stock issued by Persons with a rating of "BBB" or higher from S&P or "Baa3" or higher from Moody's (or, if at the time, neither is issuing comparable ratings, then a comparable rating of another Nationally Recognized Statistical Rating Organization) with maturities of 12 months or less from the date of acquisition;

(7) bills of exchange issued in the United States, Canada, a member state of the European Union (other than Spain, Greece, Ireland, Portugal and Italy), Switzerland, Norway or Japan eligible for rediscount at the relevant central bank and accepted by a bank (or any dematerialized equivalent); and

(8) interests in any investment company, money market or enhanced high yield fund which invests 95% or more of its assets in instruments of the type specified in clauses (1) through (7) above.

"***Change of Control***" means the occurrence of any of the following:

(1) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of Holdco and its Subsidiaries taken as a whole to any Person (including any "person" (as that term is used in Section 13(d)(3) of the Exchange Act)) other than Holdco or a Restricted Subsidiary or one or more Permitted Holders;

(2) the adoption of a plan relating to the liquidation or dissolution of Holdco or the Issuer other than as part of a merger or consolidation that complies with the covenant described above under the caption "*Certain Covenants—Merger, Consolidation or Sale of Assets*;" or

(3) the consummation of any transaction (including, without limitation, any merger or consolidation), the result of which is that any Person (including any "person" (as defined above)), other than one or more Permitted Holders, becomes the Beneficial Owner, directly or indirectly, of more than 50% of the Voting Stock of Holdco, measured by voting power rather than number of shares.

"***Change of Control Offer***" has the meaning assigned to that term in the indenture governing the notes.

"***Consolidated EBITDA***" means, with respect to any specified Person for any period, the Consolidated Net Income of such Person for such period plus, without duplication:

(1) provision for Taxes based on income, profits or capital of such Person and its Restricted Subsidiaries for such period, to the extent that such provision for Taxes was deducted in computing such Consolidated Net Income; plus

(2) the Fixed Charges of such Person and its Restricted Subsidiaries for such period to the extent deducted in computing such Consolidated Net Income; plus

(3) to the extent extraordinary, unusual or non-recurring, any fees, costs and expenses of such Person and its Restricted Subsidiaries incurred as a result of Investments or Asset Sales permitted hereunder; plus

(4) any fees, costs and expenses of such Person and its Restricted Subsidiaries incurred: (a) in connection with the implementation of any Credit Facility or any establishment of any Receivables Financing; (b) in connection with any amendment, waiver or other modification of the notes, any Existing Indebtedness, any Credit Facility or any Receivables Financing; or (c) in connection with the issuance, prepayment, repayment or amendment or Equity Interests or Indebtedness permitted hereunder (including, without limitation, expenses relating to enhanced accounting functions or other transaction costs associated with becoming a public company); plus

(5) any foreign currency translation losses (including losses related to currency remeasurements of Indebtedness) of such Person and its Restricted Subsidiaries for such period, to the extent that such losses were taken into account in computing such Consolidated Net Income; plus

(6) other items classified by Holdco as special, extraordinary, unusual or non-recurring items (including, without limitation, in connection with employee severance, write-off of assets related to asset sales, acquisitions, investments, restructurings and dispositions); plus

(7) payments received with respect to expenses that are covered by the indemnification provisions in any agreement entered into by such Person in connection with an acquisition; plus

(8) any (a) salary, benefit and other direct savings resulting from workforce reductions by such Person, (b) relocation costs or expenses of such Person and (c) costs and expenses incurred related to employment of terminated employees incurred by such Person, in each case to the extent that such costs and expenses were deducted in computing such Consolidated Net Income; plus

(9) proceeds of business interruption insurance in an amount representing the losses for the applicable period that such proceeds are intended to replace; plus

(10) depreciation, amortization (including, without limitation, amortization of intangibles and deferred financing fees but excluding amortization of prepaid cash expenses that were paid in a prior period) and other non-cash charges, expenses, write-downs or other non-cash items reducing Consolidated Net Income (including without limitation impairment of property, plant, equipment and intangibles and other long-lived assets and the impact of purchase accounting on Holdco and its Restricted Subsidiaries for such period but excluding any such non-cash charge, write-down, item or expense to the extent that it represents an accrual of or reserve for cash charges or expenses in any future period or amortization of a prepaid cash charge or expense that was paid in a prior period) of such Person and its Restricted Subsidiaries for such period to the extent that such depreciation, amortization and other non-cash charges or expenses were deducted in computing such Consolidated Net Income; plus

(11) (a) any non-cash expenses resulting from the grant or periodic remeasurement of stock options, restricted stock grants or other equity incentive programs (including any stock appreciation and similar rights) and (b) any costs or expenses incurred pursuant to any management equity plan or stock option plan or other management or employee benefit plan or agreement or any stock subscription or shareholder agreement; minus

(12) any foreign currency translation gains (including gains related to currency remeasurements of Indebtedness) of such Person and its Restricted Subsidiaries for such period, to the extent that such gains were taken into account in computing such Consolidated Net Income; minus

(13) non-cash items increasing such Consolidated Net Income for such period, other than the accrual of revenue in the ordinary course of business,

in each case, on a consolidated basis and determined in accordance with IFRS; *provided that*, solely for the purposes of calculating the Fixed Charge Corporate Debt Coverage Ratio under clause (1) of the first paragraph of the covenant described under the caption "*Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock*," for so long as TBI Group is consolidated with Holdco in accordance with IFRS and is not a Guarantor, the Consolidated EBITDA attributable to the TBI Group as a portion of the Consolidated EBITDA of Holdco shall not exceed the sum of: (A) 25% of the Consolidated EBITDA of Holdco; and (B) the aggregate amount of any cash or Cash Equivalents actually distributed (whether as a dividend, other distribution or return on investment) by the TBI Group, directly or indirectly, to Holdco or any other Guarantor.

"***Consolidated Leverage***" means, as of any date of determination, the sum of the total amount of Financial Indebtedness (which shall, for the avoidance of doubt, exclude Hedging Obligations, Subordinated Shareholder Debt and letters of credit) on a consolidated basis.

"***Consolidated Leverage Ratio***" means, as of any date of determination, the ratio of (a) the Consolidated Leverage on such date to (b) the Consolidated EBITDA for the most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding such date, calculated after giving effect to the Pro Forma Adjustments.

"***Consolidated Net Income***" means, with respect to any specified Person for any period, the aggregate of the net income (loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis (excluding the net income (loss) of any Unrestricted Subsidiary of such Person), determined in accordance with IFRS and without any reduction in respect of preferred stock dividends; provided that:

(1) all extraordinary, unusual or non-recurring gains and losses and all gains and losses realized in connection with any sale or other disposition of any assets outside the ordinary course of business or the disposition of securities or the early extinguishment of Indebtedness (as determined in good faith by a responsible accounting or financial officer of Holdco), together with any related provision for taxes on any such gain, will be excluded;

(2) the net income or loss of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting will not be included except that: (a) such net income will be included up to the aggregate amount of cash or Cash Equivalents actually distributed by such Person during such period to Holdco, the Issuer or a Restricted Subsidiary as a dividend or other distribution or return on investment; and (b) such net loss shall be included in such Consolidated Net Income only to the extent of the amount of such net loss which was funded by the Issuer or a Restricted Subsidiary;

(3) solely for the purposes of determining the amount available for Restricted Payments under clause (c)(1) of the first paragraph under the caption "*Certain Covenants—Restricted Payments*"), the net income or loss of any Restricted Subsidiary that is not a Guarantor will be excluded to the extent that the declaration or payment of dividends or similar distributions by that Restricted Subsidiary of that net income is not at the date of determination permitted without any prior governmental approval (that has not been obtained) or, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary or its stockholders, (other than (a) restrictions that have been waived or otherwise released; (b) restrictions pursuant to the notes or the indenture and (c) contractual restrictions in effect on the Issue Date with respect to such Restricted Subsidiary and other restrictions with respect to such Restricted Subsidiary that taken as a whole, are not materially less favorable to the holders of the notes than such restrictions in effect on the Issue Date, provided that Holdco's equity in the net income of such Person shall be included in Consolidated Net Income up to the aggregate amount of dividends or distributions or other payments that are actually paid in cash or Cash Equivalents (or to the extent converted into cash or Cash Equivalents) by such Restricted Subsidiary to Holdco or another Restricted Subsidiary thereof in respect of such period, to the extent not already included therein;

(4) the cumulative effect of a change in accounting principles will be excluded;

(5) any net gains, charges or losses on disposed, abandoned and discontinued operations (other than assets held for sale) and any accretion or accrual of discontinued operations will be excluded;

(6) effects of purchase accounting adjustments (including the effects of such adjustments pushed down to such Person and its Restricted Subsidiaries) in component amounts required or permitted by IFRS, resulting from the application of purchase accounting in relation to any consummated acquisition or the amortization or write-off of any amounts thereof, net of taxes, will be excluded;

(7) non-cash gains and losses attributable to movement in the mark-to-market valuation of Hedging Obligations under IFRS will be excluded;

(8) goodwill or other intangible asset impairment charge will be excluded;

(9) any net after-tax income or loss from discontinued operations shall be excluded;

(10) the impact of capitalized, accrued or accreting or pay-in-kind interest or accreting principal on Subordinated Shareholder Debt will be excluded; and

(11) any non-cash compensation charge arising from any grant of stock, stock options or other equity based awards will be excluded.

"***Consolidated Net Worth***" means, for any Person at any time, the sum of paid in capital, retained earnings and reserves of such Person and its Restricted Subsidiaries as set forth on the consolidated balance sheet as of the most recent fiscal quarter of such Person, prepared in accordance with IFRS, less (without duplication) amounts attributable to Disqualified Stock of such Person.

"***Consolidated Total Assets***" of any Person as of any date means the total assets of such Person and its Restricted Subsidiaries as of the most recent fiscal quarter end for which a consolidated balance sheet of such Person and its Restricted Subsidiaries is available, calculated on a consolidated basis in accordance with generally accepted accounting principles.

"***Contingent Obligations***" means, with respect to any Person, any obligation of such Person guaranteeing in any manner, whether directly or indirectly, any operating lease, dividend or other obligation that, in each case, does not constitute Indebtedness ("***primary obligations***") of any other Person (the "***primary obligor***"), including any obligation of such Person, whether or not contingent:

(1) to purchase any such primary obligation or any property constituting direct or indirect security therefor;

(2) to advance or supply funds:

  (a) for the purchase or payment of any such primary obligation; or

  (b) to maintain the working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor; or

(3) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation against loss in respect thereof.

"***continuing***" means, with respect to any Default or Event of Default, that such Default or Event of Default has not been cured or waived.

"***CRD IV***" means Directive 2013/36 of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, and any successor thereto.

"***CRR***" means Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, and any successor thereto.

"***Credit Facilities***" means, one or more debt facilities, overdraft facilities, indentures, trust deeds or commercial paper facilities, in each case, with banks or other institutional lenders, accredited investors or institutional investors providing for revolving credit loans, term loans, term debt, debt securities, receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables) or letters of credit, in each case, as amended, restated, modified, renewed, extended, increased, refunded, replaced in any manner (whether upon or after termination or otherwise) or refinanced (including by means of sales of debt securities to institutional investors) in whole or in part from time to time (and without limitation as to amount, terms, conditions, covenants and other provisions, including increasing the amount of available borrowings thereunder, changing or replacing agent banks and lenders thereunder or adding, removing or reclassifying Subsidiaries of Holdco as borrowers or guarantors thereunder).

"***Default***" means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

"***Designated Non-cash Consideration***" means the Fair Market Value of noncash consideration received by Holdco or a Restricted Subsidiary in connection with an Asset Sale that is so designated as Designated Non-cash Consideration pursuant to an Officers' Certificate, setting forth the basis of such valuation, executed by a responsible financial or accounting officer of Holdco, less the amount of cash or Cash Equivalents received in connection with a subsequent sale of such Designated Non-cash Consideration.

"***Disqualified Stock***" means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case, at the option of the holder of the Capital Stock), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder of the Capital Stock, in whole or in part, on or prior to the date that is 91 days after the date on which the notes mature. Notwithstanding the preceding sentence, any Capital Stock that would constitute Disqualified Stock solely because the holders of the Capital Stock have the right to require Holdco to repurchase such Capital Stock upon the occurrence of a change of control or an asset sale will not constitute Disqualified Stock if the terms of such Capital Stock provide that Holdco may not repurchase or redeem any such Capital Stock pursuant to such provisions unless such repurchase or redemption complies with the covenant described above under the caption "*—Certain Covenants—Restricted Payments*." The amount of Disqualified Stock Holdco and its Restricted Subsidiaries may become obligated to pay upon the maturity of, or pursuant to any mandatory redemption provisions of, such Disqualified Stock, exclusive of accrued dividends.

"***Equity Interests***" means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

"***Equity Offering***" means a public sale either (1) of Equity Interests of Holdco by Holdco (other than Disqualified Stock and other than to a Subsidiary of Holdco) or (2) of Equity Interests of a Parent Entity of Holdco (other than to Holdco or a Subsidiary of Holdco) to the extent that the net proceeds therefrom are contributed to the common equity capital of Holdco or made available to it as Subordinated Shareholder Debt.

"***Euro Equivalent***" means, with respect to any monetary amount in a currency other than euro, at any time of determination thereof by the responsible transaction party, the amount of euro obtained by converting such currency other than euro involved in such computation into euro at the spot rate for the purchase of euro with the applicable currency other than euro as published in *The Financial Times* in the "*Currency Rates*" section (or, if *The Financial Times* is no longer published, or if such information is no longer available in *The Financial Times*, such source as may be selected in good faith by the Board of Directors of Holdco) on the date of such determination.

"***European Union***" means all members of the European Union as of January 1, 2004, including, for the avoidance of doubt, the United Kingdom.

"***Excluded Contribution***" means net cash proceeds or property or assets received by Holdco as capital contributions to the equity (other than through the issuance of Disqualified Stock) of Holdco after the Issue Date or from the issuance or sale (other than to a Subsidiary or an employee stock ownership plan or trust established by Holdco or any Subsidiary of Holdco for the benefit of its employees to the extent funded by Holdco or any Subsidiary) of Capital Stock (other than Disqualified Stock) of Holdco, in each case, to the extent designated as an Excluded Contribution pursuant to an Officer's Certificate of Holdco or on the date such contribution to equity is made or such Capital Stock is issued or sold.

"***Existing Indebtedness***" means all Indebtedness of Holdco and its Subsidiaries in existence on the Issue Date, including the Existing Notes.

"***Existing Notes***" means: (i) the 2019 Notes; (ii) the SEK 375 million 11.75% senior unsecured callable fixed rate notes due 2018 issued by the Issuer pursuant to the terms and conditions dated March 27, 2015; and (iii) the aggregate EUR 150 million 11.25% senior notes 2016/2021 issued by the Issuer on or around May 18, 2016 and November 30, 2016.

"***Fair Market Value***" means the value that would be paid by a willing buyer to an unaffiliated willing seller in a transaction not involving distress or necessity of either party, determined in good faith by a responsible financial or accounting officer of Holdco and, with respect to any transaction (or series of related transactions) involving aggregate value in excess of €5.0 million, by the Board of Directors of Holdco (unless otherwise provided in the indenture).

"***Financial Indebtedness***" means any Indebtedness described under clauses (1), (2) and (4) of the definition of "Indebtedness" and shall include (i) all such Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person) and (ii) to the extent not otherwise included, the Guarantee by the specified Person of any such Indebtedness of any other Person; *provided, however*, that the amount of such Indebtedness shall be the lesser of (x) the Fair Market Value of such asset as of such date of determination and (y) the amount of such Indebtedness of such other Person.

"***Fixed Charge Corporate Debt Coverage Ratio***" means with respect to any specified Person for any period, the ratio of the Consolidated EBITDA of such Person for such period to the Fixed Charges of such Person for such period calculated after giving effect to the Pro Forma Adjustments.

"***Fixed Charges***" means, with respect to any specified Person for any period, the sum, without duplication, of:

(1) the consolidated interest expense (net of consolidated interest income on cash, Cash Equivalent, Investment Grade Securities, Temporary Cash Investments and Permitted TBI Portfolio Investments (and for the avoidance of doubt not net of interest income attributable to loans to customers)) of such Person and its Restricted Subsidiaries for such period (other than any consolidated interest expense (and interest income) attributable to any Qualified Securitization Financing), whether paid or accrued, including, without limitation, amortization of debt issuance costs and original issue discount, non-cash interest payments (but excluding any non-cash interest expense attributable to movement of mark-to-market valuation of Hedging Obligations or other derivative instruments), the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, imputed interest with respect to Attributable Debt, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings, and net of the effect of all payments made or received pursuant to Hedging Obligations in respect of interest rates (and, for the avoidance of doubt, excluding any of the foregoing with respect to Qualified Securitization Financings); plus

(2) the consolidated interest expense of such Person and its Restricted Subsidiaries that was capitalized during such period (but excluding such interest on Subordinated Shareholder Debt and consolidated interest expense attributable to any Qualified Securitization Financing); plus

(3) any interest on Indebtedness of another Person that is guaranteed by such Person or one of its Restricted Subsidiaries or secured by a Lien on assets of such Person or one of its Restricted Subsidiaries, whether or not such Guarantee or Lien is called upon (other than any interest on Indebtedness attributable to any Qualified Securitization Financing); plus

(4) the product of (a) all dividends, whether paid or accrued and whether or not in cash, on any series of preferred stock of such Person or any of its Restricted Subsidiaries, other than dividends on Equity Interests payable solely in Equity Interests of Holdco (other than Disqualified Stock) or to Holdco or a Restricted Subsidiary of Holdco, times (b) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, state and local statutory tax rate of such Person, expressed as a decimal, in each case, determined on a consolidated basis in accordance with IFRS,

in each case, excluding (i) the amortization or write-off of debt issuance costs and deferred financing fees, commissions, fees and expenses and (ii) any expensing of loan commitment and other financing fees.

"***Governmental Authority***" means any nation, sovereign or government, any state, province, territory or other political subdivision thereof, and any entity or authority exercising executive, legislative, judicial, regulatory, self-regulatory or administrative functions of or pertaining to government, including a central bank or stock exchange.

"***Guarantee***" means a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take or pay or to maintain financial statement conditions or otherwise).

"***Guarantors***" means Holdco, 4finance ApS, 4finance Oy, AS 4finance, UAB 4finance, UAB Credit Service, Vivus Finance sp.z.o.o., 4finance Spain Financial Services S.A.U., 4finance AB and 4finance LLC and any other Subsidiary of Holdco that executes a Note Guarantee in accordance with the provisions of the indenture, and their respective successors and assigns, in each case, until the Note Guarantee of such Person has been released in accordance with the provisions of the indenture.

"***Hedging Obligations***" means, with respect to any specified Person, the obligations of such Person under:

(1) interest rate swap agreements (whether from fixed to floating or from floating to fixed), interest rate cap agreements and interest rate collar agreements;

(2) other agreements or arrangements designed to manage interest rates or interest rate risk; and

(3) other agreements or arrangements designed to protect such Person against fluctuations in currency exchange rates or commodity prices.

"***IFRS***" means International Financial Reporting Standards endorsed from time to time by the European Union or any variation thereof with which Holdco or its Restricted Subsidiaries are, or may be, required to comply.

"***Indebtedness***" means, with respect to any specified Person, any indebtedness of such Person (excluding accrued expenses and trade payables), whether or not contingent:

(1) in respect of borrowed money;

(2) evidenced by or issued in exchange for bonds, notes, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof);

(3) in respect of letters of credit, banker's acceptances or other similar instruments;

(4) representing Capital Lease Obligations or Attributable Debt in respect of sale and leaseback transactions;

(5) representing the balance deferred and unpaid of the purchase price of any property or services (excluding trade payables) due more than one year after such property is acquired or such services are completed; or

(6) representing any Hedging Obligations,

if and to the extent any of the preceding items (other than letters of credit and Hedging Obligations) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with IFRS. In addition, the term "Indebtedness" includes (i) all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person) *provided, however*, that the amount of such Indebtedness shall be the lesser of (x) the Fair Market Value of such asset as of such date of determination and (y) the amount of such Indebtedness of such other Person and, (ii) to the extent not otherwise included, the Guarantee by the specified Person of any Indebtedness of any other Person.

The term "Indebtedness" shall not include:

(1) any lease, concession or license of assets or other property which would be considered an operating lease under IFRS as in effect on the Issue Date;

(2) Contingent Obligations in the ordinary course of business;

(3) in connection with the purchase by Holdco or any Restricted Subsidiary of any business, any post-closing payment adjustments to which the seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business after the closing;

(4) any prepayments, advance payments or deposits received from clients or customers in the ordinary course of business, or obligations under any license, permit or other approval (or Guarantees given in respect of such obligations) incurred prior to the Issue Date or in the ordinary course of business;

(5) for the avoidance of doubt, any contingent obligations in respect of worker's compensation claims, early retirement or termination obligations, pension fund obligations or contribution or similar claims, obligations or contributions or social security or wage Taxes; or

(6) obligations under or in respect of any Qualified Securitization Financing.

The amount of Indebtedness of any Person at any time in the case of a revolving credit or similar facility shall be the total amount of funds borrowed and then outstanding under such facility.

"***Initial Public Offering***" means an underwritten Equity Offering of Capital Stock of Holdco, or any parent entity thereof or any successor of Holdco or such parent entity (the "***IPO Entity***") following which there is a Public Market and, as a result of which, the shares of Capital Stock of the IPO Entity in such offering are listed on an internationally recognized exchange or traded on an internationally recognized market.

"***Investment Grade Securities***" means:

(1) securities issued or directly and fully Guaranteed or insured by the United States or Canadian government or any agency or instrumentality thereof (other than Cash Equivalents);

(2) securities issued or directly and fully guaranteed or insured by a member of the European Union, Switzerland or Norway or any agency or instrumentality thereof (other than Cash Equivalents) whose long-term debt is rated "A-1" or higher by Moody's or "A+" or higher by S&P or the equivalent rating category of another internationally recognized rating agency or, in each case, any agency or instrumentality thereof;

(3) debt securities or debt instruments with a rating of "BBB–" or higher from S&P or "Baa3" or higher by Moody's or the equivalent of such rating by such rating organization or, if no rating of Moody's or S&P then exists, the equivalent of such rating by any other Nationally Recognized Statistical Rating Organization, but excluding any debt securities or instruments constituting loans or advances among Holdco and its Subsidiaries; and

(4) investments in any fund that invests exclusively in investments of the type described in clauses (1), (2) and (3) above which fund may also hold cash and Cash Equivalents pending investment or distribution.

"***Investment Grade Status***" shall occur when the notes are rated Baa3 or better by Moody's and BBB- or better by S&P (or, if either such entity ceases to rate the notes, the equivalent investment grade credit rating from any other "nationally recognized statistical rating organization" within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the U.S. Exchange Act selected by Holdco as a replacement agency).

"***Investments***" means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the forms of loans (including Guarantees or other obligations), advances or capital contributions (excluding accounts receivable and consumer loans or participations therein arising in the ordinary course of business on terms customary in the trade, commission, travel, entertainment, relocation and similar advances to directors, officers and employees made in the ordinary course of business), purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities, together with all items that are or would be classified as investments on a balance sheet prepared in accordance with IFRS. If Holdco or any Restricted Subsidiary of Holdco sells or otherwise disposes of any Equity Interests of any direct or indirect Restricted Subsidiary of Holdco such that, after giving effect to any such sale or disposition, such Person is no longer a Restricted Subsidiary of Holdco, Holdco will be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of Holdco's Investments in such Subsidiary that were not sold or disposed of in an amount determined as provided in the final paragraph of the covenant described above under the caption "*—Certain Covenants—Restricted Payments.*" The acquisition by Holdco or any Restricted Subsidiary of Holdco of a Person that holds an Investment in a third Person will be deemed to be an Investment by Holdco or such Restricted Subsidiary in such third Person in an amount equal to the Fair Market Value of the Investments held by the acquired Person in such third Person in an amount determined as provided in the final paragraph of the covenant described above under the caption "*—Certain Covenants—Restricted Payments.*" Except as otherwise provided in the indenture and subject to clauses (c)(3) and (c)(4) of the first paragraph of the covenant described above under the caption "*—Certain Covenants—Restricted Payments*," the amount of an Investment will be determined at the time the Investment is made and without giving effect to subsequent changes in value.

"***Issue Date***" means April 28, 2017.

"***Limited Recourse Securitization Financing***" means any Receivables Financing in respect of which the applicable Securitization Assets subject thereto are sold (other than to Holdco or any Restricted Subsidiary) and Holdco or the relevant Restricted Subsidiary has received a "true sale" opinion (or the effective equivalent thereof in the applicable jurisdiction) from reputable counsel qualified in the applicable jurisdiction to give such opinion in respect of the Securitization Assets subject to such Receivables Financing (provided such opinion expressly takes into account the full effect of the financing transaction including and Guarantee or other credit support that may be provided by Holdco or any Restricted Subsidiary in connection with such Receivables Financing) and, after giving effect to such sale (in the context of such financing), the applicable Securitization Assets are not required to be reflected as assets of Holdco or its Restricted Subsidiaries on the consolidated balance sheet of Holdco prepared in accordance with IFRS.

"***Lien***" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction.

"***Market Capitalization***" means an amount equal to (i) the total number of issued and outstanding shares of common stock or common equity interests of the IPO Entity on the date of the declaration of the relevant dividend multiplied by (ii) the arithmetic mean of the closing prices per share of such common stock or common equity interests for the 30 consecutive trading days immediately preceding the date of declaration of such dividend.

"***Moody's***" means Moody's Investors Service, Inc.

"***Net Loan Portfolio***" means, as of any date of determination, the sum of loans, securities, investments, receivables and reserves minus allowances for loss of Holdco and its Restricted Subsidiaries as set forth on the consolidated balance sheet as of the most recent fiscal quarter of Holdco, prepared in accordance with IFRS.

"***Net Proceeds***" means the aggregate amount of cash proceeds and Cash Equivalents received by Holdco or any of its Restricted Subsidiaries in respect of any Asset Sale (including, without limitation, any cash or Cash Equivalents received upon the sale or other disposition of any non-cash consideration received in any Asset Sale), net of the direct costs relating to such Asset Sale, including, without limitation, legal, accounting and investment banking fees, and sales commissions, and any relocation expenses incurred as a result of the Asset Sale, taxes paid or payable as a result of the Asset Sale, in each case, after taking into account any available tax credits or deductions and any tax sharing arrangements, and amounts required to be applied to the repayment of

Indebtedness secured by a Lien on the asset or assets that were the subject of such Asset Sale and any reserve for adjustment or indemnification obligations in respect of the sale price of such asset or assets established in accordance with IFRS.

"***Non Recourse Debt***" means Indebtedness (except as would be permitted under the covenants described under the capital "Certain Covenants—Restricted Payments" and "Certain Covenants—Incurrence of Indebtedness and Issue of Preferred Stock" above on a *pro forma* basis giving effect to the designation of any Restricted Subsidiary for which the existence of Non Recourse Debt is tested as an Unrestricted Subsidiary on the date of such designation) as to which neither Holdco nor any of its Restricted Subsidiaries (a) provide credit support of any kind (including any undertaking agreement or instrument that would constitute Indebtedness) or (b) is directly or indirectly liable as a guarantor or otherwise.

"***Note Guarantee***" means the Guarantee by each Guarantor of the Issuer's obligations under the indenture and the notes, executed pursuant to the provisions of the indenture.

"***Obligations***" means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

"***Obligor***" means Holdco, the Issuer and each Guarantor.

"***Officer's Certificate***" means with respect to any Person, a certificate signed by one Officer of such Person.

"***Opinion of Counsel***" means a written opinion from legal counsel reasonably satisfactory to the trustee. The legal counsel may be an employee of or legal counsel to Holdco or its subsidiaries.

"***Parent Entity***" means, in relation to any Person (other than a natural Person) (the "***First Person***"), the Person (other than a natural person) (the "***Second Person***") which legally and beneficially owns more than 50% of the Voting Stock and/or Capital Stock of the First Person, either directly or through one or more Subsidiaries.

"***Parent Expenses***" means:

(1) costs (including all professional fees and expenses) incurred by any Parent Entity of Holdco in connection with reporting obligations under or otherwise incurred in connection with compliance with applicable laws, rules or regulations of any governmental, regulatory or self-regulatory body or stock exchange, the indenture in respect of the notes or any other agreement or instrument relating to Indebtedness of the Holdco or any of its Restricted Subsidiaries, including in respect of any reports filed with respect to the Securities Act, Exchange Act or the respective rules and regulations promulgated thereunder;

(2) customary indemnification obligations of any Parent Entity of Holdco owing to directors, officers, employees or other Persons under its charter or by-laws or pursuant to written agreements with any such Person to the extent relating to Holdco and its Subsidiaries;

(3) obligations of any Parent Entity of Holdco in respect of director and officer insurance (including premiums therefor) to the extent relating to Holdco and its Subsidiaries;

(4) general corporate overhead expenses, including:

    (a) professional fees and expenses and other operational expenses of any Parent Entity of Holdco related to the ownership or operation of the business of Holdco or any of its Restricted Subsidiaries;

    (b) costs and expenses with respect to the ownership, directly or indirectly, by any Parent Entity of Holdco;

    (c) any Taxes (for the avoidance of doubt, excluding any income Taxes) and other fees and expenses required to maintain such Parent Entity of Holdco's corporate existence and to provide for other ordinary course operating costs, including customary salary, bonus and other benefits payable to, and indemnities provided on behalf of, officers and employees of such Parent Entity of Holdco; and

    (d) to reimburse reasonable out of pocket expenses of the Board of Directors of such Parent;

(5) other fees, expenses and costs relating directly or indirectly to activities of Holdco and its Subsidiaries or any Parent Entity of Holdco or any other Person established for purposes of or in connection with this offering of the notes or which holds directly or indirectly any Capital Stock or Subordinated Shareholder Debt;

(6) any income taxes of any Parent Entity of Holdco, to the extent such income taxes are attributable to the income of Holdco and its Restricted Subsidiaries and, to the extent of the amount actually received in cash from its Unrestricted Subsidiaries, in amounts required to pay such taxes to the extent attributable to the income of such Unrestricted Subsidiaries; *provided*, however, that the amount of such payments in any fiscal year do not exceed the amount that Holdco and its Subsidiaries would be required to pay in respect of such taxes on a consolidated basis on behalf of an affiliated group consisting only of Holdco and its Subsidiaries; and

(7) expenses incurred by any Parent Entity of Holdco in connection with any public offering or other sale of Capital Stock or Indebtedness:

    (a) where the net proceeds of such offering or sale are intended to be received by or contributed to Holdco or a Restricted Subsidiary;

    (b) in a pro-rated amount of such expenses in proportion to the amount of such net proceeds intended to be so received or contributed; or

    (c) otherwise on an interim basis prior to completion of such offering so long as any Parent Entity of Holdco shall cause the amount of such expenses to be repaid to Holdco or the relevant Restricted Subsidiary out of the proceeds of such offering promptly if completed.

provided that the aggregate of all such Parent Expenses pursuant to the clauses above (other than clause (6)) shall not exceed €3.5 million in the aggregate in any fiscal year.

"***Permitted Business***" means (1) any business, service or activities that are the same as, or reasonably related, incidental, ancillary or complementary to, any of the businesses, services or activities in which Holdco and its Restricted Subsidiaries are engaged on the Issue Date, and reasonable extensions, developments or expansions of such businesses, services or activities and (2) any other type of financial service or activity.

"***Permitted Holders***" means, together or individually, the current Beneficial Owners of Holdco, being Uldis Arnicāns, Edgars Dupats and Vera Boyko, and any Related Party of Uldis Arnicāns, Edgars Dupats or Vera Boyko. Any person or group whose acquisition of beneficial ownership constitutes a Change of Control in respect of which a Change of Control Offer is made in accordance with the requirements of the indenture will thereafter, together with its Affiliates, constitute a Permitted Holder.

"***Permitted Investments***" means:

(1) any Investment in Holdco or in a Restricted Subsidiary of Holdco;

(2) any Investment in cash, Cash Equivalents, Temporary Cash Investments or Investment Grade Securities;

(3) any Investment by Holdco or any Restricted Subsidiary of Holdco in a Person, if as a result of such Investment:

    (a) such Person becomes a Restricted Subsidiary of Holdco; or

    (b) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, Holdco or a Restricted Subsidiary of Holdco;

(4) any Investment made as a result of the receipt of non-cash consideration from an Asset Sale that was made pursuant to and in compliance with the covenant described above under the caption "*—Repurchase at the Option of Holders—Asset Sales*;"

(5) any acquisition of assets or Capital Stock solely in exchange for the issuance of Equity Interests (other than Disqualified Stock) of Holdco;

(6) any Investments received in compromise or resolution of (A) obligations of trade creditors or customers that were incurred in the ordinary course of business of Holdco or any of its Restricted Subsidiaries, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer or upon the foreclosure with respect to any secured Investment or other transfer of title with respect to any secured Investment; or (B) litigation, arbitration or other disputes;

(7) Investments represented by Hedging Obligations;

(8) loans or advances to employees made in the ordinary course of business of Holdco or any Restricted Subsidiary of Holdco in an aggregate principal amount not to exceed €2.0 million at any time outstanding;

(9) repurchases of the notes or any Existing Indebtedness (other than Subordinated Indebtedness (including for the avoidance of doubt Subordinated Shareholder Debt));

(10) any guarantee of Indebtedness permitted to be incurred by the covenant entitled "*—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock*;"

(11) any Investment existing on, or made pursuant to binding commitments existing on, the Issue Date and any Investment consisting of an extension, modification or renewal of any Investment existing on, or made pursuant to a binding commitment existing on, the Issue Date; provided that the amount of any such Investment may be increased (a) as required by the terms of such Investment as in existence on the Issue Date or (b) as otherwise permitted under the indenture;

(12) Investments acquired after the Issue Date as a result of the acquisition by Holdco or any Restricted Subsidiary of Holdco of another Person, including by way of a merger, amalgamation or consolidation with or into Holdco or any of its Restricted Subsidiaries, or all or substantially all of the assets of another Person, in each case, in a transaction that is not prohibited by the covenant described above under the caption "*—Merger*, *Consolidation or Sale of Assets*" after the Issue Date to the extent that such Investments were not made in contemplation of such acquisition, merger, amalgamation or consolidation and were in existence on the date of such acquisition, merger, amalgamation or consolidation;

(13) Investments constituting deposits, prepayments and other credits to suppliers made in the ordinary course of business;

(14) deposits of cash made in the ordinary course of business to secure performance of operating leases;

(15) loans, advances or guarantees to directors, officers and employers of Holdco or any Restricted Subsidiary to cover, travel, entertainment or moving-related expenses enacted in the ordinary course of business;

(16) loans or participations therein in the ordinary course of business of Holdco and its Restricted Subsidiaries;

(17) [*reserved*];

(18) Investments consisting of purchases and acquisitions of inventory, supplies, materials and equipment or licenses or leases of intellectual property, in any case, in the ordinary course of business and in accordance with the indenture;

(19) other Investments in any Person having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (19) that are at the time outstanding not to exceed the greater of €40.0 million and 4.29% of Consolidated Total Assets, *provided, however*, that if any Investment pursuant to this clause (19) is made in a Person that is not a Restricted Subsidiary of Holdco at the date of the making of such Investment and such Person becomes (or is merged or consolidated with or into) a Restricted Subsidiary of Holdco after such date, such Investment shall thereafter be deemed to have been made pursuant to clause (1) or (3) above and shall cease to have been made pursuant to this clause (19); and

(20) any Investment made in connection with a Qualified Securitization Financing or a Limited Recourse Securitization Financing, including, without limitation and for the avoidance of doubt:

(a) Investments of funds held in accounts permitted or required by the arrangements governing such Qualified Securitization Financing or Limited Recourse Securitization Financing or any related Indebtedness;

(b) any subordinated debt issued by any special purpose entity in connection with a Qualified Securitization Financing or a Limited Recourse Securitization Financing; and

(c) any Securitization Repurchase; and

(21) Permitted TBI Portfolio Investments.

"***Permitted Liens***" means:

(1) [*reserved*];

(2) Liens to secure Hedging Obligations and/or Obligations with respect to Treasury Management Arrangements incurred in the ordinary course of business;

(3) Liens on property of a Person existing at the time such Person becomes a Restricted Subsidiary of Holdco or is merged with or into or consolidated with Holdco or any Restricted Subsidiary of Holdco; provided that such Liens were in existence prior to the contemplation of such Person becoming a Restricted Subsidiary of Holdco or such merger or consolidation (and were not created in anticipation of or to support such acquisition, merger or consolidation) and do not extend to any assets other than those of the Person that becomes a Restricted Subsidiary of Holdco or is merged with or into or consolidated with Holdco or any Restricted Subsidiary of Holdco;

(4) Liens on property (including Capital Stock) existing at the time of acquisition of such property by Holdco or any Subsidiary of Holdco; provided that such Liens were in existence prior to such acquisition and not incurred in contemplation of, such acquisition;

(5) Liens to secure the performance of statutory obligations, government contracts, trade contracts, insurance, surety or appeal bonds, bids, leases, workers compensation obligations, performance bonds or other obligations of a like nature incurred in the ordinary course of business (including Liens to secure letters of credit issued to assure payment of such obligations and Liens to secure pledges or deposits with respect to such obligations);

(6) Liens to secure Indebtedness (including Capital Lease Obligations) permitted by subclause (4) of the second paragraph of the covenant entitled "*—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock*" covering only the assets acquired with or financed by such Indebtedness;

(7) [*reserved*];

(8) Liens existing on the Issue Date (and replacement Liens that do not encumber additional assets, unless such encumbrance is otherwise permitted by the indenture);

(9) Liens for taxes, assessments or governmental charges or claims that are not yet delinquent for more than 30 days or that are being contested in good faith by appropriate proceedings promptly instituted and diligently concluded; provided that any reserve or other appropriate provision as is required in conformity with IFRS has been made therefor;

(10) Liens imposed by law, such as carriers', warehousemen's, landlord's and mechanics' Liens, in each case, incurred in the ordinary course of business;

(11) survey exceptions, easements or reservations of, or rights of others for, licenses, rights-of-way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real property that were not incurred in connection with Indebtedness and that do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person;

(12) Liens created for the benefit of (or to secure) the notes or the Note Guarantees;

(13) Liens to secure any Permitted Refinancing Indebtedness permitted to be incurred under the indenture; provided, however, that:

(a) the new Lien is limited to all or part of the same property and assets that secured or, under the written agreements pursuant to which the original Lien arose, could secure the original Lien (plus improvements and accessions to, such property or proceeds or distributions thereof); and

(b) the Indebtedness secured by the new Lien is not increased to any amount greater than the sum of (x) the outstanding principal amount, or, if greater, committed amount, of the Indebtedness renewed, refunded, refinanced, replaced, defeased or discharged with such Permitted Refinancing Indebtedness and (y) an amount necessary to pay any fees and expenses, including premiums, related to such renewal, refunding, refinancing, replacement, defeasance or discharge;

(14) Liens on insurance policies and proceeds thereof, or other deposits, to secure insurance premium financings;

(15) any interest or title of a lessor, licensor or sublessor under any lease, license or sublease entered into by Holdco or any of its Restricted Subsidiaries in the ordinary course of business and covering only the assets so leased, licensed or subleased;

(16) bankers' Liens, rights of setoff, Liens arising out of judgments or awards not constituting an Event of Default and notices of *lis pendens* and associated rights related to litigation being contested in good faith by appropriate proceedings and for which adequate reserves have been made;

(17) Liens on cash, Cash Equivalents or other property arising in connection with the defeasance, discharge or redemption of Indebtedness;

(18) Liens on specific items of inventory or other goods (and the proceeds thereof) of any Person securing such Person's obligations in respect of bankers' acceptances issued or created in the ordinary course of business for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;

(19) grants of software and other technology licenses in the ordinary course of business;

(20) Liens arising out of conditional sale, title retention, consignment or similar arrangements for the sale of goods entered into in the ordinary course of business;

(21) Liens in favor of the Issuer or any of the Guarantors;

(22) assignments of insurance or condemnation proceeds provided to landlords (or their mortgagees) pursuant to the terms of any lease and Liens or rights reserved in any lease for rent or for compliance with the terms of such lease;

(23) Liens in favor of a banking or other financial institution arising as a matter of law encumbering deposits or other funds maintained with a financial institution (including the right of setoff) and that are within the general parameters customary in the banking industry;

(24) [*reserved*];

(25) options, put and call arrangements, rights of first refusal and similar rights to Investments in joint ventures, partnerships or other similar Permitted Investments;

(26) Liens (i) solely on any cash deposits made by Holdco or any of its Restricted Subsidiaries in connection with any letter of intent or purchase agreement permitted hereunder of (ii) consisting of an agreement to consummate an Asset Sale permitted to be made by the terms of the indenture;

(27) restrictions resulting from any zoning or similar law or right reserved to or vested in any governmental office or agency to control or regulate the use of any real property, in each case, which do not and will not interfere with or affect in any material respect the use, value or operations of any real estate asset of Holdco or any of its Restricted Subsidiaries or the ordinary conduct of the business of Holdco or any of its Restricted Subsidiaries;

(28) Liens incurred with respect to obligations that do not exceed the greater of €20.0 million and 2.15% of Consolidated Total Assets at any time outstanding;

(29) Liens on assets or property of a Restricted Subsidiary that is not a Guarantor securing Indebtedness of any Restricted Subsidiary that is not a Guarantor;

(30) Liens on assets or property of Holdco or any Restricted Subsidiary securing Indebtedness or other obligations of Holdco or such Restricted Subsidiary owing to Holdco or another Restricted Subsidiary, or Liens in favor of Holdco or any Restricted Subsidiary;

(31) Liens on Securitization Assets (including, for the avoidance of doubt, bank accounts into which proceeds of Securitization Assets are paid into) granted or arising in connection with any Qualified Securitization Financing;

(32) Guarantees granted by Holdco or its Restricted Subsidiaries in connection with (i) Limited Recourse Securitization Financings and (ii) Recourse Securitization Financings permitted by clause (33) of the definition of "Permitted Liens;" and

(33) Liens on Securitization Assets granted or arising in connection with any Recourse Securitization Financing securing Indebtedness incurred in relation thereto in an amount not to exceed €30.0 million at any time outstanding.

"***Permitted Refinancing Indebtedness***" means any Indebtedness of Holdco or any of its Restricted Subsidiaries issued in exchange for, or the net proceeds of which are used to renew, refund, refinance, replace, extend, defease or discharge other Indebtedness of Holdco or any of its Restricted Subsidiaries (other than intercompany Indebtedness); provided that:

(1) the principal amount (or accreted value, if applicable) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness renewed, refunded, refinanced, replaced, extended, defeased or discharged (plus all accrued interest on the Indebtedness and the amount of all fees and expenses, including premiums, incurred in connection therewith);

(2) such Permitted Refinancing Indebtedness has a final maturity date no earlier than the final maturity date of the Indebtedness being renewed, refunded, refinanced, replaced, extended, defeased or discharged or, if the final maturity of the Indebtedness being renewed, refinanced, refinanced, replaced, extended, defeased or discharged is later than the final maturity of the notes, such Permitted Refinancing Indebtedness has a final maturity of at least 91 days later than the final maturity date of the notes;

(3) such Permitted Refinancing Indebtedness has a Weighted Average Life to Maturity at the time such Permitted Refinancing Indebtedness is incurred that is no shorter than the Weighted Average Life to Maturity of the portion of the Indebtedness being renewed, refunded, refinanced, replaced, extended, defeased or discharged;

(4) if the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged is subordinated in right of payment to the notes, such Permitted Refinancing Indebtedness is subordinated in right of payment to the notes on terms at least as favorable to the holders of notes as those contained in the documentation governing the Indebtedness being renewed, refunded, refinanced, replaced, extended, defeased or discharged;

(5) such Indebtedness is incurred either by Holdco or by the Restricted Subsidiary of Holdco that was the obligor on the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged and is guaranteed only by Persons who were obligors on the Indebtedness being renewed, refunded, refinanced, replaced, extended, defeased or discharged; and

(6) if the Indebtedness being refinanced is not Indebtedness of an Obligor, the refinancing Indebtedness thereof shall not be incurred, guaranteed or otherwise supported by an Obligor.

For the avoidance of doubt, it is understood that such Indebtedness incurred in connection with such renewal, refunding, refinancing, extension, replacement, defeasance or discharge may constitute an issuance of Indebtedness in excess of the amount permitted under this definition of "*Permitted Refinancing Indebtedness*" to the extent that such excess amount is otherwise permitted under the covenant contained under the caption "*—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock.*"

Permitted Refinancing Indebtedness in respect of any Credit Facility or any other Indebtedness may be incurred from time to time after the termination, discharge or repayment of any such Credit Facility or other Indebtedness.

"***Permitted TBI Portfolio Investments***" means Investments in financial instruments (for cash management and/or risk management purposes (other than Investments in Equity Interests)) by any member of the TBI Group in the ordinary course of business, in accordance with the investment policy approved by the board of directors of TBI Bank EAD or such Subsidiary of TBI Bank EAD, or a committee appointed for such purpose, and in accordance with applicable regulations.

“***Person***” means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company or government or other entity.

“***Pro Forma Adjustments***” means for the purposes of calculating Consolidated EBITDA or Fixed Charges for such period, if, as of such date of determination:

(1) in the event that the specified Person or any of its Restricted Subsidiaries incurs, assumes, guarantees, repays, repurchases, redeems, defeases or otherwise discharges any Indebtedness (other than ordinary working capital borrowings) or issues, repurchases or redeems Disqualified Stock or, in the case of any Restricted Subsidiary, preferred stock subsequent to the commencement of the period for which the Fixed Charge Corporate Debt Coverage Ratio or Consolidated Leverage Ratio, as applicable, is being calculated and on or prior to the date on which the event for which the calculation of the Fixed Charge Corporate Debt Coverage Ratio or Consolidated Leverage Ratio as applicable, is made (the “***Calculation Date***”), then the Fixed Charge Corporate Debt Coverage Ratio or Consolidated Leverage Ratio, as applicable, will be calculated giving *pro forma* effect (as determined in the good faith judgment by a responsible financial or accounting officer of Holdco) to such incurrence, assumption, Guarantee, repayment, repurchase, redemption, defeasance or other discharge of Indebtedness, or such issuance, repurchase or redemption of preferred stock, and the use of the proceeds therefrom, as if the same had occurred at the beginning of the applicable four-quarter reference period , provided, however, that the *pro forma* calculation of the Fixed Charge Corporate Debt Coverage Ratio or Consolidated Leverage Ratio, as applicable, shall not give effect to (i) any Indebtedness incurred on the date of determination pursuant to the provisions described in the definition of Permitted Debt or (ii) the discharge on the date of determination of any Indebtedness to the extent that such discharge results from the proceeds incurred pursuant to the provisions described in the definition of Permitted Debt.

(2) acquisitions or investments that have been made by the specified Person or any of its Restricted Subsidiaries, including through mergers or consolidations, or any Person or any of its Restricted Subsidiaries acquired by the specified Person or any of its Restricted Subsidiaries, and including all related financing transactions and including increases in ownership of Restricted Subsidiaries, during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date, or that are to be made on the Calculation Date, will be given pro forma effect (as determined in good faith judgment by a responsible financial or accounting officer of Holdco) as if they had occurred on the first day of the four-quarter reference period (including cost savings and synergies that are reasonably identifiable and factually supportable);

(3) the Consolidated EBITDA attributable to discontinued operations, as determined in accordance with IFRS, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded;

(4) the Fixed Charges attributable to discontinued operations, as determined in accordance with IFRS, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded, but only to the extent that the obligations giving rise to such Fixed Charges will not be obligations of the specified Person or any of its Restricted Subsidiaries following the Calculation Date;

(5) any Person that is a Restricted Subsidiary on the Calculation Date will be deemed to have been a Restricted Subsidiary at all times during such four-quarter period;

(6) any Person that is not a Restricted Subsidiary on the Calculation Date will be deemed not to have been a Restricted Subsidiary at any time during such four-quarter period; and

(7) if any Indebtedness bears a floating rate of interest, the interest expense on such Indebtedness will be calculated as if the rate in effect on the Calculation Date had been the applicable rate for the entire period (taking into account any Hedging Obligation applicable to such Indebtedness if such Hedging Obligation has a remaining term as at the Calculation Date in excess of 12 months or, if shorter, equal to the remaining term of such Indebtedness).

“***Public Debt***” means any Indebtedness, consisting of bonds, debentures, notes or other similar debt securities issued in (a) a public offering registered under the Securities Act or (b) a private placement to institutional investors whether or not it is underwritten for resale in accordance with Rule 144A or Regulation S under the Securities Act and whether or not it includes registration rights entitling holders of such debt securities to registration thereof with the U.S. Securities and Exchange Commission for public resale.

“***Public Market***” means, any time after a public Equity Offering has been consummated, shares of common stock or other common equity interests of the IPO Entity having a market value in excess of €50.0 million on the

date of such Equity Offering have been distributed pursuant to such Equity Offering other than to Permitted Holders and their Affiliates.

"***Public Offering***" means any offering of shares of common stock or other common equity interests that are listed on an exchange or publicly offered.

"***Qualified Securitization Financing***" means any Receivables Financing; provided that, as determined in good faith by a responsible financial or accounting officer of Holdco, (i) the covenants, events of default (however designated) and other provisions applicable to such financing shall be on market terms at the time such financing is entered into; (ii) the interest rate applicable to such financing shall be a market interest rate at the time such financing is entered into; and (iii) such financing shall be non-recourse to Holdco or any of its Restricted Subsidiaries (other than transferees of such Securitization Assets) provided that such financing may contain Standard Securitization Undertakings.

"***Qualifying Equity Interests***" means Equity Interests of Holdco other than (1) Disqualified Stock; and (2) Equity Interests that were used to support an incurrence of Contribution Indebtedness.

"***Ratings Agencies***" means Moody's or S&P or if any of Moody's or S&P shall not make a rating publicly available on the Notes, another Nationally Recognized Statistical Rating Organization or Organizations, as the case may be, selected by the Issuer or Holdco (with prior notice to the trustee) which shall be substituted for Moody's or S&P, as the case may be.

"***Receivables Financing***" means any financing pursuant to which Holdco or any of its Restricted Subsidiaries funds the origination, sells, conveys, holds on trust or otherwise transfers to any other Person, or grants a security interest in, or funds or provides or procures the provision of credit support or other Investments in connection with, any Securitization Assets (and related assets and/or security) (or any transaction where Holdco or any of its Restricted Subsidiaries enter into one or more derivatives to achieve the same economic effect as the foregoing) for consideration (where such financing and the terms thereof are taken together in the aggregate) at least equivalent to the Fair Market Value of such Securitization Assets (and related assets and/or security) of Holdco or any of its Restricted Subsidiaries (whether or not resulting in any liabilities being reflected on the consolidated balance sheet of Holdco) (including, for the avoidance of doubt, any Qualified Securitization Financing, Limited Recourse Securitization Financing or Recourse Securitization Financing).

"***Receivables Repurchase Obligation***" means any obligation of a seller of receivables in connection with a Qualified Securitization Financing to repurchase receivables arising as a result of a breach of a representation, warranty or covenant or otherwise, including as a result of a receivable or portion thereof becoming subject to any asserted defense, dispute, off-set or counterclaim of any kind as a result of any action taken by, any failure to take action by or any other event relating to the seller.

"***Recourse Securitization Financing***" means any Receivables Financing of Holdco or any of its Restricted Subsidiaries that does not constitute a Qualified Securitization Financing or a Limited Recourse Securitization Financing.

"***Related Party***" means with respect to an individual:

(1) any spouse, family member or relative of such individual, any trust or partnership for the benefit of one or more of such individual and any such spouse, family members, lineal descendant (including by adoption) or relative, or the estate, executor, administrator, committee, legal representatives or beneficiaries of any thereof; or

(2) any trust, corporation, partnership, limited liability company or other entity, the beneficiaries, stockholders, partners, members, owners or Persons beneficially holding a majority (and controlling) interest of which consist of such individual and such other Persons referred to in clause (1) of this definition.

"***Related Taxes***" means any Taxes, including sales, use, transfer, rental, ad valorem, value added, stamp, property, consumption, franchise, license, capital, registration, business, customs, net worth, gross receipts, excise, occupancy, intangibles or similar Taxes (other than (x) Taxes measured by income and (y) withholding imposed on payments made by any Parent), required to be paid (provided that such Taxes are in fact paid) by any Parent by virtue of it:

(1) being incorporated or otherwise being established or having Capital Stock outstanding (but not by virtue of owning stock or other equity interests of any corporation or other entity other than, directly or indirectly, Holdco or any of Holdco's Subsidiaries);

(2) issuing or holding Subordinated Shareholder Debt;

(3) being a holding company parent, directly or indirectly, of Holdco or any of Holdco's Subsidiaries;

(4) receiving dividends from or other distributions in respect of the Capital Stock of, directly or indirectly, Holdco or any of Holdco's Subsidiaries; or

(5) having made any payment with respect to any of the items for which Holdco is permitted to make payments to any Parent Entity pursuant to "*—Certain Covenants—Limitation on Restricted Payments*."

"***Relevant Regulator***" means the Bulgarian National Bank (or any successor thereto) or such other governmental authority in Bulgaria (or if any member of the TBI Group becomes domiciled in or otherwise subject to the banking or similar regulatory jurisdiction other than Bulgaria, in such other jurisdiction) having primary supervisory authority with respect any member of the TBI Group.

"***Restricted Investment***" means an Investment other than a Permitted Investment.

"***Restricted Subsidiary***" means any Subsidiary of Holdco including the Issuer, that is not an Unrestricted Subsidiary.

"***S&P***" means Standard & Poor's Ratings Group and its successors and assigns.

"***Securities Act***" means the U.S. Securities Act of 1933, as amended.

"***Securitization Assets***" means any accounts receivable, consumer loans, royalty or revenue streams from sales of loans, receivables or other revenue streams or participations therein and any assets related thereto (the "***Applicable Assets***"), including all collateral securing such Applicable Assets, all contracts and all guarantees or other obligations in respect of such Applicable Assets, proceeds collected on such Applicable Assets and other assets which are customarily transferred or held on trust or in respect of which security interests are customarily granted in connection with asset securitization transactions and any related Hedging Obligations, in each case, whether now existing or arising in the future.

"***Securitization Fees***" means distributions or payments made directly or by means of discounts with respect to any participation interest issued or sold in connection with, and other fees paid to a Person that is not Holdco or a Restricted Subsidiary of Holdco in connection with any Receivables Financing.

"***Securitization Repurchase***" means the repurchase by a seller of Securitization Assets in a Receivables Financing arising as a result of a breach of or in order to comply with a representation, warranty or covenant or otherwise, including as a result of a receivable or portion thereof being found not to exist, being found to be ineligible for the purpose of such Receivables Financing or becoming subject to any asserted defense, dispute, set-off or counterclaim of any kind as a result of any action taken by, any failure to take action by or any other event relating to the seller.

"***Significant Subsidiary***" means any Restricted Subsidiary that would be a "significant subsidiary" as defined in Article 1, Rule 1-02 of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the Issue Date.

"***Standard Securitization Undertakings***" means representations, warranties, covenants, indemnities and guarantees of performance entered into by Holdco or any or any of its Restricted Subsidiaries, which Holdco has determined in good faith to be customary in connection with the relevant Qualified Securitization Financing, relating to the servicing of the Securitization Assets, it being understood that any Receivables Repurchase Obligation shall be deemed to be a Standard Securitization Undertaking.

"***Stated Maturity***" means, with respect to any installment of interest or principal on any series of Indebtedness, the date on which the payment of interest or principal was scheduled to be paid in the documentation governing such Indebtedness as of the first date it was incurred in compliance with the terms of the indenture, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof; provided that, in the case of debt securities that are by their terms convertible into Capital Stock (or cash or a combination of cash and Capital Stock based on the value of the Capital Stock) of Holdco, any obligation to offer to repurchase such debt securities on a date(s) specified in the original terms of such securities, which obligation is not subject to any condition or contingency, will be treated as a Stated Maturity date of such convertible debt securities.

"***Subordinated Indebtedness***" means, with respect to Holdco or any Restricted Subsidiary, any Indebtedness which is expressly subordinated in right of payment to the notes or its Note Guarantees pursuant to a written agreement.

"***Subordinated Shareholder Debt***" means, collectively, any funds provided to Holdco or any of its Restricted Subsidiaries by any direct or indirect Parent Entity of Holdco in exchange for or pursuant to any security, instrument or agreement other than Capital Stock, together with any such security, instrument or agreement and any other security or instrument other than Capital Stock issued in payment of any obligation under any Subordinated Shareholder Debt; *provided, however,* that such Subordinated Shareholder Debt:

(1) does not (including upon the happening of any event) mature or require any amortization, redemption or other repayment of principal or any sinking fund payment prior to the first anniversary of the Stated Maturity of the notes (other than through conversion or exchange of such funding into Capital Stock (other than Disqualified Stock) of Holdco or any funding meeting the requirements of this definition);

(2) does not (including upon the happening of any event) require, prior to the first anniversary of the Stated Maturity of the notes, payment of cash interest, cash withholding amounts or other cash gross-ups, or any similar cash amounts;

(3) contains no change of control or similar provisions and does not (including upon the happening of any event) accelerate and has no right (including upon the happening of any event) to declare a default or event of default or take any enforcement action or otherwise require any cash payment, in each case, prior to the first anniversary of the Stated Maturity of the notes;

(4) does not provide for or require any security interest or encumbrance over any asset of Holdco or any of its Restricted Subsidiaries and is not guaranteed by any Restricted Subsidiary of Holdco;

(5) pursuant to its terms, is subordinated in right of payment to the prior payment in full in cash of the notes and the Note Guarantees in the event of any default, bankruptcy, reorganization, liquidation, winding up or other disposition of assets of Holdco;

(6) does not (including upon the happening of any event) restrict the payment of amounts due in respect of the notes or the Note Guarantees or compliance by Holdco with its obligations under the indenture;

(7) does not (including upon the happening of an event) constitute Voting Stock; and

(8) is not (including upon the happening of any event) mandatorily convertible or exchangeable, or convertible or exchangeable at the option of the holder thereof; in whole or in part, prior to the date on which the notes mature, other than into or for Capital Stock (other than Disqualified Stock) of Holdco.

"***Subsidiary***" means, with respect to any specified Person:

(1) any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency and after giving effect to any voting agreement or stockholders' agreement that effectively transfers voting power) to vote in the election of directors, managers or trustees of the corporation, association or other business entity is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and

(2) any partnership or limited liability company of which (a) more than 50% of the capital accounts, distribution rights, total equity and voting interests or general and limited partnership interests, as applicable, are owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof, whether in the form of membership, general, special or limited partnership interests or otherwise, and (b) such Person or any Subsidiary of such Person is a controlling general partner or otherwise controls such entity.

"***Subsidiary Guarantors***" means any Subsidiary of Holdco that is a Guarantor.

"***Taxes***" means all present and future taxes, levies, imposts, deductions, charges, duties and withholdings and any charges of a similar nature (including, without limitation, interest, penalties and other liabilities with respect thereto) that are imposed by any government or other taxing authority.

"***TBI Group***" means TBI Bank EAD and its Subsidiaries from time to time.

"*TBI Own Funds Requirement*" means at any time, the then applicable consolidated statutory capital adequacy ratio requirements (*i.e,*, tier 1 and tier 2 capital to risk weighted assets (in each case within the meaning

of the CRR and CRD IV) (and including the applicable regulatory buffers and any Pillar 2 or other supplemental capital requirements imposed on the TBI Group from time to time) as applied, required, specified or implemented by any applicable law or Relevant Regulator plus 1%.

"***Temporary Cash Investments***" means any of the following:

(1) any investment in:

(a) direct obligations of, or obligations Guaranteed by, (i) the United States of America or Canada, (ii) any European Union member state whose long-term debt is rated "A-1" or higher by Moody's or "A+" or higher by S&P or the equivalent rating category of another internationally recognized rating agency, (iii) Switzerland or Norway, (iv) any country in whose currency funds are being held specifically pending application in the making of an investment or capital expenditure by Holdco or a Restricted Subsidiary in that country with such funds or (v) any agency or instrumentality of any such country or member state; or

(b) direct obligations of any country recognized by the United States of America rated at least "A" by S&P or "A-1" by Moody's (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody's then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization); or

(2) overnight bank deposits, and investments in time deposit accounts, certificates of deposit, bankers' acceptances and money market deposits (or, with respect to foreign banks, similar instruments) maturing not more than one year after the date of acquisition thereof issued by:

(a) any institution authorized to operate as a bank in any of the countries or member states referred to in sub-clause (1)(a) above; or

(b) any bank or trust company organized under the laws of any such country or member state or any political subdivision thereof,

in each case, having capital and surplus aggregating in excess of €250 million (or the foreign currency equivalent thereof) and whose long-term debt is rated at least "A" by S&P or "A-2" by Moody's (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody's then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization) at the time such Investment is made;

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) or (2) above entered into with a Person meeting the qualifications described in clause (2) above;

(4) Investments in commercial paper, maturing not more than 270 days after the date of acquisition, issued by a Person (other than Holdco or any of its Subsidiaries), with a rating at the time as of which any Investment therein is made of "P-2" (or higher) according to Moody's or "A-2" (or higher) according to S&P (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody's then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization);

(5) Investments in securities maturing not more than one year after the date of acquisition issued or fully Guaranteed by any state, commonwealth or territory of the United States of America, Canada, any European Union member state or Switzerland, Norway or by any political subdivision or taxing authority of any such state, commonwealth, territory, country or member state, and rated at least "BBB-" by S&P or "Baa3" by Moody's (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody's then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization);

(6) bills of exchange issued in the United States, Canada, a member state of the European Union, Switzerland, Norway or Japan eligible for rediscount at the relevant central bank and accepted by a bank (or any dematerialized equivalent);

(7) any money market deposit accounts issued or offered by a commercial bank organized under the laws of a country that is a member of the Organization for Economic Co-operation and Development, in each case, having capital and surplus in excess of €250 million (or the foreign currency equivalent thereof) or whose long term debt is rated at least "A" by S&P or "A2" by Moody's (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody's then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization) at the time such Investment is made;

(8) investment funds investing 95% of their assets in securities of the type described in clauses (1) through (7) above (which funds may also hold reasonable amounts of cash pending investment or distribution); and

(9) investments in money market funds complying with the risk limiting conditions of Rule 2a-7 (or any successor rule) of the SEC under the U.S. Investment Company Act of 1940.

"***Treasury Management Arrangement***" means any agreement or other arrangement governing the provision of treasury or cash management services, including deposit accounts, overdraft, credit or debit card, funds transfer, automated clearinghouse, zero balance accounts, returned check concentration, controlled disbursement, lockbox, account reconciliation and reporting and trade finance services and other cash management services.

"***Treasury Rate***" means the yield to maturity at the time of computation of U.S. Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) which has become publicly available at least two Business Days (but not more than five Business Days) prior to the redemption date (or, if such statistical release is not so published or available, any publicly available source of similar market data selected by Holdco in good faith)) most nearly equal to the period from the redemption date to the maturity date; provided, however, that if the period from the redemption date to the maturity date is not equal to the constant maturity of a U.S. Treasury security for which a weekly average yield is given, the Treasury Rate shall be obtained by a linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of U.S. Treasury securities for which such yields are given, except that if the period from the redemption date to the maturity date is less than one year, the weekly average yield on actually traded U.S. Treasury securities adjusted to a constant maturity of one year shall be used.

"***Unrestricted Subsidiary***" means any Subsidiary of Holdco other than the Issuer or Holdco that is designated by the Board of Directors of Holdco as an Unrestricted Subsidiary pursuant to a resolution of the Board of Directors, but only to the extent that such Subsidiary:

(1) has no Indebtedness other than Non-Recourse Debt:

(2) except as permitted by the covenant described above under the caption "*Certain Covenants Transactions with Affiliates,*" is not party to any agreement, contracts, arrangement or understanding with Holdco or any Restricted Subsidiary of Holdco unless the terms of any such agreement contract, arrangement or undertaking are no less favorable to Holdco or such Restricted Subsidiary than those that might be obtained at the time from Persons who are not Affiliates or Holdco;

(3) is a Person with respect to which neither Holdco nor any of its Restricted Subsidiaries has any direct or indirect obligation (a) to subscribe for additional Equity Interests or (b) to maintain or preserve such Person's financial condition or to cause such Person to achieve any specified levels of operating results; and

(4) has not guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of Holdco or any of its Restricted Subsidiaries.

"***Voting Stock***" of any specified Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

"***Weighted Average Life to Maturity***" means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

(1) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect of the Indebtedness, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by

(2) the then outstanding principal amount of such Indebtedness.

BOOK-ENTRY DELIVERY AND FORM

GENERAL

Notes sold to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act will initially be represented by a global note in registered form without interest coupons attached (the "**Rule 144A Global Note**"). Notes sold to non-U.S. persons in reliance on Regulation S under the U.S. Securities Act will initially be represented by a global note in registered form without interest coupons attached (the "**Regulation S Global Note**" and, together with the Rule 144A Global Note, the "**Global Notes**"). The Global Notes will be deposited, on the Issue Date, with a common depositary and registered in the name of the nominee of the common depositary for the accounts of Euroclear and Clearstream.

Ownership of interests in the Rule 144A Global Note ("**Rule 144A Book-Entry Interests**") and in the Regulation S Global Note (the "**Regulation S Book-Entry Interests**" and, together with the Rule 144A Book-Entry Interests, the "**Book-Entry Interests**") will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that hold interests through such participants. Euroclear and Clearstream will hold interests in the Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries. Except under the limited circumstances described below, Book-Entry Interests will not be held in definitive certificated form.

Book-Entry Interests will be shown on, and transfers thereof will be done only through, records maintained in book-entry form by Euroclear and Clearstream and their participants. The laws of some jurisdictions, including certain states of the United States, may require that certain purchasers of securities take physical delivery of such securities in definitive certificated form. The foregoing limitations may impair the ability to own, transfer or pledge Book-Entry Interests. In addition, while the Notes are in global form, holders of Book-Entry Interests will not be considered the owners or "holders" of Notes for any purpose.

So long as the Notes are held in global form, the common depositary for Euroclear and/or Clearstream, as applicable (or its nominee), will be considered the sole holders of the Global Notes for all purposes under the Indenture. In addition, participants must rely on the procedures of Euroclear and/or Clearstream, and indirect participants must rely on the procedures of Euroclear, Clearstream and the participants through which they own Book-Entry Interests, to transfer their interests or to exercise any rights of holders under the Indenture.

Neither of the Issuer or the Trustee will have any responsibility, or be liable, for any aspect of the records relating to the Book-Entry Interests.

REDEMPTION OF GLOBAL NOTES

In the event that any Global Note (or any portion thereof) is redeemed, Euroclear and/or Clearstream, as applicable, will redeem an equal amount of the Book-Entry Interests in such Global Note from the amount received by it in respect of the redemption of such Global Note. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by Euroclear and/or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). The Issuer understands that, under the existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions), on such other basis as they deem fair and appropriate, provided, however, that no Book-Entry Interest of less than USD 200,000 in aggregate principal amount.

PAYMENTS ON GLOBAL NOTES

The Issuer will make payments of any amounts owing in respect of the Global Notes (including principal, premium, if any, interest, and any additional interest and additional amounts) to the common depositary or its nominee for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their customary procedures. The Issuer expects that standing customer instructions and customary practices will govern payments by participants to owners of Book-Entry Interests held through such participants.

Under the terms of the Indenture, the Issuer and the Trustee will treat the registered holder of the Global Notes (*e.g.*, Euroclear or Clearstream (or their respective nominees)) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Issuer, the Trustee or any of its or their respective agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest or for maintaining, supervising or reviewing

the records of Euroclear, Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest; or

- maintaining, supervising or reviewing the records of Euroclear, Clearstream or any participant or indirect participant.

CURRENCY OF PAYMENT FOR THE GLOBAL NOTES

The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Global Notes will be paid in USD.

ACTION BY OWNERS OF BOOK-ENTRY INTERESTS

Euroclear and Clearstream have advised the Issuer that they will take any action permitted to be taken by a holder of Notes (including the presentation of Notes for exchange as described above) only at the direction of one or more participants to whose account the Book-Entry Interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Notes. However, if there is an event of default under the Notes, Euroclear and Clearstream each reserves the right to exchange the Global Notes for definitive registered Notes in certificated form ("**Definitive Registered Notes**"), and to distribute Definitive Registered Notes to their participants.

TRANSFERS

Transfers between participants in Euroclear and Clearstream will be effected in accordance with Euroclear and Clearstream rules and will be settled in immediately available funds. If a holder requires physical delivery of Definitive Registered Notes for any reason, including to sell Notes to persons in jurisdictions that require physical delivery of securities or to pledge such securities, such holder must transfer its interests in the Global Notes in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the procedures set forth in the Indenture.

The Rule 144A Global Note will have a legend to the effect set forth under "*Notice to Investors*." Book-Entry Interests in the Global Notes will be subject to the restrictions on transfers and certification requirements discussed under "*Notice to Investors*."

Rule 144A Book-Entry Interests may be transferred to a person who takes delivery in the form of a Regulation S Book-Entry Interest only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 under the U.S. Securities Act or any other exemption (if available under the U.S. Securities Act).

Regulation S Book-Entry Interests may be transferred to a person who takes delivery in the form of a Rule 144A Book-Entry Interest denominated in the same currency only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made to a person whom the transferor reasonably believes is a "qualified institutional buyer" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under "*Notice to Certain Investors*" and "*Transfer Restrictions*" and in accordance with any applicable securities laws of any other jurisdiction.

In connection with transfers involving an exchange of a Regulation S Book-Entry Interest for a Rule 144A Book-Entry Interest, appropriate adjustments will be made to reflect a decrease in the principal amount of the Regulation S Global Note and a corresponding increase in the principal amount of the Rule 144A Global Note.

Any Book-Entry Interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a Book-Entry Interest in any other Global Note will, upon transfer, cease to be a Book-Entry Interest in the first mentioned Global Note and become a Book-Entry Interest in such other Global Note, and accordingly will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in such other Global Note for as long as it remains such a Book-Entry Interest.

DEFINITIVE REGISTERED NOTES

Under the terms of the Indenture, owners of the Book-Entry Interests will receive Definitive Registered Notes:

- if Euroclear or Clearstream notifies the Issuer that it is unwilling or unable to continue to act as depositary and a successor depositary is not appointed by the Issuer within 120 days; or
- if the owner of a Book-Entry Interest requests such an exchange in writing delivered through Euroclear or Clearstream following an Event of Default under the Indenture.

In the case of the issuance of Definitive Registered Notes, the holder of a Definitive Registered Note may transfer such Note by surrendering it to the Registrar or a transfer agent. In the event of a partial transfer or a partial redemption of a holding of Definitive Registered Notes represented by one Definitive Registered Note, a Definitive Registered Note will be issued to the transferee in respect of the part transferred and a new Definitive Registered Note in respect of the balance of the holding not transferred or redeemed will be issued to the transferor or the holder, as applicable; *provided* that no Definitive Registered Note in a denomination less than USD200,000 in aggregate principal amount will be issued. The Issuer will bear the cost of preparing, printing, packaging and delivering the Definitive Registered Notes.

The Issuer will not be required to register the transfer or exchange of Definitive Registered Notes for a period of 15 calendar days preceding (i) the record date for any payment of interest on the Notes, (ii) any date fixed for redemption of the Notes or (iii) the date fixed for the selection of the Notes to be redeemed in part. Also, the Issuer is not required to register the transfer or exchange of any Notes selected for redemption or which the holder has tendered (and not withdrawn) for repurchase in connection with a change of control offer or asset sale offer. In the event of the transfer of any Definitive Registered Note, the Trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents as described in the Indenture. The Issuer may require a holder to pay any transfer taxes and fees required by law and permitted by the Indenture and the Notes.

If Definitive Registered Notes are issued and a holder thereof claims that such a Definitive Registered Note has been lost, destroyed or wrongfully taken, or if such Definitive Registered Note is mutilated, upon receipt of an authentication order from the Issuer, and is surrendered to the registrar or at the office of a transfer agent, the Issuer will issue and the Trustee will authenticate a replacement Definitive Registered Note if the Trustee's and the Issuer's requirements are met. The Issuer or the Trustee may require a holder requesting replacement of a Definitive Registered Note to furnish an indemnity bond sufficient in the judgment of both to protect themselves, the Trustee or the Paying Agent appointed pursuant to the Indenture from any loss that any of them may suffer if a Definitive Registered Note is replaced. The Issuer may charge for any expenses incurred by the Issuer in replacing a Definitive Registered Note.

In case any such mutilated, destroyed, lost or stolen Definitive Registered Note has become or is about to become due and payable, or is about to be redeemed or purchased by the Issuer pursuant to the provisions of the Indenture, the Issuer, in its discretion, may, instead of issuing a new Definitive Registered Note, pay, redeem or purchase such Definitive Registered Note, as the case may be.

Definitive Registered Notes may be transferred and exchanged only after the transferor first delivers to the Trustee a written certification (in the form provided in the Indenture) to the effect that such transfer will comply with the transfer restrictions applicable to such Notes. See "*Notice to Certain Investors*" and "*Transfer Restrictions*."

INFORMATION CONCERNING EUROCLEAR AND CLEARSTREAM

All Book-Entry Interests will be subject to the operations and procedures of Euroclear and Clearstream, as applicable. The Issuer provides the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. Neither the Issuer, the Lead Manager nor the Co-Manager are responsible for those operations or procedures.

The Issuer understands as follows with respect to Euroclear and Clearstream. Euroclear and Clearstream hold securities for participating organizations. They also facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide various services to their participants, including the safekeeping,

administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear and Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Because Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the Euroclear or Clearstream systems, or otherwise take actions in respect of such interest, may be limited by the lack of a definite certificate for that interest. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests to such persons may be limited. In addition, owners of beneficial interests through the Euroclear or Clearstream systems will receive distributions attributable to the 144A Global Notes only through Euroclear or Clearstream participants.

GLOBAL CLEARANCE AND SETTLEMENT UNDER THE BOOK-ENTRY SYSTEM

The Notes represented by the Global Notes are expected to be listed on the Official List of the Irish Stock Exchange and admitted for trading on the Global Exchange Market. Transfers of interests in the Global Notes between participants in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Although Euroclear and Clearstream currently follow the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants in Euroclear or Clearstream, as the case may be, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or modified at any time. None of the Issuer, the Trustee or the Paying Agent will have any responsibility for the performance by Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

INITIAL SETTLEMENT

Initial settlement for the Notes will be made in pounds sterling. Book-Entry Interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional bonds in registered form. Book-Entry Interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

SECONDARY MARKET TRADING

The Book-Entry Interests will trade through participants of Euroclear or Clearstream and will settle in same-day funds. Since the purchase determines the place of delivery, it is important to establish at the time of trading of any Book-Entry Interests where both the purchaser’s and the seller’s accounts are located to ensure that settlement can be made on the desired value date.

TAXATION

Prospective purchasers of the Notes are advised to consult their own tax advisors as to the consequences of a purchase of Notes under the tax laws of the country of which they are resident, including, but not limited to, the consequences of the receipt of interest and the sale or redemption of the Notes. The following is a general description of certain tax laws relating to the Notes and the Guarantees, as in effect on the date hereof, and does not purport to be a comprehensive discussion of the tax treatment of the Notes or the Guarantees. In particular, these discussions do not consider any specific facts or circumstances that may apply to you. The discussions that follow for each jurisdiction are based upon the applicable laws and interpretations thereof as in effect as of the date of this Offering Memorandum. These tax laws and interpretations are subject to change, possibly with retroactive or retrospective effect.

UNITED STATES

The following is a summary of certain U.S. federal income considerations that may be relevant to a purchaser of a Note. Except for the discussions below under "*—Information reporting and backup withholding*," the discussion generally applies only to a purchaser of Notes that is, for U.S. tax purposes, an individual who is a citizen or resident of the United States, a corporation (or entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any state thereof or any other person that is subject to U.S. federal income tax on a net income basis in respect of an investment in the Notes, an estate the income of which is subject to United States federal income taxation regardless of its source or a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury Regulations ("**Treasury Regulations**") to be treated as a United States person (a "**U.S. Holder**").

This summary is based on laws, regulations, rulings and decisions now in effect, all of which are subject to change, perhaps retroactively. This summary deals only with U.S. Holders that purchase the Notes at original issuance, at their initial Issue Price and that will hold Notes as capital assets. This summary does not address all aspects of U.S. federal income taxation that may be relevant to a particular holder or to certain types of holders subject to special treatment, such as persons subject to certain U.S. federal income tax laws regarding expatriates, dealers in securities or currencies, certain short-term holders of Notes, financial institutions, banks, insurance companies, regulated investment companies, traders in securities electing to mark to market, tax-exempt organizations, nonresident alien individuals present in the United States for more than 182 days in a taxable year, and taxpayers whose functional currency is not the U.S. dollar, or who hold the Notes as part of a "straddle," "hedge," "conversion transaction," "synthetic security" or other integrated transaction. Furthermore, this summary does not address the alternative minimum tax, the Medicare tax on net investment income applicable to certain non-corporate U.S. Holders or other aspects of U.S. federal income or state and local taxation that may be relevant to a holder in light of such holder's particular circumstances.

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holds Notes, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. A partnership that acquires or holds Notes should consult its own tax advisors regarding the U.S. federal income tax consequences to its partners of its acquisition, holding and disposition of Notes.

If you are considering the purchase of Notes, you should consult your own tax advisors concerning the particular U.S. federal income tax consequences to you regarding investing in the Notes, as well as the consequences to you arising under the laws of any other taxing jurisdictions.

Payments of interest

Interest paid on a Note (including any non-U.S. taxes imposed on, and any additional amounts paid with respect to, such payments) will generally be taxable to a U.S. Holder as ordinary income at the time it is paid or accrued in accordance with its method of accounting for tax purposes. While it is not anticipated that the Notes will be issued with more than de minimis original issue discount ("**OID**"), if the Notes are issued with OID in excess of a de minimis amount, a U.S. Holder will be required to include the OID in ordinary income during the term of the Notes on a constant accrual basis, regardless of the U.S. Holder's method of accounting. The remainder of this discussion assumes that the Notes are not issued with OID in excess of a de minimis amount.

A U.S. Holder may be entitled to deduct or credit taxes withheld from the interest payments it receives, subject to certain limitations (including that the election to deduct or credit foreign taxes applies to all of its

foreign taxes for a particular tax year). Interest income (including any non-U.S. taxes imposed on, and any additional amounts paid with respect to, such payments) on a Note generally will be considered foreign source income and generally should constitute "passive category income." A U.S. Holder may be denied a foreign tax credit for foreign taxes imposed with respect to the Notes where it does not meet a minimum holding period requirement during which it is not protected from risk of loss. A U.S. Holder is urged to consult its own tax advisors regarding the availability of the foreign tax credit under its particular circumstances.

Sale, exchange, redemption or other disposition of Notes

A U.S. Holder's tax basis in a Note will, in general, be equal to the cost of such Note to such holder reduced by any payment other than payments of stated interest made on such Note. Upon the sale, exchange, redemption or other disposition of a Note, a U.S. Holder will recognize gain or loss equal to the difference between the amount it realizes upon the sale, exchange, redemption or other disposition (including any "make-whole" premium, but less an amount equal to any accrued interest that it did not previously include in income, which will be taxable as interest income) and the tax basis of the Note.

Gain or loss recognized upon the sale, exchange, redemption or other disposition of a Note will generally be long-term capital gain or loss if the Note is held for more than one year. Certain U.S. Holders (including individuals) may be eligible for preferential tax rates in respect of long-term capital gains. The deductibility of capital losses is subject to limitations. Capital gain or loss, if any, realized by a U.S. Holder on the sale or other taxable disposition of the Notes generally will be treated as U.S. source gain or loss. Consequently, in the case of a gain from the disposition of a Note that is subject to foreign income tax, a U.S. Holder may not be able to claim a foreign tax credit for the tax unless the U.S. Holder can apply the credit against U.S. federal income tax payable on other income from foreign sources. Alternatively, the U.S. Holder may take a deduction for the foreign income tax if the U.S. Holder does not elect to claim a foreign tax credit for any foreign income taxes paid during the taxable year.

Satisfaction and Discharge

If the Issuer were to obtain a discharge of the Indenture within one year of maturity with respect to all of the Notes then outstanding in the relevant series of Notes, as described in this offering memorandum under "*Description of the Notes—Satisfaction and Discharge*," such discharge would generally be deemed to constitute a taxable exchange of the Notes outstanding for other property. In such case, a U.S. holder would be required to recognize capital gain or loss in connection with such deemed exchange. In addition, after such deemed exchange, a U.S. Holder might also be required to recognize income from the property deemed to have been received in such exchange over the remaining life of the transaction in a manner or amount that is different than if the discharge had not occurred. U.S. Holders should consult their tax advisors as to the specific consequences arising from a discharge in their particular situations.

Foreign Asset Reporting

Certain U.S. holders are required to report information relating to an interest in the Notes, subject to certain exceptions (including an exception for Notes held in accounts maintained by U.S. financial institutions), by attaching a completed IRS Form 8938, statement of Specified Foreign Financial Assets, with their tax return for each year in which they had an interest in the Notes. U.S. holders are urged to consult their tax advisers regarding information reporting requirements relating to their ownership and disposition of the Notes.

Information reporting and backup withholding

Information returns will be filed with the Internal Revenue Service in connection with payments on the Notes made to, and the proceeds of dispositions of Notes effected by, certain U.S. taxpayers. In addition, certain U.S. taxpayers may be subject to backup withholding in respect of such amounts if they do not provide taxpayer identification numbers to the person from whom they receive payments and certify that they are not subject to backup withholding. Non-U.S. taxpayers may be required to comply with applicable certification procedures to establish that they are not U.S. taxpayers in order to avoid the application of such information reporting requirements and backup withholding. The amounts of any backup withholding from a payment to a U.S. or non-U.S. taxpayer will be allowed as a credit against the holder's U.S. federal income tax liability and may entitle the holder to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

EUROPEAN UNION

The proposed financial transactions tax

The European Commission has published a proposal (the "**Commission's Proposal**") for a Directive for a common financial transaction tax ("**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**").

The Commission's Proposal is very broad in scope and could, if introduced in its current form, apply to certain dealings in the Notes in certain circumstances.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between the participating Member States and the legality of the proposal is uncertain. It may therefore be altered prior to any implementation. Additional EU Member States may decide to participate and/or certain of the participating Member States may decide to withdraw.

In December 2015, a joint statement was issued by several participating Member States, indicating an intention to make decisions on the remaining open issues by the end of June 2016. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

LUXEMBOURG

The following summary is included herein solely for information purposes. It is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

The residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. In addition, any reference to a tax, duty, levy, impost or other charge or withholding of a similar nature refers to Luxembourg tax law and/or concepts only. References to Luxembourg income tax encompasses corporate income tax (*impôt sur le revenu des collectivités*), municipal business tax (*impôt commercial communal*), a solidarity surcharge (*contribution au fonds pour l'emploi*) as well as personal income tax (*impôt sur le revenu*) generally. Investors may further be subject to net wealth tax (*impôt sur la fortune*) as well as other duties, levies or taxes. Corporate income tax, municipal business tax as well as the solidarity surcharge invariably apply to most corporate taxpayers resident of Luxembourg for tax purposes. Individual taxpayers are generally subject to personal income tax and the solidarity surcharge. Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

Tax residency of the Noteholders

Investors will not become resident, nor be deemed to be resident, in Luxembourg by reason only of the holding of the Notes, or the execution, performance, delivery and/or enforcement of their rights thereunder.

Taxation of the Noteholders—Withholding tax

Withholding tax

In principle, Luxembourg does not levy a withholding tax on an at-arm's-length interest, except for interest on certain profit sharing bonds or similar instruments and interest paid as a profit share under certain silent partnership type arrangements, subject to the application of the Luxembourg law dated 23 December 2005, as amended (the "**Law**").

Luxembourg non-resident individuals

Under the Luxembourg tax law currently in effect, there is no withholding tax on payments of interests (including accrued but unpaid interest) and other similar income made to a Luxembourg non-resident holder of the Notes. There is also no Luxembourg withholding tax, upon repayment of the principal, or subject to the application of the laws in effect, upon redemption or exchange of the Notes.

On 10 November 2015, the Council of the European Union approved Council Directive 2015/2060/EU (the "**Directive 2015/2060**") repealing the Council Directive 2003/48/EC on the taxation of savings income from January 1, 2017 in the case of Austria and from January 1, 2016 in the case of all other EU Member States (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). According to this directive, EU Member States should provide to the tax authorities of other EU Member States information on the payment of interest or other similar income that a paying agent performs in favor of a beneficial owner which is resident of such other EU Member State or in favor of certain other entities established in this other EU Member State. The Directive 2015/2060 was implemented into Luxembourg law by the law of 23 July 2016 repealing the Luxembourg Law of 21 June 2005 transposing the Savings Directive and amending the RELIBI Law (as defined below), as applicable as from 1st January 2016 (the "**Law of July 23, 2016**")

Resident Noteholders

Under Luxembourg general tax laws currently in force and subject to the law of December 23, 2005, as amended (the "**2005 Luxembourg Tax Law**") mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident Noteholders, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident Noteholders.

Under the 2005 Luxembourg Tax Law, interest or similar income paid or credited by an economic operator located in Luxembourg that would qualify as a "paying agent" for the purposes of the Law of July 23, 2016 to or for the benefit of an individual beneficial owner who is resident of Luxembourg or to certain residual entities that secure interest payments on behalf of such individuals, is subject to a withholding tax of 10% (the "**10% WHT**"). The 10% WHT will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent.

Furthermore, a Luxembourg resident individual who acts in the course of his/her private wealth and is the beneficial owners of interest or other similar income by a paying agent established outside Luxembourg in a Member State of the European Union or the European Economic Area or in a jurisdiction having concluded an agreement with Luxembourg in connection with the Savings Directive may opt for a final 10% levy (the "**10% Levy**"). In such case, the 10% Levy is calculated on the same amounts as if the paying agent were a Luxembourg paying agent. The option for the 10% Levy must cover all interest or similar income allocated by eligible foreign paying agents to the beneficial owner during the entire fiscal year.

Taxation of the Noteholders—Income taxation

Non-resident Noteholders

A non-resident Noteholder, not having a permanent establishment or permanent representative in Luxembourg to which such Notes are attributable, is not subject to Luxembourg income tax on interest accrued or received, redemption premiums or issue discounts, under the Notes. A gain realized by such non- resident Noteholders on the sale or disposal, in any form whatsoever, of the Notes is further not subject to Luxembourg income tax.

A non-resident corporate Noteholder or an individual Noteholder acting in the course of the management of a professional or business undertaking, who has a permanent establishment or a permanent representative in Luxembourg to which such Notes are attributable, is subject to Luxembourg income tax on interest accrued or received, redemption premiums or issue discounts, under the Notes and on any gains realized upon the sale or disposal, in any form whatsoever, of the Notes.

Resident Noteholders

Resident corporate Noteholders

A resident corporate Noteholder must include any interest accrued or received, any redemption premium or issue discount, as well as any gain realized on the sale or disposal, in any form whatsoever, of the Notes, in its taxable income for Luxembourg income tax assessment purposes.

Resident individual Noteholders

A resident individual Noteholder, acting in the course of the management of his/her private wealth, is subject to Luxembourg income tax in respect of interest received, redemption premiums or issue discounts, under the Notes, except if the final 10% WHT or the final 10% Levy applied on such income in accordance with the 2005 Luxembourg Tax Law. A gain realized by an individual Noteholder, acting in the course of the management of his/her private wealth, upon the sale or disposal, in any form whatsoever, of Notes is not subject to Luxembourg income tax, provided this sale or disposal took place more than six months after the Notes were acquired. An individual Noteholder, who acts in the course of the management of his/her private wealth and who is a resident of Luxembourg for tax purposes, must also include the portion of the gain corresponding to accrued but unpaid income in respect of the Notes in his/her taxable income, insofar as the accrued but unpaid interest is indicated separately in the agreement.

Luxembourg resident individual Noteholders acting in the course of the management of a professional or business undertaking to which the Notes are attributable, must include any interest accrued or received, any redemption premium or issue discount, as well as any gain realized on the sale or disposal, in any form whatsoever, of the Notes, in its taxable income for Luxembourg income tax assessment purposes.

Luxembourg Noteholders benefiting from a special tax regime

Luxembourg Noteholders subject to certain special tax regimes such as, for example, specialized investment funds governed by the amended law of February 13, 2007, family wealth management companies governed by the amended law of May 11, 2007 or undertakings for collective investment governed by the law of December 17, 2010 are not subject to Luxembourg income tax. Interest accrued or received, any redemption premium or issue discount and gains realized on the sale or disposal, in any form whatsoever, of the Notes by such Noteholders are not subject to income tax.

Net wealth taxation

Corporate Luxembourg resident Noteholders or non-resident Noteholders which maintain a permanent establishment, a fixed place of business or a permanent representative in Luxembourg to which the holding of Notes or any resulting income is connected, are subject to an annual Luxembourg net wealth tax on such Notes, except if the Noteholder is (i) a resident or non-resident individual taxpayer, (ii) an undertaking for collective investment subject to the law dated December 17, 2010 (as amended), (iii) a securitisation vehicle governed by the law dated March 22, 2004 on securitisation (as amended), (iv) a company governed by the law dated June 15, 2004 on venture capital vehicles (as amended), (v) a specialised investment fund subject to the law dated February 13, 2007 (as amended), (vi) a family wealth management company subject to the law dated May 11, 2007 (as amended), or (vii) a reserved alternative investment fund. Pursuant to the law dated December 18, 2015, net wealth tax will be levied at a 0.5% rate up to EUR 500 million taxable base and at a 0.05% rate on the taxable base in excess of EUR 500 million. Securitisation vehicles and SICARs (organised as tax opaque companies) are subject to net wealth tax up to the amount of the minimum net wealth tax introduced by this law.

An individual Noteholder, whether or not he/she is resident of Luxembourg, is not subject to Luxembourg wealth tax on such Notes.

Other taxes

Neither the issuance nor the transfer of Notes will give rise to any Luxembourg stamp duty, value added tax, issuance tax, registration tax, transfer tax or similar taxes or duties unless the documents relating to the Notes are voluntarily registered in Luxembourg or presented during a court proceeding.

Where a Noteholder is a resident of Luxembourg for tax purposes at the time of his/her death, the Notes are included in his/her taxable estate for inheritance tax assessment purposes. Gift tax may be due on a gift or donation of Notes if embodied in a Luxembourg notarial deed or otherwise recorded in Luxembourg.

Payments of Holdco under the Holdco Guarantee

On the basis that payments of Holdco under the Holdco Guarantee are to be qualified as indemnities, these should not be subject to withholding tax under Luxembourg laws. However, it cannot be excluded that a portion of the payments made by Holdco under the Holdco Guarantee would be considered as interest payments. In such a case, the payment may potentially be subject to Luxembourg withholding tax applicable on interest payments as further described above. See "—*Taxation of the Noteholders—Withholding Tax*."

DENMARK

General

The following is a brief summary of the taxation laws in Denmark concerning receipts of principal and interest in respect of the Notes or payments under a Guarantee. The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire, hold or dispose of the Notes, and does not purport to deal with the tax consequences applicable to all categories of investors, some of which may be subject to special rules. The tax considerations for Danish tax resident investors of acquiring, holding or disposing the Notes depend on the investor's tax status and the specific terms applicable to the relevant Notes. Potential investors are in all circumstances strongly recommended to contact their own tax advisers to clarify the individual consequences of the investment, holding and disposal of the Notes. No representations with respect to the tax consequences of any particular Noteholder are made hereby.

Payments made by the Issuer or Guarantor to a Danish tax resident Noteholder

Noteholders that are resident in Denmark for tax purposes will generally be taxable on interest received in respect of the Notes. Both capital gains and losses, if any, will, with few exceptions, be taxable or tax deductible, respectively. One exception to this concerns private individual investors. Such investors are subject to Danish taxation on gains and losses on bonds denominated in all currencies with the exception of an annual *de minimis* threshold of DKK 2,000 (EUR 260).

Payments made by the Danish Guarantor to a non-Danish Noteholder

To the extent payments made by the Danish Guarantor are deemed to be payments of interest or payments of pre-agreed capital gains deriving from a source in Denmark for tax purposes, such payments will not be subject to Danish withholding tax provided that the Notes do not constitute "controlled debt" as stipulated in sections 2(1)(d) and 2(1)(h) of the Danish Corporate Tax Act and in section 65 D of the Danish Tax at Source Act.

Consequently, in the event of a payment by the Danish Guarantor there should be no Danish tax implications for Noteholders that have no relationship with the Issuer or the Danish Guarantor other than the holding of the Notes.

GEORGIA

General

This summary is based upon the Georgian tax laws and regulations as in effect on the date of this Offering Memorandum. Such laws and regulations are subject to change or varying interpretations, possibly with retroactive effect. Tax law and practice in Georgia is not clearly established compared to more developed jurisdictions. It is possible, therefore, that the current interpretation of the law or understanding of practice may change or that the law may be amended with retroactive effect. Accordingly, it is possible that payments to be made to the Noteholders could become subject to taxation or that rates currently in effect with respect to such payments could be increased in a way that cannot be anticipated as of the date of this Offering Memorandum.

Payments under the Guarantee

In general, payment of the principal amount is exempt from taxes.

According to the Georgian Tax Code, as a general rule, any interest payments made to foreign residents are subject to a 5% tax at the source of payment (*i.e.*, withheld by the payor, in this case the Georgian Guarantor), or 15% if the recipient is located in a jurisdiction with a low tax base. The Georgian Tax Code however sets out an exemption for payments made under guarantees, whereby such payments are not considered interest payments and therefore exempt from tax on interest payments. This exemption is vaguely drafted, and as a result there is a risk that tax authorities may determine that the exemption applies only to guarantees granted for the provision of goods or services and not in respect of financial obligations. In this case, interest payments to non-Georgian Noteholders may be subject to a tax of 5% or 15%, as the case may be, by the Georgian Guarantor.

Consequences of Georgian withholding

If a Georgian entity is required to withhold any amount from any payment under its Guarantee, as a consequence of or pursuant to the Georgian tax laws, it will be obliged to pay such additional amounts as may be

necessary so that the net payments received by the paying agent or any other party will not be less than the amount the paying agent or any other party would have received in the absence of such withholding. Although not directly allowed by the law, gross-up provisions are nevertheless routinely enforced and applied in Georgia. There is, however, a risk that Georgian tax authorities may take a different approach and, as a result tax gross-up provisions may be declared null and void and, therefore, unenforceable in Georgia.

Tax on issue of the Notes

No Georgian withholding tax will be applicable to the issue of the Notes or principal or interest payments on the Notes, as the Notes will not be issued in Georgia or by a Georgian entity.

Tax on redemption of Notes

Principal payments on redemption of the Notes will not be subject to Georgian tax, as such payments will not be made by a Georgian borrower.

Georgian stamp duty

There is no stamp or similar documentary tax applicable in Georgia.

Double tax treaties

Georgian withholding tax may be reduced, or entirely eliminated, by virtue of an applicable tax treaty on the avoidance of double taxation between Georgia and the relevant jurisdiction. Georgia has executed double tax treaties with several EU Member States, including *inter alia*, the UK.

Applicability of double tax treaty relief

Documentary evidence is required to confirm the applicability of a double tax treaty relief before benefits may be applied thereunder. In practice, a non-resident Noteholder will be required to submit: (a) a special form published by the Georgian tax authorities; and (b) a certificate of residency (apostiled and accompanied with the certified translation) to the Georgian tax authorities in order to enjoy the exemptions contained in the relevant double tax treaty.

FINLAND

The following is a general description of certain Finnish tax consequences relating to receipt of principal, interest and capital gains in respect of the Notes, including payments under a Guarantee. It does not purport to be an exhaustive analysis of all possible tax considerations or consequences relating to the Notes which may be relevant to a decision to acquire, hold or dispose of the Notes, nor does it purport to deal with the tax consequences applicable to all categories of investors, some of whom may be subject to special rules. Holders or prospective holders of the Notes should consult with their own tax advisers with regard to the tax consequences of investing in the Notes in their particular circumstances. This description only addresses Finnish domestic tax legislation as in force on the date of this Offering Memorandum. Local tax advisors should be consulted about taxes potentially applicable in any other country than Finland, as relevant in each individual case.

Withholding tax

As of the date of the Offering, payments by the Issuer and the Guarantors to Noteholders will not be subject to Finnish withholding tax.

Residents of Finland

Taxable income is determined separately for business income, personal income and agricultural income. Repayments of principal on Notes as well as redemption or other sale of the Notes are treated as disposals (partial or full, depending on the case) of the Notes, potentially resulting in taxation on the capital gains/losses, as explained below.

For a private person who is resident in Finland for tax purposes and is taxed in accordance with the Income Tax Act (1535/1992, as amended), interest income and capital gains relating to the Notes (including payments

made by the Issuer or a Guarantor) are generally taxed at the current (2017) capital income tax rate of 30% up to EUR 30,000 and 34% for any amounts exceeding EUR 30,000. Capital gains are tax-exempt if all taxable sales proceeds received during a tax year in aggregate do not exceed EUR 1,000. Correspondingly, capital losses are not deductible if the related acquisition costs in a tax year in aggregate do not exceed EUR 1,000. Capital gains or losses are calculated by deducting the aggregate of the acquisition cost and the expenses related to acquiring the gain or loss from the sales proceeds. Alternatively, instead of applying the actual acquisition cost, individuals and estates can apply a "presumed acquisition cost," in which case no additional actual expenses can be deducted. The presumed acquisition cost is 20% (and if the Notes have been owned for a period of at least ten years, 40%) of the sales price. Capital losses resulting from the disposal of such Notes, which do not belong to the business activities of individuals or estates, can generally be set off against capital income from non-business activities derived during the tax year of the disposal and five subsequent years.

Note that the separate tax rules applicable to Finnish resident private individuals taxed in accordance with the Business Income Tax Act (360/1968, as amended) are not dealt with in this description.

For Finnish resident corporate entities, interest income and capital gains relating to the Notes are generally taxed at a flat rate of 20% (the current rate in 2017). The remaining acquisition cost in taxation of the Notes is regarded as tax-deductible expenditure upon disposal of the Notes. Losses resulting from the disposal of Notes in the context of business activity can be set off against income from the same income source during the year of the disposal and ten subsequent tax years. Capital losses resulting from the disposal of Notes from a personal income source, can be set off against capital gains from disposals of other non-business assets derived during the tax year of the disposal and five subsequent years.

Non-residents of Finland

Unless the capital gains or interest income received from the Notes relate to a permanent establishment from which business is carried out in Finland, a person who is regarded as a non-resident of Finland for Finnish tax purposes is not liable to pay Finnish income tax on the capital gains or interest income received from the Notes (including payments made under the Guarantee by the Finnish Guarantor). No withholding tax is due on interest payments based on the Notes to non-residents of Finland.

Gift and inheritance tax

Unless an applicable international tax treaty states otherwise, gift or inheritance taxes will arise in Finland with respect to a transfer of the Notes by way of gift by, or on the death of, a holder of such Notes, in case the donor/deceased person or the donee/beneficiary was a resident of Finland at the time of the gift/death. Subject to certain restrictions, the Finnish inheritance and gift tax act allows crediting the gift or inheritance tax, paid for the same property in some other country in case the donee/beneficiary is a resident in Finland. For the purposes of Finnish gift and inheritance taxes, a person who has his/her permanent home and dwelling in Finland, is deemed resident in Finland.

Transfer tax

No Finnish transfer tax will be payable on the purchase or disposal of the Notes.

LATVIA

General

The following summary is included herein solely for information purposes. It is not intended to be, nor should it be construed to be, legal or tax advice. This summary is based on the Latvian tax laws and regulations in effect on the date of this Offering Memorandum. Such laws and regulations are subject to change or varying interpretations, possibly with retroactive effect. Local tax advisors should be consulted about taxes potentially applicable in any other country than Latvia, as relevant in each individual case. It does not purport to be an exhaustive analysis of all possible tax considerations or consequences relating to the Notes.

Payments under the Guarantee

Resident individuals

Resident taxpayers are taxed on their worldwide income. Individuals are tax resident in Latvia when:

- they have their permanent residence in Latvia;

- they are present in Latvia for more than 183 days in a 12 months period; or
- they are Latvian citizens employed overseas by the Latvian government.

There are no special procedures for terminating residence in Latvia. However, the Law on Taxes and Duties provides that an individual who will not be considered a tax resident in the following year, will no longer be a tax resident from the date he leaves Latvia, provided he can demonstrate that his center of vital interests is outside of Latvia.

The interest income from payments under the Latvian Guarantee for resident individuals will be subject to 10% tax.

Tax should be withheld by the payor at the source of payment. If tax is not paid by the payor, it should be paid by the individual on a self-assessment basis. In case of disposal of the Notes a capital gains tax in the amount of 15% is applicable.

Non-resident individuals

Non-resident taxpayers are taxed in Latvia on specific types of income.

Considering that Notes are publicly traded securities, neither the interest payments to non-resident individuals generated by the Notes, nor the capital gains earned from disposal of the Notes will be subject to tax in Latvia.

This exemption, however, shall not be applicable in case the recipient of the payment is resident of a no tax or low tax jurisdiction. Payments made to non-resident individuals located or registered in low tax or no tax jurisdictions are subject to a withholding tax of 15 % (if the payer is Latvian resident company) or 23 % (if the payer is Latvian individual resident obliged to make withholding). Interest income paid by a credit institution registered in Latvia to non-residents located or registered in low tax or no tax jurisdictions will be subject to 5 % withholding tax, but purchase price paid by a Latvian resident company to non-residents located or registered in low tax or no tax jurisdiction for Notes listed on a regulated market of the European Union or the European Economic Area will not be subject to withholding tax provided that the purchase price corresponds to the market price of the Notes.

Resident legal entities

Criteria for establishing a company's residence for tax purposes is its incorporation in Latvia or that it legally should have been registered as a tax payer in Latvia, as in a case of a permanent establishment.

Taxable entities are resident companies and non-resident entities as well as permanent establishments of non-residents and non-resident entities which derive income from a Latvian source.

Capital gains from disposal of the notes and interest income from notes, which are listed on a regulated market of the European Union or the European Economic Area are non-taxable in Latvia. Provided that Notes are traded publicly, but are not listed on a regulated market of the European Union or the European Economic Area, gains on the disposal of Notes and interest income from Notes are included in the profit of the entity subject to corporate income tax at a flat rate of 15%.

Non-resident legal entities

Interest payments to non-resident entities generated by the Notes and remuneration for disposal of the Notes are not subject to withholding tax in Latvia.

Payments made to non-resident companies located, registered or incorporated in low tax or no tax jurisdictions are subject to a withholding tax of 15 % (if the payer is Latvian resident company) or 23 % (if the payer is Latvian individual resident obliged to make withholding). Interest income paid by a credit institution registered in Latvia to non-residents located or registered in low tax or no tax jurisdictions will be subject to 5 % withholding tax, but purchase price paid by a Latvian resident company to non-residents located or registered in low tax or no tax jurisdiction for Notes listed on a regulated market of the European Union or the European Economic Area will not be subject to withholding tax provided that the purchase price corresponds to the market price of the Notes.

Tax on issue of the Notes

No Latvian withholding tax will be applicable to the issue of the Notes.

Double Tax Treaties

Latvian withholding tax may be reduced, or entirely eliminated, by virtue of an applicable tax treaty on the avoidance of double taxation between Latvia and the relevant jurisdiction.

LITHUANIA

General

The following summary is included herein solely for information purposes, though it is not intended to be, nor should it be construed to be, legal or tax advice. This summary is based on the Lithuanian tax laws and regulations in effect on the date of this Offering Memorandum. Such laws and regulations are subject to change or varying interpretations, possibly with retroactive effect.

Payments under the Guarantee

Payments under the Guarantee would not be subject to Lithuanian withholding tax, provided that such payments are not construed as interest payments. However, it is likely that the State Tax Inspectorate of the Republic of Lithuania would classify payments to be made by the Guarantor for tax purposes under the same type of income as payments to be made by the Issuer, *i.e.*, as the principal payment and payment of interest sourced in Lithuania.

Tax on issue of the Notes

No Lithuanian withholding tax will be applicable to the issue of the Notes or principal or interest payments on the Notes, as the Notes will not be issued in Lithuania.

Tax on redemption of the Notes

Principal payments on redemption of the Notes will not be subject to the Lithuanian tax as such payments will not be made by a Lithuanian borrower.

Taxation of the Noteholders

Resident individual Noteholder

Only permanent residents of Lithuania have an obligation to declare and pay personal income tax from foreign source income.

An individual will be considered a resident of Lithuania during the calendar year for taxation purposes if he/she meets at least one of the criteria laid out in paragraph 1 of Article 4 of the Law On Personal Income Tax of the Republic of Lithuania, *i.e.:*

- if the individual's permanent place of residence is in Lithuania during the calendar year;
- if the individual's place of personal, social or economic interests is in Lithuania rather than in a foreign country during the calendar year;
- if the individual is present in Lithuania for a period or periods in the aggregate of 183 days or more during the calendar year; and
- if the individual is present in Lithuania for a period or periods in the aggregate of 280 days or more during successive calendar years and who stayed in Lithuania for a period or periods in the aggregate of 90 days or more in any of such periods (in such case a person is deemed to be a resident of Lithuania for both years of presence in Lithuania).

As of January 1, 2016, in accordance with the Law on Personal Income Tax, interest income of residents of Lithuania generated from the Notes, which does not exceed EUR 500, shall not be subject to taxation, if the Notes were acquired after January 1, 2014. Interest income exceeding EUR 500 shall be taxed with a 15% rate personal income tax.

As of January 1, 2016 in accordance with the Law on Personal Income Tax gains from the disposal of the Notes shall be subject to taxation irrespective of the date of their acquisition and duration of their holding under ownership. Gains from the disposal of the Notes exceeding EUR 500 shall be subject to a 15% rate personal income tax. The taxable income shall be calculated by deducting the acquisition price of the Notes and other expenses specified in the Law on Personal Income Tax from the income received.

Non-resident individual Noteholders

Interest from the Notes sourced in Lithuania by a non-resident individual Noteholder will be subject to a 15% withholding tax in Lithuania, unless the effective double taxation treaty provides for a reduced withholding tax rate or exemption from the withholding tax.

As of January 1, 2016, in accordance to the new provisions of the Law on Personal Income Tax, interest income of the non-resident individual Noteholders sourced in Lithuania, which does not exceed EUR 500, shall be exempt from taxation, if the Notes were acquired after January 1, 2014. The non-resident individual Noteholders must submit an annual income tax return to the State Tax Inspectorate of the Republic of Lithuania in order to benefit from this exemption.

Income from the transfer of the Notes of a non-resident individual Noteholder will not be subject to tax in Lithuania.

Resident corporate Noteholders

An entity will be considered as a resident of Lithuania for tax purposes if it is established and registered in the Republic of Lithuania. The same taxation rules may also apply to a permanent establishment of a foreign entity in Lithuania, provided that the income from the Notes is attributed to this permanent establishment.

In accordance with the provisions of the Law on Corporate Income Tax of the Republic of Lithuania, any income of a Lithuanian entity (legal person) from the Notes, including interest, shall be considered as taxable income of the entity. Upon disposal of the Notes, a Lithuanian entity shall recognize the gain (the difference between the purchase and sales price of the Notes). Interest income from the Notes and any gains from the disposal of the Notes shall be included into the overall taxable result of the Lithuanian entity that shall be subject to taxation in the manner set forth in the Law on Corporate Income Tax of the Republic of Lithuania.

Non-resident corporate Noteholders

Interest from the Notes sourced in Lithuania by a non-resident corporate Noteholder will be subject to 10% withholding tax in Lithuania. However, interest from the Notes sourced in Lithuania by a non-resident corporate Noteholder established or otherwise registered in an EEA country or a country that has concluded an effective tax treaty with Lithuania is exempt from withholding tax.

Income from the transfer of the Notes of a non-resident corporate Noteholder will not be subject to tax in Lithuania.

Other taxes

No Lithuanian stamp duty, transfer or similar tax will be payable by a holder of the Notes in respect of the subscription, issue, delivery or transfer of the Notes.

Double tax treaties

In accordance with the Law on Tax Administration of the Republic of Lithuania where any international treaties to which Lithuania is a party provide for rules on taxation different from those of the relevant taxation legislation, and provided the international treaties have been ratified, enacted and made enforceable in the Republic of Lithuania, the rules of such international treaties shall prevail. Lithuanian withholding tax may be reduced or entirely eliminated, by virtue of an applicable tax treaty on the avoidance of double taxation between Lithuania and the relevant jurisdiction. Currently, Lithuania is a party to 53 such tax treaties.

Applicability of double tax treaty relief

Where taxable income is received from a Lithuanian source, in favor of a non-resident holder of the Notes, whether an individual or a legal entity, to enjoy the benefits of an applicable double tax treaty, documentary

evidence is required to confirm the applicability of the double tax treaty relief. In practice, a tax residency certificate submitted by a non-resident is deemed to be a sufficient basis for such entitlement.

POLAND

Withholding tax

The following is a summary of certain Polish income considerations that may be relevant to a Polish purchaser of the Notes. The information provided below describes only the general rules concerning Polish withholding tax. The information contained in this Offering Memorandum does not constitute tax advice nor is it a complete and comprehensive analysis of tax legislation and should not be the sole basis for investment decisions. Investors interested in receiving detailed information in this regard should use the services of tax advisors.

Income tax is imposed on income of all individuals and corporate bodies. The Polish tax system differentiates unlimited and limited tax liability applicable to Polish tax residents and Polish non-tax residents, respectively. Unlimited tax liability means that taxpayers are subject to taxation in Poland on their entire worldwide income (revenue). Limited tax liability applies to taxpayers without a place of residence for tax purposes in Poland and who are subject to tax liability only in respect of their income earned from Polish sources.

Polish income tax generally encompasses personal income tax (*podatek dochodowy od osób fizycznych*) and corporate income tax (*podatek dochodowy od osób prawnych*). Individual taxpayers are generally subject to personal income tax. Corporate income tax applies to legal persons, and certain other organized entities, including joint stock partnerships. The other partnerships are look-through for Polish income tax purposes, and income generated by those partnerships is taxed at the level of partners being taxpayers.

Payments under the Notes

Taxation of individuals subject to unlimited tax liability in Poland

Pursuant to articles 3.1 and 3.1a of the Personal Income Tax Act (*ustawa o podatku dochodowym od osób fizycznych*) of July 26, 1991 (the "**PIT Act**"), individuals domiciled in Poland, *i.e.,* (i) who have the center of their personal or business interests (life interest center) in Poland, or (ii) who spend more than 183 days during a fiscal year (being a calendar year) in Poland, are subject to unlimited tax liability in Poland. These rules apply without prejudice to double tax treaties concluded by Poland, which may define "domicile" in a different manner or further clarify the notion of the life interest center.

According to article 30a.1.2 of the PIT Act, income from interest on securities (including the Notes) is subject to personal income tax at a 19% flat tax rate.

As a rule, for Polish income tax purposes, interest is recognized as revenue on a cash basis, *i.e.,* when it is received and not when accrued.

Under article 41.4 of the PIT Act, the Polish withholding agent (an entity making the interest payment on securities) shall calculate, deduct and pay to the tax office a Polish withholding tax of 19% upon the interest payment. According to Article 45.3b of the PIT Act, if the tax is not withheld by the withholding agent, the individual is obliged to settle the tax himself/herself by April 30 of the following year.

Taxation of corporate income taxpayers subject to unlimited tax liability in Poland

According to article 3.1. of the Corporate Income Tax Act (*ustawa o podatku dochodowym od osób prawnych*) of February 15, 1992 (the "**CIT Act**"), a corporate income taxpayer whose registered office or management is situated within the territory of Poland shall be subject to unlimited tax liability in Poland.

Such a taxpayer will be subject to 19% income tax in respect of interest received. In case of an interest payment made by a Polish entity to a CIT Act taxpayer subject to unlimited tax liability in Poland, there is no withholding agent. Tax shall be calculated and paid by the taxpayer itself on a self—assessment basis.

Taxation of individuals subject to limited tax liability in Poland

According to article 3.2a of the PIT Act, individuals whose place of residence does not lie within the territory of Poland shall be subject to tax liability in respect of their income earned within the territory of Poland from Polish sources.

Pursuant to article 30a.1.2 of the PIT Act, interest on securities paid by a Polish entity is considered as being Polish source income and is subject to a 19% flat tax rate. Under article 41.4 of the PIT Act, the Polish withholding agent shall calculate, deduct and pay to the tax office Polish withholding tax of 19% upon the interest payment.

The interest payment may be subject to reduced withholding tax rates or exemptions available under the applicable double tax treaty between Poland and the state in which the beneficial owner of interest is tax resident, if any. Pursuant to article 30a.2 of the PIT Act, reduced withholding tax rates and exemptions available under the applicable tax treaty apply on condition that the recipient of interest provides the Polish entity making the interest payment with a certificate demonstrating tax residence of the recipient in the relevant treaty jurisdiction.

Taxation of corporate income tax payers subject to limited tax liability in Poland

Pursuant to article 3.2 of CIT Act, corporate income taxpayers whose registered office and management are located outside the territory of Poland shall be subject to tax liability only in respect of their income earned within the territory of Poland from Polish sources of income. Such taxation is also imposed on entities without a legal personality if their registered office is located in a state outside the territory of Poland, where, under the tax regulations of this state, they are treated as legal persons and are subject to taxation in such state on the entirety of their income irrespective of the place where it is earned.

Pursuant to article 21.1.1 of the CIT Act, interest payments made by the Polish entity shall be subject to Polish withholding tax at the rate of 20%. Under article 26.1 of the CIT Act, the Polish withholding agent shall calculate, deduct and pay to the tax office Polish withholding tax of 20% upon the interest payment.

Interest payment may be subject to reduced withholding tax rates or exemptions available under the applicable tax treaty between Poland and the state in which the recipient of interest is tax resident, if any. Pursuant to article 26.1 of the CIT Act, reduced withholding tax rates and exemptions available under the applicable double tax treaty apply on condition that the recipient of interest provides the Polish entity making the interest payment with a certificate demonstrating tax residence of the recipient in the relevant treaty jurisdiction.

Payments under the Guarantee

Payments made by the Guarantor organized in Poland should be classified for tax purposes under the same type of income as the Notes, *i.e.*, as repurchase/redemption of the Notes or a payment of interest under the Notes.

However, it cannot be entirely excluded that the Polish tax authorities may attempt to reclassify the payments under the Guarantee as constituting, for Polish personal income tax purposes, an independent type of income, *e.g.*, so-called income from other sources.

In the case of such reclassification of payments made by the Guarantor organized in Poland under the Guarantee paid to individual taxpayers subject to unlimited tax liability in Poland, these payers would be subject to progressive taxation (18% and 32% rate), and the Guarantors organized in Poland would not be obliged to withhold tax on behalf of the Polish individuals.

Corporate taxpayers subject to unlimited tax liability in Poland are required to aggregate the income with other types of income generated by such taxpayers; such income is then subject to the flat 19% corporate income tax rate. No withholding tax would apply.

In case of individual and corporate taxpayers subject to limited tax liability in Poland (non-residents), should the Polish tax authorities reclassify payments under the Guarantee paid by the Polish Guarantor to such non-residents as so-called income from other sources, they would not be taxable in Poland provided they have proof of residence in a country with which Poland has concluded a double tax treaty.

SPAIN

General

This summary is based upon the Spanish tax laws and regulations as in effect on the date of this Offering Memorandum. Such laws and regulations are subject to change or varying interpretations. Accordingly, it is possible that payments made to the beneficial owners of the Notes could become subject to taxation or that rates currently in effect with respect to such payments could be increased in a way that cannot be anticipated as of the date of this Offering Memorandum.

Payments under the Guarantee

Although no clear precedent exists with regard to the position of the Spanish tax authorities regarding similar transactions, there is a risk that Spanish tax authorities or courts may consider that payments made under the Guarantee by the Spanish Guarantor as Spanish source income on the basis that a Guarantor resident in Spain has validly, legally and effectively assumed (whether contractually or by any other means) all of the obligations of the Issuer under the Notes, subject to and in accordance with the Guarantee of such Guarantor. In such an event, a withholding tax at the current rate of 19% would apply to payments made under the Spanish Guarantee to beneficial owners of the Notes who are not resident in Spain for tax purposes.

Although the payments made by a Spanish Guarantor under the Notes may be treated as Spanish source income, no withholding would apply for the following types of beneficial owners of the Notes: (i) beneficial owners that are resident for tax purposes in an EU Member State other than Spain, and that are not acting through countries or territories considered as tax havens pursuant to Royal Decree 1080/1991 of July 5, 1991; (ii) beneficial owners that pay corporate income tax in Spain; and (iii) beneficial owners that are non-residents of Spain acting through a permanent establishment in Spain.

In the case of (i) above, to be exempt from withholding, the beneficial owner of the Notes must provide to the Spanish Guarantor a certificate of residence issued by the tax authorities of the jurisdiction in which the beneficial owner is tax resident, prior to any payment, and such certificate must be valid for one year from the date of issuance unless, as interpreted by the Spanish General Directorate for Taxes in its tax ruling of March 24, 2014, the certificate clearly states the specific tax period to which it applies. Additionally, such withholding tax, if any, may be reduced or eliminated under an applicable income tax treaty to which the Kingdom of Spain is a party. The applicability of a reduced tax rate or exemption shall be evidenced by a tax residency certificate expressly stating that it is issued within the meaning of the corresponding tax treaty and, where applicable, by the appropriate document as set out in the order, if any, implementing the applicable tax treaty.

In the cases of (ii) and (iii) above, the applicable paying agent must be provided with a list of those beneficial owners who are, as the case may be, Spanish corporate income tax payers or non-residents of Spain acting through a permanent establishment in Spain, together with their name, address, tax identification number, ISIN code of the Notes, principal amount of Notes held at each interest payment date, gross income and amount withheld.

Tax on issue of the Notes

No Spanish withholding tax will be applicable to the issue of the Notes or principal or interest payments on the Notes, as the Notes will not be issued in Spain.

Tax on redemption of Notes

Principal payments on redemption of the Notes will not be subject to the Spanish tax, as such payments will not be made by a Spanish borrower.

Income taxation of Spanish resident Noteholders

Interest payments and capital gains realized by individual Noteholders who are resident for tax purposes in Spain will be subject to taxation at the fixed tax rate of 23% (though a 19% tax rate will apply to the first EUR 6,000, and a 21% flat rate will apply to the next bracket between EUR 6,001 and EUR 50,000). Should any withholding tax be applied, taxation may be reduced or eliminated upon application of the corresponding provisions.

Interest payments and capital gains realized by corporate Noteholders that are resident for tax purposes in Spain and subject to the regular provisions of the Spanish Corporate Income Tax Act or non-resident for tax purposes in Spain and that are Noteholders acting through a permanent establishment in Spanish territory to which such income is attributable, will be subject to the standard Spanish corporate income tax rate of 25%. Should any withholding tax be applied, taxation may be reduced or eliminated upon application of the corresponding provisions.

Notes held by individuals deposited before or managed by non-resident entities shall be subject to the general obligation to disclose information regarding assets located outside Spain by filing tax form 720 *("Obligación de declaración sobre bienes y derechos situados en el extranjero")*.

Other taxes

Net wealth tax

Law 4/2008 amended Law 19/1991 regulating the net wealth tax. This amendment introduced a credit of 100% over the tax due and removed the obligation to file net wealth tax returns from January 1, 2008. However, starting in 2011, the net wealth tax was temporarily reintroduced on an annual basis, most recently, by Royal Decree-Law 3/2016, which extended the effective period of the net wealth tax through 2017.

Noteholders who are individuals resident for tax purposes in Spain will be subject to net wealth tax in 2017 in accordance with the rules set forth by Spanish law, whereas Noteholders who are non-resident for tax purposes in Spain will not be subject to net wealth tax to the extent that the Notes are not deemed to be located, exercisable or enforceable in Spanish territory. Even if the Notes are located, exercisable or enforceable in Spanish territory, Noteholders that are individuals resident in any country of the EU are exempt from the net wealth tax.

Corporate Noteholders, either resident or non-resident for tax purposes in Spain, are not subject to this tax.

Inheritance and gift tax

Notes acquired by individuals who are resident for tax purposes in Spain by way of inheritance or gift will be subject to inheritance and gift tax in accordance with the rules set forth by Spanish law.

Notes acquired by corporations that are resident for tax purposes in Spain by way of inheritance or gift will not be subject to inheritance and gift tax but will be subject to corporate income tax.

Notes acquired by any non-resident for tax purposes in Spain by way of inheritance or gift will not be subject to inheritance and gift tax to the extent that the Notes are not deemed to be located, exercisable or enforceable in the Spanish territory.

Spanish stamp duty

No Spanish stamp duty, transfer or similar tax will be payable by a Noteholder in respect of the subscription, issue, delivery or transfer of the Notes.

SWEDEN

The following summary outlines certain Swedish tax consequences of the acquisition, ownership and disposal of Notes and payments under the Guarantee by 4finance AB (the "**Swedish Guarantor**"). The summary is based on the laws of the Kingdom of Sweden as currently in effect and is intended to provide general information only. The summary is not exhaustive and does thus not address all potential aspects of Swedish taxation that may be relevant for a potential investor in the Notes and is neither intended to be nor should be construed as legal or tax advice. In particular, the summary does not address the rules regarding reporting obligations for, among others, payers of interest. Moreover, the summary does not address Notes that are held in a Swedish investment savings account (*Sw. investeringssparkonto*) which are subject to special rules on standardized taxation. Specific tax consequences may be applicable to certain categories of corporations, *e.g.*, investment companies and life insurance companies, not described below. Investors should consult their professional tax advisors regarding the Swedish and foreign tax consequences (including the applicability and effect of double taxation treaties) of acquiring, owning and disposing of Notes in their particular circumstances.

Non-resident Noteholders

As used herein, a non-resident Noteholder means a holder of Notes who is (a) an individual who is not a resident of Sweden for tax purposes and who has no connection to Sweden other than his/her investment in the Notes; or (b) an entity not organized under the laws of Sweden.

Payments of any principal amount or any amount that is considered to be interest for Swedish tax purposes, including payments made under the Guarantee by the Swedish Guarantor, to a non-resident Noteholder should not be subject to Swedish income tax provided that such holder does not carry out business activities from a permanent establishment in Sweden to which the Notes are effectively connected. Under Swedish tax law, no withholding tax is imposed on payments of principal or interest to a non-resident holder of any Notes.

Private individuals who are not resident in Sweden for tax purposes may be liable to capital gains taxation in Sweden upon disposal or redemption of certain financial instruments, depending on the classification of the particular financial instrument for Swedish income tax purposes, if they have been resident in Sweden or have lived permanently in Sweden at any time during the calendar year of disposal or redemption or the ten calendar years preceding the year of disposal or redemption.

Resident Noteholders

As used herein, a resident Noteholder means a holder of Notes who is (a) an individual who is a resident in Sweden for tax purposes; or (b) a legal entity organized under the laws of Sweden.

Generally, for Swedish corporations and private individuals (and estates of deceased individuals) that are resident Noteholders, all capital income *e.g.*, income that is considered to be interest for Swedish tax purposes and capital gains on Notes, will be taxable, including payments made under the Guarantee by the Swedish Guarantor.

If the Notes are registered with Euroclear Sweden AB or held by a Swedish nominee in accordance with the Swedish Financial Instruments Accounts Act (*Sw. lag (1998:1479) om kontoföring av finansiella instrument*), Swedish preliminary taxes are withheld by Euroclear Sweden AB or by the nominee on payments of amounts that are considered to be interest for Swedish tax purposes to a private individual (or an estate of a decease individual) that is a resident holder of any Notes.

Other taxes

No stamp, issue, registration, transfer or similar taxes or duties are imposed in Sweden in connection with the issuance, purchase, disposal, redemption or making of the Notes.

TRANSFER RESTRICTIONS

You are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of any of the Notes offered hereby.

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Notes.

The Notes and the Note Guarantees have not been and will not be registered under the Securities Act or the securities laws of any other jurisdiction, and, unless so registered, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or the securities laws of any other jurisdiction. Accordingly, the Notes offered hereby are being offered and sold only to (i) "qualified institutional buyers" (as defined in Rule 144A under the Securities Act) in reliance on an exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act; or (ii) persons in offshore transactions in reliance on Regulation S under the Securities Act.

By purchasing the Notes, you will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S under the Securities Act are used herein as defined therein):

(1) You are not an "affiliate" (as defined in Rule 144A under the Securities Act) of the Issuer, you are not acting on behalf of the Issuer and you (A)(i) are a qualified institutional buyer, (ii) are aware that the sale to you is being made in reliance on Rule 144A, and (iii) are acquiring the Notes for your own account or for the account of a qualified institutional buyer or (B) are not a U.S. person (and are not purchasing the Notes for the account or benefit of a U.S. person) and are purchasing the Notes in an offshore transaction pursuant to Regulation S.

(2) You agree on your own behalf and on behalf of any investor account for which you are purchasing the Notes, and each subsequent holder of the Notes by its acceptance thereof will be deemed to agree, to offer, sell or otherwise transfer such Notes prior to the date (the "**Resale Restriction Termination Date**") that is one year (in the case of the Rule 144A Note) or 40 days (in the case of the Regulation S Note) after the later of the date of the original issue and the last date on which the Issuer or any of its affiliates was the owner of such Notes (or any predecessor thereto) only (i) to the Issuer or any Subsidiary thereof, (ii) pursuant to a registration statement that has been declared effective under the Securities Act, (iii) for so long as the Notes are eligible pursuant to Rule 144A under the Securities Act, to a person you reasonably believe is a QIB that purchases for its own account or for the account of a QIB to whom notice is given that the transfer is being made in reliance on Rule 144A under the Securities Act, (iv) pursuant to offers and sales that occur outside the United States in compliance with Regulation S under the Securities Act or (v) pursuant to any other available exemption from the registration requirements of the Securities Act, subject in each of the foregoing cases to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and to compliance with any applicable state securities laws, and any applicable local laws and regulations, and further subject to the Issuer's and the applicable Trustee's rights prior to any such offer, sale or transfer (I) pursuant to clause (v) to require the delivery of an opinion of counsel, certification and/or other information satisfactory to each of them and (II) in each of the foregoing cases, to require that a certificate of transfer in the form appearing on the reverse of the security is completed and delivered by the transferor to the applicable Trustee. The foregoing restrictions on resale will not apply subsequent to the Resale Restriction Termination Date.

(3) You acknowledge that none of the Issuer, the Initial Purchaser or any person representing the Issuer or the Initial Purchaser has made any representation to you with respect to the Issuer or the offer or sale of any of the Notes, other than by the Group with respect to the information contained in this offering memorandum, which offering memorandum has been delivered to you and upon which you are relying in making your investment decision with respect to the Notes. You acknowledge that the Initial Purchaser makes no representation or warranty as to the accuracy or completeness of this offering memorandum. You have had access to such financial and other information concerning the Issuer, the indentures governing the Notes, the Notes, the Note Guarantees, the Intercreditor Agreement and the security documents as you deemed necessary in connection with your decision to purchase any of the Notes, including an opportunity to ask questions of, and request information from, the Issuer and the Initial Purchaser.

(4) You understand that the Notes will bear a legend substantially to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF AGREES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH NOTE, PRIOR TO THE DATE (THE "**RESALE RESTRICTION TERMINATION DATE**") WHICH IS IN THE CASE OF RULE 144A NOTES: ONE YEAR AND IN THE CASE OF REGULATION S NOTES: 40 DAYS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS NOTE (OR ANY PREDECESSOR OF THIS NOTE) ONLY (A) TO THE ISSUER, THE GUARANTORS OR ANY SUBSIDIARY THEREOF, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**"), TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT IN EACH OF THE FOREGOING CASES TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF ITS PROPERTY OR THE PROPERTY OF SUCH INVESTOR ACCOUNT OR ACCOUNTS BE AT ALL TIMES WITHIN ITS OR THEIR CONTROL AND TO COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS, AND ANY APPLICABLE LOCAL LAWS AND REGULATIONS AND FURTHER SUBJECT TO THE ISSUER AND THE TRUSTEE'S RIGHTS PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER (I) PURSUANT TO CLAUSE (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM, (II) IN EACH OF THE FOREGOING CASES, TO REQUIRE THAT A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS NOTE IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE AND (III) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.

If you purchase the Notes, you will also be deemed to acknowledge that the foregoing restrictions apply to holders of beneficial interests in these Notes as well as to holders of these Notes.

(1) You acknowledge that the applicable Registrar will not be required to accept for registration of transfer any Notes acquired by you, except upon presentation of evidence satisfactory to the Issuer and the applicable Registrar that the restrictions set forth herein have been complied with.

(2) You acknowledge that:

   (a) the Issuer, the Initial Purchaser and others will rely upon the truth and accuracy of your acknowledgments, representations and agreements set forth herein and you agree that, if any of your acknowledgments, representations or agreements herein cease to be accurate and complete, you will notify the Issuer and the Initial Purchaser promptly in writing; and

   (b) if you are acquiring any Notes as a fiduciary or agent for one or more investor accounts, you represent with respect to each such account that:

      (i) you have sole investment discretion; and

      (ii) you have full power to make, and make, the foregoing acknowledgments, representations and agreements.

(3) You agree that you will give to each person to whom you transfer these Notes notice of any restrictions on the transfer of the Notes.

(4) If you are a purchaser in a sale that occurs outside the United States within the meaning of Regulation S under the Securities Act, you acknowledge that until the expiration of the "**distribution compliance period**" (as defined below), you shall not make any offer or sale of these Notes to a U.S. person or for the account or benefit of a U.S. person within the meaning of Rule 902 under the Securities Act. The "**distribution compliance period**" means the 40 day period following the issue date for the Notes.

(5) The purchaser understands that no action has been taken in any jurisdiction (including the United States) by the Issuer or the Initial Purchaser that would permit a public offering of the Notes or the possession, circulation or distribution of this offering memorandum or any other material relating to the Issuer or the Notes in any jurisdiction where action for the purpose is required. Consequently, any transfer of the Notes will be subject to the selling restrictions set forth hereunder and under *"Plan of Distribution."*

PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in the purchase agreement, dated, April 12, 2017 (the "**Purchase Agreement**") we have agreed to sell to Stifel Nicolaus Europe Limited (the "**Lead Manager**") and to ABG Sundal Collier ASA (the "**Co-Manager**"), the entire principal amount of the Notes offered by this Offering Memorandum.

Subject to the terms and conditions set forth in the Purchase Agreement, the Lead Manager and the Co-Manager have agreed to purchase all of the Notes sold under the Purchase Agreement.

We have agreed to indemnify the Lead Manager and the Co-Manager against certain liabilities in connection with this Offering, including liabilities under the U.S. Securities Act, or to contribute to payments the Lead Manager and the Co-Manager may be required to make in respect of those liabilities.

The Lead Manager and the Co-Manager are offering the Notes, subject to prior sale, when, as and if issued to and accepted by it, subject to approval of legal matters by its counsel, including the validity of the Notes and other conditions contained in the Purchase Agreement, such as the receipt by the Lead Manager and the Co-Manager of officer's certificates and legal opinions. The Lead Manager and the Co-Manager reserves the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part. The Issuer has agreed to pay the Lead Manager and the Co-Manager certain customary fees for its services in connection with the Offering.

Purchasers of the Notes should be aware that the laws and practices of certain countries require investors to pay stamp taxes and other charges in connection with purchases of the Notes.

Offer Price

The Lead Manager and the Co-Manager propose to offer the Notes at the offering price set forth on the cover page of this Offering Memorandum. After the initial offering of the Notes, the offering price and other selling terms of the Notes may from time to time be varied by the Lead Manager and the Co-Manager without notice. Sales in the United States may be made through certain affiliates of the Lead Manager and the Co-Manager or through U.S. registered broker-dealers.

Notes Are Not Being Registered

The Notes and the Guarantees have not been and will not be registered under the U.S. Securities Act. The Lead Manager and the Co-Manager has agreed that it will only offer and sell the Notes: (i) within the United States to persons reasonably believed to be qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act and (ii) outside the United States to non-U.S. persons in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

In addition, until 40 days following the later of (i) the commencement of this Offering and (ii) the Issue Date of the Notes, an offer or sale of the Notes initially sold in reliance on Regulation S under the U.S. Securities Act within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act unless the dealer makes the offer or sale in compliance with Rule 144A or another exemption from registration under the U.S. Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S and Rule 144A under the U.S. Securities Act. Each purchaser of the Notes will be deemed to have made acknowledgments, representations and agreements as described under "*Notice to Investors*."

No action has been taken in any jurisdiction, including the United States and the United Kingdom, by us or the Lead Manager or the Co-Manager that would permit a public offering of the Notes or the possession, circulation or distribution of this Offering Memorandum or any other material relating to us or the Notes in any jurisdiction where action for this purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any other offering material or advertisements in connection with the Notes may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction. This Offering Memorandum does not constitute an offer to sell or a solicitation of an offer to purchase in any jurisdiction where such offer or solicitation would be unlawful. Persons into whose possession this Offering Memorandum comes are advised to inform themselves about and to observe any restrictions relating to the Offering, the distribution of this Offering Memorandum and resale of the Notes. See "*Notice to Investors.*"

The Issuer and the Guarantors have agreed that they will not at any time offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any securities under circumstances in which such offer, sale,

pledge, contract or disposition would cause the exemption afforded by Section 4(a)(2) of the U.S. Securities Act or the safe harbor of Rule 144A and Regulation S under the U.S. Securities Act to cease to be applicable to the offer and sale of the Notes.

New Issue of Securities

The Notes are a new issue of securities with no established trading market. We do not intend to apply for listing of the Notes on any U.S. securities exchange or for inclusion of the Notes on any automated dealer quotation system. The Lead Manager and the Co-Manager have advised us that it intends to make a market in the Notes after completion of the Offering. The Lead Manager and the Co-Manager are not obligated, however, to make a market in any Notes any such market making may be discontinued at any time at the sole discretion of the Lead Manager and the Co-Manager. We cannot assure the liquidity of the trading market for the Notes.

If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors. See "*Risk Factors—Risks Related to the Notes*."

We will apply to list the Notes on the GEM, however, we cannot assure you that the Notes will be approved for listing or that such listing will be maintained.

Settlement

We expect that delivery of the Notes will be made to investors on or about the date specified in the last paragraph of the cover page of this Offering Memorandum, which will be the third business day following the date of the pricing of the Notes (such settlement being referred to as "T+3". Purchasers of the Notes who wish to trade the Notes prior to their date of delivery hereunder should consult their own advisors.

No Sales of Similar Securities

We and the Guarantors have agreed that we will not, for a period of 90 days after the Closing Date, without the prior written consent of the Lead Manager and the Co-Manager, directly or indirectly, pledge, issue, sell, offer to sell, grant any option for the sale of, or otherwise dispose of, except as provided hereunder, any securities that are substantially similar to the Notes.

Price Stabilization and Short Positions

In connection with the Offering, the Lead Manager (or persons acting on its behalf) may engage in transactions that stabilize the market price of the Notes. Such transactions consist of bids or purchases to peg, fix or maintain the price of the Notes. Purchases of a security to stabilize the price or to reduce a short position may cause the price of the security to be higher than it might be in the absence of such purchases.

In connection with the Offering, the Lead Manager may purchase and sell the Notes in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the Lead Manager of a greater principal amount of the Notes than it is required to purchase in the Offering. The Lead Manager must close out any short position by purchasing the Notes in the open market. A short position is more likely to be created if the Lead Manager is concerned that there may be downward pressure on the price of the Notes in the open market after pricing that could adversely affect investors who purchase in the Offering.

Similar to other purchase transactions, these transactions may have the effect of raising or maintaining the market price of the Notes or preventing or retarding a decline in the market price of the Notes. As a result, the price of the Notes may be higher than the price that might otherwise exist in the open market.

Neither we nor the Lead Manager make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither we nor the Lead Manager make any representation that the Lead Manager (or persons acting on its behalf) will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice. See "*Stabilization.*"

2019 Notes Tender Offer and Consent Solicitation

Overview

On March 29, 2017, the Issuer launched the Consent Solicitation and the 2019 Notes Tender Offer. Pursuant to the Consent Solicitation and 2019 Notes Tender Offer, the Issuer seeks to obtain consent to amend the 2019 Notes Indenture to remove certain covenants, terms and events of default in the indenture governing the 2019 Notes and invites the holders of the 2019 Notes to tender their 2019 Notes for purchase by the Issuer at a purchase price of USD 1,060 per USD 1,000 for holders of the 2019 Notes who tender prior to the early participation deadline, and a purchase price of USD 1,010 per USD 1,000 for holders of the 2019 Notes who tender after the early participation deadline but prior to the expiration deadline, and on the terms and conditions contained in the Tender Offer and Consent Solicitation Memorandum. The Lead Manager has been appointed by the Issuer to act as dealer manager and solicitation agent in connection with the 2019 Notes Tender Offer and Consent Solicitation. In connection with its appointment, the Lead Manager will receive customary compensation and benefits from, and customary indemnity from, the Issuer.

Expected Timetable

The following is a summary of the indicative timetable for the Tender Offer and Consent Solicitation and is subject to change. Accordingly, the actual timetable may differ significantly from the timetable set forth below.

Date and time	Event
March 29, 2017	*Launch Date* The Consent Solicitation and 2019 Tender Offer was announced and the Tender Offer and Consent Solicitation Memorandum is available from Lucid Issuer Services Limited (the "**Tender and Tabulation Agent**"). The launch notice was published on the Irish Stock Exchange.
11:59 p.m. (New York time) on April 11, 2017	*Early Participation Deadline* Deadline for receipt by the Tender and Tabulation Agent of all tender instructions in order for holders of the 2019 Notes to be eligible to receive the Total Early Tender Consideration and accrued interest on the Settlement Date.
4:00 p.m. (London time) on April 26, 2017	*Expiration Deadline* Deadline for receipt by the Tender and Tabulation Agent of all tender instructions and all voting only instructions.
April 27, 2017	*Announcement of the Results of the Consent Solicitation and 2019 Tender Offer* The results of the Consent Solicitation and 2019 Tender Offer to be announced by the Issuer.
April 28, 2017	*Settlement Date* Subject to satisfaction of the conditions to the Consent Solicitation and 2019 Tender Offer, payment of the consideration, together with accrued interest, in respect of all the 2019 Notes accepted for purchase.

Conditions

Pursuant to the Tender Offer and Consent Solicitation Memorandum, the acceptance for purchase by the Issuer of any of the 2019 Notes for purchase is subject to, among other things, the receipt of the Required Consents to the proposed amendments, receipt of the Requisite Minimum Tenders and the issuance of the Notes offered hereby.

Other Relationships

The Lead Manager, the Co-Manager or their affiliates have engaged in, and may in the future engage in, investment banking, financial advisory, consulting, commercial banking and other commercial dealings in the ordinary course of business with us, our principal shareholders or our affiliates. They have received, and expect to receive, customary fees, commissions and expense reimbursements for these transactions.

In addition, in the ordinary course of their business activities, the Lead Manager, the Co-Manager and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Issuer's affiliates (including the Notes). The Lead Manager, the Co-Manager or their affiliates that have a lending relationship with the Issuer hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, the Lead Manager, the Co-Manager and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities (including potentially the Notes). Any such short positions could adversely affect future trading prices of the Notes. The Lead Manager, the Co-Manager and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Selling Restrictions

The Lead Manager and the Co-Manager has undertaken to us that it will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers the Notes or has in its possession or distributes this offering memorandum (in preliminary, proof or final form) or any other offering material related to the Notes and Note Guarantees. No action has been taken or will be taken in any jurisdiction by us or the Lead Manager or the Co-Manager that would permit a public offering of the Notes, or the possession, circulation or distribution of this Offering Memorandum or any other material relating to the Notes or this Offering, in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Memorandum nor such other material may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

United States

The Lead Manager and the Co-Manager have agreed that, except as permitted by the Purchase Agreement, they will not offer, sell or deliver the Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the Offering and the Closing Date (the "**distribution compliance period**") within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells Notes (other than a sale pursuant to Rule 144A) during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons substantially to the following effect:

> "The Notes covered hereby have not been registered under the U.S. Securities Act of 1933 (the "Securities Act") and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the Offering and the Closing Date, except in either case in accordance with Regulation S or Rule 144A under the Securities Act. Terms used above have the meanings given to them by Regulation S."

In addition, until 40 days after the commencement of the Offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another exemption from registration under the Securities Act. Each purchaser of the Notes will be deemed to have made the acknowledgements, representations and agreements as described under "*Transfer Restrictions*."

The Purchase Agreement provides that the Lead Manager and the Co-Manager may, through its U.S. broker dealer affiliate, arrange for the offer and resale of the Notes within the United States only to qualified institutional buyers in reliance on Rule 144A.

Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

United Kingdom

The Lead Manager and the Co-Manager have represented, warranted and agreed that:

(a) (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and

will not offer or sell the Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), the Lead Manager and the Co-Manager have represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Memorandum to the public in that Relevant Member State other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the Lead Manager and the Co-Manager; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Issuer, the Lead Manager or the Co-Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State. The expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

Latvia

The Lead Manager and the Co-Manager have represented and agreed that it has not made and will not make an offer of securities to the public except that it may make an offer of securities in Latvia at any time:

(a) to qualified investors within the meaning of Article 1(38) of the Law on the Market for Financial Instruments;

(b) to fewer than 150 natural or legal persons other then qualified investors within the meaning of Article 1(38) of the Law on the Market for Financial Instruments;

(c) in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive (as implemented by Article 16 of the Law on the Market for Financial Instruments).

For the purposes of this provision, the expression an "offer of securities to the public" in relation to any securities in Latvia means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe the securities.

Luxembourg

The Notes may not be offered or sold to the public in the Grand Duchy of Luxembourg, directly or indirectly, and, neither this Offering Memorandum nor any other circular, prospectus, form of application, advertisement, communication or other material may be distributed, or otherwise made available in, or from or published in, the Grand Duchy of Luxembourg, except for the sole purpose of the admission to trading and listing of the Notes on the Luxembourg Stock Exchange and except in circumstances which do not constitute a public offer of securities to the public.

LIMITATIONS ON VALIDITY AND ENFORCEABILITY OF THE GUARANTEES AND THE NOTES AND CERTAIN INSOLVENCY CONSIDERATIONS

Set out below is a summary of certain limitations on the enforceability of the Notes and Guarantees in each of the jurisdictions in which the Issuer and the Guarantors are organized or incorporated. It is a summary only, and bankruptcy proceedings, restructuring proceedings, insolvency proceedings or other similar proceedings could be initiated in any of these jurisdictions and in the jurisdiction of organization of a future guarantor of the Notes. In addition, as further described below, the COMI of the Issuer or a Guarantor may be determined to be different than its jurisdiction of incorporation. See "*Risk Factors—Risk Factors Relating to the Notes—Relevant insolvency and administrative laws may not be as favorable to creditors, including Noteholders, as insolvency laws of the jurisdictions in which you are familiar and may limit your ability to enforce your rights under the Notes and the Guarantees and the Issuer and the Guarantors are subject to risks relating to the location of their center of main interest ("COMI")*." The application of these various laws in multiple jurisdictions could trigger disputes over which jurisdiction's law should apply and could adversely affect your ability to enforce your rights and to collect payment in full under the Notes and the Guarantees. Also set forth below is a brief description of certain aspects of insolvency laws in the jurisdictions of incorporation of the Issuer and the Guarantors.

EUROPEAN UNION

Several of the Guarantors are organized under the laws of EU Member States.

Pursuant to Council Regulation (EC) no. 1346/2000 on insolvency proceedings, as amended (the "**EU Insolvency Regulation**") (and Council of the European Union Regulation 2015/848 on Insolvency Proceedings (Recast)), the court which shall have jurisdiction to open insolvency proceedings in relation to a company is the court of the EU Member State (other than Denmark) where the company concerned has its "center of main interests" (as that term is used in Article 3(1) of the EU Insolvency Regulation). The determination of where any such company has its "center of main interests" is a question of fact on which the courts of the different EU Member States may have differing and even conflicting views.

The term "center of main interests" is not a static concept and may change from time to time. See "*Risk Factors—Risk Factors Relating to the Notes—Relevant insolvency and administrative laws may not be as favorable to creditors, including Noteholders, as insolvency laws of the jurisdictions in which you are familiar and may limit your ability to enforce your rights under the Notes and the Guarantees and the Issuer and the Guarantors are subject to risks relating to the location of their center of main interest ("COMI")*." Although there is a rebuttable presumption under Article 3(1) of the EU Insolvency Regulation that any such company has its "center of main interests" in the EU Member State in which it has its registered office, Preamble 13 of the EU Insolvency Regulation states that the "center of main interests" of a debtor should correspond to the place where the debtor conducts the administration of its interests on a regular basis and "is therefore ascertainable by third parties." In that respect, factors such as where board meetings are held, the location where the company conducts the majority of its business and the location where the large majority of the company's creditors are established may all be relevant in the determination of the place where the company has its "center of main interests," with the company's "center of main interests" at the time of initiation of the relevant insolvency proceedings being not only decisive for the international jurisdiction of the courts of a certain Member State, but also for the insolvency laws applicable to these insolvency proceedings as each court would, subject to certain exemptions, apply its local insolvency laws (*lex fori concursus*).

If the "center of main interests" of a company is and will remain located in the state in which it has its registered office, the main insolvency proceedings in respect of the company under the EU Insolvency Regulation would be commenced in such jurisdiction and accordingly a court in such jurisdiction would be entitled to commence the types of insolvency proceedings referred to in Annex A to the EU Insolvency Regulation. Insolvency proceedings opened in one EU Member State under the EU Insolvency Regulation are to be recognized in the other EU Member States (other than Denmark), although secondary proceedings may be opened in another EU Member State. If the "center of main interests" of a debtor is in one EU Member State (other than Denmark) under Article 3(2) of the EU Insolvency Regulation, the courts of another EU Member State (other than Denmark) have jurisdiction to open "territorial proceedings" only in the event that such debtor has an "establishment" in the territory of such other EU Member State. The effects of those territorial proceedings are restricted to the assets of the debtor situated in the territory of such other EU Member State. If the company does not have an establishment in any other EU Member State, no court of any other EU Member State has jurisdiction to open territorial proceedings in respect of such company under the EU Insolvency Regulation. Irrespective of whether the insolvency proceedings are main or territorial proceedings, such

proceedings will always, subject to certain exemptions, be governed by the *lex fori concursus*, *i.e.*, the local insolvency law of the court which has assumed jurisdiction for the insolvency proceedings of the debtor.

In the event that the Issuer or any provider of collateral experiences financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings will be commenced, or the outcome of such proceedings. Applicable insolvency laws may affect the enforceability of the obligations of the Issuer and Guarantors and the collateral provided by the Issuer or any other company. The insolvency, administration and other laws of the jurisdictions in which the respective companies are organized or operate may be materially different from, or conflict with, each other and there is no assurance as to how the insolvency laws of the potentially involved jurisdictions will be applied in relation to one another.

LUXEMBOURG

Insolvency

In the event that the Issuer and/or Holdco becomes insolvent, insolvency proceedings (*e.g.*, in particular, bankruptcy proceedings (*faillite*), controlled management proceedings (*gestion contrôlée*) and composition proceedings with creditors (*concordat préventif de la faillite*)) may be opened in Luxembourg to the extent that the Issuer and/or Holdco has its center of main interest located in Luxembourg or an establishment in Luxembourg within the meaning of the EU Insolvency Regulation (in relation to secondary proceedings assuming in this case that the center of main interests is located in a jurisdiction where the EU Insolvency Regulation is applicable). If a Luxembourg court having jurisdiction commences bankruptcy proceedings against the Issuer and/or Holdco, all enforcement measures against such companies will be suspended, except, subject to certain limited exceptions, for enforcement by secured creditors. Noteholders will thus not be able to enforce the Guarantee once bankruptcy proceedings have commenced.

In addition, the Noteholders' ability to receive payment on the Notes or under the Holdco Guarantee may be affected by a decision of a Luxembourg court to grant a stay on payments (*sursis de paiement*) as provided by articles 593 *et seq* of the Luxembourg Code of Commerce or to put the relevant Issuer and/or Holdco into judicial liquidation (*liquidation judiciaire*) pursuant to article 203 of Luxembourg Company Law. Judicial liquidation proceedings may be opened at the request of the public prosecutor against companies pursuing an activity violating criminal laws or that are in serious breach or violation of the Luxembourg Code of Commerce or of the laws governing commercial companies, including Luxembourg Company Law and those laws governing authorization to do business.

Liability of the Issuer in respect of the Notes or Holdco in respect of its Holdco Guarantee will, in each case, in the event of a liquidation of the relevant company following bankruptcy or judicial liquidation proceedings, only rank after the cost of liquidation (including any debt incurred for the purpose of such liquidation) and those other debts that are entitled to priority under Luxembourg law.

Preferential debts under Luxembourg law include, among others:

- certain amounts owed to the Luxembourg Revenue Office;
- value-added tax and other taxes and duties owed to the Luxembourg Customs and Excise Agency;
- social security contributions; and
- remuneration owed to employees.

Luxembourg insolvency laws may also affect transactions entered into or payments made by the relevant Luxembourg company during the period before bankruptcy, the so-called "hardening period" (*période suspecte*) which is a maximum of six months (and ten days, depending on the transaction in question) preceding the judgment declaring bankruptcy, except that in certain specific situations the court may set the start of the hardening period at an earlier date pursuant to article 613 of the Luxembourg Code of Commerce.

In addition to the above, it should be noted that on February 1, 2013, the Luxembourg government has filed a bill to reorganize the Luxembourg insolvency proceedings. However, it cannot be foreseen when such bill will be passed by the Luxembourg Parliament and become law. As the bill may be substantially amended during the legislative process, the impact of the new law on the liability of the Issuer in respect of the Notes or Holdco in respect of its Holdco Guarantee cannot be foreseen at the present time.

Corporate Benefit

In addition to insolvency issues, certain corporate benefit issues may arise when an entity incorporated under the laws of Luxembourg grants a guarantee securing the indebtedness of a subsidiary. Although there is no Luxembourg legislation or published authoritative court precedent which specifically regulates this matter, there is a general consensus among Luxembourg authors and practitioners that the granting of such a downstream guarantee is likely to raise no particular concerns but is still subject to specific limitations and requirements relating to corporate purpose (objet social) and corporate benefit (*intérêt social*) considerations.

The granting of a guarantee by a Luxembourg entity must be within its corporate power and authority and in its corporate interest. A court could thus subordinate or void the Holdco Guarantee if it finds that one of the above conditions is missing and, in particular, if it considers that Holdco does not derive an overall corporate benefit from the transaction involving the grant of the Holdco Guarantee, as a whole. The existence of corporate benefit is a factual matter which is not defined by law and must be determined on a case by case basis. Based on current French and Belgian case law (to which Luxembourg courts are likely to refer in this context), and provided that the granting of guarantee(s) to or in favor of companies within the group of which the guarantor belongs is within the corporate purpose of the Luxembourg guarantor and has been properly approved by a decision of its representative body(ies), it is generally understood that a Luxembourg entity may assist other group companies if:

- the Luxembourg entity and the entity(ies) whose obligations are being guaranteed belong to a structured group of companies operating under a common strategy and having real common economic purposes and policy;
- the guarantee and the transaction to which it relates are entered into in furtherance of the common economic, social or financial interest of the group, determined in accordance with policies applicable to the entire group;
- the liability under the guarantee is commensurate with the group's benefit;
- it can be demonstrated that the Luxembourg guarantor derives a direct or indirect benefit, advantage or consideration from the issuance of the guarantee; and
- the assistance is not, in terms of the amounts involved, disproportionate to the Luxembourg guarantor's financial capability and/or the direct or indirect benefits derived from granting the assistance.

A guarantee that substantially exceeds the guarantor's ability to meet its commitments towards the beneficiary(ies) of the guarantee would expose the guarantor's directors to personal liability and could, *inter alia*, be declared null and void based on the concept of illegal cause (*cause illicite*). The Holdco Guarantee granted by Holdco includes in this regard general limitation language limiting the financial exposure of Holdco to a certain percentage of, among other things, the amount of its net assets (*capitaux propres*) and its subordinated debt (*dettes subordonnées*) as reflected in the financial information of Holdco.

If a court decides either that the Holdco Guarantee was a fraudulent conveyance and voids it, or holds it unenforceable for any other reason, you may cease to have any claim in respect of the Holdco Guarantee and would be a creditor solely of the Issuer.

DENMARK

In Denmark, a court could void a guarantee made by a Danish Guarantor and/or reverse payments made under such guarantee if it found that: (i) the guarantee is void (*e.g.*, if the guarantee was incurred with the intent to defraud any present or future creditor); or (ii) the guarantee was held not be in the best interest or not to be for the corporate benefit of the Danish guarantor.

Corporate benefit

Pursuant to the Danish corporate benefit doctrine, acts taken by the management on behalf of a limited liability company must be in the interest of the company. This means that the management of the Danish Guarantor may not enter into any transaction if it is clearly capable of providing certain shareholders (or others) with an undue preference over the other shareholders, the Danish Guarantor itself or its creditors. Furthermore, an act will not be binding on the Danish Guarantor if it materially adversely affects the interests of the Danish Guarantor.

In order to demonstrate corporate benefit, the relevant act must be in the interest of the Danish Guarantor. In terms of providing a Guarantee, corporate benefit will be present if the Danish Guarantor receives proceeds, commission or some other benefit but whether the corporate benefit is sufficient will depend on the actual trade-off between rewards and possible risks.

The interests of the Danish Guarantor are key and the general view is that guaranteeing the debt of a group company (other than the parent) is unlikely to be in the interest of the Danish Guarantor.

In the case at hand where it is not anticipated that the Danish Guarantor will receive any proceeds, commission or other immediate benefits in return for providing the Guarantee it is highly unlikely that the management of the Danish Guarantor will be able to demonstrate sufficient corporate benefit.

Furthermore, the issuance of the Guarantee must not be unsound in terms of the financial position of the Danish Guarantor and the interests and rights of the creditors of the Danish Guarantor must not be improperly impaired as a result of the Guarantee. The board of directors and the executive management must therefore ensure that the financial resources of the Danish Guarantor are adequate at all times, and that the Danish Guarantor has sufficient liquidity to meet its current and future liabilities.

To comply with these requirements the management must assess the risk of the Guarantee being called as well as the financial impact on the Danish Guarantor should the risk materialize. If these requirements are not met the directors of the Danish Guarantor could face potential liability.

It should be noted that these requirements are in addition to the requirement to demonstrate corporate benefit and limiting the Guarantee will not excuse the management from being able to demonstrate corporate benefit. However, the more limited the Guarantee is, the easier it will be to demonstrate sufficient corporate benefit.

Pursuant to the terms of the Guarantee granted by any Danish Guarantor, each Danish Guarantor's liability under the Guarantee is limited to an amount equal to the amount of any part of the proceeds of the Offering from time to time made available (and outstanding) to that Danish Guarantor.

Insolvency

In the case of reconstruction or bankruptcy of a Danish Guarantor, a court could void the Guarantee and/or reverse payments made under the Guarantee if it found that: (i) payments have been effected after the reference date determined in accordance with the Danish Bankruptcy Act (this will usually be the day on which a petition for bankruptcy or reconstruction was filed); (ii) payments have been effected by unusual means of payment, before the due date for payment or in amounts which have substantially impaired the Danish Guarantor's ability to pay its debts; or (iii) it is a transaction whereby the Danish Guarantor fraudulently prefers one creditor over another creditor, withholds the Danish Guarantor's property from serving to satisfy creditors or the Danish Guarantor's debts are increased to the detriment of the creditors, provided that the creditor was or became insolvent as a consequence of the transaction and the preferred party knew or should have known of the Danish Guarantor's insolvency and the circumstances causing the transaction to be fraudulent. The primary aim is to void certain transactions carried out during a specific time leading up to the bankruptcy or reconstruction. The legal effects depend on the rule applied. Either the preferred party is obliged to surrender the advantage it has obtained, provided that it does not exceed the loss incurred in the estate, or the party that has been awarded preferential treatment shall be liable to pay compensation in accordance with general legal principles. Under Danish law, an entity would be considered insolvent if it could not pay its debts as they become due and such inability to pay is not merely of a temporary nature.

Creditor priority in bankruptcy

A statutory ranking of claims is set out in the Bankruptcy Act and claims are paid in the following order: (i) pre-preferential claims (costs and administration of the bankruptcy estate), (ii) preferential creditors (costs and expenses incurred in connection with a collective arrangement of the debtor's finances by a reorganization, composition or similar), (iii) privileged creditors (employees' salaries) (iv) ordinary claims (other claims apart from deferred claims e.g., unsecured loans) and (v) deferred claims (claims for interest accrued after the reference date, fines and gift promises).

Only unsecured creditors are ranked. However, to the extent that security is enforced and exhausted without the creditor being fully repaid, the secured party will be unsecured for that amount and rank as an ordinary creditor. The secured creditor will thus be competing on a *pari passu* level with all other unsecured creditors of the debtor for the remaining unencumbered assets (if any).

Cross-border insolvency

Denmark participates in the Nordic Bankruptcy Convention together with Sweden, Norway, Finland and Iceland. Consequently, there is full recognition between the five countries of bankruptcy decrees and a bankruptcy opened in one of the Nordic countries will comprise all assets and liabilities belonging to the debtor in the other Nordic countries.

Denmark has not adopted the UNCITRAL Model Law on Cross-Border Insolvency and the EU Insolvency Regulation is not binding on and does not apply in Denmark. Thus, a foreign insolvency order from another country, except from one of the other Nordic countries, will not be recognized in Denmark.

FINLAND

Applicable insolvency law

There are two primary insolvency regimes under Finnish law. The first, company restructuring (*yrityssaneeraus*), is intended to investigate whether the business has a reasonable possibility and sufficient resources to continue and, if so, to rehabilitate the company's viable business, ensure its continued viability and make arrangements with creditors. The second, bankruptcy (*konkurssi*), is primarily designed to liquidate and distribute the assets of a debtor to its creditors.

Under the Finnish bankruptcy regime, creditors are entitled to be paid proceeds out of the bankruptcy estate in proportion to the amount of their claims, unless otherwise provided by law. According to the Finnish Act on Order of Payment of the Creditors (1578/1992, *laki velkojien maksunsaantijärjestyksestä*), the following creditors have priority over unsecured creditors: (i) secured creditors and holders of retention rights (having a priority to payment out of the proceeds of the relevant secured or privileged asset); (ii) the administrative expenses of the bankruptcy estate (including costs of liquidation, administrator's costs and final salaries of the employees), claims on the basis of contracts that the bankruptcy estate (rather than the debtor) has entered into, any liabilities for which the bankruptcy estate is responsible by operation of law and a debt that has arisen between the commencement and discontinuation of restructuring proceedings; and (iii) claims secured by a business mortgage up to 50 % of the liquidation value of the mortgaged assets. The rights of the above-mentioned preferred creditors may adversely affect the interests of holders in the Notes, and the bankruptcy of the Finnish Guarantor may result in holders of the Notes recovering considerably less than they would have otherwise been entitled to recover. See "*Risk Factors–The Notes will be effectively subordinated to our and our Guarantors' secured indebtedness to the extent of the value of the collateral securing such indebtedness*."

Pursuant to the Recovery Act (758/1991, *laki takasinsaannista konkurssipesään*), certain acts and payments carried out by a debtor towards a single creditor can be revoked if those acts and payments result in unequal treatment of other creditors. According to the Finnish Restructuring of Enterprises Act (47/1993, *Laki yrityksen saneerauksesta*) and the Finnish Enforcement Code (705/2007, *Ulosottokaari*), the grounds for recovery set forth in the Recovery Act are also to be applied in the context of company restructuring and enforcement proceedings.

The bankruptcy estate administrator, the administrator in a company restructuring, and certain creditors may seek to recover assets of the debtor in connection with bankruptcy, company restructuring or enforcement proceedings. The administrator or the creditors may, within a specified time, either file an action for recovery against the debtor's counterparty in a separate court proceeding or file an objection. In bankruptcy, this period to file an action is one year from the commencement of the bankruptcy proceedings or three months from the moment that the bankruptcy estate has discovered or should have discovered grounds for recovery. In the case of a company restructuring proceedings, the administrator must file an action within six months from the commencement of the restructuring proceedings or within three months from the moment that the administrator has discovered or should have discovered grounds for recovery.

Certain general rules for recovery apply to all transactions between an insolvent debtor and the counterparty of the debtor. A transaction concluded within five years prior to the date when the petition for bankruptcy, company restructuring or enforcement is filed with the court or relevant authority (as well as transactions performed after such date) may be recovered if: (i) the transaction, either by itself or together with other transactions, improperly (a) favors a creditor at the expense of other creditors, (b) places property beyond the

reach of creditors or (c) increases debts to the detriment of the creditors; (ii) the debtor, at the time of the transaction, was, or partly due to the transaction became, insolvent or, in case of a transaction considered to be a gift or a contract with the characteristics of a gift, over-indebted; (iii) the counterparty knew or should have known of the insolvency or over-indebtedness, or the relevance of the transaction to the debtor's economic situation; and (iv) the counterparty knew or should have known the facts mentioned above in clause (i), on the basis of which the transaction is considered improper. The grounds for recovery under Section 5 of the Recovery Act, which covers all transactions concluded between the debtor and a counterparty, are thus applicable only if the counterparty has qualified or should have had qualified knowledge of all the issues described above in (i) and (ii). Transactions between the debtor and certain (natural or legal) persons within the debtor's sphere of interest (as defined in the Recovery Act) may be recovered regardless of the date of the transaction.

In addition, pursuant to the Recovery Act, certain transactions can, under certain circumstances be recovered regardless of the good faith of the counterparty and regardless of the solvency of the debtor at the time of the transaction. Such transactions include, among other things: (i) payments received through enforcement; (ii) the payment of debts; and (iii) the granting of security. Any debt paid later than three months prior to the date when the petition for bankruptcy, company restructuring or enforcement is filed with the court or relevant authority (or, in the event that the beneficiary is a person within the debtor's sphere of interest, within two years) may be recovered if: (i) unusual means of payment have been used; (ii) the payment was premature; or (iii) the amount of payment was considerable in comparison to the assets of the debtor (according to Finnish case law, an amount over 10% of the assets of the debtor at the moment of bankruptcy is deemed to be "considerable"). However, a payment may not be recovered if it, when all circumstances are taken into consideration, is deemed customary. Security given later than three months prior to the date when the petition for bankruptcy, company restructuring or enforcement is filed with the court or the relevant authority (or, in the event that the beneficiary is a person within the debtor's sphere of interest, within two years) may be recovered if: (i) the parties had not agreed upon the security in connection with the granting of the credit; or (ii) the possession of the security had not been transferred, or any similar act perfecting the security had not been taken without unjustified delay after the granting of the credit. When a transaction is recovered, the property or amount received from the debtor is returned to the debtor or to the bankruptcy estate if the debtor is in bankruptcy, and the creditor subject to recovery will get a right to a corresponding receivable from the debtor's restructuring programme in and the right to a receivable (and eventually a distributive portion) from the bankruptcy estate.

Accordingly, the validity of the Finnish Guarantee or any payment made thereunder may in certain situations described above be challenged, and it is possible that such a challenge would be successful. If the Finnish Guarantee is successfully challenged, holders of the Notes may lose the benefit of the Finnish Guarantee through nullification of the Finnish guarantee, and the value of any consideration that the holders of the Notes had already received under that guarantee could be recovered from the holders of the Notes.

Limitations

A Finnish company may only distribute its assets in ways specified in the Finnish Companies Act. Other transactions that reduce the assets of the company or increase its liabilities without a sound business reason may constitute an unlawful distribution of assets. Therefore, there must be a sound business reason, *i.e.*, corporate benefit, for granting a guarantee. The business justification for granting a guarantee is assessed on a company-level and on a stand-alone basis, without regard to any group benefit, although synergies can be taken into account to the extent they create direct benefits, such as cost savings, to the company.

For the reasons stated above, the Guarantee provided by the Finnish Guarantor is limited to the extent granting such Guarantee would:

(i) constitute unlawful financial assistance within the meaning of Chapter 13 Section 10 of the Finnish Companies Act, as amended or re- enacted from time to time; or

(ii) constitute an unlawful distribution of assets within the meaning of Chapter 13 Section 1 of the Finnish Companies Act.

In addition to the corporate benefit requirement, the granting of the Guarantee must be within the limits of the company's business purpose as set out in its articles of association.

GEORGIA

Under Georgian law, the validity of a guarantee depends on the enforceability of the underlying obligation it secures. Therefore, the Guarantee given by the Georgian Guarantor can be enforced to the extent that the Notes

are valid and enforceable. The Georgian Guarantee can be enforced up to the maximum amount specified in the Guarantee. In certain cases under Georgian law, including inter alia, the release of the Issuer or other Guarantors from their respective obligations under the Notes and the Guarantees may result in partial or full revocation of the Georgian Guarantee.

The enforceability of the Georgian Guarantee may be affected by the commencement of insolvency proceedings against the Georgian Guarantor. In this circumstance, all payment of debts, accrual of interest and any involuntary enforcement against the Guarantor, including enforcement of the Guarantee, will be suspended. In case of insolvency, all creditors of the Guarantor, including the Noteholders, will be satisfied subject to applicable statutory ranking and availability of the proceeds/assets that can be distributed among the creditors. In addition, the Georgian Guarantee can be removed from the insolvency proceedings, if it qualifies as a transaction detrimental to other creditors, as defined under Georgian law.

LATVIA

Applicable insolvency law

AS 4finance is incorporated under the laws of the Republic of Latvia. Its registered office along with its centre of management and supervision is in Riga, Latvia. As such, any insolvency proceedings applicable to AS 4finance would be primarily governed by Latvian law.

Rehabilitation proceedings

Pursuant to Latvian insolvency law, a company experiencing financial distress problems may apply for legal protection proceedings. Once the court has initiated such proceedings, creditor action against the company in question is stayed and accrual of any creditors' interest in excess of either: (i) the statutory interest rate, or (ii) the main refinancing operation rate published by the European Central Bank (whichever is higher) is discontinued. Within two months of the proceedings having commenced, the company is required to draft and approve with a simple majority of non-secured creditors and qualified majority of secured creditors a plan to restore the company to solvency which may provide for, inter alia, postponement of fulfillment of payment obligations or reduction of the company's debt. This two month period can be extended for an additional month upon the approval of the above-mentioned majority of creditors. The plan has legal effect upon the provision of a written opinion by the company's insolvency administrator and approval of such plan by the court. The measures provided in the court approved plan are binding on all the creditors irrespective of whether they have accepted the plan or not. Once approved, the plan will be operational and binding on the creditors for not more than two years with an extension for another two years contingent upon approval by the company's creditors.

Further, Latvian insolvency law provides for so called out of court legal protection proceedings. A plan to restore the company to solvency is drafted by the company and approved by the creditors before the court has initiated any formal proceedings. The plan has no legal effect until the court approves it, which approval is contingent upon the court being provided with a written opinion by the company's insolvency administrator. Once it has been approved, the legal consequences of out of court legal protection proceedings upon creditors of a company are identical to those in legal protection proceedings initiated by the court.

Bankruptcy proceedings

Generally, if a company is unable to settle its debt that has fallen due for a time period that exceeds two months, it must apply to the court for a declaration of insolvency. An insolvency application may also be filed by any unsecured creditor of the company if the amount of the company's overdue debt owing to such creditor is in excess of EUR 4,268 and the creditor has given notice to the company of its intention to apply for a declaration of insolvency against the company and the debt has not been repaid within three weeks since the date of the notice.

Within one month following the publication of a declaration of insolvency of the company in the Latvian Insolvency Registry, the company's creditors are required to file their claims for verification with an administrator appointed by the court. Claims can also be filed after the one month period (although, not later than the earlier of: (i) the date which is six months following the publication of the declaration of insolvency, or (ii) the date on which the insolvency administrator prepares the plan for settlement of creditors' claims), however, such creditors' claims will have no voting rights within insolvency proceedings. To the extent that claims are not filed within this period, creditors will lose their right to receive funds and proceeds from the sale of the company's assets when distributed to the company's creditors.

The proceeds from sale of the company's assets are distributed among creditors according to the ranking of the creditors. If it is not possible to fully satisfy the total amount of claims of all creditors in a particular class, claims are satisfied proportionately on a *pro rata* basis. Proceeds from the sale of any pledged or mortgaged asset are used first of all to satisfy the claims secured by such pledge or mortgage.

Possible limitations on the enforceability of guarantees

Under Latvian law and court practice, a Latvian company may offer collateral or issue a guarantee to secure fulfillment of a third party's liabilities, provided there is a corporate benefit for such Latvian company to do so.

It is prohibited for a Latvian company to provide collateral or issue a guarantee securing the financing granted for the acquisition of shares in such company.

In addition, there is a risk that the guarantee may be declared null and void if insolvency proceedings of the guarantor are initiated. The insolvency administrator is obliged to examine agreements entered into by an insolvent company in order to establish whether these transactions have been detrimental to the interests of the company and its creditors. If the administrator finds that the agreement in question has caused loss to the company (e.g., sale of assets under market value or granting certain rights without consideration), the administrator is entitled to dispute such agreement. In insolvency proceedings, the Latvian courts have declared guarantees null and void in circumstances where the guarantee secured the private loan of a shareholder (natural person) or a loan that has been used for the purchase of shares in the company which was the guarantor.

There is little practice in Latvian courts in regard to disputing intra-group guarantees. Usually intra-group transactions have a different effect than agreements among non-related parties because they provide indirect benefit to the guarantor. Thus, there is a risk that a guarantee under Latvian law may be declared null and void if the guarantor does not receive at least some benefit as a result of the guarantee.

LITHUANIA

Lithuanian law does not provide that commencement of insolvency proceedings may render the security void. As a general rule, all transactions entered into prior to the commencement of insolvency proceedings are treated as valid. Nevertheless, the transactions could be challenged following the general rules on transaction voidability.

Bankruptcy proceedings

Bankruptcy proceedings in the Republic of Lithuania are regulated by the Enterprise Bankruptcy Law of the Republic of Lithuania as of March 20, 2001, No. IX-216 as further amended. Council regulation (EC) No. 1346/2000 as of May 29, 2000 on insolvency proceedings is also applicable.

The ability to receive payments on the Notes under any guarantee issued by a Lithuanian entity may be negatively affected by the insolvency or bankruptcy of a guarantor. The receipt of payment under a guarantee is limited in certain circumstances if the guarantor is in bankruptcy proceedings. After the decision of the court or creditors' meeting to institute out-of-court bankruptcy proceedings becomes effective, (i) a discharge of financial obligations not discharged prior to the institution of bankruptcy proceedings, including the payment of interest or payment under a guarantee is prohibited (except in certain cases allowing set-off of tax obligations); (ii) calculation of interest and default interest is terminated; and (iii) disposal of company's property is vested with a bankruptcy administrator only. The bankruptcy administrator may declare that the company would not execute the agreements that are not matured—in such case the agreements are deemed to be expired and creditor's claims, if any, arising thereof are settled following the sequence established by Lithuanian bankruptcy laws.

After the commencement of bankruptcy proceedings, the bankruptcy administrator must examine all transactions entered into not less than 36 months before the initiation of bankruptcy proceedings, and bring actions for declaring the transactions that are contrary to the objectives of the company's activities (and/or which could have led to the disability of the company to settle with creditors) as null and void. If the court establishes that bankruptcy is deliberate, the administrator must review all transactions concluded during the period of five years prior to the initiation of bankruptcy proceedings. The bankruptcy administrator may challenge any transaction that was contrary to the objectives of the company's activities and/or had an impact on the company's ability to settle with its creditors.

The bankruptcy administrator may also challenge transactions on the basis of *actio Pauliana*, which entitles the creditor to challenge the transactions executed by a debtor where the debtor was not obliged to execute them and where they violate the rights of the creditor, while the debtor knew or should have known that the creditor's rights would be prejudiced. The transaction is deemed as violating the creditor's rights where (i) the debtor becomes insolvent due to such transaction; (ii) the debtor, being insolvent, grants preference to another creditor; and (iii) the creditor's rights are infringed in any other way. It is only possible to make a claim on the basis of *actio Pauliana* where the counterparty to the transaction was acting in bad faith, i.e. they knew or ought to have known that the transaction would violate the rights of the creditors.

During the bankruptcy process, secured claims take priority, followed by unsecured claims. The claims of unsecured creditors are satisfied in two stages:

In the first stage, creditors' claims excluding interest and penalties are satisfied, while in the second stage the remaining part of the creditors' claims (interest and penalties) are settled. All creditors' claims are settled in the following sequence prescribed by the Lithuanian bankruptcy laws:

(i) employee claims arising from employment, occupational injuries or death and other circumstances;

(ii) tax claims, charges for compulsory state social insurance and health insurance, and certain other categories; and

(iii) all other claims of creditors.

In the case of a guarantor's bankruptcy, the claims under a guarantee not secured by pledge/mortgage, such as the guarantee(s) issued by the Lithuanian Guarantor(s) would fall into the third category above. Claims of the lower priority creditors are settled only after the claims of the higher priority creditors are satisfied.

Restructuring proceedings

The ability to receive payments on the Notes under the Guarantee issued by a Lithuanian entity may be negatively affected if restructuring proceedings are started against the Guarantor. The restructuring proceedings aim to allow companies with financial difficulties, and which have not yet discontinued their economic and commercial activities, to maintain and develop these activities, settle their debts and avoid bankruptcy. The restructuring process may be commenced provided certain conditions under Lithuanian law are met. After the restructuring is commenced and until the approval of the restructuring plan. The company being restructured may not perform any liabilities or obligations that arose before the commencement of the restructuring proceedings, including the transfer of assets or the payment under a guarantee, among others. Payments that have accrued until approval of the restructuring plan are effected according to the restructuring plan (that is approved by the creditors) which must comply with rules set out in law. The law sets out the same order of sequencing the payments as in bankruptcy proceedings, as discussed above. The restructuring plan must be implemented during the period not longer than four years (with a possibility to extend it by one more year with the court's approval) although the debtor need not fully settle with all the creditors during this period.

Limitations for granting guarantees and sureties

A Lithuanian company may offer collateral or issue a guarantee or surety to secure the fulfillment of a third person's liabilities provided a corporate benefit exists for that Lithuanian company. Guarantees with no corporate benefit for the guarantor may be declared void by the courts. In the case of a subsidiary granting security instruments for the benefit of the parent, the benefit is construed on an ad hoc basis, i.e., an indirect benefit is possible if the subsidiary indeed receives some advantage from the received funding (e.g., the subsidiary is granted access to the financing of the group). Moreover, intra-group transactions, including those granting the security to parent companies, subsidiaries or affiliated companies have to be concluded on an arm's length basis.

The Law on Companies of the Republic of Lithuania (No. VIII-1835, *Akcinių bendrovių įstatymas*) prohibits limited liability companies incorporated in Lithuania from providing guarantees or granting security or other credit support for obligations of any person where such obligations are being incurred for the purpose of facilitating an acquisition of shares in the company itself (restriction on financial assistance).

Any creditor may also challenge a transaction made by a debtor on the basis of *actio Pauliana* if the debtor was not obliged to enter into it and such transaction violates the rights of the creditor and the debtor knew or ought to have known of such circumstances. The creditor's rights were considered violated if (a) as a result of such a transaction, the debtor became insolvent, (b) the debtor, being insolvent, granted preference to another creditor, or (c) the rights of the creditor were infringed in any other way.

An ultra vires transaction entered into by the management bodies of a company may be declared void only if it is proved that the counterparty acted in bad faith, *i.e.*, such party knew or should have known that the management bodies were acting *ultra vires*.

Distinction between a guarantee and a surety

Lithuanian law draws a distinction between a guarantee and a surety. The liability of a guarantor under a guarantee may not depend on the validity of the principal secured obligation (despite that the latter is indicated in the guarantee) and is limited to the amount indicated in the guarantee. The guarantor's obligation to pay under the guarantee arises in accordance with the terms of the guarantee. The guarantor's liability is several, and the guarantor is obligated to pay under the guarantee only if, and to the extent that, the debtor fails to fulfill its obligations. The liability of the surety provider under the surety may be either joint and several or several. In the case of several liability, the enforcement must firstly be sought from the original debtor, and only if the original debtor is not able to settle the debts can the enforcement be sought from the surety provider. In case of joint and several liability, the enforcement may be sought from either the original debtor or the surety provider or both. The obligations under the Guarantees may be enforced only if the obligations under the Notes have matured. Therefore, if the Lithuanian Guarantor goes bankrupt and the Issuer has not yet become obligated to fulfill under the Notes, enforcement of the Guarantee in respect of that Guarantor becomes limited under Lithuanian law.

POLAND

Limitations on enforcement resulting from insolvency laws and general corporate laws

The obligations under a guarantee granted by a Polish guarantor are subject to limitations resulting from the application of laws on bankruptcy and insolvency, and the laws on rehabilitation proceedings, as set out in the Polish Act – Bankruptcy Law of February 28, 2003, as amended (the "**Polish Bankruptcy Act**") and the Polish Act – Rehabilitation Law of May 15, 2015 (the "**Polish Rehabilitation Act**"). Given certain legal controversies regarding the application of rules specifying the grounds for the declaration of bankruptcy, and in order to mitigate the possibility that a Polish guarantor could be declared bankrupt under the Polish Bankruptcy Act, the liability of a guarantor incorporated under Polish law on account of payments under a guarantee shall be limited to the equivalent of the Polish guarantor's assets (except for assets which do not form part of the estate subject to bankruptcy) less its liabilities (other than the liabilities arising under the guarantee).

In accordance with Article 189 sec. 2 of the Polish Commercial Companies Code, shareholders may not receive payments out of a company's assets which are necessary for the initial capital to be fully paid up. More generally, Art. 189 sec. 1 prohibits the return of capital to such shareholders. In relation to a Polish joint-stock company (*spółka akcyjna*), Art. 344 sec. 1 of the Polish Commercial Companies Code stipulates that no payments for shares may be reimbursed to a shareholder, either fully or partially, except as allowed by the law for the duration of the company's existence. When the financial standing of a company entering into a transaction is poor and the shareholder of such a company benefits from a transaction, under certain interpretations of Polish law, it may constitute the return of capital to the shareholder. A breach of those rules results in the shareholders' obligation to return the payments up to the amount of the share capital. Therefore, there is a risk that a guarantee of any guarantor incorporated under Polish law will be affected, or could be set aside, to the extent it would result in a reduction of its assets necessary to fully cover its share capital.

Finally, in respect of joint-stock companies, Article 345 of the Polish Commercial Companies Code stipulates certain conditions for granting financial assistance by a joint-stock company for the acquisition of its shares. If these strict conditions are not met, then the financial assistance is unlawful and all the payments are invalid. Moreover, financial assistance is interpreted broadly to include the provision by a company, directly or indirectly, of any financing for the purposes of the acquisition of shares issued by that company, *inter alia*, by granting of credit, loan, guarantee or security. Therefore, a guarantee granted by a Polish guarantor states that it does not apply to any liability of any guarantor incorporated under Polish law in the form of a joint stock company (*spółka akcyjna*) to the extent that it would result in the Guarantee constituting unlawful financial assistance within the meaning of Article 345 of the Polish Commercial Companies Code.

Insolvency and threat of insolvency

If a guarantor's center of main business activity is in Poland, then pursuant to Polish Bankruptcy Act, Polish Rehabilitation Act and EU Regulation 1346/2000 on insolvency proceedings, bankruptcy proceedings and rehabilitation proceedings of the guarantor should be conducted before a Polish court. Consequently, in the event of the insolvency of such guarantor, bankruptcy proceedings would be governed by Polish law. Similarly, in the event of such guarantor's insolvency or its threat, rehabilitation proceedings would also be subject to Polish law.

According to the Polish Bankruptcy Act, a Polish guarantor, as a debtor, will be insolvent: (i) if it has lost its ability to fulfill its due pecuniary liabilities when they fall due (presumed to arise, if the delay in fulfilling pecuniary obligations exceeds three months), or (ii) its pecuniary liabilities (except for future liabilities and those to shareholders relating to loans and legal acts of similar effect, granted within five years before the declaration of bankruptcy) exceed the total value of its assets (except for assets not constituting the bankruptcy estate) and such situation persists for longer than 24 months (even if all pecuniary obligations are fulfilled when they fall due). It is presumed that the pecuniary liabilities of the debtor exceed its assets if, according to the balance sheet, its liabilities (except for reserves for liabilities and liabilities to affiliates) exceed the value of its assets and such situation persists beyond 24 months.

Each individual entitled to represent a Polish guarantor (whether alone or with others) and to run its affairs must file a motion to declare the Polish guarantor bankrupt within thirty days from when the grounds for the declaration have been met. In practice, it is difficult to determine the day from which the 30 day time-limit for filing the motion should run. In addition, each personal creditor of a Polish guarantor may file for its bankruptcy.

According to the Polish Rehabilitation Act, a Polish guarantor as debtor will be threatened with insolvency, if its commercial position shows that it may become insolvent within a short period of time.

If a Polish guarantor is insolvent or endangered by insolvency, it may file a rehabilitation motion. If a motion for declaration of bankruptcy and motion for rehabilitation have both been filed, the court should first decide on the rehabilitation motion and suspend the proceedings on the motion for bankruptcy (unless the suspension would be against the interests of all creditors). The debtor cannot be declared bankrupt during rehabilitation proceedings.

Bankruptcy proceedings

The principal aim of bankruptcy proceedings is the satisfaction of the creditors from the proceeds obtained after sale of the debtor's assets (bankruptcy proceedings would result in dissolution of the debtor's company unless otherwise permitted by law). In the event of bankruptcy proceedings, the court appoints a bankruptcy receiver (*syndyk*) who takes over the management of the bankrupt's assets. From this moment on, the debtor–bankrupt entity is replaced by an official receiver who administers the bankrupt entity's assets and represents the bankrupt entity. The bankrupt entity's assets become bankruptcy assets which will be liquidated to pay off creditors. The composition of bankruptcy assets is determined during preparation of the inventory list and creditors' receivables list which are prepared by the receiver. A motion for approval of the terms of sale of the debtor's enterprise or its organized part, or substantial part of its assets, may be appended to the petition to commence bankruptcy proceedings (pre-packaged liquidation).

Upon the bankruptcy declaration all of the debtor's debts become due and payable. Interest may be paid from the bankruptcy estate only for the period up to the date of the declaration of bankruptcy, unless they are secured by mortgages, pledges, registered pledges, treasury pledges and/or maritime pledges, and satisfied from the security assets' proceeds.

In bankruptcy proceedings, the claims of creditors under a guarantee will be satisfied from the proceeds obtained from the sale of the Polish guarantor's assets, unless an arrangement with creditors is concluded.

As a rule, a Polish guarantor's debts are divided into four categories and creditors whose receivables are ranked in a lower category cannot be satisfied before all the debts in the higher category have been fully satisfied. The first category principally includes payments to the state or employees (remuneration, health benefit payments and social security obligations, etc.) or related to the rehabilitation proceedings (including arising under a credit facility, loan, bonds, guarantees or letters of credit, or other form of financing envisaged in the arrangement concluded in the rehabilitation proceedings and provided in connection with the arrangement's performance). Most unsecured commercial debts, tax and other public dues are listed in the second category. The third category encompasses interest on debts in the first and second categories (in the order in which the principal is satisfied), court or administrative penalties, donations etc. The fourth category concerns debts to direct and certain indirect shareholders relating to loans and legal acts of similar effect that were granted within five years prior to the declaration of bankruptcy. Within a category, each creditor's receivable is satisfied pro rata to the total value of receivables listed in that category. Before satisfying any claims, the official receiver covers the costs of bankruptcy proceedings.

Also, Polish law does not require a court receiver (syndyk) to give effect to intercreditor arrangements such as subordination agreements. Although the law does not preclude creditors from attempting to enforce such rights

in separate proceedings based on their entitlements arising from respective contracts, such proceedings are conducted outside of and following bankruptcy proceedings. Therefore, the claims of all unsecured creditors may be paid on a *pari passu* basis in a bankruptcy proceeding.

Under Polish bankruptcy law, any debt payable in a currency other than Zloty (such as Euro), if being put on the list of debts, must be converted into Zloty at the National Bank of Poland's average exchange rate prevailing on the date the bankruptcy court issues a decision on the debtor's bankruptcy (and regardless of whether the debt has fallen due or not). Accordingly, in the event of a bankruptcy of the company, holders of the Notes may be subject to exchange rate risk between the date of bankruptcy and the date of receipt of any amounts following a bankruptcy proceeding.

If an asset owned by the bankrupt entity is secured with a mortgage, pledge, registry pledge, treasury pledge or a maritime lien, then a creditor has the right to receive proceeds from that asset before other creditors (with few exceptions such as, for instance, a certain portion of employee salaries). Where a number of mortgages have been established on a real estate which considerably exceed its value, creditors are repaid from such real estate according to their priority.

In the course of the bankruptcy proceedings, an arrangement can be voted on and approved by the creditors. In such case after the approval by the court, the provisions of the arrangement determine the manner of satisfaction of creditors' receivables.

Rehabilitation proceedings

Rehabilitation proceedings essentially aim to avoid the debtor's bankruptcy through restructuring by settlement with creditors and, in the event of reorganization proceedings (*postępowanie sanacyjne*), also through reorganization steps, while securing the justified rights of creditors.

Rehabilitation proceedings may be initiated by a debtor's motion, or, in case of reorganization proceedings (*postępownie sanacyjne*) also on creditor's motion, if the debtor is insolvent or endangered by insolvency. The court will refuse rehabilitation proceedings, if they are detrimental to creditors, or if the debtor's ability to fund the costs of such proceedings and obligations arising after the date of opening of the proceedings cannot be substantiated.

The debtor may request the commencement of one of the following rehabilitation proceedings: (i) arrangement approval proceedings, (ii) accelerated arrangement proceedings; (iii) arrangement proceedings and (iv) reorganization proceedings (*postępowanie sanacyjne*).

In the case of arrangement approval proceedings, the debtor solicits votes from creditors on a proposed arrangement without participation of the court. Once creditors have cast a sufficient number of votes, the debtor may apply to the court for approval of the arrangement.

Accelerated arrangement proceedings are designed to allow a debtor to conclude an arrangement with the creditors following the preparation of a list of creditors' receivables and its approval by a judge–commissioner in simplified proceedings. At the opening of accelerated arrangement proceedings, the debtor's assets constitute the arrangement estate. The arrangement estate is administered by the debtor, unless the court decides that an administrator should be appointed (e.g. if the debtor fails to perform the instructions of the judge–commissioner or the court supervisor). From the opening of accelerated arrangement proceedings, the debtor or administrator (if appointed) cannot satisfy any creditors' receivable which is covered by the arrangement, by operation of law.

In arrangement proceedings, an arrangement may be concluded following the preparation of the list of creditors' receivables and its approval by a judge-commissioner in ordinary proceedings. As in accelerated arrangement proceedings, the assets of the debtor form the arrangement estate, which is administered by the debtor or administrator (if appointed). The debtor, or administrator (if appointed) also may not satisfy any debt which is covered by the arrangement, by operation of law.

Reorganization proceedings allow a debtor to conclude an arrangement with creditors and undertake a reorganization. At the opening of reorganization proceedings, the debtor is deprived of its right to administer its assets (from the opening of proceedings they constitute the reorganization estate) and the assets are administered by a court-appointed administrator (unless the court allows the debtor to retain the right to administer the reorganization estate). The administrator can undertake a number of restructuring steps, including renouncing a not performed mutual agreement, or challenging the effectiveness of certain acts undertaken by the debtor before filing the motion to open reorganization proceedings.

If creditors vote in favor of an arrangement, the arrangement is accepted and then approved by the court. The court's decision approving the arrangement may be appealed against. An approved arrangement is binding on (affects) all creditors, whose receivables are covered by the arrangement. Certain receivables are not covered (affected) by the arrangement. These include, among other things: (i) receivables secured with mortgages, pledges, registered pledges, treasury pledges and/or maritime pledges, however only up to the value of the collateral (to the extent they can be satisfied from the security assets on which such security was established); a creditor whose claims are so secured may, however, consent to being subject to arrangement, (ii) receivables under derivative or repo transactions, and (iii) receivables under employment contracts. The arrangement may also concern only certain types of receivables (partial arrangement). In such case, the arrangement is binding on (affects) all creditors who have receivables of such type. In a partial arrangement, there are several exceptions to the general rule that receivables secured by mortgages, pledges, registered pledges, treasury pledges and/or maritime pledges are not covered by the arrangement, without the consent of the creditor, up to the value of the collateral. The consent of the creditor is not required, if the arrangement's initial proposals envisage full satisfaction of the creditor within the timeframe specified in the arrangement, or if they envisage satisfaction to an extent not less than may be expected from the collateral.

If the repayment of receivables arising under a guarantee are covered by the arrangement, there is a possibility that such receivables may be decreased on the basis of a decision of the creditors (such decisions would be subject to certain mandatory rules of the Polish Rehabilitation Act).

Effectiveness of the Guarantee

Under the Polish Bankruptcy Act, a guarantee may be declared ineffective or deemed to be ineffective in certain situations. In particular, the enforceability of the receivables arising under the guarantee in insolvency proceedings depends on whether the guarantee was granted at least six months before the filing of the motion for bankruptcy of a Polish guarantor and, furthermore, whether the receivables are due and payable. Pursuant to Polish bankruptcy law, if the debt secured by the guarantee is not due and the guarantee was granted within six months before the filing of the motion for bankruptcy, then the guarantee will be deemed ineffective. However, in such case, the creditor may bring an action or charge in order to seek the recognition of the guarantee as effective if at the time when the same were granted the creditor was unaware of the existence of grounds for declaration of bankruptcy.

Furthermore, if the guarantee is granted within six months preceding the date of the filing of the motion for bankruptcy, it will be determined whether the guarantee was performed with a related company. If so, the guarantee will be declared ineffective towards the bankruptcy estate, unless the other side proves that creditors were not disadvantaged.

The guarantee granted within one year before the filing of the motion for bankruptcy will also be deemed ineffective towards the bankruptcy estate if the value of the guarantee significantly exceeded consideration for a Polish guarantor or there was no consideration for such Polish guarantor.

Also mortgages or pledges established in the year preceding the bankruptcy declaration may be challenged if the bankrupt entity was not a personal debtor of the creditor (*e.g.*, a guarantor) and did not obtain any benefit in connection with such security interest. This rule shall apply respectively in situations where an encumbrance was established in exchange for a manifestly low (*niewspolmiernie niskie*) consideration. Regardless of the value of the consideration received by the bankrupt, the judge-commissioner will declare encumbrances ineffective towards the bankruptcy estate if they secure debts of the bankrupt company's partners or shareholders, their representatives or spouses of the same, or affiliates, their partners or shareholders, representatives, or spouses of the same as well as with another company, in the event of either being the controlling company or in the event the same company is a controlling company with respect to the bankrupt company and such other company.

Under the Polish Rehabilitation Act, the guarantee may be declared ineffective or deemed ineffective in certain situations. Pursuant to the Polish Rehabilitation Act, if: (i) the guarantee was granted within one year before the filing of the motion for opening reorganization proceedings; and (ii) the guarantee was not granted directly in connection with consideration received by the guarantor, then the guarantee will be ineffective towards the reorganization estate. This will also occur, if the guarantee was granted within one year before the filing of the motion for opening reorganization proceedings and the value of the consideration received by the Polish guarantor, or stipulated for the Polish guarantor or third party, is significantly lower than the value of the Polish guarantor's guarantee.

The guarantee will be ineffective towards the reorganization estate in the part in which it exceeds (as of the date of granting the guarantee) the value of the secured claim together with ancillary claims specified in the document establishing the guarantee by more than a half, and provided that the guarantee was granted within a year before the filing of the motion for opening reorganization proceedings.

Under the Polish civil law code, a creditor (or, if the debtor is declared bankrupt, the relevant bankruptcy officer) may request that the relevant Polish court declare a given legal act (*e.g.*, the granting of a guarantee) ineffective towards such creditor, and the court will do so if it finds that granting a guarantee constituted a transaction effected by a debtor to the detriment of its creditors (*i.e.*, where the debtor became insolvent or became insolvent to a greater extent as a result of the transaction) while a third party has gained a benefit, and provided that (i) the debtor consciously acted to the creditors' detriment, and (ii) the third party knew or, had it acted with due diligence, could have known that the debtor was acting to the detriment of its other creditors (and the third party's knowledge that the debtor consciously acted to the creditors' detriment is presumed if the entrepreneur who received the benefit as a result of the transaction with the debtor remained in a permanent economic relationship with such debtor) or gave no consideration for the benefit obtained in such transaction.

In addition, if a subsidiary guarantor's entering into a given agreement made it wholly or partially impossible to satisfy a third party's claim, such third party may request that the court declare such an agreement ineffective towards that party, provided the subsidiary guarantor and the other party to the agreement knew of the third party's claim or if the agreement was for no consideration.

Furthermore, if a Polish guarantor is declared a subject of bankruptcy proceedings, its debts arising under the guarantee will become immediately due and payable.

SPAIN

The validity of a guarantee in Spain may be challenged upon a declaration of insolvency of the guarantor.

Spanish insolvency law 22/2003, as amended (the "**Spanish Insolvency Law**"), governs certain out-of court restructurings or refinancings and court insolvency proceedings. This section summarizes the main aspects of the Spanish Insolvency Law affecting corporations, and not individuals, as there are certain specific rules applying to the insolvency of individuals.

In Spain, insolvency proceedings, which are known as "*concurso de acreedores*", are only triggered in the event of a debtor's current insolvency (*insolvencia actual*) or imminent insolvency (*insolvencia inminente*). Under the Spanish Insolvency Law, a debtor is insolvent when it becomes unable to regularly meet its obligations as they become due or when it expects that it will shortly be unable to do so. The filing of a declaration of insolvency may be requested by the debtor, by any creditor thereof (provided that it has not acquired the credit within the six months prior to the filing of the petition for insolvency, for *inter vivos* acts, on a singular basis and once the credit was mature) and by certain interested third parties.

Under the Spanish Insolvency Law, to be considered insolvent, a debtor must file a petition for insolvency within two months of the date on which the debtor becomes aware, or should have become aware, of the insolvency. Any creditor thereof or any other interested third party can also file a petition for insolvency of the debtor. If filed by the debtor, the insolvency is deemed "voluntary" (*concurso voluntario*) and, if filed by a third party, the insolvency is deemed "compulsory" (*concurso necesario*). In the case of voluntary insolvency, as a general rule, the debtor retains the management and full powers of disposal over its assets, although it is subject to the intervention (*intervención*) of the insolvency administrators. In the case of compulsory insolvency, as a general rule, the debtor's management rights are suspended and such powers, such as the ability to dispose of assets, is conferred solely upon the insolvency administrators.

Notwithstanding the foregoing, the general obligation to file for insolvency within two months from the date of being in a situation of current insolvency does not apply if the debtor notifies the competent court that it has initiated negotiations with its creditors to obtain accessions to an anticipated Composition Agreement (as defined below) or to reach a refinancing agreement set out in article 71 bis or in the Fourth Additional Disposition of the Spanish Insolvency Law (the so-called 5 bis communication). In fact, by means of such notice (i.e., the 5 bis communication), in addition to these two months, the debtor gains an additional three month period to achieve an agreement with its creditors or to obtain accessions to an anticipated Composition Agreement and one further month to file for insolvency.

Under Spanish Insolvency Law, upon declaration of insolvency, acts proven detrimental (*perjudiciales*) to the debtor's estate that occur during the two years prior to the date the insolvency is declared may be rescinded, regardless of fraudulent intention. Acts for which no consideration is received for a disposed asset and acts which result in the early repayment of obligations which would have become due after the declaration of insolvency (with certain exceptions) are presumed detrimental. In addition, a disposal made in favor of a "related person or entity" (as defined under "*—related parties under insolvency proceedings*" below), payments guaranteed by mortgage or pledge and whose maturity date was later than the date of declaration of the insolvency proceedings, and the creation of a security interest securing a pre-existing obligation or a new obligation that replaces an existing one, are presumed to be detrimental to the debtor's estate unless proven otherwise by the insolvent company or the relevant creditor of the affected debt. For other claims, the party petitioning for the annulment of a particular transaction must provide evidence of the damage caused by such transaction to the debtor's estate. Transactions made in the ordinary course of business at arm's length may generally not be rescinded.

Related parties under insolvency proceedings

Under Spanish law, a "related person or entity" of a company includes (i) shareholders with 5% of the share capital (for a listed company) and 10% (for a non-listed company), (ii) the administrators or directors of the insolvent party (including the insolvent company's directors and administrators in the two years preceding the insolvency), (iii) members of the same group of companies and their shareholders (per the same shareholding requirements described) and (iv) any assignee or acquirer of credits held by the aforementioned persons and entities transferred in the two years preceding the insolvency. Pursuant to Article 92 of the Spanish Insolvency Law, any loans or credits or instruments similar to loans and credits held between related parties (such as those arising between the Issuer and the Spanish Guarantor) may be considered subordinated debts. Subordinated debt shall only be paid once the privileged and ordinary credits have been paid in full and may not be upgraded to the category of specially privileged credits as a consequence of the enforcement of a security interest or a guarantee created in favor of a third- party creditor.

Pursuant to the rebuttable presumption mentioned under (ii) above, a disposal by a Spanish guarantor to a "related person or entity" (such as by the Spanish Guarantor to the Issuer) may give rise to the claim of being detrimental to the debtor's estate in which case the parties who took part in the transaction must prove that the transaction did not damage the debtor's estate or prejudice creditor interests.

Spanish Insolvency Law also makes a distinction between general debts under insolvency proceedings and debts against the insolvency estate. Debts against the insolvency estate, such as certain amounts of the employee payroll and costs and expenses of the insolvency proceedings, are not considered part of the debtor's general debt and are paid before other debts under insolvency proceedings and at their respective maturities. However, in case the insolvency estate is insufficient to meet the payment of all claims against the estate, then a particular ranking among these types of claims would be applicable for payment. The following is the order in which creditor's claims are ranked:

- claims against the insolvency estate, including, among others, claims for salaries relating to the 30 days prior to the declaration of insolvency in an amount that does not exceed twice the Spanish minimum statutory salary (*salario mínimo interprofesional*), claims for salaries and credits that result from obligations validly incurred during the insolvency proceeding by the insolvent party; and up to 50% of the fresh money generated in an out- of-court formal refinancing agreement in accordance with the conditions of Article 71.bis or in the Fourth Additional Provision SIL;
- credits with a special privilege, including, among others, those holding claims secured by a legal or voluntary mortgage, moveable mortgage or pledge without displacement of possession over the mortgaged or pledged assets; claims secured by securities; and claims secured by a possessory pledge executed in a public document over the goods or rights in possession of the creditor or a third party and pledges securing future credit rights provided that the pledge has been duly registered in a public registry prior to the declaration of insolvency (pursuant to the literal wording of Article 90.1.6° of the Spanish Insolvency Law. However, it should be noted that a number of opinions, which may not be considered unreasonable, consider that notwithstanding the referred literal wording of the law, what the legislator meant was to consider as privileged claims the "pledges over future credit rights provided that the pledge has been duly registered in a public registry prior to the declaration of insolvency" and that the referred Article should be interpreted in this sense). In these cases, the privilege extends only to the secured asset;
- credits with a general privilege, including claims for salaries that do not have a special privilege (up to a limited amount), severance payments and indemnities for the termination of employment agreements,

indemnities owed for labor accidents or sickness and surcharges on dues owed for unpaid labor health duties accrued prior to the declaration of insolvency; amounts relating to unpaid withholding taxes, and social security contributions up to 50% of the aggregate amount; claims for non-contractual liabilities; up to 50% of the fresh money generated in an out-of-court formal refinancing agreement in accordance with the conditions of Article 71.6 SIL that are not recognized as claims against the estate (*creditos contra la masa*), and up to 50% of the aggregate amount of the claims of the creditor (excluding those claims that are subordinated) that has requested the insolvency declaration;

- credits (other than subordinated credits) not classified in any of the above categories will rank *pari passu* and be paid pro rata; and
- subordinated credits, including, among others, (i) late or incorrect claims, (ii) contractually subordinated claims, (iii) non-secured interests (such as accrued and unpaid interest due on the Notes at the commencement of the insolvency proceeding (*concurso*), (iv) fines, (v) claims of "related parties" creditors of related persons or entities with certain qualifications or features but always when the claim relates to loans or similar acts (such as those related to the Spanish Guarantor, (vi) detrimental claims against the debtor (such as the Issuer) where a Spanish court has determined that a relevant creditor has acted in bad faith (*rescisión concursal*); and (vii) credits derived from contracts including reciprocal commitments, in case the court attests that the creditor repeatedly hinders the performance against the interest of the insolvent debtor. In case of liquidation, subordinated credits shall be paid in the above mentioned order *pro rata* within each class.

SWEDEN

Applicable Insolvency Law

The Swedish Guarantor is incorporated under the laws of Sweden and as such any insolvency proceedings applicable to it may be governed by Swedish insolvency law.

Insolvency Proceedings

Pursuant to the Swedish Bankruptcy Act (Sw. *konkurslagen (1987:672)*), if a company is unable to pay its debts when due and such inability is not merely temporary, it is deemed insolvent and can be declared bankrupt following a bankruptcy petition filed with the court by (i) the company or (ii) by a creditor of the company.

In the event of bankruptcy the court will appoint a receiver in bankruptcy who will work in the interest of all creditors with the objective of realising the company's assets and distribute the proceeds among the creditors.

The purpose of bankruptcy proceedings is to wind up the company in such a way that the company's creditors receive as high a proportion of their claims as possible. The receiver in bankruptcy is required to safeguard the assets and can decide to continue the business or to close it down, depending on what is best for all creditors. In general, the receiver in bankruptcy is required to sell the assets of the company as soon as possible and to distribute the proceeds. In the interim, the receiver will take over the management and control of the company and the company's directors and/or managing director will no longer be entitled to represent the company or dispose of the company's assets.

When distributing the proceeds, the receiver must follow the mandatory provisions of the Swedish Rights of Priority Act (Sw. *förmånsrättslagen (1970:979)*), as amended from time to time, that states the order in which creditors have a right to be paid. As a general principle, in bankruptcy proceedings competing claims have equal right to payment in relation to the size of the amount claimed from the company's assets. However, preferential or secured creditors have the benefit of payment before other creditors. In addition a claim may be subordinated by way of agreement between the creditors and the company.

In case of enforcement outside bankruptcy, an enforcement process is initiated by the creditor obtaining an enforcement order from the Swedish Enforcement Authority or the court. Upon obtaining an enforcement order against a company, a creditor may apply to the Swedish Enforcement Authority for enforcement of its claim.

Priority of Certain Creditors

As a general principle, under Swedish insolvency law competing claims have equal right to payment in relation to the size of the amount claimed from the company's assets. However, some preferential and secured

creditors, where such preference or security may arise as a consequence of law, have the benefit of payment before other creditors. There are two types of preferential rights: specific and general preferential rights. Specific preferential rights apply to certain specific property and give the creditor a right to payment from such property. General preferential rights cover all property belonging to the insolvent company's estate in bankruptcy, which is not covered by specific preferential rights, and give the creditor a right to payment from such property. Claims that do not carry any of the above mentioned preferential rights or exceed the value of the security provided for such claim (to the extent of such excess), are non-preferential and are of equal standing as against each other.

Limitations on the Value of a Guarantee

A Swedish limited liability company may not provide a guarantee for the obligations of a parent or sister company, unless they belong to the same group of companies and the parent company of that group is domiciled within the European Economic Area. Furthermore, if a Swedish limited liability company provides any guarantee without receiving sufficient corporate benefit in return, such guarantee will, in whole or in part, be considered a distribution of assets, which will be lawful only (i) to the extent there is sufficient coverage for the restricted equity capital of the Swedish limited liability company after the distribution, i.e., at the time the guarantee is provided; and (ii) if considered prudent by the Swedish limited liability company to undertake such distribution after having taken into consideration the equity requirements imposed by the nature, scope and risks relating to the Swedish limited liability company's business or the Swedish limited liability company's need to strengthen its balance sheet, liquidity or financial position in general. Where the Swedish limited liability company is a parent company, the latter assessment is made also on a group level.

A guarantee granted for another party's obligation may also be deemed to constitute a distribution of assets if, at the time the guarantee is provided, the obligor of the secured obligation could be deemed unable to fulfill its obligation to indemnify the Swedish limited liability company if the guarantee is called upon and provided that the guarantor does not otherwise receive sufficient corporate benefit.

It should also be noted that laws relating to financial assistance in Sweden prohibit limited liability companies incorporated in Sweden from providing guarantees or other credit support for obligations of any person where such obligations are being incurred for the purpose of acquiring shares in the company itself or in any other structurally superior member of the same Swedish group of companies.

The Guarantees of the Guarantor incorporated in Sweden are limited in accordance with the above restrictions relating to prohibited security and the distribution of assets and financial assistance and are subject to limitation language limiting the liability of such entities thereunder to the extent required by the above restrictions.

Limitations on the Validity of Certain Transactions

In bankruptcy and company reorganisation proceedings, transactions can (in certain circumstances and subject to a time limit) be reversed and the goods or money can then be returned to the bankruptcy estate or the company subject to company reorganisation. Broadly, these transactions include, among others, situations where the company has conveyed property fraudulently or preferentially to one creditor to the detriment of its other creditors before the initiation of the relevant insolvency proceedings, granting a guarantee that was either not stipulated at the time when the obligation arose or not perfected without delay after such time and the delay is not considered to be ordinary, or paid a debt that is not due or that is considerable compared to the value of the company's assets or if the payment is made by using unusual means of payment. In the majority of situations, a claim for recovery can be made concerning actions that were made during the three months preceding the commencement of the relevant insolvency proceedings. In certain situations, longer time limits apply and in others there are no time limits. These include, among others, situations where the other party to an agreement or other arrangement is deemed to be a closely related party to the company such as a subsidiary or parent company.

The Swedish Reorganisation Act (*Sw. lag (1996:764) om företagsrekonstruktion*) provides companies facing difficulty in meeting their payment obligations with an opportunity to resolve these without being declared bankrupt. A petition for company reorganisation may be presented by (i) the company or (ii) a creditor of the company. Corporate reorganisation proceedings shall, as a main rule, terminate within three months from commencement but may under certain conditions be extended for up to one year.

An administrator is appointed by the court and supervises the day-to-day activities and safeguards the interests of creditors as well as the company. However, the company remains in full possession of the business

except that, for important decisions such as paying a debt that has fallen due prior to the order of reorganisation, granting security for a debt that arose prior to the order, undertaking new obligations or transferring, pledging or granting rights in respect of assets of a substantial value for the business, the consent of the administrator is required.

The making of an order under the Swedish Reorganisation Act does not have the effect of terminating contracts with the company and, during the reorganisation procedure, the company's business activities continue in the ordinary course of business. However, the procedure includes a suspension of payments to creditors and the company cannot pay a debt that fell due prior to the order without the consent of the administrator and such consent may only be granted should there be exceptional reasons for doing so and any petition for bankruptcy in respect of the company will be stayed. A moratorium also applies to execution in respect of a claim or enforcement of security during corporate reorganisation proceedings unless the security assets are in the physical possession of the secured creditor or any agent acting on behalf of such creditor, which is the case with a Swedish law pledge over the shares in a Swedish limited liability company where the share certificates of such company has been delivered to the agent.

The company may apply to the court requesting public composition proceedings (*offentligt ackord*) which means that the amount of a creditor's claim may be reduced. The proposal for a public composition must meet certain requirements such as (i) that a sufficient proportion of the creditors which are allowed to vote and (ii) that such creditors represent a sufficient proportion of the total outstanding claims, vote in favour of such public composition proposal. Creditors with set-off rights and secured creditors will not participate in the composition unless they wholly or partly waive their set-off rights or priority rights. Should the security not cover a secured creditor's full claim, the remaining claim will, however, be part of a composition. A creditors' meeting is convened to vote on the proposed composition. The public composition is binding proceedings.

Effect of Bankruptcy on the Bankruptcy Company's Contracts

The declaration of bankruptcy does not automatically terminate existing contracts and instead the receiver may in its discretion choose to have the bankruptcy estate itself become party to any such existing contracts. If the estate enters into the contract and performance by the creditor is due, the creditor may demand that the estate performs its obligations as well or, if a grace period has been granted, request that the estate, without unreasonable delay, provides acceptable security for its performance. If performance by the creditor is not due, the creditor may request security where this is necessary in order to protect against loss. If the estate does not enter into the contract within a reasonable time after the creditor's demand or if it does not comply with the creditor's request to provide security, the creditor may terminate the contract.

Foreign Currency

Swedish courts may award judgements in currencies other than Swedish kronor, but the judgement company has the right to pay the judgement debt, even though denominated in a foreign currency, in Swedish kronor at the rate of exchange prevailing at the date of payment.

SERVICE OF PROCESS AND ENFORCEMENT OF JUDGMENTS

The Issuer is a public limited liability company (*société anonyme*) incorporated under the laws of Luxembourg. The Guarantors are incorporated under the laws of Luxembourg, Denmark, Finland, Georgia, Latvia, Lithuania, Poland, Spain and Sweden. All of the directors or executive officers of 4finance Group, the Issuer and the Guarantors named in this Offering Memorandum reside outside United States. All or a substantial portion of our assets, including those of the Issuer and the Guarantors, are located outside the United States, and substantially all of the assets of our directors and executive officers, as well as of the directors and executive officers of the Issuer and Guarantors are located outside the United States.

Under the Senior Notes Indenture, the Issuer and the Guarantors have appointed, or will appoint, an agent for the service of process in New York. Nevertheless, it may not be possible for investors to effect service of process within the United States against the 4finance Group or any of directors and executive officers mentioned above or to enforce against them judgments of U.S. courts predicated upon the civil liability provisions of the federal or state securities laws of the United States. It may also be difficult for you to enforce, in original actions brought in courts in jurisdictions outside the United States, liabilities predicated upon U.S. securities laws or New York law.

If a judgment is obtained in a U.S. court against the Issuer or the Guarantors, investors will need to enforce such judgment in jurisdictions where the relevant company has assets. Even though the enforceability of U.S. court judgments outside the U.S. as currently in force is described below for the countries in which the Issuer, the Guarantors, directors and key management are located, you should consult with your own advisors in any pertinent jurisdictions as needed to enforce a judgment in those countries or elsewhere outside the United States.

Unless otherwise qualified, in each of the jurisdictions discussed below, the enforceability of foreign judgments may be sought in the following manner: (i) pursuant to relevant EU laws, provided the judgment was obtained in a Member State of the EU, (ii) under the relevant bilateral/multilateral treaty providing for such enforcement, or (iii) on the basis of the rules of the respective jurisdiction's laws on civil procedure. Nevertheless, we cannot, however, assure you that attempts to enforce judgments in any of the jurisdictions discussed below will be successful.

LUXEMBOURG

In Luxembourg, it may be possible for investors to effect service of process upon the Issuer and/or the Holdco within Luxembourg in accordance with the Hague Convention on the Service Abroad of Judicial and Extrajudicial Documents in Civil or Commercial Matters of November 15, 1965.

Because the United States and Luxembourg do not have a treaty providing for reciprocal recognition and enforcement of judgments in civil and commercial matters, a final judgment for the payment of monies rendered by any U.S. federal or state court based on civil liability would not be directly enforceable in Luxembourg and would require recognition and enforcement proceedings (*exequatur*) before the Luxembourg courts in accordance with the Luxembourg rules for recognition and enforcement of foreign judgments.

A party seeking to enforce a final judgment obtained in the U.S. courts, may initiate enforcement proceedings in the competent Luxembourg District Court (*Tribunal d'Arrondissement*) pursuant to the Luxembourg New Code of Civil Procedure (*Nouveau Code de Procédure Civile*).

The competent Luxembourg District Court is likely to enforce a U.S. court judgment if it is satisfied that all the following conditions are met:

- the judgment is final and enforceable (*exécutoire*) in the United States where the judgment was rendered;
- the U.S. court that rendered the judgment had full jurisdiction over the subject matter leading to the judgment according to the conflicts of laws principles under both Luxembourg and relevant U.S. federal and state jurisdictional rules;
- the U.S. court has applied to the dispute the substantive law which would have been applied by the Luxembourg courts in accordance with the Luxembourg conflict of laws rules;
- the U.S. court order or judgment must not result from an evasion of Luxembourg law (*fraude à la loi*);

- the U.S. court judgment does not contravene public policy (*ordre public*) as understood under the laws of Luxembourg; and
- the U.S. court has acted in accordance with its own procedural laws, and the U.S. court judgment was granted following proceedings in which the parties had the opportunity to appear and, if appeared, to present a defense.

If an original action is brought in Luxembourg, Luxembourg courts may refuse to apply the designated law among others, in particular if its application contravenes Luxembourg public policy. In an action brought in Luxembourg on the basis of U.S. federal or state securities laws, Luxembourg courts may not have the requisite power to grant the remedies sought. Also, Luxembourg courts may not enforce claims for punitive damages.

DENMARK

Under the Danish Administration of Justice Act, it is not possible to enforce in Denmark judgments from courts outside the EU and countries part of the European Free Trade Association, including judgments obtained in U.S. Courts. Therefore, an investor wishing to enforce the guarantee given by our Danish subsidiary must initiate legal proceedings in the Danish courts.

FINLAND

As there is no treaty on the reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters between the United States and Finland, courts in Finland will not automatically recognize and enforce a final judgment rendered by a U.S. court. Under Finnish law, a Finnish title for execution (*i.e.*, a Finnish court judgment) is required for such recognition and enforcement; in seeking a Finnish court judgment or order to such effect, a judgment of a U.S. court will constitute circumstantial evidence of the questions of fact in the case concerned and evidence of the governing law as applied to the matter in dispute. The application by a Finnish court of foreign law in a matter brought before it is subject to (a) the foreign law not being contrary to such mandatory rules of Finnish law that due to their public nature or general interest would be considered applicable irrespective of the agreed choice of law; and (b) the application of the foreign law not resulting in an outcome contrary to the public policy (*ordre public*) of the Finnish legal system. Punitive and exemplary damages are unenforceable under Finnish law, and a Finnish court may only award damages to the extent they represent compensation for actual losses and damages.

GEORGIA

Foreign court judgments against the Georgian Guarantor will not be recognized or enforceable in Georgia if:

(i) the matter is within the exclusive competence of Georgia;

(ii) there is a violation in the service of process or other procedures under the law of the country where the court rendered judgment;

(iii) the dispute involves the same subject matter and parties as another dispute currently being heard in Georgian courts or already decided by a Georgian or foreign court and recognized in Georgia;

(iv) the court rendering the judgment is not considered competent to adjudicate the dispute under Georgian legislation;

(v) the country whose court has rendered the judgment does not recognize judgments of Georgian courts; or

(vi) the judgment of the foreign court contradicts fundamental legal principles of Georgia.

No treaty exists between Georgia and many Western jurisdictions, including many EU jurisdictions, for the reciprocal enforcement of foreign court judgments.

Furthermore, the choice of New York law as the governing law of the Notes and the Guarantee may not be given effect, and the recognition or enforcement of foreign court judgments may be limited, by application of the Georgian law principle requiring compliance with mandatory provisions of the law of the country most closely connected to the transaction, including mandatory provisions of Georgian law. The nature and scope of such mandatory provisions are subject to a considerable degree of discretionary authority by the court in which recognition or enforcement of the judgment is being sought.

LATVIA

There is no treaty between the United States and Latvia providing for the reciprocal recognition and enforcement of judgments (other than arbitration awards) rendered in civil and commercial matters. Therefore, the enforcement of judgments obtained outside the courts of an EU Member State is governed by the rules of Latvian civil procedure. Under these rules, enforcement is generally granted except in the following circumstances:

- the foreign court rendering the judgment did not have jurisdiction in accordance with Latvian law to adjudicate the dispute or such dispute falls under the exclusive jurisdiction of the Latvian courts;
- the judgment of the foreign court is not final or has not come into effect;
- the defendant's due process rights were violated during the course of the original proceedings;
- the judgment rendered by the foreign court is irreconcilable with an earlier final judgment on the same subject matter between the same parties made in Latvia or by another foreign court, provided it has been enforced or is enforceable in Latvia, or with an earlier litigation before a Latvian court between the same parties;
- the recognition of the judgment of the foreign court is in conflict with the public policy of Latvia; or
- the foreign court rendering the judgment failed to apply the laws of that jurisdiction which would have been applicable pursuant to the conflict-of-laws principles set out under Latvian international private law.

Under Latvian law, the re-examination by Latvian courts of the merits of a case in respect of which judgment has been obtained and enforcement is being sought generally is prohibited. Latvian courts, however, have in the past re-examined the merits of a case where the recognition and enforcement of a judgment of the foreign court is objected due to the reason that it is in conflict with the public policy of Latvia.

LITHUANIA

There is no treaty between the United States and Lithuania providing for the reciprocal recognition and enforcement of judgments (other than arbitration awards) rendered in civil and commercial matters. Therefore, the enforcement of judgments obtained outside the courts of an EU Member State is governed by the rules of Lithuanian civil procedure. Under these rules, enforcement is generally granted except in the following circumstances:

- the judgment of the foreign court is not final and has not come into effect;
- the dispute falls under the exclusive jurisdiction of the Lithuanian courts or third country courts;
- the defendant's due process rights were violated during the course of the original proceedings;
- the judgment is inconsistent with a judgment passed by the court of Lithuania involving the same subject matter and parties;
- the judgment contradicts Lithuanian public policy as established by the Constitution of Lithuania; or
- the judgment rendered by the foreign court involved the legal capacity, representation under the law, family property relations or inheritance rights of a Lithuanian citizen and was decided contrary to Lithuanian private international law principles.

Any enforcement proceedings brought in Lithuania must be filed with the Lithuanian Court of Appeal.

POLAND

There is no treaty between the United States and Poland providing for the reciprocal recognition and enforcement of judgments (other than arbitration awards) rendered in civil and commercial matters. Therefore, the enforcement of judgments obtained in the United States is governed by the rules of Polish civil procedure. Under these rules, a judgment against a Polish Guarantor obtained in a court of the United States will be recognized *ex lege* in Poland except in the following circumstances:

- the judgment of the foreign court is not final and binding;

- the dispute falls under the exclusive jurisdiction of the Polish courts (such as matters relating to real property located in Poland);
- the defendant who has not participated in the dispute as to the substance of the dispute has not been served in a manner enabling the defendant to defend himself;
- the judgment is contrary to a previously issued final and binding judgment of a Polish court or of a foreign court judgment fulfilling the prerequisites for its recognition in Poland and was issued in the dispute involving the same subject matter and parties;
- the party to the proceeding was deprived of possibility to defend itself;
- the proceeding between the same parties and regarding the same subject matter had been commenced before the Polish court earlier than the proceeding before the foreign court; or
- the recognition of the judgment would be contrary to the fundamental principles of legal order of Poland.

Enforceability of any final and conclusive judgment against a Polish Guarantor obtained in a court of the United States and arising out of or in relation to the obligations of the Polish Guarantor under the Guarantee, further requires that a Polish court issues a decision confirming that the judgment of the U.S. court is enforceable in the United States and, in accordance with Polish law, in Poland. Once the motion to declare enforceability is considered and approved, the court issues a decision to grant an enforceability clause. Enforcement may be initiated as soon as the decision granting the enforceability clause becomes final and binding.

Enforcement actions carried out by bailiffs under the auspices of Polish courts may be challenged and, therefore, the enforcement of obligations may ultimately be unsuccessful or time-consuming, even if the U.S. judgment is recognized and enforceable in Poland.

SPAIN

There is no treaty between the United States and Spain providing for the reciprocal recognition and enforcement of judgments (other than arbitration awards) rendered in civil and commercial matters. Therefore, the enforcement of judgments obtained outside the courts of an EU Member State is governed by the rules of Spanish civil procedure. Under these rules, enforcement is generally granted in Spanish courts except in the following circumstances:

- the judgment of the foreign court is not final and has not yet come in effect;
- the dispute falls under the exclusive jurisdiction of the Spanish courts;
- the defendant's due process rights were violated during the course of the original proceedings;
- the judgment is inconsistent with a prior judgment recognized in Spain;
- there is no pending proceeding in Spain that may result in a judgment that would be inconsistent with the foreign court judgment in respect of which enforcement is sought; or
- the recognition of the judgment would be contrary to the fundamental principles of legal order of Spain.

SWEDEN

There is no treaty between the United States and Sweden providing for the reciprocal recognition and enforcement of judgments (other than arbitration awards) rendered in civil and commercial matters. Therefore, the enforcement of judgments obtained outside the courts of an EU Member State is governed by the rules of Swedish civil procedure. Under these rules, a judgment against any Swedish party obtained in a non-EU Member State court will not be recognized or enforceable in Sweden as a matter of law without retrial on the merits, but will be of persuasive authority as a matter of evidence before the courts of law, administrative tribunals or executive or other public authorities of Sweden. However, there is Swedish case law to indicate that such judgments:

(i) that are based on a contract which expressly excludes the jurisdiction of the courts of Sweden;

(ii) that were rendered under observance of due process of law;

(iii) against which there lies no further right to appeal; and

(iv) the recognition of which would not manifestly contravene fundamental principles of the legal order or the public policy of Sweden,

may be examined by the appropriate Swedish district court following which such court may at its discretion hand down a new judgment, based on the foreign judgment, without retrial on the merits of the dispute. The exact scope of this principle is unclear.

LEGAL MATTERS

Certain legal matters in connection with the Offering will be passed upon for the Group by Cleary Gottlieb Steen & Hamilton LLP with respect to matters of U.S. federal and New York State law. Certain matters in connection with the Offering will be passed upon for the Lead Manager and the Co-Manager by White & Case LLP with respect to U.S. federal and New York State law.

Certain matters in connection with the Offering will be passed upon for the Group by COBALT with respect to Latvian law, by Plesner with respect to Danish law, by Borenius Attorneys Ltd with respect to Finnish law, by Sorainen with respect to Lithuanian law, by BGI Legal with respect to Georgian law, by Wildgen with respect to Luxembourg law, by Wardynski & Partners with respect to Polish law, by J&A Garrigues, S.L.P. with respect to Spanish law, by Advokatfirman Lindahl KB with respect to Swedish law, and by Djingov, Gouginski, Kyutchukov & Velichkov with respect to Bulgarian law. Certain matters in connection with the Offering will be passed upon for the Lead Manager and the Co-Manager by Kleyr Grasso with respect to Luxembourg law.

INDEPENDENT AUDITORS

The Group

The audited consolidated financial statements as of and for the year ended December 31, 2016 (including 2015 comparatives), the audited consolidated financial statements as of and for the year ended December 31, 2015 (including 2014 comparatives) and the audited consolidated financial statements as of and for the year ended December 2014 (including 2013 comparatives), included herein, have been audited by KPMG Luxembourg, independent auditors, as stated in their report herein.

KPMG Luxembourg, located at 39, Avenue John F. Kennedy, 1855 Luxembourg, is a member of the Institut des réviseurs d'entreprises.

TBI Bank

The audited consolidated financial statements as of and for the year ended December 31, 2016 (including 2015 comparatives) included herein for TBI Bank, have been audited by Ernst & Young Bulgaria, independent auditors, as stated in their report herein.

Ernst & Young Bulgaria is located at Polygraphia Office Centre, Tsarigradsko shouse blvd 47A, 1124 Sofia, Bulgaria.

The audited consolidated financial statements as of and for the year ended December 31, 2015 (including 2014 comparatives) included herein for TBI Bank, have been audited by PricewaterhouseCoopers Audit OOD, independent auditors, as stated in their report herein.

PricewaterhouseCoopers Audit OOD is located at 9-11 Maria Louisa Blvd., 1000, Sofia, Bulgaria.

LISTING AND GENERAL INFORMATION

1. The Issuer has its registered office at 9, allée Scheffer, L-2520 Luxembourg, and is registered with the Luxembourg Trade and Companies Register under number B173403, and its telephone number is +352 44 09 29 3245.

2. The Notes have been accepted for clearance through Clearstream and Euroclear with a Common Code of Reg S:159729478, 144A: 159729583. The International Securities Identification Number for the Notes is Reg S: XS1597294781, 144A: XS1597295838.

3. Application has been made to list the Notes on the Irish Stock Exchange by the Issuer, through the Listing Agent, Walkers Listing Services Limited ("**WLS**"). WLS is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission of the Notes to the Official List or trading on the Global Exchange Market of the Irish Stock Exchange. It is expected that listing of the Notes will be granted on or before April 26, 2017.

4. The Issuer and the Guarantors have obtained all necessary consents, approvals and authorizations in Denmark, Finland, Georgia, Latvia, Lithuania, Luxembourg, Poland, Spain and Sweden in connection with the issue and performance of the Notes and the Guarantees. The issue of the Notes was authorized by the written resolution of the board of directors of the Issuer passed on April 12, 2017, and the giving of the Guarantees by each of the Guarantors was authorized by the resolution of the shareholders' meeting of 4finance LLC, 4finance Oy, Vivus Finance Sp. z o.o. and UAB Credit Service, each passed on April 12, 2017 and by the resolution of the board of directors of each of 4finance Holding S.A., 4finance Oy, 4finance Spain Financial Services S.A.U., and 4finance AB each passed on April 12, 2017, by resolution of the supervisory board of 4finance LLC passed on April 12, 2017, by the resolution of the management board of each of AS 4finance, 4finance UAB and Vivus Finance Sp. z o.o. each passed on April 12, 2017 and by the resolution of the sole manager of 4finance ApS, passed on April 12, 2017.

5. No consents, approvals, authorizations or order of any regulatory authorities are required by the Issuer under the laws of Ireland for the issue of the Notes.

6. Except as disclosed in the Offering Memorandum, there has been no significant change in the Group's financial or trading position (including that of any Guarantors) since December 31, 2016, and there has there been no material adverse change in the Group's prospects (including that of any Guarantors) since December 31, 2016.

7. Since December 31, 2016, there has been no material adverse change in the financial position or prospects of the Issuer. Since December 31, 2016, there has been no significant change in the financial or trading position of the Issuer.

8. Except as disclosed in the Offering Memorandum (See *"Business–Litigation and Other Proceedings"*), as of the date of this Offering Memorandum, there have been no governmental legal or arbitration proceedings (including any such proceedings which are pending or threatened of which 4finance Group (including the Issuer and any Guarantors) is aware) during the previous 12 months, which may have, or have had in the recent past, significant effects on the financial position or profitability of 4finance Group, the Issuer or the Guarantors' financial position or profitability.

9. For so long as any of the Notes is outstanding, copies in English of the following documents in physical form will be available for inspection and may be obtained free of charge at the offices of the Trustee, and the Paying and Transfer Agent during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):

   (a) the certificate of incorporation and articles of association of the Issuer and the Guarantors;

   (b) the Financial Statements;

   (c) the Indenture (including the Guarantees); and

   (d) this Offering Memorandum, together with any amendment and supplement thereto.

10. Any certificate either called for by or provided to the Trustee (whether or not addressed to the Trustee) in accordance with or for the purposes of the Indenture may be relied upon by the Trustee as sufficient evidence of the facts set out therein notwithstanding that such certificate or report and/or any engagement letter or other document entered into by the Trustee in connection therewith contains a monetary or other limit on the liability of any other person in respect thereof and notwithstanding that the scope and/or basis of such certificate or report may be limited by any engagement or similar letter or by the terms of the certificate or report itself.

11. Save for the fees payable to the Trustee, the Paying Agent, the Registrar and Transfer Agent, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest that is material to the issue of the Notes.

12. Any websites referred to herein do not form part of this Offering Memorandum.

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4finance Holding S.A.

Consolidated
Financial Statements for the year
ended 31 December 2016

Address: 9, Allée Scheffer, L-2520, Luxembourg, Grand Duchy of Luxembourg
RCS Luxembourg: B171.059

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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	*9, Allée Scheffer, L-2520, Luxembourg, Grand Duchy of Luxembourg*
Board members and their positions	*Georgios Georgakopoulos, Chairman of the Board of Directors, category B director (from 30.12.2016)* *Paul Goldfinch, category B director (from 30.12.2016)* *Kieran Patrick Donnelly, category B director, Chairman of the Board (from 28.02.2014 - 30.12.2016)* *Mārtiņš Baumanis, category B director (from 20.10.2014 until 30.12.2016)* *Stephane Sabella, category A director (from 08.02.2016)* *Philip Cesar Pascual (from 08.02.2016)* *Livio Gambardella, category A director (from 20.10.2014 until 08.02.2016)* *Marc Chong Kan, category A director (from 27.02.2015 until 08.02.2016)*
Reporting period	*01.01.2016–31.12.2016*
Information on shareholders	*4finance Group S.A. holding 100%** **from voting stock* *Total share capital of 4finance Holding S.A. consists of: 3,575,000,000 ordinary shares with voting rights (99.997%) 100,000 von-voting preferred shares held by AS 4finance (0.003%)*
Auditors	*KPMG Luxembourg* *Société coopérative* *39, Avenue John F. Kennedy* *L-1855 Luxembourg*

4finance Holding S.A. (the "Company"), one of Europe's largest online and mobile consumer lending groups, active in 16 countries globally, presents its annual report including its audited annual accounts for the twelve month period ending 31 December 2016 .

The share capital of the Company as at 31 December 2016 was EUR 35 750 thousand (31 December 2015: EUR 35 750 thousand), divided into 3 575 000 000 ordinary shares (31 December 2015: 3 575 000 000 shares) with nominal value of EUR 0.01 each (31 December 2015: EUR 0.01), fully paid via contribution-in-kind. As at 31 December 2016 and 31 December 2015, 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.

The Company is rated B3 by Moody's and B+ by Standard & Poor's,

Important events in 2016 and future developments

During the reporting period, the Company and its subsidiaries (collectively, "the Group") achieved strong growth in business volumes which has driven an increase in revenues and profitability. The total value of loans issued by the Group in the reporting period reached EUR 1,157 million, exceeding EUR 4 billion in total since the business was established in 2008.

Acquisitions and disposals

In August 2016, the Group acquired TBIF Financial Services B.V. and its subsidiaries (collectively, "TBIF Group"). TBIF Group is a consumer-focused bank operating in Bulgaria and Romania. This acquisition enhanced the scale of our operations in these two existing markets. TBIF Group maintains a consumer portfolio, including small-size loans of a similar profile to our instalment loans (in terms of size and maturity), point of sale financing and credit cards, as well as an SME portfolio, including leasing. In 2016, the consumer portfolio and SME portfolio accounted for approximately 69% and 31%, respectively, of TBI Bank's net loan portfolio, i.e., gross loan portfolio less provisions for bad debts. In 2015, these figures were 63% and 37%, respectively. Management believes that having an entity with a banking license in an EU member state will enable the Group to mitigate the effects of increased regulation in our existing markets (such as a requirement for a banking license for consumer lending), diversify funding and lower funding costs by accepting deposits, and enable the Group to enter into the credit card sector.

In June 2016, the Group acquired 80% of the share capital of Friendly Finance OU ("Friendly Finance"), an online consumer lender active in the Czech Republic, Poland, Spain, Slovakia and Georgia for a purchase price of EUR 28.8 million. The acquisition of Friendly Finance added additional brands to the Group's portfolio and an additional database of over one million registered customers, reinforcing our position as the leading online and mobile consumer lender in Europe.

The Group acquired 9.9% of Spotcap Global SARL, an online SME lender, at the end of June 2016 from Tirona for the sum of EUR 4.9 million.

In December 2016, the Group invested in 24.4% in Billfront, a fintech lender to digital marketing companies.

Financing

In May 2016, the Group 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 were listed on the Prime Standard regulated market segment of the Frankfurt Stock Exchange in August 2016. The 2021 Notes will mature in May 2021.

In November 2016, the Group issued a successful tap issue of EUR 50 million of its 2021 Notes, priced at par. Together with the EUR 100 million issued in May 2016, this brings the total issued amount to EUR 150 million, which is the maximum amount under the terms and conditions of the bond.

Changes in management

In May 2016, the decision was taken to separate the roles of Chairman and CEO. Kieran Donnelly took on the role of Chairman of the Management Board, and George Georgakopoulos joined the Group as Chief Executive Officer. Kieran Donnelly stepped down as Chairman of the 4finance management boards at the end of December 2016. He remains a member of the supervisory board of TBI Bank.

In September 2016, Paul Goldfinch joined 4finance as Group Chief Financial Officer. At the same time, Martins Baumanis took on the role of Executive Vice President Loans, with global product responsibility for single payment, instalment and line of credit loans.

Future developments

In 2017, the Group will continue to pursue its strategy of building one of the world's leading digital consumer finance businesses based on providing a convenient and transparent service to its customers. In particular, the Group aims to:

- Strengthen its foundation. To reinforce the Group's leadership in existing markets, optimizing its products and adapting to incoming regulation where appropriate.
- Leveraging technology. Deploy best-in-class technology across the business with a particular focus on marketing technology and risk management tools to improve credit scoring.
- Product roll-out. Focus on growing instalment loan and line of credit portfolios by rolling them out to further markets, as well as selectively piloting new products.
- Geographic expansion. Selective expansion into additional geographies, particularly Latin America, to further diversify the Group's revenue sources.

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

Interest income for the twelve months ended 31 December 2016 amounted to EUR 393 155 thousand , compared with EUR 318 285 thousand in 2015, which represents an increase of 24%. Growth in interest income from online lending was 17%, reflecting the 14% increase in the average balance of the net loan portfolio, driven by the addition of the Friendly Finance portfolio, and the 4 percentage point increase in average interest rates. Relatively higher growth in loan issuance continues to be seen in Spain, Denmark and Poland. Those three countries saw an increase in interest income of 57% in Spain, 58% in Denmark and 16% in Poland respectively, an increase of EUR 46 059 thousand for 2016 compared with 2015. Interest income growth was mainly driven by an increase in the net loan portfolio. The balance of outstanding net loans at the end of 2016 was EUR 493 897 thousand, a 60% increase compared with EUR 308 288 thousand as of 31 December 2015. Growth in the net loan portfolio was also driven by Spain, Denmark and Poland. The increase includes EUR 26 220 thousand in net loans from Friendly Finance and EUR 177 513 thousand from TBIF Group.

The Group generated profit during the reporting period. Profit from continuing operations for the year ended 31 December 2016 amounted to EUR 63 207 thousand, a 9% increase compared to EUR 58 155 thousand for the twelve months ended 31 December 2015. The profit for the year will be invested into the future growth and development of the Group.

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 reputation risks. Since acquisition, management have undertaken steps to align TBIF Group and Friendly Finance with Group policies. This is a process that will continue in 2017.

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

Research and development

The Group Product Development department continues to invest in information technology. The total amount invested for the reporting period was EUR 43.9 million, of which EUR 22.3 million was expensed in the income statement. The remaining EUR 21.6 million was capitalized as intangible assets, representing product and platform development.

Corporate Governance

Strong corporate governance is an integral part of building a sustainable business. In July 2016, a Supervisory Board was established at 4finance Group S.A. level, the beneficial owner of the Company. The three members are Nicholas Jordan (Chairman), William Horwitz and Dr. Cornelius Boersch. All bring a considerable range and depth of expertise in this important oversight role.

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 is composed of a team that works with the senior leaders across the Group to promote and foster a corporate culture of the highest ethical standards, internal controls, and legal compliance.

New licenses and establishments

In December 2016, the Group's Vivus business in Georgia received its microfinance organisation license from the National Bank of Georgia. The MyCredit (Friendly Finance) business in Georgia is also in the process of going through the same license application process.

The Group has applied for a license in the Czech Republic for both its Zaplo and Friendly Finance businesses under the new licensing regime.

In June 2016, the Group established a subsidiary in Guatemala to facilitate pre-opening activities in that market. In August, the Group commenced operations in the Dominican Republic. In addition, the Group established a subsidiary in Kazakhstan to facilitate potential entry into that market via Friendly Finance.

Important events after the balance sheet date

Changes in management

In 2017, George Georgakopoulos, CEO, took over the role as Chairman of the Management Board of 4finance Group SA and the Board of Directors of 4finance Holding SA. Paul Goldfinch, CFO, took over as Chairman of the Board of Directors of 4finance SA. In addition, in February 2017, Mark Ruddock was appointed to the Supervisory Board.

Changes in the regulatory framework

Finland: the Ministry of Justice in Finland published a proposal in February 2017 to amend online lending legislation. This includes extending the 50% APR cap to cover all loans (currently it only applies to loans under EUR 2,000). The Group is contributing to the ongoing consultation process. The rules are expected to be finalised by the end of 2017, with implementation in mid-2018.

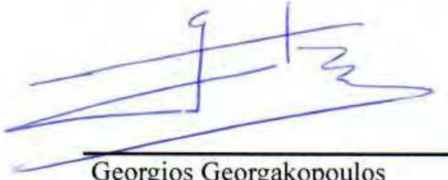
Poland: the Ministry of Justice in Poland published a draft bill in December 2016 that seeks to reduce the non-interest caps introduced in March 2016 to 10% fixed plus 10% annual (from the current levels of 25% fixed plus 30% annual). Given the strong reaction to the proposed changes, the consultation process was extended and is still ongoing with unclear timing and outcome.

Georgia: new legislation came into force in January 2017 implementing a 100% effective interest rate cap on consumer lending. Previously there was no cap. Our operations in Georgia through Vivus and MyCredit brands are compliant with the new rules.

Management Report

Financing

The Group actively manages its liquidity risks and aims to strengthen its long-term capital structure. This ongoing process includes addressing the effects of the potential exercise by bondholders in summer 2017 of the put option embedded in the 2019 Notes. Management is currently reviewing a range of options to manage the possible exercise of that put, including refinancing and/or modifying the terms of its existing indebtedness, and accessing additional capital in the international capital markets.



Georgios Georgakopoulos
Chairman of the Board of Directors

22 March 2017

Consolidated Statement of Comprehensive Income

	Note	2016 EUR'000	2015 EUR'000
Continuing operations			
Interest income	7	393 155	318 285
Interest expense	8	(38 684)	(28 657)
Net interest income		**354 471**	**289 628**
Fee and commission income	9	2 901	—
Fee and commission expense	10	(809)	—
Net fee and commission income		**2 092**	—
Net trading loss	11	(7 337)	(6 988)
Other income	12	14 314	3 813
Other expense	13	(2 446)	(1 752)
Net impairment losses	14	(89 672)	(76 964)
General administrative expenses	15	(190 383)	(133 899)
Profit before taxes		**81 039**	**73 838**
Income tax for the reporting period	16	(17 832)	(15 683)
Profit from continuing operations		**63 207**	**58 155**
Discontinued operations			
Profit from discontinued operations, net of tax	6	—	5 910
Profit for the period		**63 207**	**64 065**
Profit attributable to:			
Equity holders of the Group		62 823	63 470
Non-controlling interests		384	595
PROFIT		**63 207**	**64 065**
Other comprehensive income that is or may be transferred to profit or loss			
Net gain on available for sale financial assets		5	—
Reclassification of foreign currency differences on disposal of subsidiaries		—	(728)
Foreign currency translation differences on foreign operations		(4 404)	(5 318)
Other comprehensive income		**(4 399)**	**(6 046)**
Total comprehensive income for the period		**58 808**	**58 019**
Total comprehensive income attributable to:			
Equity holders of the Group		58 400	57 414
Non-controlling interests		408	605

The accompanying notes on pages 13 to 92 form an integral part of these consolidated financial statements.

Georgios Georgakopoulos
Chairman of the Board of Directors

22 March 2017

Consolidated Statement of Financial Position

Assets	Note	31.12.2016 EUR'000	31.12.2015 EUR'000
Cash and cash equivalents	17	157 641	56 862
Placements with other banks		4 752	—
Derivatives	18	11 166	10 503
Loans due from customers	19	493 897	308 288
Net investment in finance leases	20	13 082	—
Financial assets available for sale	21	10 589	—
Loans to related parties	22	67 198	13 732
Other assets	23	21 531	5 382
Investments in associates	24	2 080	—
Prepaid expenses		5 602	2 675
Property and equipment	25	12 345	4 328
Non-current assets held for sale	26	8 576	—
Intangible assets and goodwill	27	83 175	18 030
Income tax assets		16 053	5 465
Deferred tax asset	28	23 697	12 941
Total assets		**931 384**	**438 206**
Liabilities			
Loans and borrowings	29	397 183	229 462
Deposits from customers	30	237 119	9 121
Income tax liabilities		14 633	7 358
Other liabilities	32	47 495	19 002
Liabilities held for sale	26	4 809	—
Total liabilities		**701 239**	**264 943**
Share capital	31	35 750	35 750
Retained earnings		232 420	171 048
Reserves		(38 753)	(34 646)
Total equity attributable to equity holders of the Company		**229 417**	**172 152**
Non-controlling interests		728	1 111
Total equity		**230 145**	**173 263**
Total shareholder equity and liabilities		**931 384**	**438 206**

The accompanying notes on pages 13 to 92 form an integral part of these consolidated financial statements.

Georgios Georgakopoulos
Chairman of the Board of Directors

22 March 2017

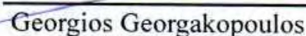
Consolidated Statement of Cash Flows

	Note	2016 EUR'000	2015 EUR'000
Cash flows from operating activities			
Profit before taxes		81 039	79 748
Adjustments for:			
Depreciation and amortization		5 430	1 716
Net losses on foreign exchange from borrowings and other monetary items		2 081	12 656
Increase in impairment allowance		105 770	85 140
Write offs and disposal of intangible and property and equipment assets		1 578	1 149
Interest income		(6 710)	(2 050)
Interest expenses		38 684	28 657
Equity-settled share-based payment transactions		300	1 352
Profit or loss before adjustments for the effect of changes to current assets and short term liabilities		228 172	208 368
Adjustments for:			
Increase in loans due from customers		(103 363)	(150 777)
Increase in deposits from customers		37 011	—
Change in financial instruments measured at fair value through profit or loss		(3 198)	7 983
(Increase)/decrease in other assets		(64 779)	11 371
Gains from sale of portfolio		30 683	4 023
Deposit interest payments		(1 825)	—
Increase in obligatory reserve		152	—
Increase in accounts payable to suppliers, contractors and other creditors		17 383	10 655
Gross cash flows from operating activities		140 236	91 623
Income tax paid		(34 012)	(17 607)
Net cash flows from operating activities		**106 224**	**74 016**
Cash flows from investing activities			
Purchase of property and equipment and intangible assets		(21 264)	(20 292)
Loans issued to related parties		(64 975)	(59 053)
Loans repaid from related parties		11 000	26 134
Interest received		1 146	1 700
Acquisition if equity investments		(6 980)	—
Disposal of subsidiaries, net of cash disposed		—	189
Acquisition of NCI		(2 052)	—
Acquisition of subsidiaries, net of cash acquired and disposed		(67 500)	(1 423)
Net cash flows used in investing activities		**(150 625)**	**(52 745)**

Consolidated Statement of Cash Flows

	Note	2016 EUR'000	2015 EUR'000
Cash flows from financing activities			
Loans received and notes issued		175 529	78 987
Repayment of loans and notes		(14 292)	(49 352)
Interest payments		(36 236)	(27 257)
Dividend payments		(678)	(608)
Net cash flows from financing activities		**124 323**	**1 770**
Net increase in cash and cash equivalents		**79 922**	**23 041**
Cash and cash equivalents at the beginning of the period		**56 862**	**34 442**
Effect of exchange rate fluctuations on cash		236	(621)
Cash and cash equivalents at the end of the period	17	137 020	56 862
Minimum statutory reserve		20 621	—
Total cash on hand and cash at central banks		**157 641**	**56 862**

The accompanying notes on pages 13 to 92 form an integral part of these consolidated financial statements.



Georgios Georgakopoulos
Chairman of the Board of Directors

22 March 2017

Consolidated Statement of Changes in Equity

Group	Share capital EUR'000	Reorganiza-tion reserve EUR'000	Currency translation reserve EUR'000	Share based payment reserve EUR'000	Obligatory reserves EUR'000	Revaluation reserve on available for sale financial instruments EUR'000	Retained earnings EUR'000	Total equity attributable to shareholders of the Company EUR'000	Non-controlling interests EUR'000	Total equity EUR'000
1 January 2015	**35 750**	**(32 584)**	**919**	**87**	**145**	**—**	**107 578**	**111 895**	**1 114**	**113 009**
Total comprehensive income										
Profit for the reporting period	—	—	—	—	—	—	63 470	63 470	595	64 065
Other comprehensive income (OCI)	—	—	(6 056)	—	—	—	—	(6 056)	10	(6 046)
Transactions with shareholders recorded directly in equity										
Share based payment reserve (Note 36)	—	—		1 352	—	—	—	1 352	—	1 352
Increase in obligatory reserve	—	—	—	—	11	—	—	11	—	11
Contribution in kind	—	1 480	—	—	—	—	—	1 480	—	1 480
Dividends	—	—	—	—	—	—	—	—	(608)	(608)
1 January 2016	**35 750**	**(31 104)**	**(5 137)**	**1 439**	**156**	**—**	**171 048**	**172 152**	**1 111**	**173 263**
Total comprehensive income										
Profit for the reporting period	—	—	—	—	—	—	62 823	62 823	384	63 207
Other comprehensive income (OCI)	—	—	(4 428)	—	—	5	—	(4 423)	24	(4 399)
Transactions with shareholders recorded directly in equity										
Share based payment reserve (Note 36)	—	—	—	300	—	—	—	300	—	300
Dividends	—	—	—	—	—	—	—	—	(678)	(678)
Changes in ownership interests										
Other reserves	—	(136)	—	—	—	—	—	(136)	—	(136)
Acquisition of additional shares in subsidiaries (Note 27)	—	—	—	—	—	—	—	—	488	488
Acquisition of additional share in subsidiaries (Note 33)	—	—	—	—	—		(1 451)	(1 451)	(601)	(2 052)
Increase in obligatory reserve (Note 4)	—	—	—	—	152	—	—	152	—	152
31 December 2016	**35 750**	**(31 240)**	**(9 565)**	**1 739**	**308**	**5**	**232 420**	**229 417**	**728**	**230 145**

The accompanying notes on pages 13 to 92 form an integral part of these consolidated financial statements.

Georgios Georgakopoulos
Chairman of the Board of Directors

22 March 2017

(1) Reporting entity

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

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

The Group acquired Friendly Finance OÜ and its subsidiaries (together referred to as "Friendly Finance") which provides IT-based business solutions for the finance sector and short-term credits to individuals in the Czech Republic, Slovakia, Poland, Spain, Georgia and Argentina. Friendly Finance recently opened a subsidiary in Kazakhstan and is expecting to start operation in the next financial year.

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

The consolidated financial statements of the Group as at and for the year ended 31 December 2016, 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 9, Allée Scheffer, L-2520, 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 9, Allée Scheffer, L-2520, 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 22 March 2017. The shareholders have the power to reject the financial statements prepared and presented by the Board of Directors, and the right to request that new financial statements be prepared.

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

(b) Basis of Measurement

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

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

(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.

The accounting policies related to Financial assets available for sale, Assets carried at amortised cost, Impairment of Available-for-sale financial assets, Impairment of Renegotiated loans, Financial guarantee contracts, Group as a lessor, Fiduciary assets in custody, Fee and commission income and expenses and Other income include new elements as a result of the TBIF Group acquisition.

(i) Basis of Consolidation

(i) Subsidiaries

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

(ii) Transactions eliminated on consolidation

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

(iii) Business combinations

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

(ii) Goodwill

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

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

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

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

(iii) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the operation at the exchange rate set by the Central Bank of the country of operation or the European Central Bank 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 2016		**31 December 2015**	
SEK	0.10468	SEK	0.10882
DKK	0.13451	DKK	0.13400
PLN	0.22674	PLN	0.23453
GBP	1.16798	GBP	1.36249
CZK	0.03701	CZK	0.03701
GEL	0.35944	GEL	0.37025
BGN	0.51130	BGN	0.51130
GIB	1.16798	GIB	1.36249
USD	0.94868	USD	0.91853
CAD	0.70482	CAD	0.66155
RON	0.22031	RON	0.22104
AMD	0.00195	AMD	0.00189
ARS	0.05970	ARS	0.07060
MXN	0.04593	MXN	0.05287
DOP	0.02035	DOP	0.01882

The Bulgarian Lev is pegged to the Euro.

(ii) Foreign operations

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

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

(iv) Share-based payment transactions

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

(v) Cash and cash equivalents

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

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

Financial Instruments

(i) Recognition

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

(ii) Measurement

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

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

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

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

(iii) Derecognition

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

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

(iv) Fair value measurement principles

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

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

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

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

(v) Derivative financial instruments

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

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

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

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

(vi) Loans and advances

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

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

(vii) Financial assets available for sale

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

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

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

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

(vii) Investment in associates

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

(viii) Property and equipment

(i) Owned assets

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

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

(ii) Depreciation

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

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

(viii) Intangible assets

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

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

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

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

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

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

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

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

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

(x) Repossessed assets

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

(xi) Impairment

(i) Financial assets

4finance Group and Friendly Finance

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

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

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

TBIF Group

(a) Assets carried at amortised cost

At the date of the financial statements, TBIF Group assesses whether there is any objective evidence that a financial asset or a group of financial assets may be impaired. A financial asset or group of financial assets is 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.

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

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

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

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

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

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

(b) Available-for-sale financial assets

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

(c) Renegotiated loans

Loans which are subject to collective impairment review or which are individually significant and their terms have been renegotiated, are considered performing as of the time of the renegotiation. In subsequent periods

the asset is considered in default and is disclosed as such only if the new terms and conditions have been breached.

(ii) Non-financial assets

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

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(xi) Provisions

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

(xii) Share Capital and reserves

(i) Currency revaluation reserve

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

(ii) Obligatory reserves

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

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

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

(iii) Revaluation Reserve on Available for Sale financial instruments

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

(iv) Reorganization Reserve

The reorganization reserve relates to a number of legal reorganizations that took place before 1 January 2016. 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. There are no other reserves.

(v) Share based payment reserves

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

(xiii) Leases

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

(i) The Group as a lessee

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

(ii) TBIF Group as a lessor

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 Finance leases

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

(xiv) Financial guarantee contracts

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

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

(xv) Dividends

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

(xvi) Fiduciary assets in custody

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

(xvii) Taxation

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

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

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

(xviii) Income and expense recognition

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

(i) Interest income and expense

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

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

(ii) Fee and commission income and expenses

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

(iii) Penalty fee income

Income from penalty fees is recognized as received.

(iv) Other income

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

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

(xix) Staff costs and related contributions

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

(xx) Operating segments

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

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

(xxi) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represent a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations;
- are operations that are ceased.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income (OCI) is presented as if the operation had been discontinued from the start of the comparative year.

(xxii) 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.

(xxiii) 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 2016:

- IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations
- IAS 1 – Presentation of Financial Statements
- IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets
- IAS 19 – Defined Benefit Plans: Employee Contributions
- IAS 27 – Separate Financial Statements
- Annual Improvements to IFRSs.

These have not had a material impact on the Group's financial statements.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

(i) *IFRS 9 Financial Instruments (Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted.)*

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit and loss ("FVTPL") – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

- the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

The actual impact of adopting IFRS 9 on the Group's consolidated financial 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time, as well as accounting elections and judgements that it will make in the future. The new standard will require the Group to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete.

It is expected that the new standard, when initially applied, will have an impact on the financial statements, since the classification and the measurement of the Group's financial instruments can change. Based on its

preliminary assessment, the Group expects that substantially all of financial assets classified as loans and receivables under IAS 39 will continue to be measured at amortised cost under IFRS 9 except for purchased loan portfolios where classification may differ. It is expected that deposits from customers will continue to be measured at amortised cost under IFRS 9.

It is anticipated that the new expected credit loss model under IFRS 9 will accelerate the recognition of impairment losses and lead to higher impairment allowances at the date of initial application.

The Group is planning to group its loans into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

- Stage 1 – Performing loans: when loans are first recognised, the Group recognises an allowance based on twelve months expected credit losses. Under IAS 39, the Group has been recording an allowance for Incurred But Not Identified (IBNI) impairment losses. The change is expected to increase the impairment allowance compared to the current IBNI approach.
- Stage 2 – Loans with significant increase in credit risk: when a loan shows a significant increase in credit risk since initial recognition, the Group records an allowance for the lifetime expected credit loss. Since this is a new concept compared to IAS 39, it will result in an increase in the allowance as most such assets are not considered to be credit-impaired under IAS 39. The Group intends to evaluate the increase in credit risk by comparing the lifetime probability of default upon initial recognition of the asset against the risk of a default occurring on the asset as at the end of each reporting period.
- Stage 3 – Impaired loans: Financial assets will be recognized in Stage 3 when there is objective evidence that the loan is impaired. The Group recognizes the lifetime expected credit losses for these loans and in addition, the Group accrues interest income on the amortised cost of the loan net of allowances. The criteria of objective evidence are the same as under the current IAS 39 methodology, and accordingly, the Group expects the population to be generally the same under both standards. The individual impairment allowance will continue to be calculated on the same basis as under IAS 39, and collateral values will be adjusted to reflect the amounts that can be expected to be realised.

The Group will record impairment for FVOCI debt securities depending on whether they are classified as Stage 1, 2, or 3, as explained above. However, the expected credit losses will not reduce the carrying amount of these financial assets in the statements of financial position, which remain at fair value. Instead, an amount equal to the allowance that would arise if the asset were measured at amortised cost will be recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss.

For FVOCI debt securities considered to be 'low risk', the Group intends to apply a policy which assumes that the credit risk on the instrument has not increased significantly since initial recognition, and will calculate ECL as explained in Stage 1 above. Such instruments will generally include trade, investment grade securities where the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Changes in accounting policies resulting from the adoption of IFRS 9 can generally be applied retrospectively. However, the Group can take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

The Group has commenced the process of assessing the IFRS 9 impact on credit losses. However, the Group is not yet able to quantify the expected impact that the application of IFRS 9 will have on its financial statements.

(ii) IFRS 15 Revenue from contracts with customers (Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.)

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

- over time, in a manner that depicts the entity's performance; or

- at a point in time, when control of the goods or services is transferred to the customer.

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

Management has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Group's financial statements. The Group is not yet able to quantify the expected impact that the initial application of IFRS 15 will have on its IFRS statements.

(iii) IFRS 16 Leases (Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.). This pronouncement is not yet endorsed by the EU.

IFRS 16 supersedes IAS 17 Leases and related interpretations. The standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

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 new standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value (‘small-ticket’ leases).

Lessor accounting shall remain largely unaffected by the introduction of the new standard and the distinction between operating and finance leases will be retained.

The Group currently plans to apply IFRS 16 commencing on 1 January 2019. As a lessee, the Group can either apply the standard using a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. The Group have not yet determined which transition approach to apply. As a lessor, the Group is not required to make any adjustments for leases except where it is an intermediate lessor in a sub-lease.

The Group have not yet quantified the impact on its reported assets and liabilities of the adoption of IFRS 16. The quantitative effect will depend on, inter alia, the transition method chosen, the extent to which the Group use the practical expedients and recognition exemptions, and any additional leases that the Group enters into.

(iv) Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Early application is permitted.) This pronouncement is not yet endorsed by the EU.

The amendments clarify share-based payment accounting in the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and

a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of amendments in the standard.

(v) Amendments to IAS 7 (Effective for annual periods beginning on or after 1 January 2017, to be applied prospectively. Early application is permitted.) This pronouncement is not yet endorsed by the EU.

The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of amendments in this standard.

(vi) Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (Effective for annual periods beginning on or after 1 January 2017; to be applied prospectively. Early application is permitted.) This pronouncement is not yet endorsed by the EU.

The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of amendments in this standard.

(vii) Amendments to IAS 40 Transfers of Investment Property (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively.) This pronouncement is not yet endorsed by the EU.

The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments, a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of amendments in this standard.

(viii) IFRIC 22 Foreign Currency Transactions and Advance Consideration (Effective for annual periods beginning on or after 1 January 2018). This pronouncement is not yet endorsed by the EU.

The interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of amendments in this standard.

(ix) Annual Improvements to IFRSs

The improvements introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. These amendments are applicable to annual periods beginning on or after either 1 January 2017 or 1 January 2018; to be applied retrospectively.

None of these amendments are expected to have a significant impact on the consolidated financial statements of 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.

(4) Risk management (continued)

(a) Credit risk

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

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

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

As of 31 December	**Maximum exposure**	
	2016	**2015**
	EUR'000	**EUR'000**
Cash and cash equivalents	157 641	56 862
Placements with other banks	4 752	—
Loans to customers:	493 897	308 288
Corporate clients	44 940	—
Corporate client impairment	(1 842)	—
Individual clients	620 167	425 495
Individual client impairment	(169 368)	(117 207)
Investment in finance leases	13 082	—
Gross investment in finance leases	13 812	—
Finance lease impairment	(730)	—
Loans to related parties	67 198	13 732
Other assets	21 531	5 382
Derivatives	11 166	10 503
Financial assets available for sale	10 589	—
Credit risk exposures related to contingent liabilities and irrevocable commitments are as		
Contingent liabilities*	9 588	138
Total maximum exposure to credit risk	**789 444**	**394 905**

**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, TBIF Group and Friendly Finance as at 31 December 2016 without taking into account collateral:

As of 31 December	Maximum exposure			
	4finance Group	**TBIF Group**	**Friendly Finance**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**
Cash and cash equivalents	70 505	84 167	2 969	**157 641**
Placements with other banks	—	4 752	—	**4 752**
Loans to customers:	290 164	177 513	26 220	**493 897**
Corporate clients	—	44 940	—	**44 940**
Corporate client impairment	—	(1 842)	—	**(1 842)**
Individual clients	430 440	146 158	43 569	**620 167**
Individual client impairment	(140 276)	(11 743)	(17 349)	**(169 368)**
Investment in finance leases	—	13 082	—	**13 082**
Gross investment in finance leases	—	13 812	—	**13 812**
Finance lease impairment	—	(730)	—	**(730)**
Loans to related parties	67 198	—	—	**67 198**
Other assets	11 810	9 356	365	**21 531**
Derivatives	11 166	—	—	**11 166**
Financial assets available for sale	5 085	5 504	—	**10 589**
Total credit risk exposure*	**455 928**	**294 374**	**29 554**	**779 856**

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

For additional details on loans refer to Note 19 and on finance leases to Note 20.

4finance Group

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

(4) Risk management (continued)

Credit quality of loan portfolio (4finance Group):

	Gross receivables 31.12.2016	Allowance for doubtful debts 31.12.2016	Net receivables 31.12.2016	Gross receivables 31.12.2015	Allowance for doubtful debts 31.12.2015	Net receivables 31.12.2015
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Not overdue	201 580	(5 674)	195 906	215 438	(5 922)	209 516
Overdue less than 90 days	49 306	(18 393)	30 913	53 008	(18 368)	34 640
Overdue more than 90 days	179 554	(116 209)	63 345	157 049	(92 917)	64 132
	430 440	**(140 276)**	**290 164**	**425 495**	**(117 207)**	**308 288**

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

TBIF Group

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

To manage credit risk, the TBIF Group has developed strict potential borrower analysis and assessment procedures, including scoring procedures and detailed verification of data provided. Loans to corporate clients are mainly secured by collateral. Collateral is valued by obtaining a market value and then further reduced to take into account various risks. They are monitored on a regular basis and the underlying collateral is subject to re-appraisal on an annual basis. For impairment purposes, loans are monitored for Days Past Due ("DPD"), and other impairment triggers. For loans to groups of related party SME's, exposures are assessed collectively.

Loans to individuals are not secured. In addition, the TBIF Group has developed an effective payment monitoring system as well as a procedure for measuring the collection of receivables. Preliminary analysis and subsequent monthly monitoring are in place to detect the concentration of related parties by sectors of the economy and other cross-sections in compliance with TBIF Group's internal rules.

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

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

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

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

(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 short-term (the average term of the portfolio is approximately 31 months) and have low limits (the average receivable amount is approximately BGN 1 thousand / around EUR 500).

The table below shows the total amount of loans to customers before provisions and impairment losses by type of collateral at 31 December 2016:

As of 31 December	**Loans to customers**		
	Gross EUR'000	**Collateral* EUR'000**	**Coverage****
Mortgages	38 547	37 794	98%
Cash collateral	41	15	37%
Other collateral	11 557	10 180	88%
Unsecured	140 953	—	N/A
Total	**191 098**	**47 989**	

* 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 2016 see the table below:

	Loans to corporate clients	Loans to individual clients	Financial leases
	EUR'000	EUR'000	EUR'000
Neither past due nor impaired	28 235	107 102	6 849
Past due less than 30 days*	3 103	22 716	1 787
Past due 31 to 60 days*	3 371	4 683	2 121
Past due 61 to 90 days*	881	1 768	744
Past due over 91 days*	4 044	9 869	1 509
Collective provisions	(277)	(11 723)	(156)
Past due and individually impaired	5 306	20	802
Individual impairment	(1 565)	(20)	(574)
Net of loan loss provisions	**43 098**	**134 415**	**13 082**

* Not individually impaired, collective provisioning used

As at 31 December 2016, the carrying amount of financial assets that would otherwise be past due whose terms have been renegotiated is EUR 1 368 thousand (net of impairment).

Loans to customers that are neither past due, nor impaired

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

Past due but not impaired

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

Loans to customers which are past due and are impaired

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

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

The table below presents an analysis of deposits with other banks and available for sale financial assets at 31 December 2016 based on criteria set by rating agencies as a result of their credit assessments.

(4) Risk management (continued)

Rating	Available for sale financial assets	Placements with other banks
	EUR'000	EUR'000
BBB+ (Fitch)	—	113
Baa1 (Moody's)	—	274
BBB (Fitch)	—	40 221
Baa2 (Moody's)	—	1 241
BBB- (Fitch)	5 458	22
BBB- (BCRA)	—	484
BB+ (Fitch)	—	11
BB+ (BCRA)	—	1
BB (Fitch)	—	322
BB- (Fitch)	—	12 193
Ba3 (Moody's)	—	2
B- (Fitch)	—	66
RD (Fitch)	—	4
Unrated	46	—
	5 504	**54 954**

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

Friendly Finance

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

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

	Gross receivables 31.12.2016	Allowance for doubtful debts 31.12.2016	Net receivables 31.12.2016
	EUR'000	EUR'000	EUR'000
Not overdue	15 165	(628)	14 537
Overdue less than 90 days	8 662	(2 985)	5 677
Overdue more than 90 days	19 742	(13 736)	6 006
	43 569	**(17 349)**	**26 220**

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

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

(4) Risk management (continued)

(a) 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.

TBIF Group

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

(b) 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.

(c) 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 151/(151) thousand effect on the Statement of Comprehensive Income.

(4) Risk management (continued)

(d) 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 2016 and 31 December 2015 and a simplified scenario of a 10% change in PLN, USD, CZK, GEL, SEK and RON to EUR exchange rates is as follows:

	31.12.2016		31.12.2015	
	Net income EUR'000	Equity EUR'000	Net income EUR'000	Equity EUR'000
Appreciation of PLN against EUR	2 921	2 921	(188)	(188)
Depreciation of PLN against EUR	(29)	(29)	1 742	1 742
Appreciation of USD against EUR	(17 707)	(17 707)	(1 260)	(1 260)
Depreciation of USD against EUR	44 977	44 977	11 749	11 749
Appreciation of CZK against EUR	513	513	(62)	(62)
Depreciation of CZK against EUR	(66)	(66)	373	373
Appreciation of GEL against EUR	52	52	(618)	(618)
Depreciation of GEL against EUR	(52)	(52)	682	682
Appreciation of SEK against EUR	(4 142)	(4 142)	(4 079)	(4 079)
Depreciation of SEK against EUR	4 142	4 142	4 079	4 079
Appreciation of RON against EUR	3 625	3 625	—	—
Depreciation of RON against EUR	(3 625)	(3 625)	—	—

The currency risk analysis above illustrates the effect of an isolated appreciation/depreciation of each significant operating currency at 10% change. The above analysis does not include any assumptions about correlation between these currencies. Refer to Note (43) Currency analysis for further information on the Group's exposure to foreign currency risk.

(e) 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.

(4) Risk management (continued)

(f) Operational risk

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

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

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

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

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

(h) Capital management risk

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

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

4finance Group

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.

(4) Risk management (continued)

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 2016 was 22.38%.

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

(5) Use of estimates and judgements

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

The 4finance Group

In preparing these consolidated financial statements, the significant judgements made by management in applying the 4finance Group’s accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements of the 4 finance Group for the year ended 31 December 2015. 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 4finance Group are:

- Allowances for credit losses on loans and receivables (see Note 19)

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

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

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

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

Management closely follows recoveries from delinquent loans and revises LGD rates for portfolios based on actual recoveries received. Historical experience supports the use of 21 and 36 months after default as the period over which recoveries are expected to be received. This assumption is used across all countries and is supported

(5) Use of estimates and judgements (continued)

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 2016, 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 2016, the weighted average LGD rate across portfolios was 57% (31 December 2015: 53%). The weighted average LGD rate increased due to the relative increase in portfolio exposure to countries with larger LGD ratios such as Poland, Spain, Denmark and the growth of the individual LGD ratio in Georgia. In addition, during 2016 the delinquent portfolio more than 1 year for countries launched in 2015 (including Mexico and Argentina) contributed more to the LGD 360 bucket and consequently to the total weighted average LGD. 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 by EUR 11 165 thousand (31 December 2015: EUR 10 237 thousand). A 5% decrease would lead to a decrease of the same amount.

- Separation of embedded derivatives

4finance Group's USD borrowing notes issued in 2014 and maturing in 2019 have a prepayment option for bond holders to request early redemption in 2017. There is also 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 management 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. Currently, this ranges from 3 to 5 years. 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 22)
- Goodwill measurement and goodwill impairment testing

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)

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 a 20% migration of loans with DPD up to 90 days to loans with DPD 90+ wit ha forecast horizon of 12 months. As of 31 December 2016, this test resulted in a sensitivity of EUR 2 860 thousand.

The value of real estate collateral is determined by independent expert appraisers, using generally accepted valuation techniques. Such techniques include the revenue method and the discounted cash flow method. In certain cases, fair value is determined based on recent transactions involving real estate with similar features and locations as the collateral. Non-real estate collateral is measured at the lower of the value upon acquisition and the fair value less costs to make the sale.

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

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

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

TBIF Group undertakes a collateral depreciation stress test, which assumes a devaluation of real estate by 5-15% depending on the type of real estate over a forecast horizon of 12 months. As of 31 December 2016, this test resulted in a sensitivity of EUR 1 890 thousand.

(6) Discontinued operations

There were no discontinued operations in 2016.

In January 2015, a decision to discontinue operations in Estonia was made (4finance OÜ).

In December 2014, a decision to sell the Group's operations in the Russian Federation was made. The decision was primarily driven by political and economic uncertainties in the market. On 1 January 2015, the Russian Federation business segment was sold to a related party outside the reporting group and all related sales transactions were completed in the first half of 2015. This resulted in a total gain of EUR 6 383 thousand.

Also on 1 January 2015, the Group sold 85% of its effectively ceased operations in the United Kingdom. Total loss from the sale of the United Kingdom operations amounted to EUR 240 thousand.

The table below includes the operating results of discontinued business segments. All of the discontinued operations results are attributable to shareholders of the Company.

(6) Discontinued operations (continued)

(a) Results of discontinued operation

	2016 EUR'000	2015 EUR'000
Interest income		280
Interest expenses		(1)
Impairment allowance	—	(392)
Net other expenses	—	(120)
Results from operating activities	**—**	**(233)**
Income tax	—	—
Results from operating activities, net of tax	**—**	**(233)**
Gain on sale of discontinued operations	—	6 143
Profit for the period	**—**	**5 910**

(b) Cash flows from (used in) discontinued operations

	2016 EUR'000	2015 EUR'000
Net cash from operating activities	—	339
Net cash used in investing activities	—	(330)
Net cash flow from financing activities	—	8
Net cash flow for the year	**—**	**17**

(7) 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.

	2016 EUR'000	2015 EUR'000
Loans to customers:		
4finance Group	359 503	318 285
TBIF Group	19 712	—
Friendly Finance	13 940	—
	393 155	**318 285**

(7) Interest income (continued)

Interest income by geographic markets and acquisitions:

The 4finance Group

	2016 EUR'000	2015 EUR'000
Poland	94 024	81 217
Spain	56 007	35 580
Latvia	43 086	44 234
Denmark	34 799	21 974
Georgia	34 309	39 653
Sweden	25 190	26 170
Finland	21 958	21 622
Lithuania	21 729	35 195
Czech Republic	17 550	9 853
Other	10 851	2 787
	359 503	**318 285**

TBIF Group

	2016 EUR'000	2015 EUR'000
Bulgaria	10 040	—
Romania	9 672	—
	19 712	**—**

Friendly Finance

	2016 EUR'000	2015 EUR'000
Spain	3 950	—
Georgia	2 987	—
Czech Republic	2 779	—
Other	4 224	—
	13 940	**—**

(8) Interest expense

	2016 EUR'000	2015 EUR'000
Interest expense on notes	34 780	26 383
Deposits from customers	1 898	526
Interest expense on other loans	1 372	1 387
Interest expense on bank loans	515	361
Deposits from banks and financial institutions	119	—
	38 684	**28 657**

(9) Fee and commission income

	2016 EUR'000	2015 EUR'000
Insurance agents' commissions	2 056	—
Transfers and transactions	747	—
Other	98	—
	2 901	**—**

Fees and commissions are related to TBIF Group's operations.

(10) Fee and commission expense

	2016 EUR'000	2015 EUR'000
Agents' commissions	434	—
Bank transactions	349	—
Other	26	—
	809	**—**

Fees and commissions are related to TBIF Group's operations.

(11) Net trading loss

	2016 EUR'000	2015 EUR'000
Net foreign currency loss	7 989	17 661
Net gain on derivatives	(652)	(10 673)
	7 337	**6 988**

(12) Other income

	2016 EUR'000	2015 EUR'000
Interest income	6 710	2 050
Income from services	1 674	1 160
Rental income	1 561	—
Income from insurance broker activities	1 068	—
Other income from clients	1 022	—
Proceeds from share sales	223	—
Other income	2 056	603
	14 314	**3 813**

In 2016, interest income includes interest income from related parties of EUR 6 643 thousand (2015: EUR 1503 thousand) (see Note 36).

(13) Other expense

	2016	2015
	EUR'000	EUR'000
Cost of services rendered	1 974	1 140
Impairment of other assets	51	—
Other expense	421	612
	2 446	**1 752**

(14) Net impairment losses

	2016	2015
	EUR'000	EUR'000
Impairment losses on loans	105 770	84 748
Reversal of provision on debt portfolio sales	(7 610)	(2 827)
Recovery from written-off loans	(8 488)	(4 957)
	89 672	**76 964**

In 2016, a change in classification treatment was made regarding net income from debt sales. Income from debt sales in excess of net book value is treated as a reversal in the excess provision on debt sold. This resulted in a reversal of EUR 7 610 thousand in the provision on debt portfolio sales in 2016 and a reclassification of EUR 2 827 thousand from net income from debt sales to net impairment losses on loans and receivables in 2015. Impairment losses on loans include EUR 121 thousand of TBIF Group impairment on financial leases.

(15) General administrative expenses

	2016	2015
	EUR'000	EUR'000
Personnel costs	68 359	39 378
Marketing and sponsorship	55 406	50 128
Legal and consulting	12 051	7 458
Debt collection costs	8 469	6 975
Research and development expenses	7 934	4 318
Application inspection costs	5 358	3 972
Rent and utilities	5 193	2 481
Depreciation and amortization	5 138	1 585
Communication expenses	4 496	3 167
IT expenses	3 584	6 900
Bank services	3 122	1 943
Travel	2 466	1 734
Other	8 807	3 860
	190 383	**133 899**

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

(15) General administrative expenses (continued)

Auditor's fees (part of Legal and consulting)	2016 EUR'000	2015 EUR'000
Audit fees	545	424
Audit related fees	38	33
Tax related fees	127	634
	710	**1 091**

	2016 EUR'000	2015 EUR'000
Average number of employees		
Senior management/Executives	9	8
Employees	3 403	1 238
	3 412	**1 246**

(16) Income tax for the reporting period

	2016 EUR'000	2015 EUR'000
Current tax	28 503	17 794
Deferred tax	(10 671)	(2 111)
	17 832	**15 683**

Reconciliation of effective income tax:

	2016 EUR'000	2015 EUR'000
Profit before corporate income tax	81 039	73 838
Theoretical corporate income tax, 29%	23 501	21 413
CIT relief due to donations	(73)	(709)
Effect of change in deferred tax asset recognition	(283)	1 059
Tax effect of permanent differences related to non-deductible expenses	2 738	1 821
Non-taxable gain on sale of discontinued operations	—	(1 781)
Impact of tax rate in other jurisdictions	(8 051)	(6 120)
Corporate income tax for the reporting year	**17 832**	**15 683**

The effective tax rate in 2016 was 22% (2015: 21%).

The main countries that contribute to the impact of tax rate in other jurisdictions above are Georgia, Poland and Sweden.

Management utilises 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 of the Group's Polish operations is being undertaken by the local Polish tax authorities.

(17) Cash and cash equivalents

	31.12.2016 EUR'000	31.12.2015 EUR'000
Bank balances	79 333	56 862
Placements with other banks	50 216	—
Cash at central banks other than the minimum statutory reserve	7 471	—
Cash and cash equivalents in the statement of cash flows	**137 020**	**56 862**
Minimum statutory reserve	20 621	—
Total cash on hand and cash at central banks	**157 641**	**56 862**

As at 31 December 2016, the statutory minimum reserves held with the Bulgarian National Bank (BNB) by TBIF Group amount to 10 % of the deposits attracted, not including 5% of funds attracted from abroad. As at 31 December 2016, the statutory minimum reserves held at the National Bank of Romania (NBR) amounted to 8% of the funds attracted in new Romanian Lei and 14% 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 not available for use in the Group's day-to-day operations. Cash on hand and minimum statutory reserves and balances with BNB are not interest bearing. Those held in NBR are interest bearing.

(18) 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 2016.

	Currency	Notional amount '000	Rate	Maturity	31.12.2016 EUR'000
European style Put EUR/USD option	USD	90 000	1.1305	Feb 2017	6 554
EUR to USD forward agreements (Note 36)	USD	2 963	1.3388	Aug 2019	632
European style Put EUR/USD option	USD	10 000	1.0853	Mar 2017	303
European style Call EUR/CZK option	EUR	135 258	27.0515	Mar 2017	19
European style Call EUR/GBP option	EUR	14 509	0.9068	Apr 2017	62
European style Put EUR/USD option	USD	72 500	1.0944	May 2017	2 969
European style Call USD/PLN option	USD	30 000	4.1705	Feb 2017	627
					11 166

(18) Derivatives (continued)

The tables below reflect the fair value of each financial instrument type separately as well as a bond held by the Group as at 31 December 2015.

	Currency	Notional amount '000	Rate	Maturity	31.12.2015 EUR'000
EUR to USD forward agreements (Note 36)	USD	22 500	1.3388	Aug 2019	4 190
European style Put EUR/USD option	USD	72 500	1.0883	Feb 2016	744
European style Put EUR/USD option	USD	90 000	1.1305	Feb 2017	4 163
European style Call EUR/PLN option	PLN	130 800	4.36	May 2016	302
European style Call EUR/CZK option	CZK	135 620	27.124	Oct 2016	64
American style Call USD/GEL option	GEL	10 751	2.1503	Feb 2016	506
American style Call USD/GEL option	GEL	10 673	2.1346	Feb 2016	534
					10 503

(19) Loans due from customers

Summary

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

	Gross receivables 31.12.2016	Allowance for doubtful debts 31.12.2016	Net receivables 31.12.2016	Gross receivables 31.12.2015	Allowance for doubtful debts 31.12.2015	Net receivables 31.12.2015
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
4finance Group	430 440	(140 276)	290 164	425 495	(117 207)	308 288
TBIF Group	191 098	(13 585)	177 513	—	—	—
Friendly Finance	43 569	(17 349)	26 220	—	—	—
	665 107	**(171 210)**	**493 897**	**425 495**	**(117 207)**	**308 288**

4finance Group

	31.12.2016 EUR'000	31.12.2015 EUR'000
Long-term loans due from customers	21 629	20 890
Impairment of long-term loans due from customers	(6 281)	(4 625)
Long term	**15 348**	**16 265**
Short-term loans due from customers	408 811	404 605
Impairment of short-term loans due from customers	(133 995)	(112 582)
Short term	**274 816**	**292 023**
	290 164	**308 288**

(19) Loans due from customers (continued)

The 4Finance Group's long-term and short-term loans consist of loan balances not exceeding EUR 3 061 per loan (31 December 2015: EUR 3 265) with maturity of up to 3 years. The average outstanding individual loan balance in 2016 was EUR 185 (2015: EUR 184). The loans are not collateralized.

Short-term loans include the Line of Credit portfolio outstanding of EUR 3 738 thousand as at 31 December 2016 (31 December 2015: EUR 463). The total credit committed under this product, which includes used and unused amounts, is EUR 4 508 thousand (31 December 2015: EUR 569).

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

	2016 EUR'000	2015 EUR'000
Allowance for doubtful debts		
Balance at the beginning of period	117 207	75 418
Charge for the period in continued operations	97 443	84 748
Amounts written-off	(51 232)	(36 315)
Derecognised on disposal of portfolio	(20 588)	(2 839)
Charge for the period in discontinued operations	—	(392)
Currency effect	(2 555)	(3 413)
Balance at period end	**140 275**	**117 207**

Loans by country and currency:

	Gross receivables 31.12.2016	Allowance for doubtful debts 31.12.2016	Net receivables 31.12.2016	Gross receivables 31.12.2015	Allowance for doubtful debts 31.12.2015	Net receivables 31.12.2015
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Poland (PLN)	113 959	(32 580)	81 379	102 699	(33 594)	69 105
Latvia (EUR)	59 817	(11 153)	48 664	61 744	(11 495)	50 249
Denmark (DKK)	46 256	(13 766)	32 490	31 312	(7 575)	23 737
Spain (EUR)	53 416	(27 157)	26 259	37 428	(17 310)	20 118
Lithuania (EUR)	34 312	(11 900)	22 412	63 181	(10 822)	52 359
Sweden (SEK)	28 865	(6 495)	22 370	43 253	(11 244)	32 009
Finland (EUR)	27 499	(8 244)	19 255	31 536	(9 430)	22 106
Georgia (GEL)	36 410	(18 344)	18 066	37 993	(11 517)	26 476
Other	29 906	(10 637)	19 269	16 349	(4 220)	12 129
	430 440	**(140 276)**	**290 164**	**425 495**	**(117 207)**	**308 288**

During 2016, there was a decrease in loans due from customers in Lithuania following the Bank of Lithuania's decision to remove the Group's local operating entity, 4finance UAB, from the list of consumer credit lenders in Lithuania at the end of 2015. Following successful discussions with the Lithuanian authorities on the steps

(19) Loans due from customers (continued)

required to resume issuing new loans, operations were re-started at the beginning of 2016. 2016 saw a lower volume of lending compared to 2015 due to the more restrictive legislation and our reduced marketing during this period of regulatory adjustment. The Group also faced increased competition and regulation in both Georgia and Sweden in 2016. The Group has adjusted its product offering in these markets and plans to introduce new products and broaden its target market in 2017.

TBIF Group

Loans to customers

	31.12.2016 EUR'000
Loans to customers:	
Individuals	139 930
Corporate clients	50 935
Staff	233
Total loans to customers	**191 098**
Impairment allowance	(13 585)
Total net loans to customers	**177 513**

Loans to customers include accrued interest amounting to EUR 2 556 thousand. Loans to customers bearing floating interest rates amount to EUR 40 838 thousand, and loans to customers bearing fixed interest rates amount to EUR 137 976 thousand.

Impairment loss allowances

The movement in impairment loss allowances is as follows:

Impairment allowance for individually assessed financial assets	**2016** **EUR'000**
Balance at the beginning of period (**At 1 August)**	1 393
Charge for the period in continued operations	42
Amounts written-off	(3)
Derecognised on disposal of portfolio	—
Currency effect	—
	1 432

Impairment allowance for collectively assessed financial assets	**2016** **EUR'000**
Balance at the beginning of period (**At 1 August)**	11 752
Charge for the period in continued operations	1 525
Amounts written-off	(1 071)
Derecognised on disposal of portfolio	—
Currency effect	(53)
As of 31 December	**12 153**

(19) Loans due from customers (continued)

Structure of the loan portfolio by economic sectors

	Gross receivables 31.12.2016 EUR'000	Allowance for doubtful debts 31.12.2016 EUR'000	Net receivables 31.12.2016 EUR'000
Individuals	141 988	(11 724)	130 264
Construction and real estate	19 836	(1 263)	18 572
Commerce	7 370	(148)	7 222
Agriculture	6 921	(143)	6 778
Tourism	6 195	0	6 195
Services	5 120	(280)	4 840
Manufacturing	2 787	(27)	2 760
Staff	839	0	840
Other financial institutions	42	0	42
Total loans to customers	**191 098**	**(13 585)**	**177 513**

Friendly Finance

	31.12.2016 EUR'000
Short-term loans due from customers	43 569
Impairment of short-term loans due from customers	(17 349)
Short term	**26 220**
	26 220

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

	2016 EUR'000
Allowance for doubtful debts	
Balance at the beginning of period (**At 1 July)**	10 328
Charge for the period in continued operations	6 880
Amounts written-off	(286)
Currency effect	427
As of 31 December	**17 349**

Friendly Finance loans consist of loan balances not exceeding EUR 2 365 per loan with maturity of up to 7 months. The average outstanding individual loan balance in 2016 was EUR 230. The loans are not collateralized.

(19) Loans due from customers (continued)

Loans by country and currency:

	Gross receivables 31.12.2016	Allowance for doubtful debts 31.12.2016	Net receivables 31.12.2016
	EUR'000	**EUR'000**	**EUR'000**
Czech Republic (CZK)	10 181	(5 017)	5 164
Spain (EUR)	9 876	(3 860)	6 016
Georgia (GEL)	9 316	(2 381)	6 935
Poland (PLN)	7 455	(3 890)	3 565
Slovakia (EUR)	5 818	(2 080)	3 738
Other	923	(121)	802
	43 569	**(17 349)**	**26 220**

(20) Net investment in finance leases

	31.12.2016
	EUR'000
Gross investment in finance leases:	
Not later than one year	4 745
Later than one and not later than five years	10 337
Later than five years	3 582
	18 664
Unrealised finance income	(4 851)
	13 813
Less allowance for impairment losses	(731)
Net investment in finance leases	**13 082**
Net investment in finance leases	
Not later than one year	2 523
Later than one and not later than five years	7 545
Later than five years	3 014
	13 082

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

(20) Net investment in finance leases (continued)

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

	2016
	EUR'000
As of 1 August 2016	835
Impairment loss allowance charged	373
Reversed	(494)
Foreign exchange difference	17
As of 31 December	**731**

(21) Financial assets available for sale

	31.12.2016
	EUR'000
Investments in equities	5 131
Debt securities - listed	5 458
	10 589

Investment in equities mainly consists of a EUR 4 900 thousand investment in participation of 9.9% in Spotcap Global S.à r.l., a non-listed limited liability company that is an innovative online lender for small and medium sized enterprises.

Debt securities as at 31 December 2016 represent two types of issued Romanian government bonds: in EUR with a maturity on 21 January 2019 and coupon of 3.40 % per annum; in RON with a maturity on 11 June 2017 and coupon of 6.75 % per annum. Interest accumulated as at 31 December 2016 amounts to EUR 162 thousand. Debt securities are carried at fair value based on quoted market prices as at the date of the financial statements.

(22) Loans to related parties

	31.12.2016	**31.12.2015**
	EUR'000	**EUR'000**
Loans to related parties	67 198	13 732
	67 198	**13 732**

(22) Loans to related parties (continued)

Detailed information regarding loans to related can be seen below:

			Principal amount		Accrued interest	
	Maturity	**Interest rate**	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
			EUR'000	**EUR'000**	**EUR'000**	**EUR'000**
Piressa Holdings Limited	May 2018	13.75 %	5 100	5 100	713	539
V7 Limited	Oct 2018	13.75 %	18 491	3 508	1 637	181
4finance Group S.A.	Jul 2019	13.75 %	31 524	1 375	48	28
4finance US Holding Company, Inc	Dec 2019	13.75 %	4 046	1 781	854	347
0973915 B.C. Ltd	Nov 2018	13.75 %	3 743	—	1 042	804
Credit Service UAB	Dec 2020	13.75 %	—	68	—	1
			62 904	**11 832**	**4 294**	**1 900**

All loans to related parties are unsecured.

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

The loan to Piressa Holdings Limited was part of the agreement on divestment of operations in Russia. The principal amount of this loan is fixed and has remained the same since disposal. The loans to 4finance US Holding Company Inc and 0973915 B.C. Ltd relate to operations in North America, which are now owned by 4finance Group S.A.. The loan to V7 Limited relates to the Group's minority interest in UK operations, which were in pilot phase during 2016 (following receipt of a full Financial Conduct Authority license in February 2016), and majority funded via this loan facility. Subsequent to 2016 year end, this loan has been restructured and is now a liability of 4finance Group S.A. to the Company. These loans relating to formerly owned businesses total EUR 35.6 million in principal plus accrued interest.

The EUR 31.5 million loan to 4finance Group S.A. represents approximately half of the Group's 2016 net profit and qualifies as a distribution for the purposes of the Group's bond covenants.

(23) Other assets

	31.12.2016 EUR'000	31.12.2015 EUR'000
Repossessed real estate	7 528	—
- less accumulated impairment	(114)	—
Receivables from suppliers	5 505	1 533
Security deposits	1 650	1 303
Other receivables	6 962	2 546
	21 531	**5 382**

Repossessed real estate is from TBIF Group.

Receivables from suppliers includes receivables from offline service providers, which is the main driver for the increase as at 31 December 2016 compared to 31 December 2015. Offline service providers offer the opportunity for customers to repay loans via payment terminals. These providers are used mainly in Poland, Spain, Georgia and Denmark, the increase being driven by market growth in these countries.

Other receivables as at 31 December 2016 includes EUR 2 074 thousand from 4finance Group S.A. and AS 4finance Ltd. for legal and other consulting services. It also includes faulty payments of EUR 1 194 thousand and other receivables related to acquisitions of EUR 1 674 thousand.

(24) Investment in associates

	31.12.2016 EUR'000	31.12.2015 EUR'000
Investments in associates	2 080	—
	2 080	**—**

Investments in associates consists of a EUR 2 080 thousand investment in participation of 24.4% in BillFront GmbH, a non-listed limited liability German company. The Group has significant influence over, but does not control, the company as the ownership of 24.4% shares does not give power to make important decisions alone. The Group acquired 24.4% of shares for EUR 2 142 thousand in November 2016. As of 31 December 2016, the investment was decreased by EUR 62 thousand, the Group's share of the loss for the two 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.

(25) Property and equipment

	Leasehold improvements	Computer equipment	Other property and equipment	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Cost				
31 December 2014	**353**	**2 455**	**882**	**3 690**
Additions	1 135	2 282	807	4 224
Acquisition through business combination	19	9	10	38
Disposals and write-offs	(227)	(632)	(106)	(965)
Effect of changes in foreign exchange rates	(67)	(176)	1	(242)
31 December 2015	**1 213**	**3 938**	**1 594**	**6 745**
Accumulated depreciation				
31 December 2014	**204**	**1 119**	**259**	**1 582**
Depreciation	184	897	214	1 295
Disposals and write-offs	(17)	(360)	(23)	(400)
Effect of changes in foreign exchange rates	(24)	(26)	(10)	(60)
31 December 2015	**347**	**1 630**	**440**	**2 417**
Balance as at 31 December 2014	**149**	**1 336**	**623**	**2 108**
Balance as at 31 December 2015	**866**	**2 308**	**1 154**	**4 328**

	Buildings and land	Leasehold improvem ents	Computer equipment	Other property and equipment	Motor Vehicles	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost						
31 December 2015	**—**	**1 213**	**3 938**	**1 594**	**—**	**6 745**
Additions	5	562	1 747	1 130	691	4 135
Additions through business combinations (Note 27)	6 332	113	130	849	7 305	14 729
Disposals	(510)	(78)	(174)	(209)	(189)	(1 160)
Reclassified to assets held for sale (Note 26)	—	—	—	(52)	(6 647)	(6 699)
Reclassification	—	41	—	(41)	—	—
Effect of changes in foreign exchange rates	(68)	(68)	(74)	(72)	(25)	(307)
31 December 2016	**5 759**	**1 783**	**5 567**	**3 199**	**1 135**	**17 443**
Accumulated depreciation						
31 December 2015	**—**	**347**	**1 630**	**440**	**—**	**2 417**
Depreciation	77	294	1 281	564	766	2 982
Disposals	—	(60)	(80)	(26)	—	(166)
Reclassified to assets held for sale	—	—	—	(29)	—	(29)
Effect of changes in foreign exchange rates	(7)	(16)	(32)	(33)	(19)	(107)
31 December 2016	**70**	**565**	**2 799**	**916**	**747**	**5 097**
Balance as at 31 December 2015	**—**	**866**	**2 308**	**1 154**	**—**	**4 328**
Balance as at 31 December 2016	**5 689**	**1 218**	**2 767**	**2 283**	**388**	**12 345**

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

As of 31 December 2016, the TBIF Group was in the process of actively searching for a buyer of one of its fully owned subsidiaries operating in rent-a-car activities in Bulgaria. In accordance with the requirements of IFRS 5, the assets and liabilities of the subsidiary have been presented as held for sale as of the date of these consolidated financial statements. Since the TBIF Group continues its involvement with the geographical segment (Bulgaria) as well as with the business segment (rent-a-car) through other subsidiaries, the company in question has not been treated as a discontinued operation.

The TBIF Group subsidiary's major classes of assets and liabilities included in the disposal group as of 31 December 2016 are as follows:

	31.12.2016 EUR'000
Vehicles	6 647
Other assets	1 118
Total assets	**7 765**
Borrowings*	(5 480)
Other liabilities	(783)
Total liabilities	**(6 263)**
Net from assets and liabilities	**1 502**

* includes intercompany borrowings

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

	31.12.2016 EUR'000
Vehicles	7 362
- less accumulated impairment	(51)
Other	1 753
- less accumulated impairment	(488)
	8 576

As at 31 December 2016, TBIF Group did not recognize additional impairment (for the five month period since acquisition), and the repossessed assets are presented net of the impairment charged.

In the last five months of 2016, TBIF Group sold assets classified in this category amounting to zero. Impairment written off in relation to these assets amounted to zero. In the last five months of 2016, the Group repossessed assets amounting to EUR 219 thousand classified as held for sale.

The Group intends to realise non-current assets held for sale through disposal over the next reporting period.

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

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

	2016
	EUR'000
As at 1 August	647
Impairment charged for the period	35
Impairment written off for the period	(134)
Foreign exchange difference	(9)
Balance at period end	**539**

TBIF Group's non-current liabilities held for sale are as follows:

	31.12.2016
	EUR'000
Borrowings	4 026
Other liabilities	783
	4 809

(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 2014	**744**	**277**	**—**	—	**2 268**	**3 289**
Additions	1 334	328	—	6 220	2 154	10 036
Additions - internally developed	—	—	—	6 032	—	6 032
Acquisitions through business combinations	—	117	647	—	—	764
Disposals and write-offs	(112)	(423)	—	(81)	(48)	(664)
Reclassification	—	5 991	—	(3 770)	(2 221)	—
Effect of changes in foreign exchange rates	8	(210)	—	(203)	(46)	(451)
31 December 2015	**1 974**	**6 080**	**647**	**8 198**	**2 107**	**19 006**
Accumulated amortisation and impairment						
31 December 2014	**325**	**213**	**—**	—	—	**538**
Amortisation	335	86	—	—	—	421
Disposals and write offs	(80)	—	—	—	—	(80)
Amortization of acquisitions through business combinations	—	68	—	—	—	68
Effect of changes in foreign exchange rates	(7)	36	—	—	—	29
31 December 2015	**573**	**403**	**—**	—	—	**976**
Balance as at 31 December 2014	**419**	**64**	**—**	**—**	**2 268**	**2 751**
Balance as at 31 December 2015	**1 401**	**5 677**	**647**	**8 198**	**2 107**	**18 030**

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

Development costs and Advances largely relate to new IT development projects. During 2015 and 2016, the Group's IT function was expanded to support new countries and products, focusing on in-house development. A new development site was opened, and the Group invested in new IT personnel. New software developments included a new Risk Tool, a new Debt Collection tool, several enhancements to existing solutions, Web Design and building new websites based on User Experience (UX). Projects put in use in 2016, include, but not limited to: IT intangible assets related to instalment loan products in Spain, Sweden, Poland and Romania; IT intangible assets related to line of credit products in Latvia and Finland; websites in Bulgaria, Sweden and Lithuania, and; IT regulatory compliance projects in Lithuania, Sweden and Latvia. In addition, a significant number of projects are in the latter stages of development and due for completion in early 2017.

Goodwill

Acquisitions in year 2015

During year 2015, the Group acquired two entities in Armenia and Argentina. Goodwill recognised in connection with these acquisitions totalled EUR 647 thousand. As of 31 December 2016, 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.

(27) Intangible assets and goodwill (continued)

Acquisitions in year 2016

Acquisition of Friendly Finance

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

Identifiable assets acquired and liabilities assumed

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

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

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

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

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

(27) Intangible assets and goodwill (continued)

Goodwill arising from the acquisitions was as follows:

	30.06.2016 EUR'000
Total consideration transferred	28 800
Fair value of identifiable net assets acquired	(1 950)
Goodwill	**26 850**

Goodwill consists of the positive value that Friendly Finance will generate in the future by earning revenues and profits. Non-controlling interest was recognised as 20% of the recognised amount of the identifiable net assets of the acquired entity.

Acquisition of TBIF Group

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

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

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

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

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

(27) Intangible assets and goodwill (continued)

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

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

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

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

Goodwill arising from the acquisitions was as follows:

	31.07.2016
	EUR'000
Total consideration transferred	81 814
Fair value of identifiable net assets acquired	(65 958)
Goodwill	**15 856**

For the twelve months ended 31 December 2016, consolidated TBI Bank EAD revenues amounted to EUR 46.9 million and profit to EUR 16.6 million (unaudited data). The financial information is not presented for TBIF Group due to the fact that until the time of acquisition, TBIF Group had a different structure compared to post acquisition. Consequently, financial information of consolidated TBI Bank EAD for the twelve months provides more representative information.

Goodwill impairment test

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

Friendly Finance

For Friendly Finance, each business based on geographic location was identified as a cash generating unit despite the fact management of the Group views Friendly Finance as one operating segment (see Note 40). For the purposes of impairment testing, acquired goodwill of EUR 26 850 thousands was allocated as follows:

Cash generating unit	**EUR'000**
Spain	8 054
Czech Republic	6 713
Slovakia	2 685
Poland	9 398
	26 850

(27) Intangible assets and goodwill (continued)

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

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. 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.

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

Projected EBITDA figures were based on detailed financial models. 2016 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 EBITDA growth rates (average of next four years) used in the Friendly Finance goodwill impairment test were:

Cash generating unit	Per cent
Spain	84
Czech Republic	17
Slovakia	22
Poland	49

The average projected EBITDA growth rate for Spain is higher than for other units due to currently observed market trends and expected industry developments. For Poland, the average projected EBITDA growth rate is expected to be 49% based on market size, market development and on the expected synergies between 4finance Group and Friendly Finance.

Four years of cash flows were included in the discounted cash flow model. A long-term growth rate into perpetuity was determined to be 4% for Friendly Finance units. The rate was estimated by management based on historical trends observed in existing markets, and expected company and industry developments.

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	Per cent
Spain	12
Czech Republic	12
Slovakia	12
Poland	13

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

(27) Intangible assets and goodwill (continued)

Cash generating unit	Per cent
Spain	40
Czech Republic	48
Slovakia	31
Poland	40

TBIF Group

Following acquisition, the cash generating units of TBIF Group are still under assessment. For the preliminary impairment test of goodwill acquired for TBIF Group, the test was performed for TBIF Group as a whole, as TBI Bank EAD constitutes the major part of the TBIF Group operations and assets.

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

The value in use was calculated based on the free cash flows to equity discounted by the cost of equity. The projected growth rate of free cash flows to equity used in the test (average of next four years) was 4%, based on management estimates.

Four years of cash flows were included in the discounted cash flow model. A long-term growth rate into perpetuity was determined as 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 TBIF Group. The cost of equity was calculated as 17% (rounded to the nearest whole number). Sensitivity analysis was performed to assess changes to key assumptions that could influence whether the carrying value of the units exceeded their recoverable amounts. The results of the sensitivity analysis indicate that for TBIF Group if free cash flows to equity decreased by 21%, terminal growth rates decreased by 2%, discount rates 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 2016:

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

(28) Deferred tax asset (continued)

Movement in temporary differences and tax losses carried forward during the year ended 31 December 2015:

	Net balance 1 January 2015	Recognised in profit or loss of continued operations	Acquired through business combination	Effect of exchange rate fluctuations	Net balance 31 December 2015	Deferred tax asset	Deferred tax liabilities
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Impairment losses on loans and receivables	8 526	275	—	14	8 815	8 815	—
Property and equipment	(100)	134	—	7	41	41	—
Other liabilities	1 267	707	—	34	2 008	2 008	—
Tax losses carried forward	1 034	995	161	(113)	2 077	2 077	—
Deferred tax assets (liabilities) before set-off	**10 727**	**2 111**	**161**	**(58)**	**12 941**	**12 941**	**—**
Set off of tax						—	—
Net deferred tax assets						**12 941**	**—**

The Group has recognized deferred tax assets of EUR 23 697 thousand (31 December 2015: EUR 12 941 thousand) in Latvia, Lithuania, Sweden, Finland, Poland, Georgia, the Czech Republic, Spain, Bulgaria, Romania, UK, Armenia, Argentina, Mexico and United States.

Deferred tax assets coming from tax losses carried forward as at 31 December 2016 related to Argentina, Armenia, Bulgaria, Latvia (4finance AS), Lithuania (Credit service UAB), Mexico, Romania, UK and US (4f Sales), total EUR 6 855 thousand (31 December 2015: EUR 2 077 thousand). The Group has prepared detailed financial projections for these entities covering the next 4 years. Based on these projections and the Group's history of utilizing deferred tax assets in other countries, management expects that the Group will be able to fully utilise these tax losses over the forthcoming years.

EUR 21 128 thousand of the tax losses have an expiry period in excess of 5 years, while EUR 10 592 thousand of the tax losses have an expiry period within 5 years. The majority of tax losses are expected to be utilised by 2019.

As at 31 December 2016, the Group has not recognized a deferred tax asset relating to tax losses of EUR 4 919 thousand (2015: EUR 960 thousand) due to uncertainty around utilisation of these tax benefits.

The main reasons for the increase of the deferred tax asset value in the reporting period compared to 2015 are:

- Significant investments have been made into the development of start-up companies in Argentina and Mexico, creating higher tax losses in 2016. As at 31 December 2016, deferred tax assets in Argentina and Mexico were EUR 1,851 thousand and EUR 1,910 thousand respectively. This was the first year in which deferred tax assets were recognised. It is estimated that these countries shall be able to commence utilizing these accumulated tax losses in 2018-2019.
- Significant investments have also been made in Romania in order to introduce a new product (instalment loans) to the market. This has created tax losses in 2016. As at 31 December 2016, the deferred tax asset for Romania was EUR 592 thousand (2015: EUR 237 thousand). It is estimated that the company shall be able to utilize these tax losses in year 2018 and year 2019.
- Due to the strong business development in other Group companies, deferred tax assets have also increased in value. This is due to increases in provisions for doubtful debts, items following the tax deductibility on cash bases, deferred income and expense, as well as other items having timing differences for recognition for accounting and tax purposes.
- Acquisitions of new companies creating additional deferred tax assets for the Group.

(29) Loans and borrowings

	31.12.2016	31.12.2015
	EUR'000	EUR'000
Long term		
Notes	181 766	208 018
Loans from banks	246	4 709
Loans from related parties	700	700
Other loans in Friendly Finance	1 605	—
Other loans in TBIF Group	2 665	—
	186 982	**213 427**

	31.12.2016	31.12.2015
	EUR'000	EUR'000
Short term		
Notes	197 246	8 993
Loans from banks	3	1 225
Loans from related parties	3 045	3 045
Other loans in Friendly Finance	5 156	—
Other loans in TBIF Group	858	—
Other loans in 4finance Group	3 893	2 772
	210 201	**16 035**
Total	**397 183**	**229 462**

Detailed information regarding loans and borrowings can be seen below:

				Principal amount		Accrued interest	
Loan provider / type of loan	**Currency**	**Maturity**	**Interest rate**	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
				EUR’000	**EUR’000**	**EUR’000**	**EUR’000**
Notes:							
2019 Notes	USD	Aug 2019	11.75 %	185 768	167 210	8 484	7 747
2018 Notes	SEK	Mar 2018	11.75 %	38 407	40 807	1 192	1 247
2021 Notes	EUR	May 2021	11.25 %	140 605	—	1 769	—
Friendly Finance Notes	PLN	May 2021	10%	2 754	—	33	—
Loans from related parties:	EUR	2017 - 2019	14%-15%	3 700	3 700	45	45
Loans from banks:							
AS Trasta komercbanka	EUR	Nov 2016	7%	—	5 909	—	25
Ameriabank CJSC	AMD	Mar 2019	15%	246	—	3	—
Other loans in:							
4finance Group	EUR	Jan 2017	3%-9%	3 892	2 759	1	13
Friendly Finance	EUR	2017 - 2019	12%-15%	6 760	—	1	—
TBIF Group	BGN	2017 - 2029	2%	3 518	—	5	—
				385 650	**220 385**	**11 533**	**9 077**

(29) Loans and borrowings (continued)

2019 Notes are classified as short-term due to a prepayment option for bond holders to request early redemption in 2017.

In May 2016, 4finance S.A. issued EUR 140 605 thousand of 11.25% notes which are due in May 2021 ("2021 Notes"). The 2021 Notes are subject to a number of restrictive covenants and are senior to all future subordinated debt. The 2021 Notes were listed on the Frankfurt Stock Exchange. The Group was compliant with all the covenants of the new notes and those previously issued throughout the period.

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

The Group has obtained loans from related parties to finance expansion of its operating activities with annual interest rates between 14% and 15% and maturity in 2017 and 2019.

The Group is always considering alternatives for financing, including actively managing liquidity risks and strengthening its long-term capital structure. This ongoing process includes addressing the potential exercise of the put option embedded in the 2019 Notes by bondholders in summer 2017. Management is currently reviewing a range of options to manage the possible exercise of this put, including refinancing and/or modifying the terms of its existing indebtedness, and accessing additional capital in the international capital markets.

(30) Deposits from customers

	31.12.2016 EUR'000	31.12.2015 EUR'000
TBIF Group	224 611	—
4finance Group	12 508	9 121
Total deposits from customers	**237 119**	**9 121**

TBIF Group	31.12.2016 EUR'000	31.12.2015 EUR'000
Corporate customers		
Current/settlement accounts	26 490	—
Term deposits	21 928	—
Individuals		
Current/settlement accounts	12 916	—
Term deposits	163 277	—
	224 611	**—**

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 the five month period post-acquisition was 1.6% per annum (average costs includes interest expense on deposits divided by current account and term deposit balances regardless of maturity, currency and geographic location).

4finance Group	31.12.2016 EUR'000	31.12.2015 EUR'000
Deposits from customers	12 508	9 121
	12 508	**9 121**

(30) Deposits from customers (continued)

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

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

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

Deposits from customers at the end of 2016 includes interest payable amounting to EUR 1 898 thousand.

(31) Share capital

The share capital of the Group as at 31 December 2016 was EUR 35 750 thousand (31 December 2015: EUR 35 750 thousand), divided into 3 575 000 000 ordinary shares (31 December 2015: 3 575 000 000 shares) with nominal value of EUR 0.01 each (31 December 2015: EUR 0.01), fully paid via a contribution-in-kind. As at 31 December 2016 and 31 December 2015, 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.

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 2015: EUR 31 104 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. The change in reorganization reserve EUR 136 thousand is due to the transfer of Credit Service UAB from 4finance Group S.A. to the Company on 14 January 2016. Net asset value was negative on the transaction date for Credit Service UAB at EUR 80 thousand and the contribution was EUR 56 thousand.

As at 31 December 2016, the Company’s shareholders were 4finance Group S.A. (100% ownership of ordinary shares, corresponding to 99.9997% of total share capital) and AS 4finance (100% ownership of non-voting preferred shares, corresponding to 0.003% of total share capital), both owned by Tirona Limited (Cyprus) - 4finance Group S.A. directly and AS 4finance indirectly through 4finance Group S.A. and the Company.

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

Notes to the Consolidated Financial Statements

(32) Other liabilities

	31.12.2016 EUR'000	31.12.2015 EUR'000
Accrued expenses	12 429	6 683
Accounts payable to suppliers	11 835	6 016
Taxes payable	5 694	1 315
Advances received	3 345	—
Prepaid repayment instalments	2 493	—
Provisions for unused vacations	2 199	2 394
Other liabilities	9 500	2 594
	47 495	**19 002**

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

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

Other liabilities have increased mainly due to the TBIF Group and Friendly Finance acquisition. TBIF Group's Other liabilities are EUR 3 488 thousand and Friendly Finance EUR 751 thousand respectively. Other liabilities mainly consists of salaries payable of EUR 2 601 thousand, overpayments received from clients EUR 1 475 thousand, faulty payments received of EUR 1 119 thousand and accounts payable to related parties of EUR 832 thousand.

(33) Acquisition of additional share in subsidiaries

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

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

(34) Contingent liabilities and irrevocable commitments

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

	31.12.2016 EUR'000	31.12.2015 EUR'000
Line of credit	770	138
	770	**138**

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 2016 are as follows:

	31.12.2016 EUR'000
Guarantees	
Corporate clients	519
Undrawn credit commitments:	
Corporate clients	3 020
Individuals	5 279
	8 818

(35) Operating leases

Non-cancellable operating lease rentals are payable as follows:

	31.12.2016 EUR'000	31.12.2015 EUR'000
Less than one year	4 979	1 169
Between one and five years	11 753	4 214
More than five years	2 081	2 384
	18 813	**7 767**

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

(35) Operating leases (continued)

In 2016, EUR 4 815 thousand was recognized as an expense in the income statement in respect of operating leases (2015: EUR 1 067 thousand). The majority of Group entity operating lease expenses in 2016 were from six entities - TBIF Financial Services B.V., AS 4finance, Vivus Finance SAU, Vivus Finance Sp.z.o.o, SIA 4finance IT branch in the Czech Republic, SIA 4finance IT branch in the UK, totalling EUR 3 129 thousand.

(36) Related party transactions

(a) Transactions with shareholders and related entities

Receivables from related parties:	**31.12.2016**	**31.12.2015**
	EUR’000	**EUR'000**
Loans issued to related parties	5 813	5 639
Other receivables	255	132
	6 068	**5 771**

Income from related parties:	**2016**	**2015**
	EUR’000	**EUR’000**
Interest income	3 452	989
Income from services rendered	304	235
	3 756	**1 224**

(36) Related party transactions (continued)

Borrowings and payables to related parties:	**31.12.2016**	**31.12.2015**
	EUR'000	**EUR'000**
Loans and borrowings		
- Borrowings and payables at the end of the period	3 745	3 745

Interest expense to related parties:	**2016**	**2015**
	EUR'000	**EUR'000**
Interest expense	534	1 285

Gain on sale of North American entities*:	**2016**	**2015**
	EUR'000	**EUR'000**
Gain on sale of discontinued operations	—	1 480

Financial instruments at fair value through profit or loss	**31.12.2016**	**31.12.2015**
	EUR'000	**EUR'000**
Financial assets at fair value through profit or loss at the end of the period	632	4 190

Gain/loss from revaluing derivatives with related parties:	**2016**	**2015**
	EUR'000	**EUR'000**
(Loss)/profit from financial instruments at fair value through profit or loss	(588)	1 746

*In 2015, it was decided to expand operational activities to North America. During this time, 4finance Group S.A. became the parent company of the Group, and it was further decided that these operations will be structured under 4finance Group S.A., but outside 4finance Holding S.A. At that point in time, 4finance Holding S.A. owned two operational entities - 4finance US Holding Company (USA) and 0973915 B.C. (Canada) - which in turn held interests in companies located in the USA and Canada. In order to facilitate expansion into North America, 4finance Group S.A. purchased these entities from 4finance Holding S.A. for nominal share value. Given that the entities had operated with accumulated losses, then on sale of the shares, 4finance Holding S.A. booked a gain on disposal.

(b) Transactions with parent and the related entities

Receivables from related parties:	**31.12.2016**	**31.12.2015**
	EUR'000	**EUR'000**
Loans issued to related parties	41 257	4 279
Other receivable	2 074	27
	43 331	**4 306**

Income from related parties:	**2016**	**2015**
	EUR'000	**EUR'000**
Interest income	1 683	331
Income from services rendered	691	71
	2 374	**402**

(36) Related party transactions (continued)

(c) Transactions with other related parties

Receivables from related parties:	31.12.2016 EUR'000	31.12.2015 EUR'000
Loans issued to related parties	20 128	3 814
Other receivable	458	910
	20 586	**4 724**

Income from related parties:	2016 EUR'000	2015 EUR'000
Interest income	1 508	183
Income from services rendered	571	822
	2 079	**1 005**

Total remuneration included in administrative expenses:

	2016 EUR'000	2015 EUR'000
Executive committee and Board members	3 286	3 712

There are no outstanding balances as of 31 December 2016 with members of the Group's management board or executive committee.

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

During 2015, 4finance Group S.A., parent company of the Group, launched a long-term management incentive scheme linking incentives to the future profitability of 4finance Group S.A. The management incentive scheme is structured in a way that payments are to be settled by 4finance Group S.A. based on the value of its share value, which in turn is linked to the consolidated profits of 4finance Group S.A. Since the Group received the benefit from these services, the related expense of EUR 300 thousand for 2016 (2015: EUR 1 352 thousand) was recognised in profit or loss of the Group with a corresponding entry in share based payment reserve in equity. As at 31 December 2016, the share based premium reserve totalled EUR 1 652 thousand at year end (2015: EUR 1 352 thousand). The expense recorded for the long-term management incentive scheme is based on the estimated future profitability of the Group and 4finance Group S.A. over the period ending on 31 December 2017 and 31 December 2018.

(37) Personnel costs

	2016 EUR'000	2015 EUR'000
Type of costs		
Remuneration	53 861	29 068
Compulsory state social security contributions, pensions and other social security expenses	11 053	6 440
Other personnel costs	3 445	3 870
	68 359	**39 378**

(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 2016	Level 1	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets				
Derivatives	—	11 166	—	11 166
Financial assets available for sale	5 458	—	46	5 504
	5 458	**11 166**	**46**	**16 670**

31 December 2015	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets				
Derivatives	—	10 503	—	10 503
	—	**10 503**	**—**	**10 503**

(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 2016	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	—	—	—	157 641	157 641
Placement in other banks			4 752	4 752	4 752
Loans due from customers	—	—	505 489	505 489	493 897
Net investment in finance leases	—	—	15 752	15 752	13 082
Loans to related parties	—	—	67 414	67 414	67 198
Other financial assets	—	—	14 117	14 117	14 117
Financial liabilities					
Loans and borrowings	—	387 983	20 657	408 640	397 183
Deposits from customers	—	—	237 002	237 002	237 119
Liabilities held for sale	—	—	4 809	4 809	4 809
Accounts payable to suppliers	—	—	11 835	11 835	11 835

31 December 2015	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	—	—	—	56 862	56 862
Loans due from customers	—	—	319 562	319 562	308 288
Loans to related parties	—	—	14 193	14 193	13 732
Other financial assets	—	—	1 443	1 443	1 443
Financial liabilities					
Loans and borrowings	—	221 942	11 982	233 924	229 462
Deposits from customers	—	—	8 974	8 974	9 121
Accounts payable to suppliers	—	—	6 016	6 016	6 016

(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 (Level2)

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

Financial instruments measured at fair value (Level3)

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

Financial instruments not measured at fair value for level 3

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

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

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

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

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

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

No asset or liability was moved between levels between 2015 and 2016.

(40) Operating segments

During 2015, the Group was organised into eight material reportable segments which are the Group's main strategic segments (
segments). In addition, during 2016, the Group acquired two new companies - TBIF Group and Friendly Finance, that are s
managed separately because they require different marketing strategies. For each of the strategic segments, the Group's Man
reports on at least a monthly basis.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment pro
reports that are reviewed by the Management Board. Segment profit is used to measure performance as management believe
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 2016 is set out

EUR'000	Latvia	Lithuania	Finland	Sweden	Denmark	Poland	Georgia**	Spain
Interest income	43 086	21 729	21 958	25 190	34 799	94 024	34 309	56 007
Interest expense	(10 388)	(1 330)	(1 757)	(2 716)	(1 647)	(5 130)	(361)	(3 252)
Internal revenue*	47 431	459	—	—	183	1 738	812	230
Net impairment losses on loans and receivables	(5 331)	(7 792)	(4 896)	(3 927)	(9 610)	(19 204)	(14 843)	(17 378)
Reportable segment profit before tax	41 777	10 210	7 160	12 224	13 398	31 640	10 670	7 317

*Internal revenue has significantly increased in year 2016 as 4Finance AS paid dividends to the sole shareholder 4Finance Holding S.A. from the retaine

**In Georgia, interest income and profit reduced in 2016 due to increased competition and regulatory changes in that market.

(40) Operating segments (continued)

Segment information for the main reportable business segments of the Group for the year ended 31 December 2015 is set bel

EUR'000

Interest income	44 234	35 195	21 622	26 170	21 974	81 217	39 653
Interest expense	(14 192)	(2 010)	(2 564)	(3 645)	(847)	(4 548)	(2 160
Internal revenue	43 108	—	—	—	—	—	—
Net impairment losses on loans and receivables	(11 693)	(8 402)	(5 474)	(7 790)	(5 801)	(15 893)	(8 316
Reportable segment profit/ (loss) before tax	35 988	11 680	5 647	9 950	9 264	31 736	26 510

*4Finance UAB closed lending operations in December 2015. The Group has re-started lending operations in Lithuania through its subsidiary UAB Cre
the Group's internationally recognised brands Vivus and SMSCredit.

(40) Operating segments (continued)

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

EUR'000	Latvia	Lithuania	Finland	Sweden	Denmark	Poland	Georgia	Spain
Reportable segment assets	188 704	43 120	24 121	27 259	36 224	106 877	34 746	38 415
Reportable segment liabilities	116 316	13 093	14 863	16 621	16 759	48 516	9 158	37 301

*The main contributors to All other segments and unallocated amounts are the Czech operating company, 4F Sales, 4Finance IT companies, 4Finance M
segments are receivables from related parties, intangible assets and loans due from customers under Assets and loans and borrowings and accounts payab

A segment breakdown of assets and liabilities of the Group for the year ended 31 December 2015 is set out below:

EUR'000	Latvia	Lithuania*	Finland	Sweden	Denmark	Poland	Georgi
Reportable segment assets	211 890	56 735	25 416	38 228	27 028	110 587	33 38
Reportable segment liabilities	122 442	30 547	17 223	30 167	18 108	53 290	9 66

*4Finance UAB closed lending operations in December 2015. The Group has re-started lending operations in Lithuania through its subsidiary UAB Cred
the Group's internationally recognised brands Vivus and SMSCredit.

(40) Operating segments (continued)

A segment breakdown of interest income is divided by products which includes Single Payment Loans (with a term from one
term from one month up to 24 months) and Lines of Credit (open ended credit line with flexible monthly repayments). Produ
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 2016 is set out below:

EUR'000	Latvia	Lithuania	Finland	Sweden	Denmark	Poland	Georgia	Spain
Single Payment Loans	26 631	6 317	18 251	12 978	25 904	82 800	34 309	55 366
Instalment Loans	16 346	15 412	1 258	12 212	8 895	11 224	—	641
Lines of Credit	109	—	2 449	—	—	—	—	—
Retail (Only TBIF Group)	—	—	—	—	—	—	—	—
SME (Only TBIF Group)	—	—	—	—	—	—	—	—
Leasing (Only TBIF Group)	—	—	—	—	—	—	—	—

A segment breakdown of interest income by products of the Group for the year ended 31 December 2015 is set out below:

EUR'000	Latvia	Lithuania*	Finland	Sweden	Denmark	Poland	Georgi
Single Payment Loans	27 103	14 514	18 560	14 746	20 355	76 348	39 65
Instalment Loans	17 131	20 681	3 014	11 424	1 619	4 869	–
Lines of Credit	—	—	48	—	—	—	–

*4Finance UAB closed lending operations in December 2015. The Group has re-started lending operations in Lithuania through its subsidiary UAB Cred
the Group's internationally recognised brands Vivus and SMSCredit.

(40) Operating segments (continued)

Reconciliation of reportable segment interest income

	2016	2015
	EUR'000	EUR'000
Total interest income for reportable segments	364 754	305 645
Interest income for other operating segments	28 401	12 920
Elimination of discontinued operations	—	(280)
Consolidated revenue	**393 155**	**318 285**

Reconciliation of reportable segment profit or loss

	2016	2015
	EUR'000	EUR'000
Total profit or loss for reportable segments	143 030	133 958
Profit or loss for other operating segments	34 120	(23 016)
Elimination of inter-segment dividends included in inter-segment profits	(96 111)	(31 194)
Elimination of discontinued operations	—	(5 910)
Consolidated profit before tax from continued operations	**81 039**	**73 838**

Reconciliation of reportable segment interest expense

	2016	2015
	EUR'000	EUR'000
Total interest expense for reportable segments	29 454	33 073
Interest expense for other operating segments	10 628	3 881
Elimination of inter-segment transactions	(1 398)	(8 296)
Elimination of discontinued operations	—	(1)
Consolidated interest expense	**38 684**	**28 657**

Reconciliation of reportable segment assets

	31.12.2016	31.12.2015
	EUR'000	EUR'000
Total assets for reportable segments	853 224	526 820
Assets for other operating segments	207 682	84 689
Elimination of inter-group loans, investments and other receivables	(172 035)	(217 400)
Unallocated assets	42 513	44 097
Consolidated total assets	**931 384**	**438 206**

Reconciliation of reportable segment liabilities

	31.12.2016	31.12.2015
	EUR'000	EUR'000
Total liabilities for reportable segments	550 402	310 235
Liabilities for other operating segments	221 841	89 572
Elimination of inter-group borrowings and payables	(70 997)	(134 864)
Consolidated total liabilities	**701 246**	**264 943**

(41) Maturity analysis

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

Assets EUR'000	On demand/ less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	More than 5 years	Overdue	TOTAL
Cash and cash equivalents	157 641	—	—	—	—	—	—	157 641
Placements with other banks	4 752	—	—	—	—	—	—	4 752
Loans due from customers	155 481	45 056	62 909	20 710	101 088	4 863	103 790	493 897
Net investment in finance leases	1 088	397	2 216	—	7 983	—	1 398	13 082
Loans to related parties	—	—	—	—	67 198	—	—	67 198
Derivatives	—	7 502	3 032	—	632	—	—	11 166
Financial assets available for sale	—	—	516	4 942	—	47	—	5 458
Other financial assets	14 117	—	—	—	—	—	—	14 117
Total financial assets	**333 079**	**52 955**	**68 673**	**25 652**	**176 901**	**4 910**	**105 188**	**767 311**

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	15 420	3 026	4 193	225 935	148 610	—	—	397 183
Deposits from customers	63 744	36 122	121 007	1 423	14 823	—	—	237 119
Liabilities held for sales	108	276	4 392	33	—	—	—	4 809
Accounts payable to suppliers	11 835	—	—	—	—	—	—	11 835
Total financial liabilities	**91 107**	**39 424**	**129 592**	**227 391**	**163 433**	**—**	**—**	**650 946**
Net position	**241 972**	**13 531**	**(60 919)**	**(201 739)**	**13 468**	**4 910**	**105 188**	**116 365**
Net cumulative position	**241 972**	**255 503**	**194 584**	**(7 155)**	**6 313**	**11 223**	**116 411**	**—**

(41) Maturity analysis (continued)

The table below shows financial assets and liabilities by remaining contractual maturity dates as at 31 December 2015.

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	56 862	—	—	—	—	—	—	56 862
Loans due from customers	152 006	8 130	10 938	17 552	20 890	—	98 772	308 288
Loans to related parties	—	—	—	—	13 732	—	—	13 732
Derivatives	—	1 785	302	64	8 352	—	—	10 503
Other financial assets	1 303	—	—	—	140	—	—	1 443
Total financial assets	**210 171**	**9 915**	**11 240**	**17 616**	**43 114**	**—**	**98 772**	**390 828**

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	9 159	3 300	3 059	600	213 344	—	—	229 462
Deposits from customers	4 713	1 322	1 012	889	1 185	—	—	9 121
Accounts payable to suppliers	6 016	—	—	—	—	—	—	6 016
Total financial liabilities	**19 888**	**4 622**	**4 071**	**1 489**	**214 529**	**—**	**—**	**244 599**
Net position	**190 283**	**5 293**	**7 169**	**16 127**	**(171 415)**	**—**	**98 772**	**146 229**
Net cumulative position	**190 283**	**195 576**	**202 745**	**218 872**	**47 457**	**47 457**	**146 229**	**—**

(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 2016 was as follows:

31 December 2016	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	397 183	592 307	51 393	16 458	12 338	219 856	292 261
Deposits from customers	237 119	240 041	63 987	35 548	122 296	2 172	16 038
Liabilities held for sales	4 809	5 705	124	324	4 458	—	799
Accounts payable to suppliers	11 835	11 835	11 835	—	—	—	—
Total	**650 946**	**849 888**	**127 339**	**53 018**	**139 092**	**222 028**	**309 098**
Credit related commitments	**—**	**1 089**	**1 089**	**—**	**—**	**—**	**—**

The analysis as at 31 December 2015 was as follows:

31 December 2015	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	229 462	316 261	163	13 178	3 504	16 364	283 052
Deposits from customers	9 121	9 409	333	6 614	433	782	1 247
Accounts payable to suppliers	6 016	6 016	6 016	—	—	—	—
Total	**244 599**	**331 686**	**6 512**	**19 792**	**3 937**	**17 146**	**284 299**
Credit related commitments	**—**	**1 316**	**1 316**	**—**	**—**	**—**	**—**

(43) Currency analysis

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

Assets EUR'000	**GEL**	**DKK**	**EUR**	**SEK**	**PLN**	**USD**
Cash and cash equivalents	3 806	1 956	105 944	2 541	13 211	1 767
Placements with other banks	—	—	4 752	—	—	—
Loans due from customers	25 001	32 490	143 932	22 370	84 944	—
Net investment in finance leases	—	—	11 695	—	—	—
Loans to related parties	—	—	37 384	—	—	9 574
Other financial assets	1 147	992	7 083	198	1 228	30
Total financial assets	**29 954**	**35 438**	**310 790**	**25 109**	**99 383**	**11 371**
Off-balance sheet			61 426			182 458

Liabilities EUR'000	**GEL**	**DKK**	**EUR**	**SEK**	**PLN**	**USD**
Loans and borrowings	—	—	159 175	42 990	—	194 252
Deposits from customers	—	—	90 353	12 508	—	—
Accounts payable to suppliers	290	126	3 270	689	621	560
Total financial liabilities	**290**	**126**	**252 798**	**56 187**	**621**	**194 812**
Off-balance sheet	—	—	157 284	—	28 460	—
Net position (excluding off-balance sheet)	**29 664**	**35 312**	**57 992**	**(31 078)**	**98 762**	**(183 441)**
Net position (including off-balance sheet)	**29 664**	**35 312**	**(37 866)**	**(31 078)**	**70 302**	**(983)**

Currency risk of the open positions in USD, PLN, CZK and GBP is managed through the use of option agreements a
minimize the adverse effects of currency exchange rate fluctuations. Currency risk of the open positions in RON is mana
Group monitors its foreign currency exposure to non-Euro based currencies on a regular basis and will, if deemed con
exposure arising.

(43) Currency analysis (continued)

The table below shows the currency structure of financial assets and liabilities as at 31 December 2015:

Assets EUR'000	**GEL**	**DKK**	**EUR**	**SEK**
Cash and cash equivalents	2 161	1 684	36 729	2 451
Loans due from customers	26 476	23 737	144 832	32 009
Loans from related parties	—	—	7 110	—
Other financial assets	977	650	2 217	51
Total financial assets	**29 614**	**26 071**	**190 888**	**34 511**
Off-balance sheet	—	—	30 000	—

Liabilities EUR'000	**GEL**	**DKK**	**EUR**	**SEK**
Loans and borrowings	—	—	9 679	44 826
Deposits from customers	—	—	—	9 121
Accounts payable to suppliers	217	218	2 752	94
Total financial liabilities	**217**	**218**	**12 431**	**54 041**
Off-balance sheet	8 518	—	163 035	—
Net position (excluding off-balance sheet)	**29 397**	**25 853**	**178 457**	**(19 530)**
Net position (including off-balance sheet)	**20 879**	**25 853**	**45 422**	**(19 530)**

(44) Group entities

As at 31 December 2016 and 31 December 2015 respectively, the Group consisted of the following entities:

Name of entity	Registered office	Ownership 31.12.2016	Ownership 31.12.2015
AS 4finance	Lielirbes 17A-8, Rîga, LV-1046, Latvia	100%	100%
4finance EOOD	79 Nikola Gabrovski Str., floor 2, Sofia 1700, Bulgaria	100% AS 4finance	100%
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%
4finance UAB	Kauno m. sav. Kauno m. Jonavos g., 254 A, Lithuania	100% AS 4finance	97%
4finance Oy	Mikonkatu 15A, 00100 Helsinki, Finland	100% AS 4finance	100%
4finance AB	Hammarby Alle 47, 120 30, Stockholm, Sweden	97% AS 4finance	97%
4finance ApS	Vesterbrogade 1L, 4., DK-1620, Copenhagen, Denmark	100% AS 4finance	100%
4finance OÜ	Kreutzwaldi 6-1, Tallinn, 10124 Estonia	100% AS 4finance	100%
Intersales Services Limited	Icom house 1/5 Irish Town, Suite 3, Second Floor, Gibraltar	100%	100%
International Risk Management OÜ	Kreutzwaldi 6-1, Tallinn, 10124 Estonia	100% AS 4finance	100%
Vivus Finance Sp.z o.o.	ul. 17 Stycznia, nr 56, 02-146 Warsaw, Poland	100% AS 4finance	100%
Vivus Finance SAU (formerly Vivus Finance SL)	Calle Genova, 27 2 planta 28004 Madrid, Spain	100% AS 4finance	100%
4finance LLC	Ts. Dadiani str.7, Commercial unit N b506, Tbilisi, Georgia	100% AS 4finance	100%
4finance Malta branch	40, Villa Fairholme, Sir Augustus Bartolo Street, Ta'Xbiex, XBX 1095, Malta	100% 4finance S.A. (branch)	100%
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%
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%
4Spar AB	Hammarby Alle 47, 120 30, Stockholm, Sweden	100% 4finance AB	97%
4finance S.A.	9, Allée Scheffer, L-2520 Luxembourg, Grand Duchy of Luxembourg	100% AS 4finance	100%
SIA Ondo	Lielirbes 17A-10, Rîga, LV-1046, Latvia	100%	100%
SIA Vivus	Lielirbes 17A-9, Rîga, 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%

Notes to the Consolidated Financial Statements

Name of entity	Registered office	Ownership 31.12.2016	Ownership 31.12.2015
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 Lietuvos filialas	Kauno m. sav. Kauno m. Jonavos g., 254 A, Lithuania	100% 4finance IT SIA (branch)	100%
Zaplo IFN S.A	49 Nicolae Caramfil Str., 3rd floor, Bucharest, 014142, Romania	100% (99.9% 4finance Holding S.A., 0.1% AS 4finance)	100%
4f Sales, Inc.	18851 NE 29th Avenue, Suite 410, Miami, FL 33180, USA	100%	100%
4finance Media SIA	Lielirbes iela 17A-10, Riga, LV-1046,	100%	100%
GoodCredit Universal Credit Organization CJSC (Armenia)	58/1 K. Ulnecu str., Yerevan, Armenia	100%	100%
VIVUS, S.R.L.	Juan Sanchez Ramirez #40, Ens. Gazcue. Santo Domingo, Dominican Republic	100% (99.9% 4finance Holding S.A., 0.1% AS 4finance)	100% (99.9% 4Finance Holding S.A., 0.1% AS 4finance)
4F Serviços de Correspondente Bancário Ltda.	Avenida Engenheiro Luiz Carlos Berrini, 1748, conjunto 2205, sala 5, Jardim Judith, Zip Code 04571-000, City of So Paulo, State of So Paulo	100% (99.99% 4finance Holding S.A., 0.01% AS 4finance)	100% (99% 4Finance Holding S.A., 1% AS 4finance)
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%
Credit Management LLC	T. Dadiani str. N7, commercial unit N b501, Tbilisi, Georgia	100% AS 4finance	100%
4finance, S.A. de C.V., SOFOM E.N.R.	Av. Insurgentes Sur No. 1647 Piso 4 Col. San Jos Insurgente, Benito Jurez 03900, Ciudad de Mxico, Mxico	100% (99.99% 4finance Holding S.A., 0.01% AS 4finance)	100% (98% 4Finanance Holding S.A., 2% 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% (90% 4Finance Holding S.A., 10% AS 4finance)
SIA 4finance IT	80 Great Eastern Street, London, EC2A 3JL, UK	100% 4finance IT SIA (branch)	100%
Credit Service UAB	Jonavos str. 254A, LT- 44132, Kaunas, Lithuania	100%	
Finansu Administravimas UAB	Jonavos str. 254A, LT- 44132, Kaunas, Lithuania	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)	
Friendly Finance OÜ	Rotermanni 2, 10111 Tallinn, Estonia	80%	
Friendly Finance Slovakia s.r.o.	Hlavna 104, Košice 04001, Bratislava, Slovakia	100% Friendly Finance OÜ	

Notes to the Consolidated Financial Statements

Name of entity	Registered office	Ownership 31.12.2016	Ownership 31.12.2015
Friendly Finance Poland Sp. z o.o.	Zlota 7/18, 00-019 Warsaw, Poland	100% Friendly Finance OÜ	
Fine Line Services Ltd.	Suites 41/42, Victoria House, 26 Main Street, Gibraltar	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	
Friendly Finance Asia s.r.o.	Praha 1, Stare Mesto, Narodni 341/23, PSÈ 11000, Czech Republic	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.	Praha 1, Stare Mesto, Narodni 341/23, PSČ 11000, Czech Republic	100% Friendly Finance OÜ	
Friendly Finance Georgia Ltd	Pekini street N 28, Tbilisi, Georgia	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.	
Fine Line Services Ltd.	Ground Floor, Palace Court, Church Street, St Julians STJ 3049, Malta	100% Friendly Finance OÜ	
Friendly Group Spain S.L.	Ronda Sant Pere 33-3a/3b, 08010 Barcelona, Spain	90% Friendly Finance OÜ, 10% Fine Line Services Ltd	
Wisemedia OÜ	Raatuse tn 20, 51009 Tartu, Estonia	100% Friendly Finance OÜ	
Mile High OÜ	Rotermanni 2, 10111 Tallinn, Estonia	100% Friendly Finance OÜ	
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)	
TBIF Financial Services B.V.	Westerdoksdijk 423, 1013 BX Amsterdam, The Netherlands	100%	
TBI Bank EAD	52-54 Dimitar Hadzhikotsev Str., Lozenets district, 1421 Sofia, Bulgaria	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)	
TBI Rent EAD	52-54 Dimitar Hadzhikotsev Str., Lozenets district, 1421 Sofia, Bulgaria	100% TBI Bank EAD	
TBI Credit IFN S.A.	8-12 Putul lui Zamfir Str., 2nd Floor, District 1, Bucharest, Romania	100% (99.99999863% TBI Bank EAD, 0.00000137% TBIF Financial Services B.V.)	
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.)	
TBI Call Center S.R.L.	8-12 Putul lui Zamfir Str., 3rd Floor, District 1, Bucharest, Romania	100% TBI Credit IFN S.A.	
TBI Insurance Agent Asigurare S.R.L.	8-12 Putul lui Zamfir Str., Ground Floor and First Floor, District 1, Bucharest, Romania	100% TBI Leasing IFN S.A.	

Name of entity	Registered office	Ownership 31.12.2016	Ownership 31.12.2015
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.	

All new subsidiaries, except for the subsidiaries Credit Service UAB, TBIF Group and Friendly Finance, acquired during the year, were established by the Group. Friendly Finance and its subsidiaries were acquired in the first half of 2016. TBIF Group and its subsidiaries were acquired in the second half of 2016. Credit Service UAB was acquired in January 2016. No goodwill was recognised on the acquisition of Credit Service UAB.

(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 2016:

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

(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 2015:

EUR'000	Lithuania	Sweden	Total
NCI percentage	**3%**	**3%**	
Cash and cash equivalents	1 522	2 432	3 954
Loans due from customers	52 359	32 009	84 368
Property and equipment	113	97	210
Intangible assets	1	8	9
Deferred tax asset	67	2 492	2 559
Other assets	117	118	235
Loans and borrowings	(21 408)	(15 797)	(37 205)
Corporate income tax payable	(923)	(1 966)	(2 889)
Other liabilities	(2 956)	(11 251)	(14 207)
Net assets	**28 892**	**8 142**	**37 034**
Carrying amount of NCI	**867**	**244**	**1 111**
Revenue	35 195	26 170	61 365
Profit	12 005	7 842	19 847
Total comprehensive income	**12 005**	**7 842**	**19 847**
Profit allocated to NCI	**360**	**235**	**595**
Cash flows from operating activities	(3 003)	7 667	4 664
Cash flows from investment activities	(68)	(67)	(135)
Cash flows from financing activities, before dividends to NCI	4 238	(7 604)	(3 366)
Cash flows from financing activities - cash dividends to NCI	(399)	(209)	(608)
Net increase in cash and cash equivalents	**768**	**(213)**	**555**

(46) Subsequent events

Changes in management

In 2017, George Georgakopoulos, CEO, took over the role as Chairman of the Management Board of 4finance Group SA and the Board of Directors of 4finance Holding SA. Paul Goldfinch, CFO, took over as Chairman of the Board of Directors of 4finance SA. In addition, in February 2017, Mark Ruddock was appointed to the Supervisory Board.

Changes in the regulatory framework

Finland: the Ministry of Justice in Finland published a proposal in February 2017 to amend online lending legislation. This includes extending the 50% APR cap to cover all loans (currently it only applies to loans under EUR 2,000). The Group is currently contributing to the ongoing consultation process. The rules are expected to be finalised by the end of 2017, with implementation in mid-2018.

Poland: the Ministry of Justice in Poland published a draft bill in December 2016 that seeks to reduce the non-interest caps introduced in March 2016 to 10% fixed plus 10% annual (from the current levels of 25% fixed plus 30% annual). Given the strong reaction to the proposed changes, the consultation process was extended and is still ongoing with unclear timing and outcome.

(46) Subsequent events (continued)

Georgia: new legislation came into force in January 2017 implementing a 100% effective interest rate cap on consumer lending. Previously there was no cap. Our operations in Georgia through Vivus and MyCredit brands are compliant with the new rules.

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

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To the Shareholders of
4finance Holding S.A.
9, Allée Scheffer
L-2520 Luxembourg

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of 4finance Holding S.A., which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

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

Responsibility of the Réviseur d'Entreprises agréé

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

KPMG Luxembourg, Société coopérative, a Luxembourg entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

T.V.A. LU 27351518
R.C.S. Luxembourg B 149133

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of 4finance Holding S.A. as of 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the consolidated management report and the Corporate Governance Statement but does not include the consolidated financial statements and our report of réviseur d'entreprises agréé thereon.

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

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

Report on other legal and regulatory requirements

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

The information required by Article 68bis paragraph (1) letters c) and d) 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 and included in the Corporate Governance Statement is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

Luxembourg, 22 March 2017

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

M. Weber

4finance Holding S.A.

Consolidated financial statements for the year ended 31 December 2015

Address: 6, rue Guillaume Schneider, L-2522 Luxembourg
RCS Luxembourg: B171.059

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Information on the Company

Name of the Company	*4finance Holding S.A.*
Legal status	*Public limited company*
Number, place and date of registration	*B171059, Luxembourg, Luxembourg, August 27, 2012*
Legal and postal address	*6, rue Guillaume Schneider, L-2522 Luxembourg, Grand Duchy of Luxembourg*
Board members and their positions	*Kieran Patrick Donnelly, category B director, Chairman of the Board of Directors (from 26.02.2014)* *Mārtiņš Baumanis, category B director (from 20.10.2014)* *Livio Gambardella, category A director (from 20.10.2014 until 08.02.2016)* *Marc Chong Kan, category A director (from 27.02.2015 until 08.02.2016)* *Maksud Ahmadkhanov, category A director (from 20.10.2014 until 27.02.2015)* *Stéphane Sabella, category A director (from 08.02.2016)* *Philip Cesar Pascual (from 08.02.2016)*
Reporting period	*01.01.2015–31.12.2015*
Information on shareholders	*4finance Group S.A. (formerly PM Lux S.A.)* *holding 100%* from 30.06.2015* **of voting stock* *Total share capital of 4finance Holding S.A. consists of:* *3,575,000,000 ordinary shares with voting rights* *100,000 non-voting preferred shares held by AS 4finance*
Auditors	*KPMG Luxembourg* *Société coopérative* *39, Avenue John F. Kennedy* *L-1855 Luxembourg*

Management Report

4finance Holding S.A. (the 'Group'), rated B3 by Moody's and B+ by Standard & Poor's, one of Europe's largest online and mobile consumer lending groups, active in 14 countries globally, presents its audited annual report together with the annual accounts for the twelve month period ending 31 December 2015 (the 'Period').

The share capital of 4finance Holding S.A. as at 31 December 2015 was EUR 35 750 thousand, divided into 3 575 000 000 ordinary shares with the nominal value of EUR 0.01. As at 31 December 2015 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.

Important events in 2015 and future developments

During the reporting period the Group achieved strong growth in business volumes which has driven an increase in revenues and profitability. The total value of loans issued by the Group in the Period reached EUR 1,062 million, exceeding one billion Euros in a year for the first time in the Group's history.

In the Period, the Group acquired small operating lending businesses in Armenia and Argentina as an efficient way to enter those markets. New greenfield operations were also started in Romania and Mexico. Decisions were made in 2014 to sell operations in the Russian Federation and the UK, and these sales were finalised in the first quarter of 2015. The Group retains a 15% interest in the UK business, now named v7 Limited. In 2015, the decision to discontinue operations in Estonia was made and the portfolio in that country was liquidated within 4 months at a premium to book value.

In 2016, the Group will continue to pursue its strategy of building one of the world's leading digital consumer finance businesses based on providing a convenient and transparent service to its customers. In particular, the Group aims to:

Strengthen foundation. To reinforce Group's leadership in existing markets, optimizing its products and adapting to incoming regulation where appropriate.

Leveraging technology. Deploy best-in-class technology across the business with a particular focus on marketing technology and risk management tools to improve credit scoring, as well as further investment in the Group's core lending platform.

Product roll-out. Focus on growing instalment loan and line of credit portfolios by rolling them out to further markets, as well as piloting new products.

Geographic expansion. Selective expansion into additional geographies, particularly Latin America, to further diversify the Group's revenue sources.

Since June 30, 2015, the parent holding company of the Group and direct shareholder is 4finance Group S.A. (which holds 99.999% of the Group).

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

Interest income for the Period amounted to EUR 318 million, compared with EUR 220 million in 2014, which represents an increase of 44%. The most significant interest income increases are in the Group's largest market, Poland, and in two of its more recent markets, Georgia and Spain. Those three countries saw an increase in revenue of EUR 60 million or 63% for 2015 compared with 2014. Interest income growth was mainly driven by an increase in net loan portfolio. The balance of outstanding net loans at the end of the Period was EUR 308 million, a 28% increase compared with EUR 241 million as of 31 December 2014. Growth in net loan portfolio was also driven mostly by Poland, Lithuania, Spain and Denmark.

The Group has generated profit during the reporting period. The profit for the Period amounts to EUR 64 million, a 38% increase compared to EUR 46 million for the twelve months ending 31 December 2014. The profit for the year will be invested into the future growth and development of the Group.

Principal risks and uncertainties

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

More detailed description of risk management is available on page 21 of the financial statements.

Research and development

The Group established a Product Development department in 2014 and continues to invest in information technology. The total amount invested in these two departments was EUR 27.2 million, of which EUR 11.2 million was expensed in the income statement. The remaining EUR 16 million was capitalized as intangible assets in the Period, representing product and platform development.

Corporate Governance

Strong corporate governance is an integral part of building a sustainable business. The Group intends to appoint a supervisory board during 2016.

Regulatory compliance is a vital part of the Group's operation 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 is composed of a team that 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.

Management

The Group has enhanced its management team, with new Chief Marketing and Chief Risk Officers joining in 2015.

Important events after the balance sheet date

On 18 December 2015, the Bank of Lithuania removed the Group's local operating entity, 4finance UAB, from the list of consumer credit lenders in Lithuania. According to the opinion of the Bank of Lithuania Group's local operating entity, 4finance UAB, was not in full compliance with certain consumer lending regulations. As a result, the Group could not issue new consumer loans in the name of 4finance UAB in Lithuania. Following successful discussions with the Lithuanian authorities on the steps required to resume issuing new loans, the Group re-started its lending operations in Lithuania in January using UAB Credit Service, a licensed entity that was transferred to 4finance Holding S.A., previously owned by 4finance Group S.A.. This entity will be added as a guarantor to the 2019 Notes and 2018 Notes in due course. The financial performance of the Lithuanian business segment for the twelve month period ended 31 December 2015 is disclosed in Note 31.

On 4 February 2016, v7 Limited, a UK company in which the Group has a 15% interest, received full FCA authorisation to operate as an online consumer lender in the UK and has started lending at www.vivus.co.uk.

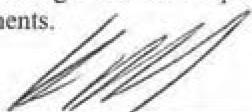
New regulatory changes have now been implemented in Latvia (from 1 January 2016), Lithuania (from 1 February 2016) and Poland (from 11 March 2016). The Group's products are fully compliant with these new regulations.

In February 2016, two Luxembourg based category A directors were appointed to the Group's board, Stéphane Sabella and Philip Cesar Pascual, to replace directors Marc Chong Kan and Livio Gambardella.

Management Report

The Group has incorporated companies in the Dominican Republic and Brazil to support pre-opening activities ahead of intended launches in those countries.

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



Kieran Patrick Donnelly
Chairman of the Board of Directors

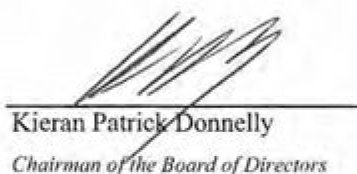
31 March 2016

Consolidated Statement of Comprehensive Income

	Note	2015 EUR'000	2014 EUR'000
Continuing operations			
Interest income	7	318 285	220 333
Interest expense	8	(28 657)	(23 749)
Net interest income		**289 628**	**196 584**
Other income	9	6 640	2 150
Other expense	10	(8 740)	(4 037)
Net impairment losses on loans and receivables	11	(79 791)	(54 030)
General administrative expenses	12	(133 899)	(80 020)
Profit before taxes		**73 838**	**60 647**
Income tax for the reporting period	13	(15 683)	(11 639)
Profit from continuing operations		**58 155**	**49 008**
Discontinued operations			
Profit / (loss) from discontinued operations, net of tax	6	5 910	(2 748)
Profit for the period		**64 065**	**46 260**
Profit attributable to:			
Equity holders of the Group		63 470	45 646
Non-controlling interests		595	614
PROFIT		**64 065**	**46 260**

	2015	2014
Other comprehensive income that is or may be transferred to profit or loss		
Reclassification of foreign currency differences on disposal of subsidiaries	(728)	(165)
Foreign currency translation differences on foreign operations	(5 318)	1 422
Other comprehensive income	**(6 046)**	**1 257**
Total comprehensive income for the period	**58 019**	**47 517**
Total comprehensive income attributable to:		
Equity holders of the Group	57 414	47 427
Non-controlling interests	605	90

The accompanying notes on pages 12 to 67 form an integral part of these consolidated financial statements.



Kieran Patrick Donnelly

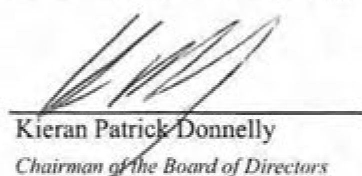
Chairman of the Board of Directors

31 March 2016

Consolidated Statement of Financial Position

Assets	Note	31.12.2015 EUR'000	31.12.2014 EUR'000
Cash and cash equivalents	14	56 862	33 713
Loans due from customers	15	308 288	241 375
Income tax assets		5 465	4 700
Financial assets at fair value through profit or loss	19	10 643	18 626
Prepaid expenses		2 675	3 331
Loans to related parties	20	13 732	134
Other assets	21	5 242	48 147
Assets held for sale		—	4 418
Property and equipment	16	4 328	2 108
Intangible assets and goodwill	17	18 030	2 751
Deferred tax asset	18	12 941	10 727
Total assets		**438 206**	**370 030**
Liabilities			
Loans and borrowings	22	229 462	231 624
Income tax liabilities		7 358	6 407
Employee benefits	23	2 394	971
Other liabilities	24	25 729	17 344
Liabilities held for sale		—	675
Total liabilities		**264 943**	**257 021**
Share capital	25	35 750	35 750
Retained earnings		171 048	107 578
Reorganization reserve	36	(31 104)	(32 584)
Currency translation reserve		(5 137)	919
Share based payment reserve	27	1 439	87
Obligatory reserve		156	145
Total equity attributable to equity holders of the Company		**172 152**	**111 895**
Non-controlling interests		1 111	1 114
Total equity		**173 263**	**113 009**
Total shareholder equity and liabilities		**438 206**	**370 030**

The accompanying notes on pages 12 to 67 form an integral part of these consolidated financial statements.



Kieran Patrick Donnelly
Chairman of the Board of Directors

31 March 2016

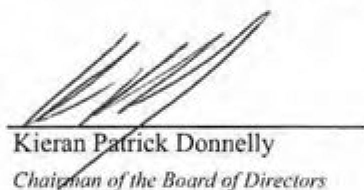
Consolidated Statement of Cash Flows

	Note	2015 EUR'000	2014 EUR'000
Cash flows from operating activities			
Profit before taxes		79 748	57 899
Adjustments for:			
Depreciation and amortization		1 716	1 203
Net losses on foreign exchange from borrowings and other monetary items		12 656	18 749
Increase in impairment allowance		85 140	60 042
Write offs and disposal of intangible and property and equipment assets		1 149	70
Provisions		1 423	170
Interest income		(2 050)	(841)
Interest expenses		28 658	23 750
Equity-settled share-based payment transactions		1 352	—
Profit or loss before adjustments for the effect of changes to current assets and short term liabilities		209 792	161 042
Adjustments for:			
Increase in loans due from customers		(150 777)	(126 353)
Change in financial instruments measured at fair value through profit or loss		7 983	(21 048)
Decrease/(increase) in other assets		11 371	(3 648)
Gains from sale of portfolio	9	4 023	1 827
Increase in accounts payable to suppliers, contractors and other creditors		9 231	8 702
Gross cash flows from operating activities		91 623	20 522
Income tax paid		(17 607)	(20 911)
Net cash flows from / (used in) operating activities		**74 016**	**(389)**
Cash flows from investing activities			
Purchase of property and equipment and intangible assets		(20 292)	(4 158)
Loans issued to related parties		(59 053)	(14 811)
Loans repaid from related parties		26 134	14 650
Interest received		1 700	830
Disposal of subsidiaries, net of cash disposed		189	—
Acquisition of subsidiaries, net of cash acquired and disposed		(1 423)	—
Net cash flows used in investing activities		**(52 745)**	**(3 489)**

Consolidated Statement of Cash Flows

	Note	2015 EUR'000	2014 EUR'000
Cash flows from financing activities			
Loans received and notes issued	22	78 987	86 556
Repayment of loans and notes		(49 352)	(52 467)
Interest payments		(27 257)	(18 746)
Dividend payments		(608)	(280)
Net cash flows from financing activities		**1 770**	**15 063**
Net increase in cash and cash equivalents		**23 041**	**11 185**
Cash and cash equivalents at the beginning of the period		**34 442**	**21 124**
Effect of exchange rate fluctuations on cash		(621)	2 133
Cash and cash equivalents at the end of the period	14	**56 862**	**34 442**

The accompanying notes on pages 12 to 67 form an integral part of these consolidated financial statements.



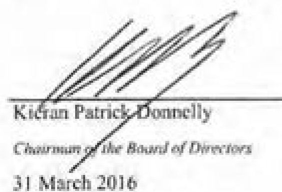
Kieran Patrick Donnelly
Chairman of the Board of Directors

31 March 2016

Consolidated Statement of Changes in Equity

Group	Share capital EUR'000	Reorganization reserve EUR'000	Currency translation reserve EUR'000	Share based payment reserve EUR'000	Obligatory 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 2014	**17 524**	**(14 358)**	**(862)**	**87**	**145**	**61 932**	**64 468**	**1 308**	**65 776**
Total comprehensive income									
Profit for the reporting period	—	—	—	—	—	45 646	45 646	614	46 260
Other comprehensive income	—	—	1 781	—	—	—	1 781	(524)	1 257
Transactions with shareholders recorded directly in equity									
Increase in share capital (see Note 36)	18 226	(18 226)	—	—	—	—	—	—	—
Dividends	—	—	—	—	—	—	—	(284)	(284)
1 January 2015	**35 750**	**(32 584)**	**919**	**87**	**145**	**107 578**	**111 895**	**1 114**	**113 009**
Total comprehensive income									
Profit for the reporting period	—	—	—	—	—	63 470	63 470	595	64 065
Other comprehensive income	—	—	(6 056)	—	—	—	(6 056)	10	(6 046)
Transactions with shareholders recorded directly in equity									
Share based payment reserve (see Note 27)	—	—	—	1 352	—	—	1 352	—	1 352
Increase in obligatory reserve	—	—	—	—	11	—	11	—	11
Increase in share capital (see Note 36)	—	1 480	—	—	—	—	1 480	—	1 480
Dividends	—	—	—	—	—	—	—	(608)	(608)
31 December 2015	**35 750**	**(31 104)**	**(5 137)**	**1 439**	**156**	**171 048**	**172 152**	**1 111**	**173 263**

The accompanying notes on pages 12 to 67 form an integral part of these consolidated financial statements.



Kieran Patrick Donnelly

Chairman of the Board of Directors

31 March 2016

(1) Reporting entity

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

Prior to 30 April 2014, AS 4finance - the Latvian operating company was the parent company of the Group, and 4finance Holding S.à r.l. was one of AS 4finance’s subsidiaries. On 30 April 2014, the Group restructuring was completed, pursuant to which AS 4finance and 4finance Holding S.A. (formerly 4finance Holding S.à r.l.) were effectively switched around in the Group structure. As a result, 4finance Holding S.A. became the parent company of the Group (refer to Note 36). Due to certain share contribution transactions of 4finance Holding S.A., as of 30 June 2015, its new parent company became PM LUX S.A. (Luxembourg). PM LUX S.A. (Luxembourg) was subsequently renamed as 4finance Group S.A. (which holds 99.999% of the Group).

The consolidated financial statements of the Group as at and for the year ended 31 December 2015, 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 6, rue Guillaume Schneider, L-2522 Luxembourg.

The Group financial statements will form a 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 6, rue Guillaume Schneider, L-2522 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 31 March 2016. 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 consolidated financial statements are prepared on a historical cost basis except for financial assets and liabilities carried at fair value through profit or loss.

(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) 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.

(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.

(ii) Goodwill

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

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

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

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

(iii) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the operation at the exchange rate set by the Central Bank of the country of operation or the European Central Bank 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 2015		31 December 2014
LTL	—	LTL	0.28962
SEK	0.10882	SEK	0.10646
DKK	0.13400	DKK	0.13431
PLN	0.23453	PLN	0.23402
GBP	1.36249	GBP	1.28386
CZK	0.03701	CZK	0.03606
GEL	0.37025	GEL	0.44138
BGN	0.51130	BGN	0.51130
GIB	1.36249	GIB	1.28866
USD	0.91853	USD	0.82366
CAD	0.66155	CAD	0.71109
RON	0.22104	RON	0.22310
AMD	0.00189	AMD	0.00173
ARS	0.07060	ARS	0.09619
MXN	0.05287	MXN	0.05597

The Bulgarian Lev is pegged to euro. In 2015 Lithuania joined the euro zone and previously its currency the Lithuanian Lita was pegged to the euro.

(ii) Foreign operations

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

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

(iv) Share-based payment transactions

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

The Group is part of wider group share-based payment arrangements where settlement for the services received is performed by the parent company. The Group accounts for such transactions as equity-settled share-based payment transaction and recognizes expense 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.

(v) Cash and cash equivalents

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.

(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) Measurement

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

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

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

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(iii) Derecognition

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

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

(iv) Fair value measurement principles

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

When applicable, the Group measures the fair value of an instrument using 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.

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

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

(v) Derivative financial instruments

Derivative financial instruments include options and forward instruments.

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

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

The Group is engaged in hedging activities of its foreign exchange risk. The Group does not apply hedge accounting however. Given the low level of trading activity, the Group has estimated that any credit valuation

adjustment or debit valuation adjustment would be immaterial and has not incorportated these into the fair value of derivatives due to materiality.

(vi) Loans and advances

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

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

(vii) 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:

Computer equipment	3 years
Long-term leasehold improvements	5 years
Other property and equipment	5 years

(viii) Intangible assets

Intangible assets, which are acquired by the Group, other than goodwill, are stated at cost less accumulated amortization and impairment losses.

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

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

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

(ix) Impairment

(i) Financial assets

At each reporting date the Group assesses 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 Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment 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 impracticable.

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.

(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 largely are 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 (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(x) 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.

As at the end of the period, a provision for unused vacations has been recognized in accordance with local legislation in each separate country of operation and is based on the number of vacation days unused as at 31 December 2015 and historical remuneration.

(xi) 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 reserve

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. As of 31 December 2015 no legal reserve existing as no profits were available based on the stand alone financial statement to allocated to the legal reserve.

Under Lithuanian law, an annual allocation to the legal reserve should amount to at least 5% of the net profit until the reserve makes up 10% of the share capital. The reserve cannot be distributed; it can be used only to cover losses.

(iii) Reorganization reserve

Reorganization reserve relates to a number of legal reorganizations that took place in before 1 January 2015. 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.

(xii) Dividends

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

(xiii) Taxation

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

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

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(xiv) 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) Penalty fee income

Income from penalty fees is recognized as received.

(xv) 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.

(xvi) Operating segments

Since the Group's debt is traded in a public market, it discloses information about its 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.

(xvii) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represent a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations;
- are operations that are ceased.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income (OCI) is represented as if the operation had been discontinued from the start of the comparative year.

(xviii) 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.

(xix) Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 3 to 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 2015:

- IFRIC 21 guidance on a levy imposed by government
- Annual Improvements to IFRSs

These have not had a material impact on the Group's financial statements.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

(i) *IFRS 9 Financial Instruments (effective for annual reporting periods beginning on or after 1 January 2018, although currently not endorsed by the European Union)*

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the

new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.
Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances.

(ii) IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016)

These Amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be remeasured.

The Group is not a party to any joint arrangements.

(iii) IFRS 15 Revenue from Contracts with Customers (effective for annual reporting periods beginning on or after 1 January 2017)

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

(iv) *IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2016)*

The Amendments to include the five, narrow-focus improvements to the disclosure requirements contained in the standard.

The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Group.

(v) *IAS 16 Property, Plant and Equipment and IAS 38 - Intangible Assets (effective for annual periods beginning on or after 1 January 2016)*

The amendments explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. In addition, the amendments introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

It is expected that the Amendments, when initially applied, will not have material impact on the Group's financial statements, as the Group does not apply revenue-based methods of amortisation/depreciation.

(vi) IAS 16 Property, Plant and Equipment and IAS 41 - Agriculture (effective for annual periods beginning on or after 1 January 2016)

These amendments result in bearer plants being in the scope of IAS 16 *Property, Plant and Equipment*, instead of IAS 41 *Agriculture*, to reflect the fact that their operation is similar to that of manufacturing.

The Group does not expect that the amendments, when initially applied, will have material impact on the financial statements as the Group has no bearer plants.

(vii) *IAS 19 Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 February 2015)*

The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. When these criteria are met, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

The Group does not expect the amendment to have any impact on the consolidated financial statements since it does not have any defined benefit plans that involve contributions from employees or third parties.

(viii) *IAS 27 Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016)*

The amendments allow an entity to use the equity method in its separate financial statements to account for investments in subsidiaries, associates and joint ventures.

The Group does not expect that the amendments, when initially applied, will have a material impact on the financial statements as the Group intends to continue to carry its investments in subsidiaries, associates or joint ventures in accordance with IAS 39.

(ix) *Annual Improvements to IFRSs*

The improvements introduce ten amendments to ten standards and consequential amendments to other standards and interpretations. These amendments are applicable to annual periods beginning on or after either 1 February 2015 or 1 January 2016, with earlier adoption permitted.

None of these amendments are expected to have a significant impact on the consolidated financial statements of 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
- 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 Group's Credit Policy defines lending guidelines according to the business strategy and efficient risk management, protecting the Group's assets as well as complying with the local regulatory requirements. Loan credit risk is managed by the Group's Risk department. Lending rules and scorecards (the Credit scoring models) are implemented for all products and the customer's risk profile is analysed prior to a loan being issued. The Credit scoring models use multiple triggers including but not limited to customer credit history checks and income levels. The use of the Credit scoring models exclude any possibility of judgment, as scoring is done automatically and based on statistical evidence. Specific Credit scoring models are adjusted to specific country requirements and tendencies. Credit scoring models are periodically reviewed and if necessary adjusted to follow market and specific client group tendencies. The Group has established a general Group Debt Collection policy. The Group has implemented specific country-specific debt collection procedures to ensure smooth collection of debts. Performance of

different customer groups is analysed on a regular basis by the Group's Debt Collection department. Management believes that current procedures are sufficient to effectively monitor 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 Group. The calculation methodology of allowances for impairment on loans is described in Note 5. Quantitative information on the Group's credit risk is disclosed in Note 15 and Note 35.

(b) Liquidity risk

Liquidity risk is the risk that the 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 of the Group is managed by the Treasury department. The 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 Group has established the following processes and procedures: Group cash flow management procedure, Group bank account management procedure and intra-Group financing process. Management believes that current processes and procedures are sufficient to effectively monitor and manage the liquidity risk of the Group. The Group's maturity structure of financial assets and liabilities is presented in Note 32.

(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 optimizing the return on risk.

(d) 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 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 repricing 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 the Group's borrowings have been received at fixed rates. Repricing of interest-bearing liabilities is not expected to take place within the next 12 months.

(e) 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 the foreign currency exchange rates based on positions existing as at 31 December 2015 and 31 December 2014 and a simplified scenario of a change in USD, GEL, PLN and CZK to EUR exchange rates is as follows:

	31.12.2015		31.12.2014	
	Net income	**Equity**	**Net income**	**Equity**
5% appreciation of PLN against EUR	(207)	(207)	(230)	(230)
5% depreciation of PLN against EUR	686	686	1 195	1 195
10 % appreciation of USD against EUR	(1 260)	(1 260)	1 917	1 917
10% depreciation of USD against EUR	11 749	11 749	(146)	(146)
5% appreciation of CZK against EUR	(58)	(58)	—	—
5% depreciation of CZK against EUR	165	165	—	—
20% appreciation of GEL against EUR	(960)	(960)	—	—
20% depreciation of GEL against EUR	1 296	1 296	—	—
5% appreciation of SEK against EUR	(2 040)	(2 040)	8	8
5% depreciation of SEK against EUR	2 040	2 040	(8)	(8)

Currency risk analysis above illustrates the effect of an isolated appreciation/depreciation of each significant operating currency. The above analysis does not include any assumptions about correlation between these currencies. Refer to Note 19 for further description of the Group's currency risk management.

(f) Price risk

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 Group takes a long or short position in a financial instrument.

The Group is not exposed to price risk as it does not hold financial instruments dependent on changes in market prices.

(g) Operational risk

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

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

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

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

The Group is also subject to 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 are legal and cooperates intensively with regulators, when requested.

(h) Capital management risk

Capital management of the Group is not controlled 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 Group and to maintain sufficient funds in order to support the medium- and long-term strategic goals of the Group. Equity is the residual interest in the assets of the Group after deducting all its liabilities.

(5) Use of estimates and judgements

The preparation of consolidated financial statements requires Management to make judgments, 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.

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 2014. 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 are:

- Allowances for credit losses on loans and receivables (see Note 15)

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

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

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

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

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 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 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 2015, 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 ratio that underlies the impairment loss allowance calculation. As at 31 December 2015, the weighted

average LGD rate across portfolios was 53% (31 December 2014: 47%). The weighted average LGD rate increased due to relative increase in exposure to countries with larger LGD ratio such as Poland and Spain, growth of individual LGD ratios in some countries, as well as management's introduction of a conservative minimum LGD rate for loans overdue by more than a year. As a result, the impairment coverage for the delinquent more than 1 year portfolio improved by 13% (from 57% as at 31 December 2014 to 70% as at 31 December 2015).

An analysis of sensitivity of the Group's net income for the year and equity to changes in LGD rates and a simplified scenario of a 5% increase in LGD ratio for each operating entity would increase loan loss impairment by EUR 10 237 thousand (31 December 2014: EUR 7 300 thousand) and 5% decrease would lead to decrease in the same amount.

- Separation of embedded derivatives

The Group's borrowing notes issued in 2015 and maturing in 2019 have a prepayment option for bond holders to request early redemption in 2017. There is also an early redemption option from the 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. The Group does not expect these options to be exercised.

- Capitalisation of internal development costs (see Note 17)

During the year Group was developing certain software solutions. The Group had to apply judgment as to which expenditure met the criteria to be capitalized and which had too be expensed to profit or loss. The Group has set up internal processes allowing management to identify different stages of software development and management. Management divides all IT related internal expenses into research, development and maintenance stages. Only those expenses that have been internally assessed as relating to development are capitalized. Information in relation to the amounts capitalized and the type of development costs capitalized have been disclosed in Note 17.

- Deferred tax asset recognition (see Note 18)
- Fair value of financial instruments (see Note 19)
- Valuation of related party loans (see Note 20).

(6) Discontinued operations

The comparative consolidated statement of comprehensive income has been restated to show discontinued operations separately from continuing operations.

In January 2015, a decision to discontinue operations in Estonia was made. The decision was made due to a strategic decision to place greater focus on markets which provide higher return on investment.

In December 2014, a decision to sell the Group's operations in the Russian Federation was made. The decision was primarily driven by political and economic uncertainties in the market. At the same time, the decision to sell its effectively ceased operations in the UK to local management was made.

Operating segments on which a decision by management to sell has been made were classified as held-for-sale as at 31 December 2014. In 2014, the North America business segment was sold to a related party outside the reporting group. The Group gained profit of EUR 2 348 thousand from this sale due to the segment's retained losses.

On 1 January 2015 the Russian Federation business segment was sold to a related party outside the reporting group and all related sales transactions were completed in the first half of 2015. The sale of 85% of the ceased operations in the United Kingdom was effective from 1 January 2015.

(6) Discontinued operations (continued)

The below table includes the operating results of discontinued business segments. All of the discontinued operations results are attributable to shareholders of the Company.

(a) Results of discontinued operation

	2015 EUR'000	2014 EUR'000
Interest income	280	10 562
Interest expenses	(1)	(11)
Impairment allowance	(392)	(4 435)
Net other expenses	(120)	(10 882)
Results from operating activities	**(233)**	**(4 766)**
Income tax	—	(330)
Results from operating activities, net of tax	**(233)**	**(5 096)**
Gain on sale of discontinued operations	6 143	2 348
Profit/(loss) for the period	**5 910**	**(2 748)**

The results from the discontinued operations in 2015 and 2014 are attributable to the owners of the Group.

(b) Cash flows from (used in) discontinued operations

	2015 EUR'000	2014 EUR'000
Net cash from operating activities	339	(439)
Net cash used in investing activities	(330)	—
Net cash flow from financing activities	8	—
Net cash flow for the year	**17**	**(439)**

(c) Effect of disposal on the financial positions of the Group

	1 January 2015 EUR'000
Cash and cash equivalents	(729)
Loans and advances due from customers	(2 886)
Property and equipment	(119)
Intangible assets	(203)
Other assets	(648)
Income tax liabilities	8
Provisions	15
Other liabilities	586
Foreign currency translation differences on foreign operations	728
Net assets	**(3 248)**
Consideration received	**9 391**

Total consideration received for the disposal of the Russian Federation business segment consists of EUR 587 thousand cash and EUR 8 804 thousand loan receivable balance from Piressa Holdings Limited which was outstanding as at 1 January 2015. This resulted in total gain of EUR 6 383 thousand. Subsequently, cash consideration was received and the loan issued was partly repaid (see Note 20).

The Group disposed the United Kingdom operations for no cash consideration. As at 1 January 2015 the fair value of outstanding loan receivable due from the United Kingdom segment was EUR 0 thousand. Total loss from the sale of the United Kingdom operations amounted to EUR 240 thousand.

(7) Interest income

Interest income represents revenue generated during the reporting period from the Group's basic activities – consumer loans. Interest income includes loan commission income and penalty fee income.

Interest income by geographic markets:

	2015 EUR'000	2014 EUR'000
Poland	81 217	61 448
Latvia	44 234	40 817
Georgia	39 653	20 276
Spain	35 580	14 361
Lithuania	35 195	27 035
Sweden	26 170	19 618
Denmark	21 974	12 974
Finland	21 622	19 951
Other	12 640	3 853
	318 285	**220 333**

(8) Interest expense

	2015 EUR'000	2014 EUR'000
Interest expense on notes	26 383	20 887
Interest expense on other loans	1 913	2 331
Interest expense on bank loans	361	531
	28 657	**23 749**

(9) Other income

	2015 EUR'000	2014 EUR'000
Net gain from debt portfolio sale	2 758	922
Interest income	2 050	841
Income from services	1 160	175
Other income	672	212
	6 640	**2 150**

During 2015, the Group sold portfolios in Latvia, Sweden, Finland, Denmark, Lithuania, Georgia. The net carrying amount of the portfolios on the date of sale amounted to EUR 1 265 thousand (2014: EUR 905 thousand). As a result of the sale the Group received consideration in the amount of EUR 4 023 thousand (2014: EUR 1 827 thousand) and it resulted in a gain of EUR 2 758 thousand (2014: EUR 922 thousand loss).
In 2015 interest income consisted of interest income from related parties EUR 1 503 thousand (2014: EUR 779 thousand) and other interest income (see Note 27).

(10) Other expense

	2015 EUR'000	2014 EUR'000
Net foreign exchange loss / (gain)	17 661	(16 581)
Financial assets at fair value through profit or loss - net change in fair value	(10 673)	20 487
Cost of services rendered	1 140	—
Other expense	612	131
	8 740	**4 037**

(11) Net impairment losses on loans and receivables

	2015 EUR'000	2014 EUR'000
Impairment losses on loans	84 748	55 607
Recovery from written-off loans	(4 957)	(1 577)
	79 791	**54 030**

(12) General administrative expenses

	2015 EUR’000	2014 EUR’000
Marketing and sponsorship	50 128	33 796
Personnel costs	39 378	22 810
IT expenses	11 218	3 190
Legal and consulting*	7 458	3 746
Debt collection costs	6 975	3 830
Application inspection costs	3 972	3 704
Communication expenses	3 167	2 351
Rent and utilities	2 481	1 457
Bank services	1 943	1 124
Travel	1 734	843
Depreciation and amortization	1 585	900
Other	3 860	2 269
	133 899	**80 020**

*** Auditor’s fees (part of Legal and consulting)**	**2015** **EUR’000**	**2014** **EUR’000**
Audit fees	424	360
Audit related fees	33	70
Tax related fees	634	94
	1 091	**524**

(12) General administrative expenses (continued)

	2015 EUR'000	2014 EUR'000
Average number of employees		
Senior management/Executives	8	5
Employees	1 240	917
	1 246	**922**

(13) Income tax for the reporting period

	2015 EUR'000	2014 EUR'000
Current tax	17 794	18 474
Deferred tax	(2 111)	(6 835)
	15 683	**11 639**

Reconciliation of effective income tax:

	2015 EUR'000	2014 EUR'000
Profit before corporate income tax	73 838	60 647
Theoretical corporate income tax, 29%	21 413	17 588
CIT relief due to donations	(709)	(324)
Effect of change in deferred tax asset recognition	1 059	(658)
Tax effect of permanent differences related to non-deductible expenses	1 821	1 901
Non-taxable gain on sale of discontinued operations	(1 781)	(681)
Impact of tax rate in other jurisdictions	(6 120)	(6 187)
Corporate income tax for the reporting year	**15 683**	**11 639**

Effective tax rate in 2015 was 21% (2014: 19%).

(14) Cash and cash equivalents

	31.12.2015 EUR'000	31.12.2014 EUR'000
Bank balances	56 862	33 713
Cash and cash equivalents in the statement of financial position	**56 862**	**33 713**
Cash and cash equivalents included in assets held for sale	—	729
Cash and cash equivalents in the statement of cash flows	**56 862**	**34 442**

(15) Loans due from customers

	31.12.2015 EUR'000	31.12.2014 EUR'000
Long-term loans due from customers	20 890	15 730
Impairment of long-term loans due from customers	(4 625)	(3 222)
Long term	**16 265**	**12 508**
Short-term loans due from customers	404 605	301 063
Impairment of short-term loans due from customers	(112 582)	(72 196)
Short term	**292 023**	**228 867**
	308 288	**241 375**

The Group's long-term and short-term loans consist of loan balances not exceeding EUR 3 265 (31 December 2014: EUR 3 200) per loan with maturity of up to 3 years. Average loan size in 2015 is EUR 184 (2014: EUR 174). The loans are not collateralized.

Short-term loans include the Line of Credit portfolio outstanding of EUR 463 thousand as at 31 December 2015. The total credit committed under this product is EUR 569 thousand which includes used and unused amounts.

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

	31.12.2015 EUR'000	31.12.2014 EUR'000
Allowance for doubtful debts		
Balance at the beginning of period	75 418	42 220
Charge for the period in continued operations	84 748	55 607
Amounts written-off	(36 315)	(16 749)
Derecognised on disposal of portfolio	(2 827)	(1 882)
Reclassified to assets held-for-sale	—	(1 745)
Charge for the period in discontinued operations	(392)	(4 435)
Currency effect	(3 425)	2 402
Balance at period end	**117 207**	**75 418**

(15) Loans due from customers (continued)

Loans by country and currency:

	Gross receivables 31.12.2015	Allowance for doubtful debts 31.12.2015	Net receivables 31.12.2015	Gross receivables 31.12.2014	Allowance for doubtful debts 31.12.2014	Net receivables 31.12.2014
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Poland (PLN)	102 699	(33 594)	69 105	80 718	(26 080)	54 638
Lithuania (LTL/ EUR)	63 181	(10 822)	52 359	45 610	(7 633)	37 977
Latvia (EUR)	61 744	(11 495)	50 249	61 914	(10 717)	51 197
Sweden (SEK)	43 253	(11 244)	32 009	30 634	(6 560)	24 074
Georgia (GEL)	37 993	(11 517)	26 476	26 115	(3 969)	22 146
Denmark (DKK)	31 312	(7 575)	23 737	17 057	(3 863)	13 194
Finland (EUR)	31 536	(9 430)	22 106	26 837	(5 900)	20 937
Spain (EUR)	37 428	(17 310)	20 118	20 868	(9 432)	11 436
Other	16 349	(4 220)	12 129	7 040	(1 264)	5 776
	425 495	**(117 207)**	**308 288**	**316 793**	**(75 418)**	**241 375**

Credit quality of loan portfolio:

	Gross receivables 31.12.2015	Allowance for doubtful debts 31.12.2015	Net receivables 31.12.2015	Gross receivables 31.12.2014	Allowance for doubtful debts 31.12.2014	Net receivables 31.12.2014
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Not overdue	215 438	(5 922)	209 516	159 555	(4 003)	155 552
Overdue less than 90 days	53 008	(18 368)	34 640	48 787	(13 051)	35 736
Overdue more than 90 days	157 049	(92 917)	64 132	108 451	(58 364)	50 087
	425 495	**(117 207)**	**308 288**	**316 793**	**(75 418)**	**241 375**

(16) Property and equipment

	Leasehold improvements	Computer equipment	Other property and equipment	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Cost				
31 December 2013	**360**	**1 714**	**644**	**2 718**
Additions	41	1 038	279	1 358
Disposals	(46)	(43)	(38)	(127)
Reclassified to assets held for sale	—	(162)	(1)	(163)
Reclassification to intangible assets	—	(7)	(2)	(9)
Effect of changes in foreign exchange rates	(2)	(85)	—	(87)
31 December 2014	**353**	**2 455**	**882**	**3 690**
Accumulated depreciation				
31 December 2013	**160**	**612**	**143**	**915**
Depreciation	57	607	144	808
Disposals	(13)	(30)	(15)	(58)
Reclassified to assets held for sale	—	43	—	43
Reclassification to intangible assets	—	(1)	—	(1)
Effect of changes in foreign exchange rates	—	(112)	(13)	(125)
31 December 2014	**204**	**1 119**	**259**	**1 582**
Balance as at 31 December 2013	**200**	**1 102**	**501**	**1 803**
Balance as at 31 December 2014	**149**	**1 336**	**623**	**2 108**

	Leasehold improvements	Computer equipment	Other property and equipment	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Cost				
31 December 2014	**353**	**2 455**	**882**	**3 690**
Additions	1 135	2 282	807	4 224
Acquisitions through business combinations	19	9	10	38
Disposals and write-offs	(227)	(632)	(106)	(965)
Effect of changes in foreign exchange rates	(67)	(176)	1	(242)
31 December 2015	**1 213**	**3 938**	**1 594**	**6 745**
Accumulated depreciation				
31 December 2014	**204**	**1 119**	**259**	**1 582**
Depreciation	184	897	214	1 295
Disposals and write-offs	(17)	(360)	(23)	(400)
Effect of changes in foreign exchange rates	(24)	(26)	(10)	(60)
31 December 2015	**347**	**1 630**	**440**	**2 417**
Balance as at 31 December 2014	**149**	**1 336**	**623**	**2 108**
Balance as at 31 December 2015	**866**	**2 308**	**1 154**	**4 328**

(17) Intangible assets and goodwill

	Licenses, trademarks and similar rights EUR'000	Software and other intangible assets EUR'000	Advances EUR'000	Total EUR'000
Cost				
31 December 2013	**482**	**436**	**—**	**918**
Additions	526	5	2 269	2 800
Disposals	(7)	—	—	(7)
Reclassified to assets held for sale	(275)	—	(3)	(278)
Reclassification	129	(139)	—	(10)
Effect of changes in foreign exchange rates	(111)	(25)	2	(134)
31 December 2014	**744**	**277**	**2 268**	**3 289**
Accumulated amortisation				
31 December 2013	**165**	**213**	**—**	**378**
Amortisation	249	27	—	276
Amortisation of disposals	(6)	—	—	(6)
Reclassified to assets held for sale	76	—	—	76
Reclassification	25	(25)	—	—
Effect of changes in foreign exchange rates	(184)	(2)	—	(186)
31 December 2014	**325**	**213**	**—**	**538**
Balance as at 31 December 2013	**317**	**223**	**—**	**540**
Balance as at 31 December 2014	**419**	**64**	**2 268**	**2 751**

(17) 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 2014	**744**	**277**	**—**	—	**2 268**	**3 289**
Additions	1 334	328	—	6 220	2 154	10 036
Additions - internally developed	—	—	—	6 032	—	6 032
Acquisitions through business combinations	—	117	647	—	—	764
Disposals and write-offs	(112)	(423)	—	(81)	(48)	(664)
Reclassification	—	5 991	—	(3 770)	(2 221)	—
Effect of changes in foreign exchange rates	8	(210)	—	(203)	(46)	(451)
31 December 2015	**1 974**	**6 080**	**647**	**8 198**	**2 107**	**19 006**
Accumulated amortisation and impairment						
31 December 2014	**325**	**213**	**—**	—	—	**538**
Amortisation	335	86	—	—	—	421
Disposals and write offs	(80)	—	—	—	—	(80)
Amortization of acquisitions through business combinations	—	68	—	—	—	68
Effect of changes in foreign exchange rates	(7)	36	—	—	—	29
31 December 2015	**573**	**403**	**—**	—	—	**976**
Balance as at 31 December 2014	**419**	**64**	**—**	**—**	**2 268**	**2 751**
Balance as at 31 December 2015	**1 401**	**5 677**	**647**	**8 198**	**2 107**	**18 030**

During 2015, the Group's IT function was expanded to support new countries and products, focusing on in-house development. A new development site was opened, and the Group invested in new IT personnel. New software developments included a new Risk Tool, a new Debt Collection tool, several enhancements to existing solutions, Web Design and building new websites based on User Experience (UX).

Goodwill

During the year 2015 the Group acquired two entities. The goodwill was accounted for based on the facts described below. In April and in May 2015 the Group acquired all of the shares in the following two companies: closed joint stock company GoodCredit Universal Credit Organization operating in Armenia for USD 1.4 million (EUR 1.3 million), and stock corporation Prestamo Movil S.A. operating in Argentina for EUR 200 thousand respectively. Both acquisitions were settled in cash. These acquisitions will enable the Group to expand its activities in Armenia and Argentina.

In the eight months from 1 May to 31 December 2015, GoodCredit Universal Credit Organization contributed a loss of EUR 180 thousand to the Group's results. In seven months from 1 June 2015 to 31 December 2015 Prestamo Movil S.A. contributed a loss of EUR 192 thousand to the Group's results.

(17) Intangible assets and goodwill (continued)

Identifiable assets acquired and liabilities assumed

The following summarises the recognised amounts of assets acquired and liabilities assumed of the two acquired entities at the acquisition dates.

	EUR'000
Property and equipment	38
Intangible assets	49
Trade and other receivables	1 276
Deferred tax assets	161
Cash and cash equivalents	85
Loans and borrowings	(589)
Trade and other liabilities	(159)
Total identifiable net assets	**861**

Goodwill arising from the acquisitions was as follows.

	EUR'000
Total consideration transferred	1 508
Fair value of identifiable net assets	(861)
Goodwill	**647**

Development costs and Advances

Development costs and Advances largely relate to new IT development projects. The Group is investing significantly in a number of IT projects including migration of websites to a new front-end platform, a new collection system, a new risk platform, and developing new mobile applications.

(18) 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 2015:

						31.12.2015	
	Net balance 1 January 2015	Recognised in profit or loss of continued operations	Acquired through business combination	Effect of exchange rate fluctuations	Net balance 31 December 2015	Deferred tax asset	Deferred tax liabilities
Impairment losses on loans and receivables	8 526	276	—	13	8 815	8 815	—
Property and equipment	(100)	134	—	7	41	—	41
Other liabilities	1 267	707	—	34	2 008	2 008	—
Tax loss carry-forwards	1 034	995	161	(113)	2 077	2 077	—
Deferred tax assets (liabilities) before set-off	**10 727**	**2 112**	**161**	**(59)**	**12 941**	**12 900**	**41**
Set-off of tax						41	(41)
Net deferred tax assets						**12 941**	**—**

Movement in temporary differences and tax losses carried forward during the year ended 31 December 2014:

						31.12.2014	
	Net balance 1 January 2014	Recognised in profit or loss of continued operations	Recognised in profit or loss of discontinued operations	Effect of exchange rate fluctuations	Net balance 31 December 2014	Deferred tax asset	Deferred tax liabilities
Impairment losses on loans and receivables	6 619	1 957	—	(50)	8 526	8 526	—
Property and equipment	(44)	(58)	—	2	(100)	—	(100)
Other liabilities	(2 231)	3 886	(297)	(91)	1 267	1 267	—
Tax loss carry-forwards	11	1 050	—	(27)	1 034	1 034	—
Deferred tax assets (liabilities) before set-off	**4 355**	**6 835**	**(297)**	**(166)**	**10 727**	**10 827**	**(100)**
Set off of tax						(100)	100
Net deferred tax assets						**10 727**	**—**

The Group has recognized the deferred tax assets of EUR 12 941 thousand (31 December 2014: EUR 10 727 thousand) in Latvia, Lithuania, Sweden, Finland, Sweden, Poland, Georgia, the Czech Republic, Spain, Romania, Armenia, Argentina, Mexico and United States. The tax losses carried forward relate to Argentina, Armenia, Mexico, Romania and United States. EUR 8 297 thousand of the tax losses have expiry period in excess of 5 years, while EUR 399 thousand of the tax losses have expiry period limitation of 5 years. The largest part of tax losses are expected to be realized till 2018. As at 31 December 2015, the Group had not recognised a deferred tax relating to tax losses of EUR 288 thousand (2014: EUR 960 thousand) due to uncertainty around utilisation of these tax benefits.

(19) Financial assets at fair value through profit or loss

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.

To limit the Group's exposure to USD from notes due in August 2019, the Group has concluded EUR to USD forward agreements and European put options with notional amounts of USD 22 500 thousand, USD 90 000 thousand and USD 72 500 thousand maturing in August 2019, February 2017 and February 2016, respectively. Under the forward agreements, which have been concluded with related parties (refer to Note 27), the Group pays EUR 16 806 thousand and receives USD 22 500 thousand subject to net settlement at maturity. According to these forward agreements, the Group also pays EUR 987 thousand and receives USD 1 321 thousand subject to net settlement at each semi-annual coupon payment date until the maturity of notes due in August 2019. The fair value of these forward agreements as at 31 December 2015 was EUR 4 190 thousand (31 December 2014: EUR 2 444 thousand). Under the European put option, the Group has the right to sell EUR 79 610 thousand for USD 90 000 thousand at the USD/EUR rate of 1.1305 in February 2017 and right to sell EUR 66 617 thousand for USD 72 500 thousand at the USD/EUR rate of 1.0883 in February 2016.

To limit the Group's exposure to PLN from its operating activities in Poland, the Group has concluded a PLN to EUR European call option with maturity in May 2016. Under the European call option, the Group has the right to buy EUR 30 000 thousand for PLN 130 800 thousand at the PLN/EUR rate of 4.36 at maturity.

To limit the Group's exposure to CZK from its operating activities in the Czech Republic, the Group has concluded a CZK to EUR European call option with maturity in October 2016. Under the European call option the Group has the right to buy EUR 5 000 thousand for CZK 135 620 thousand at the CZK/EUR rate of 27.1240 at maturity.

To limit the Group's exposure to GEL from its operating activities in Georgia, the Group has concluded GEL to USD American call options with maturity in February 2016. Under the American call options the Group has the right to buy USD 5 000 thousand for GEL 10 751 thousand at the GEL/USD rate of 2.1503 and to buy USD 5 000 thousand for GEL 10 673 thousand at the GEL/USD rate of 2.1346 until maturity.

Sensitivity of exposures to open currency positions has been presented in Note 4(e). As at 31 December 2015, the fair value of these financial instruments is EUR 10 643 thousand (31 December 2014: EUR 18 626 thousand). The table below reflects the fair value of each financial instrument type separately as well as a bond held by the Group.

	31.12.2015 EUR'000	31.12.2014 EUR'000
EUR to USD forward agreements	4 190	13 310
European style options (USD)	4 906	4 660
European style options (PLN)	302	656
European style options (CZK)	65	—
American call option (GEL to USD)	1 040	—
Bond ARGBON 7 04/17/17 (USD)	140	—
	10 643	**18 626**

(20) Loans to related parties

	31.12.2015 EUR'000	31.12.2014 EUR'000
Loans to related parties	13 732	134
	13 732	**134**

As at 31 December 2015, loans to related parties include a loan issued to Piressa Holdings Limited of EUR 5 100 thousand and accrued interest EUR 539 thousand with an interest rate of 13.75% maturing May 2018, a loan issued to V7 Limited of EUR 3 508 thousand and accrued interest EUR 181 thousand with an interest rate of 13.75% maturing October 2018, a loan issued to 4finance Group S.A. of EUR 1 375 thousand and accrued interest EUR 28 thousand with an interest rate of 13.75% maturing July 2019, and a loan issued to 4finance US Holding Company, Inc of EUR 1 781 thousand and accrued interest EUR 340 thousand with an interest rate of 13.75% maturing December 2019. A loan issued to UAB Credit Service of EUR 68 thousand and accrued interest EUR 1 thousand with an interest rate of 13.75% and maturity December 2020. Accrued interests of EUR 7 thousands against 4finance US Holding Company, Inc. and EUR 804 thousands against 0973915 B.C. Ltd. (maturity date November 2018), and principal amount for both loans was fully repaid in 2015. All loans to related parties are unsecured.

(21) Other assets

	31.12.2015 EUR'000	31.12.2014 EUR'000
Security deposits	1 303	2 120
Funds deposited with trustee	—	44 477
Other receivables	3 939	1 550
	5 242	**48 147**

As at 31 December 2014, the Group had deposits with trustee funds of EUR 44 477 thousand that were used to repay notes due on 31 January 2015. The funds were placed with an EU financial institution with credit rating "A-" and were successfully used in the settlement of the previously issued notes. The deposited funds were acquired from notes issued in August 2014 and were placed with the trustee directly without cash transactions through the Group's bank accounts.

Other receivables include receivables from offline service providers that is the main driver for the increase compared to 31 December 2014. Offline service providers mainly are used in Spain and Georgia, offline service providers offer opportunity for customers to repay loan via payment terminals, increase driven by market growth in these countries.

(22) Loans and borrowings

	31.12.2015 EUR'000	31.12.2014 EUR'000
Long term		
Notes	208 018	157 867
Loans from related parties	700	12 634
Loans from bank	4 709	6 188
	213 427	**176 689**

	31.12.2015 EUR'000	31.12.2014 EUR'000
Short term		
Notes	8 993	50 733
Loans from related parties	3 045	4 202
Loans from bank	1 225	—
Other loans	2 772	—
	16 035	**54 935**
Total	**229 462**	**231 624**

In May 2011, the Company's subsidiary AS 4finance signed a credit line agreement with AS Trasta Komercbanka with a maximum credit line limit of EUR 7 700 thousand maturing in April 2015 and a fixed annual interest rate of 10% for the part of the credit line used and 0.5% for the unused part of the facility.

In May 2015, the credit line agreement with AS Trasta Komercbanka was amended – maximum credit line amount EUR 6 326 thousand and according to the schedule maximum credit line amount gradually decreasing by EUR 100 thousand each month, agreement maturing in April 2018 and a fixed annual interest rate of 7% for the part of credit line used. Additionally, the credit line agreement was amended in November 2015 with maximum credit line amount EUR 6 026 thousand and according to the schedule maximum credit line amount gradually decreasing by EUR 100 thousand each month with final maturity in April 2018.

AS Trasta Komercbanka loans are secured by AS 4finance commercial pledge over all AS 4finance assets. The maximum amount secured by commercial pledge is EUR 16 144 thousand as at 31 December 2015. As at 31 December 2015, AS 4finance is compliant with all covenants included in the credit line agreement with the bank.

In August 2013, AS 4finance listed USD 170 000 thousand (EUR 156 150 thousand) of 13% notes on the Irish Stock Exchange, which were due on 31 January 2015. The notes were fully repaid at maturity.

In August 2014, 4finance S.A. listed USD 200 000 thousand (EUR 183 706 thousand) of 11.75% notes on the Irish Stock Exchange, which are due in August 2019 (2019 Notes). The 2019 Notes are subject to a number of restrictive covenants and are senior to all future subordinated debt.

In March 2015, 4finance S.A. issued SEK 225 000 thousand (EUR 24 485 thousand) of 11.75% notes which are due in March 2018 (2018 Notes). In September 2015, a further SEK 150 000 thousand (EUR 16 323 thousand) of 2018 Notes were issued, bringing the total amount outstanding to SEK 375 000 thousand (EUR 40 808 thousand) out of a total program size of SEK 600 000 thousand (EUR 57 131 thousand). The 2018 Notes were listed on the corporate bond list of Nasdaq Stockholm in August 2015. The 2018 Notes are subject to a number of restrictive covenants and are senior to all of the Group's future subordinated debt. The Group complied with the covenants on its issued debts.

The Group has obtained loans from related parties to finance expansion of its operating activities with annual interest rates between 12% and 15% with maturity in year 2016 and 2017.

(23) Employee benefits

	31.12.2015	31.12.2014
	EUR'000	EUR'000
Provisions for unused vacations	2 394	971
	2 394	**971**

(24) Other liabilities

	31.12.2015	31.12.2014
	EUR'000	EUR'000
Accrued expenses	6 683	2 994
Deposits from customers	9 121	5 772
Accounts payable to suppliers	6 016	4 106
Taxes payable	1 315	1 180
Other liabilities	2 594	3 292
	25 729	**17 344**

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

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

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

Deposits on interest accounts are offered for fixed terms of between three months to three years, and may not be withdrawn early by a customer without the loss of interest accrued on them. Deposits on interest accounts bear a fixed interest rate that currently is 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 10000 (approximately EUR 1 150).

(25) Share capital

The share capital of the Company as at 31 December 2015 is EUR 35 750 thousand (31 December 2014: EUR 35 750 thousand) and is divided into 3 575 000 000 ordinary shares (31 December 2014: 3 575 000 000 shares) with the nominal value of EUR 0.01 each (31 December 2014: EUR 0.01), fully paid via contribution-in-kind. As at 31 December 2015 4finance AS, a subsidiary of 4finance Holding S.A., holds one hundred thousand (100 000) non-voting preferred shares with nominal value of one cent of Euro (EUR 0.01) each.

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.

(25) Share capital (continued)

Equity includes a negative reorganization reserve of EUR 32 584 thousand (31 December 2014: EUR 32 584 thousand) which 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.

The Company's shareholder as at 31 December 2015 was 4finance Group S.A. (100% ownership). At the start of 2015, the Company's shareholders were Tirona Ltd. (75%) and FCI Investments Ltd. (25%). During the first half of 2015, 4finance Group S.A. became the direct shareholder, owned 100% by Tirona Ltd., and the beneficial ownership of Tirona Ltd changed to 25.5% by Mr. Uldis Arnicans, 25.5% by Mr. Edgars Dupats, and 49% by Mrs.Vera Boiko.

(26) Operating leases

Non-cancellable operating lease rentals are payable as follows:

	31.12.2015 EUR'000	31.12.2014 EUR'000
Less than one year	1 169	1 490
Between one and five years	4 214	3 467
More than five years	2 384	—
	7 767	**4 957**

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

In 2015, EUR 1 067 thousand was recognized as an expense in the income statement in respect of operating leases (2014: EUR 894 thousand).

(27) Related party transactions

(a) Transactions with shareholders and related entities

Receivables from related parties:	31.12.2015 EUR'000	31.12.2014 EUR'000
Loans issued to related parties	5 639	—
Other receivables	132	—
	5 771	**—**

Income from related parties:	2015 EUR'000	2014 EUR'000
Interest income	989	779
Income from services rendered	235	—
	1 224	**779**

(27) Related party transactions (continued)

Borrowings and payables to related parties:	**31.12.2015 EUR'000**	**31.12.2014 EUR'000**
Loans and borrowings		
- Borrowings and payables at the end of the period	3 745	16 836

Interest expense to related parties:	**2015 EUR'000**	**2014 EUR'000**
Interest expense	1 285	1 946

Gain on sale of North American entities (refer to Note 36):	**2015 EUR'000**	**2014 EUR'000**
Gain on sale of discontinued operations	1 480	—

Financial instruments at fair value through profit or loss	**31.12.2015 EUR'000**	**31.12.2014 EUR'000**
Financial assets at fair value through profit or loss at the end of the period	4 190	2 444

Gain from revaluing derivatives with related parties:	**2015 EUR'000**	**2014 EUR'000**
Profit from financial instruments at fair value through profit or loss	1 746	2 444

(27) Related party transactions (continued)

(b) Transactions with parent and the related entities

Receivables from related parties:	**31.12.2015 EUR'000**	**31.12.2014 EUR'000**
Loans issued to related parties	4 279	—
Other receivable	27	—
	4 306	**—**

Income from related parties:	**2015 EUR'000**	**2014 EUR'000**
Interest income	331	—
Income from services rendered	71	—
	402	**—**

(c) Transactions with key management personnel of the Company

Receivables from related parties:	**31.12.2015 EUR'000**	**31.12.2014 EUR'000**
Loans issued to related parties	3 814	131
Other receivable	910	—
	4 724	**131**

Income from related parties:	**2015 EUR'000**	**2014 EUR'000**
Interest income	183	—
Income from services rendered	822	—
	1 005	**—**

(27) Related party transactions (continued)

Gain on sale of discontinued operations (refer to Note 6)	2015 EUR'000	2014 EUR'000
Gain on sale of discontinued operations	6 143	2 348

Total remuneration included in administrative expenses:

	2015 EUR'000	2014 EUR'000
Executive committee and Board members	3 712	1 123

There are no outstanding balances as of 31 December 2015 with members of the Luxembourg Executive committee and Board members.

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

During the reporting period the 4finance Group S.A., parent company of the Group, launched a long-term management incentive scheme linking incentives to future profitability of 4finance Group S.A. The management incentive scheme is structured in a way that payments are to be settled by 4finance Group S.A. based on the value of its share value, which in turn is linked to the consolidated profits of 4finance Group S.A. Since the Group received the employee services from executive services, then the related expense of EUR 1 352 thousand was recognised in profit or loss of the Group with a corresponding entry in share based payment reserve in equity. Expense recorded for the long-term management incentive scheme is based on the estimated future profitability of the Group and 4finance Group S.A. over the period ending on 31 December 2017.

(28) Personnel costs

	2015 EUR'000	2014 EUR'000
Type of costs		
Remuneration	29 068	17 739
Compulsory state social security contributions, pensions and other social security expenses	6 440	3 645
Other personnel costs	3 870	1 426
	39 378	**22 810**

(29) 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 operations of the Group.

On December 18, 2015, the Bank of Lithuania removed 4finance UAB from the list of consumer credit lenders in Lithuania due to certain breaches of consumer lending regulations. As a result, 4finance UAB cannot issue new consumer loans in its name. The Bank of Lithuania's Supervision Service determined that 4finance UAB had not acted in accordance with its obligations as a credit lender and had failed to comply with the requirements of the Lithuanian law on consumer credit. The revocation of the license in Lithuania means that 4finance UAB is only able to service existing loans to existing customers in Lithuania.

As a result of close cooperation with the Bank of Lithuania, on the 23 January 2016 4finance group re-launched its consumer credit activities in Lithuania through another group company Credit Service UAB. Credit Service UAB operates in Lithuania under the same brand names and domains used by 4finance UAB. 4finance UAB will only operate to service its existing customers until the products with such existing customers mature or terminate.

(30) 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 2015	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets				
Financial instruments at fair value through profit or loss	—	10 643	—	10 643
	—	**10 643**	**—**	**10 643**

31 December 2014	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets				
Financial instruments at fair value through profit or loss	—	18 626	—	18 626
	—	**18 626**	**—**	**18 626**

(30) 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 2015	**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	—	—	—	56 862	56 862
Loans due from customers	—	—	319 562	319 562	308 288
Other assets – Other loans to related parties	—	—	14 193	14 193	13 732
Other financial assets	—	—	1 303	1 303	1 303
Financial liabilities					
Loans and borrowings	—	221 942	11 982	233 924	229 462
Other liabilities – Deposits from customers	—	—	8 974	8 974	9 121
Other liabilities – Accounts payable to suppliers	—	—	6 016	6 016	6 016

31 December 2014	**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	—	—	—	33 713	33 713
Loans due from customers	—	—	249 266	249 266	241 375
Other assets – Other loans to related parties	—	—	130	130	134
Other financial assets	—	46 124	—	46 124	46 124
Assets held for sale	—	—	—	4 418	4 418
Financial liabilities					
Loans and borrowings	—	208 674	23 019	231 693	231 624
Other liabilities – Deposits from customers	—	—	5 656	5 656	5 772
Other liabilities – Accounts payable to suppliers	—	—	4 106	4 106	4 106
Liabilities held for sale	—	—	—	675	675

(30) Fair value of financial instruments (continued)

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

Financial instruments measured at fair value

Type	Valuation technique	Significant unobservable inputs
Financial instruments at fair value through profit or loss	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 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 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 the 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.

In 2014 the Group had a deposit with trustee (please see note 21) and given the high credit worthiness of the counterparty this placement was classified as Level 2.

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.

Fair value of deposits form customers has been determined with referencing to the Group's borrowing cost and has been determined to be a Level 3 fair value measurement.

Remaining financial assets and financial liabilities have been classified as Level 3 fair value measurement, whilst due to their short term nature no significant fair value difference from carrying amount is expected.

(31) Operating segments

The Group has eight reportable segments, as described below, which are the Group's strategic segments. The strategic segm
similar types of products and services in each of the jurisdictions. Each segment is managed separately because they require
strategic segments, the Group's Management Board reviews internal management reports on at least a monthly basis.
Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit
reports that are reviewed by the Management Board. Segment profit is used to measure performance as management believe
evaluating the results of certain segments in relation 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 2015 is set bel

	Latvia	Lithuania*	Finland**	Sweden	Denmark	Poland	Georgia
EUR'000	**2015**	**2015**	**2015**	**2015**	**2015**	**2015**	**2015**
Interest income	44 234	35 195	21 622	26 170	21 974	81 217	39 653
Interest expense	(14 192)	(2 010)	(2 564)	(3 645)	(847)	(4 548)	(2 160
Internal revenue	43 108	—	—	—	—	—	—
Net impairment losses on loans and receivables	(11 693)	(8 402)	(5 474)	(7 790)	(5 801)	(15 893)	(8 316
Reportable segment profit/ (loss) before tax	35 988	11 680	5 647	9 950	9 264	31 736	26 510

*4Finance UAB closed lending operations in December 2015. The Group has re-started lending operations in Lithuania through its subsidiary UAB Cre
the Group's internationally recognised brands Vivus and SMSCredit.

**For Finland in Single payment loan portfolio and Interest income also included Line of Credit product

(31) Operating segments (continued)

Segment information for the main reportable business segments of the Group for the year ended 31 December 2014 is set bel

	Latvia	Lithuania*	Finland**	Sweden	Denmark	Poland	Georgia
EUR'000	**2014**	**2014**	**2014**	**2014**	**2014**	**2014**	**2014**
Interest income	40 817	27 035	19 951	19 618	12 974	61 448	20 276
Interest expense	(19 911)	(1 829)	(2 254)	(2 030)	(870)	(5 621)	(2 091
Internal revenue	19 040	—	—	3	—	—	—
Net impairment losses on loans and receivables	(6 768)	(3 729)	(3 256)	(2 779)	(2 701)	(20 928)	(3 684
Reportable segment profit/ (loss) before tax	20 958	16 075	6 549	9 183	5 893	13 369	11 945

*4Finance UAB closed lending operations in December 2015. The Group has re-started lending operations in Lithuania through its subsidiary UAB Cred the Group's internationally recognised brands Vivus and SMSCredit.

**For Finland in Single payment loan portfolio and Interest income also included Line of Credit product

(31) Operating segments (continued)

A segment breakdown of assets and liabilities of the Group for the year ended 31 December 2015 is set out below:

	Latvia	**Lithuania***	**Finland****	**Sweden**	**Denmark**	**Poland**	**Georgi**
EUR'000	**31.12.2015**	**31.12.2015**	**31.12.2015**	**31.12.2015**	**31.12.2015**	**31.12.2015**	**31.12.201**
Reportable segment assets	211 890	56 735	25 416	38 228	27 028	110 587	33 38
Reportable segment liabilities	122 442	30 547	17 223	30 167	18 108	53 290	9 66

A segment breakdown of assets and liabilities of the Group for the year ended 31 December 2014 is set out below:

	Latvia	**Lithuania***	**Finland****	**Sweden**	**Denmark**	**Poland**	**Georgi**
EUR'000	**31.12.2014**	**31.12.2014**	**31.12.2014**	**31.12.2014**	**31.12.2014**	**31.12.2014**	**31.12.201**
Reportable segment assets	253 696	39 092	23 619	29 694	14 604	62 841	28 24
Reportable segment liabilities	188 959	25 846	17 135	22 616	8 261	32 837	17 22

*4Finance UAB closed lending operations in December 2015. The Group has re-started lending operations in Lithuania through its subsidiary UAB Cred the Group's internationally recognised brands Vivus and SMSCredit.

**For Finland in Single payment loan portfolio and Interest income also included Line of Credit product

(31) Operating segments (continued)

A segment breakdown of interest income by products of the Group for the year ended 31 December 2015 is set out below:

	Latvia	Lithuania*	Finland**	Sweden	Denmark	Poland	Georgi
EUR'000	**31.12.2015**	**31.12.2015**	**31.12.2015**	**31.12.2015**	**31.12.2015**	**31.12.2015**	**31.12.201**
Single payment loans	27 103	14 514	18 608	14 746	20 355	76 348	39 65
Instalment loans	17 131	20 681	3 014	11 424	1 619	4 869	–

A segment breakdown of interest income by products of the Group for the year ended 31 December 2014 is set out below:

	Latvia	Lithuania*	Finland**	Sweden	Denmark	Poland	Georgi
EUR'000	**31.12.2014**	**31.12.2014**	**31.12.2014**	**31.12.2014**	**31.12.2014**	**31.12.2014**	**31.12.201**
Single payment loans	24 418	15 023	18 318	15 565	12 974	59 953	20 27
Instalment loans	16 399	12 012	1 633	4 053	—	1 495	–

*4Finance UAB closed lending operations in December 2015. The Group has re-started lending operations in Lithuania through its subsidiary UAB Cred
the Group's internationally recognised brands Vivus and SMSCredit.

**For Finland in Single payment loan portfolio and Interest income also included Line of Credit product

(31) Operating segments (continued)

Reconciliation of reportable segment interest income

	2015	2014
	EUR'000	EUR'000
Total interest income for reportable segments	305 645	216 480
Interest income for other operating segments	12 920	14 415
Elimination of discontinued operations	(280)	(10 562)
Consolidated revenue	**318 285**	**220 333**

Reconciliation of reportable segment profit or loss

	2015	2014
	EUR'000	EUR'000
Total profit or loss for reportable segments	133 958	78 574
Profit or loss for other operating segments	(23 016)	(7 401)
Elimination of inter-segment dividends included in inter-segment profits	(31 194)	(13 274)
Elimination of discontinued operations	(5 910)	2 748
Consolidated profit before tax from continued operations	**73 838**	**60 647**

Reconciliation of reportable segment interest expense

	2015	2014
	EUR'000	EUR'000
Total interest expense for reportable segments	33 073	36 275
Interest expense for other operating segments	3 881	1 016
Elimination of inter-segment transactions	(8 296)	(13 531)
Elimination of discontinued operations	(1)	(11)
Consolidated interest expense	**28 657**	**23 749**

Reconciliation of reportable segment assets

	31.12.2015	31.12.2014
	EUR'000	EUR'000
Total assets for reportable segments	526 820	468 701
Assets for other operating segments	84 689	18 609
Elimination of inter-group loans, investments and other receivables	(217 400)	(143 133)
Unallocated assets	44 097	25 853
Consolidated total assets	**438 206**	**370 030**

Reconciliation of reportable segment liabilities

	31.12.2015	31.12.2014
	EUR'000	EUR'000
Total liabilities for reportable segments	310 235	334 921
Liabilities for other operating segments	89 572	34 267
Elimination of inter-group borrowings and payables	(134 864)	(112 167)
Consolidated total liabilities	**264 943**	**257 021**

(32) Maturity analysis

The table below shows carrying amounts of financial assets and liabilities by remaining contractual maturity dates as at 31 December 2015.

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	More than 1 year	Overdue	TOTAL
Cash and cash equivalents	56 862	—	—	—	—	—	56 862
Loans due from customers	151 122	8 130	10 938	17 552	20 890	99 656	308 288
Loans due from related parties	—	—	—	—	13 732	—	13 732
Financial assets at fair value through profit or loss	—	1 785	302	64	8 492	—	10 643
Other financial assets	1 303	—	—	—	—	—	1 303
Total financial assets	**209 287**	**9 915**	**11 240**	**17 616**	**43 114**	**99 656**	**390 828**

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	More than 1 year	Overdue	TOTAL
Loans and borrowings	9 159	3 300	3 059	600	213 344	—	229 462
Deposits from customers	4 713	1 322	1 012	889	1 185	—	9 121
Accounts payable to suppliers	6 016	—	—	—	—	—	6 016
Total financial liabilities	**19 888**	**4 622**	**4 071**	**1 489**	**214 529**	**—**	**244 599**
Net position	**189 399**	**5 293**	**7 169**	**16 127**	**(171 415)**	**99 656**	**146 229**
Net cumulative position	**189 399**	**194 692**	**201 861**	**217 988**	**46 573**		

(32) Maturity analysis (continued)

The table below shows financial assets and liabilities by remaining contractual maturity dates as at 31 December 2014.

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	More than 1 year	Overdue	TOTAL
Cash and cash equivalents	33 713	—	—	—	—	—	33 713
Loans due from customers	108 411	7 911	9 335	14 068	19 830	81 820	241 375
Loans due from related parties	—	—	134	—	—	—	134
Financial assets at fair value through profit of loss	10 866	—	—	656	7 104	—	18 626
Other financial assets	46 161	—	—	—	—	—	46 161
Assets held for sale	4 418	—	—	—	—	—	4 418
Total financial assets	**203 569**	**7 911**	**9 469**	**14 724**	**26 934**	**81 820**	**344 427**

Liabilities EUR'000	Demand less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to	More than 1 year	Overdue	TOTAL
Loans and borrowings	50 961	3 500	1 431	5 378	170 354	—	231 624
Deposits from customers	2 585	656	625	873	1 033	—	5 772
Accounts payable to suppliers	4 106	—	—	—	—	—	4 106
Liabilities held for sale	675	—	—	—	—	—	675
Total financial liabilities	**58 327**	**4 156**	**2 056**	**6 251**	**171 387**	**—**	**242 177**
Net position	**145 242**	**3 755**	**7 413**	**8 473**	**(144 453)**	**81 820**	**102 250**
Net cumulative position	**145 242**	**148 997**	**156 410**	**164 883**	**20 430**	**—**	**—**

(33) 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 2015 was as follows:

31 December 2015	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	229 462	316 261	163	13 178	3 504	16 364	283 052
Deposits from customers	9 121	9 409	333	6 614	433	782	1 247
Accounts payable to suppliers	6 016	6 016	6 016	—	—	—	—
Total	**244 599**	**331 686**	**6 512**	**19 792**	**3 937**	**17 146**	**284 299**
Credit related commitments	**—**	**1 316**	**1 316**	**—**	**—**	**—**	**—**

(33) Analysis of financial liabilities' contractual undiscounted cash flows (continued)

The analysis as at 31 December 2014 was as follows:

31 December 2014	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	231 624	303 267	43 805	13 415	1 954	15 621	228 472
Deposits from customers	5 772	6 358	293	3 923	239	672	1 231
Accounts payable to suppliers	4 106	4 106	4 106	—	—	—	—
Liabilities held for sale	675	675	675	—	—	—	—
Total	**242 177**	**314 406**	**48 879**	**17 338**	**2 193**	**16 293**	**229 703**
Credit related commitments	**—**	**1 558**	**1 558**	**—**	**—**	**—**	**—**

(34) Currency analysis

The table below shows the currency structure of financial assets and liabilities as at 31 December 2015:

Assets EUR'000	GEL*	DKK	EUR	SEK	PLN**	USD***	Other	TOTAL
Cash and cash equivalents	2 161	1 684	36 729	2 451	5 030	7 693	1 114	56 862
Loans due from customers	26 476	23 737	144 832	32 009	69 105	—	12 129	308 288
Loans from related parties	—	—	7 110	—	—	2 129	4 493	13 732
Other financial assets	—	108	221	—	78	—	896	1 303
Total financial assets	**28 637**	**25 529**	**188 892**	**34 460**	**74 213**	**9 822**	**18 632**	**380 185**
Off-balance sheet	—	—	30 000	—	—	175 557	5 000	210 557

Liabilities EUR'000	GEL*	DKK	EUR	SEK	PLN**	USD***	Other	TOTAL
Loans and borrowings	—	—	9 679	44 826	—	174 957	—	229 462
Deposits from customers	—	—	—	9 121	—	—	—	9 121
Accounts payable to suppliers	217	218	2 752	94	91	608	2 036	6 016
Total financial liabilities	**217**	**218**	**12 431**	**54 041**	**91**	**175 565**	**2 036**	**244 599**
Off-balance sheet	8 518	—	163 035	—	31 264	—	4 971	207 788
Net position (excluding off-balance sheet)	**28 420**	**25 311**	**176 461**	**(19 581)**	**74 122**	**(165 743)**	**16 596**	**135 586**
Net position (including off-balance sheet)	**19 902**	**25 311**	**43 426**	**(19 581)**	**42 858**	**9 814**	**16 625**	**138 355**

*) The Group manages its net position in GEL using call option contract (refer to Note 19).

**) The Group manages its net position in PLN using option contract (refer to Note 19).

***) In addition to currency swap agreements, which are presented in off-balance line, the Group uses option contracts to manage its net position in USD (refer to Note 19).

Currency risk of the open positions in USD, GEL and PLN is managed through the use of option agreements and forward foreign currency contracts which minimize adverse effect of USD/EUR and PLN/EUR currency exchange rate fluctuations.

The Group monitors on a regular basis its foreign currency exposure to non-euro based currencies and will, if deemed commercial, consider hedging some of any exposure arising.

(34) Currency analysis (continued)

The table below shows the currency structure of financial assets and liabilities as at 31 December 2014:

Assets EUR'000	**GEL**	**LTL**	**EUR**	**SEK**	**PLN**	**USD**	**Other**	**TOTAL**
Cash and cash equivalents	4 732	737	7 606	2 797	10 247	5 773	1 821	33 713
Loans due from customers	22 146	37 977	83 570	24 074	54 638	—	18 970	241 375
Other financial assets	—	—	228	28	77	46 124	110	46 567
Assets held for sale	—	—	—	—	—	—	4 418	4 418
Total financial assets	**26 878**	**38 714**	**91 404**	**26 899**	**64 962**	**51 897**	**25 319**	**326 073**
Off-balance sheet	—	—	60 000	—	—	187 562	—	247 562

Liabilities EUR'000	**GEL**	**LTL**	**EUR**	**SEK**	**PLN**	**USD**	**Other**	**TOTAL**
Loans and borrowings	—	—	30 283	—	—	201 341	—	231 624
Deposits from customers	—	—	—	5 772	—	—	—	5 772
Accounts payable to suppliers	251	269	1 916	258	382	11	1 019	4 106
Liabilities held for sale	—	—	—	—	—	—	675	675
Total financial liabilities	**251**	**269**	**32 199**	**6 030**	**382**	**201 352**	**1 694**	**242 177**
Off-balance sheet	—	—	169 706	—	63 213	—	—	232 919
Net position (excluding off-balance sheet)	**26 627**	**38 445**	**59 205**	**20 869**	**64 580**	**(149 455)**	**23 625**	**83 896**
Net position (including off-balance sheet)	**26 627**	**38 445**	**(50 501)**	**20 869**	**1 367**	**38 107**	**23 625**	**98 539**

(35) Credit risk

The table below shows the Group's 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 of any collateral and other credit enhancement.

	31.12.2015	**31.12.2014**
	EUR'000	**EUR'000**
Loans due from customers	308 288	241 375
Unused amount of line of credit	106	—
Cash and cash equivalents	56 862	33 713
Financial assets at fair value through profit or loss	10 643	18 626
Other receivables	3 939	1 550
Off-balance sheet credit related commitments	1 316	1 558
Funds deposited with trustee	—	44 477
Assets held for sale	—	4 418
	381 154	**345 717**

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments.

(36) Reorganisation reserve and restatement of comparatives

a) Reorganisation reserve from the prior years

Prior to 30 April 2014, AS 4finance - the Latvian operating company, currently a subsidiary within the Group - was the parent company of the Group, and 4finance Holding S.A. was one of AS 4finance subsidiaries. On 30 April 2014, after a series of transactions, a Group restructuring was completed, pursuant to which AS 4finance and 4finance Holding S.A. were effectively switched around in the Group structure. As a result 4finance Holding S.A. became the parent company of the Group which included AS 4finance and its subsidiaries that were part of the Group before the reorganization. The reorganization was a business combination under common control since the shareholder structure of AS 4finance before the reorganization was the same as for 4finance Holding S.A. after the reorganization. The Group decided to restate its comparatives and adjusted its 2014 reporting period before the date of the transaction as if 4finance Holding S.A. was the parent company before 1 January 2014. Restructuring was of legal nature and did not affect the beneficial ownership or economic fundamentals of the Group. Legal restructuring was conducted in several steps which are described below. Therefore, an accounting policy choice was made to treat these as common control transactions and perform accounting at book value. There was no impact on the consolidated statement of financial position, statement of profit or loss and comprehensive income, as previously reported in the consolidated financial statements of the Group's Latvian predecessor parent (AS 4finance), except that shareholders' equity was adjusted retrospectively to reflect the legal share capital of 4finance Holding S.A. (the new legal parent of the Group) rather than the legal share capital of AS 4finance (the previously legal parent of the Group - until 30 April 2014).

(36) Reorganisation reserve and restatement of comparatives (continued)

AS 4finance consolidated equity as at 31 December 2013 was stated as follows:

	Share capital	Reserves	Total equity attributable to shareholders of AS 4finance	Non-controlling interests	Total Equity
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
31 December 2013	3 166	61 302	64 468	1 308	65 776

As a result of restatement of 4finance Holding S.A. total consolidated equity did not differ from that of AS 4finance. However, share capital was adjusted to reflect that on 31 December 2013, AS 4finance had increased the share capital of 4finance Holding S.A. - at that time a subsidiary of AS 4finance - via a contribution in kind investment of other entities of the Group at book value of AS 4finance investment in these entities. This resulted in an increase of the share capital to EUR 17 524 thousand. There was a corresponding charge to the reorganisation reserve which resulted in a cumulative negative reorganization reserve of EUR 14 358 thousand. The reorganization reserve 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 reorganisation.

Further on 30 April 2014, 4finance Holding S.A. share capital was further increased via a contribution in kind of AS 4finance shares. This increased the share capital of 4finance Holding S.A. by EUR 18 226 thousand, increasing it to EUR 35 750 thousand. There was a corresponding charge of EUR 18 226 thousand in the reorganisation reserve with no effect on total equity.

Restated opening consolidated equity and movement in equity of 4finance Holding S.A. equity was stated in 2014 financial statements as follows:

	Share capital	Reorganization reserve	Other reserves	Total equity attributable to shareholders of the Company	Non-controlling interests	Total Equity
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
1 January 2014 (Restated)	**17 524**	**(14 358)**	**61 302**	**64 468**	**1 308**	**65 776**
Profit for the reporting period	—	—	45 646	45 646	614	46 260
Other comprehensive income	—	—	1 781	1 781	(524)	1 257
Transactions with shareholders recorded directly in equity						
Increase in share capital	18 226	—	—	18 226	—	18 226
Reorganization reserve	—	(18 226)	—	(18 226)	—	(18 226)
Dividends	—	—	—	—	(284)	(284)
31 December 2014	**35 750**	**(32 584)**	**108 729**	**111 895**	**1 114**	**113 009**

On 30 April 2014, 4finance Holding S.A. share capital was further increased via a contribution in kind of AS 4finance shares. This increased the share capital of 4finance Holding S.A. by EUR 18 226 thousand, increasing it to EUR 35 750 thousand. There was a corresponding charge of EUR 18 226 thousand in the reorganisation reserve with no effect on total equity.

(36) Reorganisation reserve and restatement of comparatives (continued)

b) Changes in Reorganisation reserve during 2015

Following the legal restructuring of 30 June 2015, as a result of which 4finance Group S.A. (formerly PM LUX S.A.) became the parent company of the Group, it was decided to expand operational activities to North America. It was further decided that these operations will be structured under 4finance Group S.A., but outside 4finance Holding S.A. At that point in time, 4finance Holding S.A. owned two operational entities - 4finance US Holding Company (USA) and 0973915 B.C. (Canada) - which in turn held interests in companies located in the United States of America and Canada. In order to facilitate expansion into North America, 4finance Group S.A. purchased these entities from 4finance Holding S.A. for the nominal value of its shares. Given that the entities had operated with accumulated losses, then on sale of the shares 4finance Holding S.A. made a gain. There were no active operations within the entities at the time of the sale. Given the nature of the assets, it was considered that the carrying amount of these assets approximates their fair value. Therefore, the gain on sale is considered as a transaction with shareholder in their capacity as shareholders rather than an arms' length transaction. Therefore, the gain to the 4finance Holding S.A. amounting to EUR 1 480 thousand is treated as an equity contribution and recorded in the Restructuring reserve within 4finance Holding S.A. equity.

Effect of disposal on the financial positions of the Group

	12 November 2015	**9 July 2015**
	Canada	USA
	EUR'000	EUR'000
Cash and cash equivalents	(64)	(575)
Property and equipment	(238)	—
Other assets	(112)	(543)
Other liabilities	138	—
Foreign currency translation differences on foreign operations	—	(62)
Net assets	(276)	(1 180)
Consideration received	1 775	1 161

(37) Group entities

As at 31 December 2015, the Group consisted of the following entities:

Name of entity	Registered office	Ownership
AS 4finance	Lielirbes 17A-8, Rīga, LV-1046, Latvia	100%
4finance EOOD	79 Nikola Gabrovski Str., floor 2, Sofia 1700, Bulgaria	100%
Zaplo Finance s.r.o. (formerly Vivus Finance s.r.o.)	Jankovcova 1037/49, Holešovice, 170 00 Prague 7, Czech Republic	100%
4finance UAB	Jonavos g. 254a, LT-44132, Kaunas, Lithuania	97%
4finance Oy	Mikonkatu 15A, 00100 Helsinki, Finland	100%
4finance AB	Hammarby Alle 47, 120 30, Stockholm, Sweden	97%
4finance ApS	Vesterbrogade 1L, 4., DK-1620, Copenhagen, Denmark	100%
4finance OÜ	Veerenni 58a-V-3, Tallinn city, Harju county, 11314, Estonia	100%
Intersales Services Limited	Icom house 1/5 Irish Town, Suite 3, Second Floor, Gibraltar	100%
International Risk Management OÜ	Roosikrantsi tn.2-K148, Tallina linn, Harju maakond 10119, Estonia	100%
Vivus Finance Sp.z o.o.	ul. 17 Stycznia, nr 56, 02-146 Warsaw, Poland	100%
Vivus Finance SA (formerly Vivus Finance SL)	Principe de Vergara 37, Planta Madrid 28001-Madrid, Spain	100%
4finance LLC	Ts. Dadiani str.7, Commercial unit N b506, Tbilisi, Georgia	100%
4finance Malta branch	40, Villa Fairholme, Sir Augustus Bartolo Street, Ta'Xbiex, XBX 1095, Malta	100%
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%
Zaplo Sp.z o.o. (formerly Palkow Sp.z o.o.)	ul.17 Stycznia, nr 56, 02-146, Warsaw, Poland	100%
Global Collection Management Sp.z o.o.	ul. 17 Stycznia, nr 56, 02-146, Warsaw, Poland	100%
4Spar AB	Hammarby Alle 47, 120 30, Stockholm, Sweden	97%
4finance S.A.	9, Allée Scheffer, L-2520 Luxembourg, Grand Duchy of Luxembourg	100%
SIA Ondo	Lielirbes 17A-10, Rīga, LV-1046, Latvia	100%
SIA Vivus.lv	Lielirbes 17A-9, Rīga, LV-1046, Latvia	100%
4finance IT SIA	Lielirbes 17A-10, Riga, LV-1046, Latvia	100%
4finance IT SIA odštěpný závod v České republice	Jankovcova 1037/49, Holešovice, 170 00 Prague 7, Czech Republic	100%

Notes to the Consolidated Financial Statements

Name of entity	Registered office	Ownership
4finance IT SIA spółka z ograniczoną odpowiedzialnością Oddział w Polsce	ul. 17 Stycznia, nr 56, 02-146, Warsaw, Poland	100%
4finance IT SIA Lietuvos filialas	Kauno m. sav. Kauno m. Jonavos g., 254 A, Lithuania	100%
Zaplo IFN S.A	49 Nicolae Caramfil Str., 3rd floor, Bucharest, 014142, Romania	100%
4f Sales, Inc.	615 South DuPont Highway, Dover, DE 19901, County of Kent, State of Delaware	100%
4finance S.R.L.	MD-2012, Str. Vlaicu-Parcalab no. 63, etajul 9, biroul "A", mun. Chisinau, Republica Moldova	100%
4finance Media SIA	Lielirbes iela 17A-10, Riga, LV-1046, Latvia	100%
GoodCredit Universal Credit Organization CJSC (Armenia)	58/1 K. Ulnecu str., Yerevan, Armenia	100%
VIVUS, S.R.L.	Calle Agustín Lara No. 41-A, Ensanche Serrallés, Santo Domingo, Dominican Republic	100% (99.9% 4Finance Holding S.A., 0.1% AS 4finance)
4F Serviços de Correspondente Bancário Ltda.	Rua James Watt, 84 – 10th floor, suite 103 office 5, Brooklin Novo, City of São Paulo, State of São Paulo, Zip Code 04576-050, Brazil	100% (99% 4Finance Holding S.A., 1% AS 4finance)
Global Collection Management Sp. z o.o. Spółka jawna	ul. 17 Stycznia, nr 56, 02-146 Warsaw, Poland	100%
Global Collection Management Sp. z o.o. komandytowo – akcyjna spółka jawna	ul. 17 Stycznia, nr 56, 02-146 Warsaw, Poland	100%
Credit Management LLC	Gudiashvili Square N4, Old Tbilisi distric, Tbilisi, Georgia	100%
4finance, S.A. de C.V., SOFOM E.N.R.	Corporativo Prisma, IZA Business Center, Av. Insurgentes Sur 1647 Piso 4, oficina 444, Col. San Jose Insurgentes, CP 03900, Delegacion Benito Juarez, Mexico DF	100% (98% 4Finanance Holding S.A., 2% AS 4finance)
Prestamo Movil S.A.	Humboldt 1550, 1414, CABA, Buenos Aires, Argentina	100% (90% 4Finance Holding S.A., 10% AS 4finance)
SIA 4finance IT branch in UK	Suite 2, 138 Marylebone Road, London, NW1 5PH, UK	100%

All new subsidiaries except for subsidiary in Argentina and Armenia added during the year were established by the Group. Subsidiaries in Argentina and Armenia were acquired in first half of 2015 (refer to Note 17). During the year, the Group disposed of Russian and United Kingdom operations as disclosed in Note 6.

(37) Group entities (continued)

As at 31 December 2014, the Group consisted of the following entities:

Name of entity	Registered office	Ownership
AS 4finance	Lielirbes 17A-8, Rīga, LV-1046, Latvia	100%
4finance EOOD	5 Luchezar Stanchevm floor 14, Sofia 1756, Bulgaria	100%
Zaplo Finance s.r.o. (formerly Vivus Finance s.r.o.)	Jankovcova 1037/49, Holešovice, 170 00 Prague 7, Czech Republic	100%
4finance UAB	Jonavos g. 254a, LT-44132, Kaunas, Lithuania	97%
4finance Oy	Mikonkatu 15B, 00100 Helsinki, Finland	100%
4finance AB	Isafjordsgatan 30 164 40, Kista, Stockholm, Sweden	97%
4finance ApS	Vesterbrogade 124 B 2 tv 1620 København V, Denmark	100%
4finance OÜ	Veerenni 58a-V-3, Tallinn city, Harju county, 13314, Estonia	100%
Intersales Services Limited	Icom house 1/5 Irish Town, Suite 3, Gibraltar	100%
International Risk Management OÜ	Roosikrantsi tn.2-K148, Tallina linn, Harju maakond 10119, Estonia	100%
4finance Ltd	City Tower, 40 Basinghall Street, London EC2V 5DE, United Kingdom	100%
Vivus Finance Sp.z o.o.	ul. 17 Stycznia, nr 56, 02-146 Warsaw, Poland	100%
Vivus Finance SA (formerly Vivus Finance SL)	Principe de Vergara 37, Planta Madrid 28001-Madrid, Spain	100%
AS 4finance Ltd	2900-550 Burrard Street, BC V6C0A3, Vancouver, Canada	100%
0973915 B.C. Ltd	2900-550 Burrard Street, BC V6C0A3, Vancouver, Canada	100%
4finance LLC	Ts. Dadiani str.7, N b506, Tbilisi, Georgia	100%
Piressa Holdings Limited	Nikou Georgiou 6 Block C, Office 704, P.C. 1095, Nikosia, Cyprus	100%
4finance Malta branch	40, Villa Fairholme, Sir Augustus Bartolo Street, Ta'Xbiex, XBX 1095, Malta	100%
Global Collection Management Sp.z o.o. SKA (formerly Palkow Sp.z o.o. SKA)	Stycznia 17, nr 56, Warsaw, 02-146, Poland	100%
Gala Resources Limited	Trident Chambers, P.O. Box 146, Road Town, Tortola, British Virgin Islands	100%
OOO Gefest-MSK	Proizvodstvennaya street, house 6, building 35, Moscow, 119619, Russia	100%
4finance ZAO	115201 Kotlyakowskaya street, bld 3/13, room 402, Moscow, Russia	100%
Zaplo Sp.z o.o. (formerly Palkow Sp.z o.o.)	Stycznia 17, nr 56, Warsaw, 02-146, Poland	100%
Global Collection Management Sp.z o.o.	Stycznia 17, nr 56, Warsaw, 02-146, Poland	100%
4Spar AB	Isafjordsgatan 30 164 40, Kista, Stockholm, Sweden	97%

Notes to the Consolidated Financial Statements

Name of entity	Registered office	Ownership
4finance S.A.	560A rue de Neudorf, L-2220, Luxembourg, Grand Duchy of Luxembourg	100%
SIA Ondo	Lielirbes 17A-10, Rīga, LV-1046, Latvia	100%
SIA Vivus.lv	Lielirbes 17A-9, Rīga, LV-1046, Latvia	100%
4finance US Holding Company, Inc	615 South DuPont Highway, Diver, DE 19901, County of Kent, State of Delaware, USA	100%
4finance Illinois, Inc	615 South DuPont Highway, Diver, DE 19901, County of Kent, State of Delaware, USA	100%
4finance Ohio, Inc	615 South DuPont Highway, Diver, DE 19901, County of Kent, State of Delaware, USA	100%
4finance Texas, Inc	615 South DuPont Highway, Diver, DE 19901, County of Kent, State of Delaware, USA	100%
4finance Missouri, Inc	615 South DuPont Highway, Diver, DE 19901, County of Kent, State of Delaware, USA	100%
4finance Delaware, Inc	615 South DuPont Highway, Diver, DE 19901, County of Kent, State of Delaware, USA	100%
4finance IT SIA	Lielirbes 17A-10, Riga, LV-1046, Latvia	100%
4finance IT SIA odštěpný závod v České republice	Jankovcova 1037/49, Holešovice, 170 00 Prague 7, Czech Republic	100%
4finance IT SIA spółka z ograniczoną odpowiedzialnością Oddział w Polsce	at 17 Stycznia street 56, 02-146 Warsaw, Poland	100%
4finance IT SIA Lietuvos filialas	Kauno m. sav. Kauno m. Jonavos g., 254 A, Lithuania	100%
Zaplo IFN S.A	Bucharest, district 1, 69-71 Soseaua Bucuresti-Ploiesti, 1st floor, room 36 , Romania	100%

Notes to the Consolidated Financial Statements

(38) Non-controlling interest in subsidiaries

Non-controlling interest 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 has material non-controlling interests (NCI), before any intra-group eliminations as at 31 December 2015:

EUR'000	Lithuania	Sweden	Total
NCI percentage	**3%**	**3%**	
Cash and cash equivalents	1 522	2 432	3 954
Loans due from customers	52 359	32 009	84 368
Property and equipment	113	97	210
Intangible assets	1	8	9
Deferred tax asset	67	2 492	2 559
Other assets	117	118	235
Loans and borrowings	(21 408)	(15 797)	(37 205)
Corporate income tax payable	(923)	(1 966)	(2 889)
Other liabilities	(2 956)	(11 251)	(14 207)
Net assets	**28 892**	**8 142**	**37 034**
Carrying amount of NCI	**867**	**244**	**1 111**
Revenue	35 195	26 170	61 365
Profit	12 005	7 842	19 847
Total comprehensive income	**12 005**	**7 842**	**19 847**
Profit allocated to NCI	**360**	**235**	**595**
Cash flows from operating activities	(3 003)	7 667	4 664
Cash flows from investment activities	(68)	(67)	(135)
Cash flows from financing activities, before dividends to NCI	4 238	(7 604)	(3 366)
Cash flows from financing activities - cash dividends to NCI	(399)	(209)	(608)
Net increase / (decrease) in cash and cash equivalents	**768**	**(213)**	**555**

(38) 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 2014:

EUR'000	**Lithuania**	**Sweden**	**Total**
NCI percentage	**3%**	**3%**	
Cash and cash equivalents	754	2 645	3 399
Loans due from customers	37 977	24 074	62 051
Property and equipment	110	67	177
Intangible assets	9	10	19
Deferred tax asset	77	1 554	1 631
Other assets	165	328	493
Loans and borrowings	(7 575)	(13 093)	(20 668)
Corporate income tax payable	(684)	(1 532)	(2 216)
Other liabilities	(914)	(6 841)	(7 755)
Net assets	**29 919**	**7 212**	**37 131**
Carrying amount of NCI	**898**	**216**	**1 114**
Revenue	27 035	19 618	46 653
Profit	13 209	7 276	20 485
Total comprehensive income	**13 207**	**7 276**	**20 483**
Profit allocated to NCI	**396**	**218**	**614**
Cash flows from operating activities	11 547	2 589	14 136
Cash flows from investment activities	(40)	(55)	(95)
Cash flows from financing activities, before dividends to NCI	(11 621)	(674)	(12 295)
Cash flows from financing activities - cash dividends to NCI	(72)	(212)	(284)
Net increase in cash and cash equivalents	**(186)**	**1 648**	**1 462**

(39) Subsequent events

On 18 December 2015, the Bank of Lithuania removed the Group's local operating entity, 4finance UAB, from the list of consumer credit lenders in Lithuania. According to the opinion of the Bank of Lithuania Group's local operating entity, 4finance UAB, was not in full compliance with certain consumer lending regulations. As a result, the Group could not issue new consumer loans in the name of 4finance UAB in Lithuania. Following successful discussions with the Lithuanian authorities on the steps required to resume issuing new loans, the Group re-started its lending operations in Lithuania in January using UAB Credit Service, a licensed entity that was transferred to 4finance Holding S.A., previously owned by 4finance Group S.A.. This entity will be added as a guarantor to the 2019 Notes and 2018 Notes in due course. The financial performance of the Lithuanian business segment for the twelve month period ended 31 December 2015 is disclosed in Note 31.

On 4 February 2016, v7 Limited, a UK company in which the Group has a 15% interest, received full FCA authorisation to operate as an online consumer lender in the UK and has started lending at www.vivus.co.uk.

New regulatory changes have now been implemented in Latvia (from 1 January 2016), Lithuania (from 1 February 2016) and Poland (from 11 March 2016). The Group's products are fully compliant with these new regulations.

In February 2016, two Luxembourg based category A directors were appointed to the Group's board, Stéphane Sabella and Philip Cesar Pascual, to replace directors Marc Chong Kan and Livio Gambardella.

(39) Subsequent events (continued)

The Group has incorporated companies in the Dominican Republic and Brazil to support pre-opening activities ahead of intended launches in those countries.

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

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39, Avenue John F. Kennedy
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To the Shareholders of
4finance Holding S.A. (formerly 4finance Holding S.à r.l.)
6, rue Guillaume Schneider
L-2522 Luxembourg

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of 4finance Holding S.A. (formerly 4finance Holding S.à r.l.), which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

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

Responsibility of the Réviseur d'Entreprises agréé

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

KPMG Luxembourg, Société coopérative, a Luxembourg entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

T.V.A. LU 27351518
R.C.S. Luxembourg B 149133

KPMG

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

Opinion

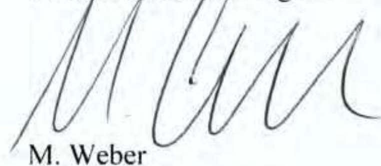
In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of 4finance Holding S.A. (formerly 4finance Holding S.à r.l.) as of 31 December 2015, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The consolidated management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements.

Luxembourg, 1 April 2016

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé



M. Weber

4finance Holding S.A.
(formerly 4finance Holding S.à r.l.)

Consolidated financial statements for the year ending 31 December 2014

Address: 6, rue Guillaume Schneider, L-2522 Luxembourg
RCS Luxembourg: B171.059

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Information on the Company

Name of the Company	*4finance Holding S.A.*
Legal status	*Joint Stock Company*
Number, place and date of registration	*B171059, Luxembourg, Luxembourg, August 27, 2012*
Legal and postal address	*6, rue Guillaume Schneider, L-2522 Luxembourg, Grand Duchy of Luxembourg*
Board members and their positions	*Kieran Patrick Donnelly, Chairperson of the Board (from 17.01.2014)* *Mārtiņš Baumanis, category B director (from 20.10.2014)* *Livio Gambardella, category A director (from 20.10.2014)* *Marc Chong Kan, category A director (from 27.02.2015)* *Maksud Ahmadkhanov, category A director (until 27.02.2015)*
Reporting period	*01.01.2014–31.12.2014*
Information on shareholders	*Tirona Ltd* *Cyprus* *Holding: 75%* *FCI Investments Ltd* *Malta* *Holding: 25%*
Auditors	*KPMG Luxembourg* *Société coopérative* *39, Avenue John F. Kennedy* *L-1855 Luxembourg*

4finance Holding S.A. (the 'Group'), rated B3 by Moody's and B+ by Standard & Poor's, which provides consumer finance solutions to retail customers in ten countries, presents its audited annual report together with the annual accounts for the twelve month period ending 31 December 2014 (the 'Period').

Share capital of 4finance Holding S.A. as at 31 December 2014 is EUR 35 750 thousand and it is divided into 3 575 000 000 ordinary shares with the nominal value of EUR 0.01. As at 31 December 2014 4finance AS, a subsidiary of 4finance Holding S.A., holds one hundred thousand (100 000) non-voting preferred shares with nominal value of one cent of Euro (EUR 0.01) each.

Important events in 2014 and future developments

During the reporting period the Group has achieved the expected results.

In the Period the decision to sell operations in the Russian Federation and the UK was made. In 2015, the decision to discontinue operations in Estonia was made.

In 2015, the Group will continue to pursue its strict credit policy with the goal of generating loan portfolio of increasing quality. In line with the increasing investments in product development and technologies the Group forecasts a rise in demand and plans to generate profit also in the next reporting period. Taking into account the successful development of business on existing markets, the Group plans to expand its activities in other European countries and to select jurisdictions outside Europe.

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

Interest income for the Period amounts to EUR 221 million, compared with EUR 149 million in the same period ending 31 December 2013, which represents an increase of 48%. Most significant interest income increase are in Group's developing markets - Poland, Georgia, and Spain representing an increase for the Period of EUR 67 million or 225% compared with the same period ending 31 December 2013. Interest increase is driven by increase in net loan portfolio. The balance of outstanding net loans at the end of the Period was EUR 241 million, a 36% increase compared with EUR 178 million in the twelve months ending 31 December 2013. Growth in net loan portfolio was driven mostly by Poland, Spain and Georgia.

The Group has generated profit during the reporting period. The profit for the Period amounts to EUR 46.3 million, a 29% increase compared to EUR 35.8 million for the twelve months ending 31 December 2013.

The profit for the year will be invested into the future growth and development of the Group.

Principal risks and uncertainties

The Group applies Group principles for overall risk management, and the Group policies covering specific areas such as credit risk, liquidity risk, market risks, operational risks and reputational risks.

More detailed description of risk management is available on page 19 of the financial statements.

Research and development

The Group has established a Product Development department and continues to invest in information technologies. Total expenditure for the product development and IT departments amounted to EUR 8.7 million. The investments are primarily allocated to further expansion and development as well as to improvements in existing products.

Corporate Governance

Strong corporate governance is an integral part of the Group's core values, supporting the Group's vision of moving towards a sustainable future.

Our executive committee is composed of a team that works with the senior leaders across the Group to evaluate the importance of the core values throughout the Group by promoting and fostering a corporate culture of the highest ethical standards, internal controls, and legal compliance.

Important events since the balance sheet date

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

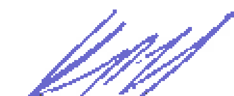
Kieran Patrick Donnelly
Chairperson of the Board

15 April 2015

Consolidated Statement of Comprehensive Income

	Note	2014 EUR'000	2013 EUR'000 Not audited Restated
Interest income	7	220 842	149 297
Interest expense	8	(23 750)	(15 356)
Net interest income		**197 092**	**133 941**
Other income	9	2 150	1 992
Other expense	10	(4 037)	(247)
Goodwill write-off		-	(589)
Net impairment losses on loans and receivables	11	(54 161)	(26 630)
General administrative expenses	12	(81 113)	(53 257)
Profit before taxes		**59 931**	**55 210**
Corporate income tax for the reporting period	13	(11 639)	(8 471)
Profit from continuing operations		**48 292**	**46 739**
Discontinued operation			
Loss from discontinued operations, net of tax	6	(2 032)	(10 949)
Profit for the period		**46 260**	**35 790**
Profit attributable to:			
Equity holders of the Group		45 646	35 204
Non-controlling interests		614	586
Profit		**46 260**	**35 790**
Other comprehensive income			
Foreign currency translation differences on foreign operations		1 257	(556)
Total comprehensive income for the period		**47 517**	**35 234**
Total comprehensive income attributable to:			
Equity holders of the Group		47 427	34 338
Non-controlling interests		90	896

The accompanying notes on pages 11 to 56 form an integral part of these consolidated financial statements.



Kieran Patrick Donnelly
Chairperson of the Board

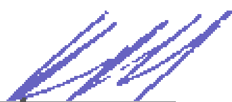
15 April 2015

Consolidated Statement of Financial Position

Assets	**Note**	**31.12.2014 EUR'000**	**31.12.2013 EUR'000 Restated**
Cash and cash equivalents	14	33 713	17 055
Loans due from customers	15	241 375	177 904
Property and equipment	16	2 108	1 803
Intangible assets	17	2 751	540
Deferred tax asset	18	10 727	4 355
Corporate income tax receivable		4 700	-
Financial derivatives at fair value through profit or loss	19	18 626	-
Prepaid expenses		3 331	2 484
Other assets	20	48 281	3 932
Assets held for sale	21	4 418	17 368
Total assets		370 030	225 441

Liabilities			
Loans and borrowings	22	231 624	129 221
Corporate income tax payable		6 407	4 151
Other liabilities	23	18 315	9 824
Financial instruments at fair value through profit or loss	19	-	2 422
Liabilities held for sale	20	675	14 047
Total liabilities		**257 021**	**159 665**
Share capital	24	35 750	17 524
Retained earnings		107 578	61 932
Reorganization reserve	35	(32 584)	(14 358)
Currency translation reserve		919	(862)
Share based payment reserve		87	87
Obligatory reserve		145	145
Total equity attributable to equity holders of the Company		**111 895**	**64 468**
Non-controlling interests		1 114	1 308
Total equity		**113 009**	**65 776**
Total shareholders' equity and liabilities		370 030	225 441

The accompanying notes on pages 11 to 56 form an integral part of these consolidated financial statements.



Kieran Patrick Donnelly
Chairperson of the Board

15 April 2015

Consolidated Statement of Cash Flows

	Note	2014 EUR'000	2013 EUR'000 Not audited Restated
Cash flows from operating activities			
Profit before taxes		57 899	42 735
Adjustments for:			
Depreciation and amortization		1 203	784
Write-off of goodwill		-	589
Net losses on foreign exchange from borrowings		18 749	-
Increase in impairment allowance		39 293	33 721
Write-off and disposal of intangible and property and equipment assets		70	393
Provisions		170	478
Interest income		(841)	-
Interest expenses		23 750	16 726
Profit or loss before adjustments for the effect of changes to current assets and short term liabilities		140 293	95 426
Adjustments for:			
Increase in loans due from customers		(105 604)	(112 472)
Change in financial instruments measured at fair value through profit or loss		(21 048)	2 422
Increase in other assets		(3 648)	(3 495)
Gains from sale of portfolio	9	1 827	351
Increase in accounts payable to suppliers, contractors and other creditors		8 702	1 884
Gross cash flows from operating activities		20 522	(15 884)
Corporate income tax paid		(20 911)	(12 332)
Net cash flows used in operating activities		(389)	(28 216)
Cash flows from investing activities			
Purchase of property and equipment and intangible assets		(4 158)	(2 601)
Loans issued to related parties		(161)	471
Interest received		830	-
Acquisition of subsidiaries, net of cash acquired		-	-
Net cash flows used in investing activities		(3 489)	(2 130)

Consolidated Statement of Cash Flows

	Note	2014 EUR'000	2013 EUR'000 Not audited Restated
Cash flows from financing activities			
Loans received and notes issued	22	86 556	137 050
Repayment of loans		(52 467)	(65 201)
Interest payments		(18 746)	(15 050)
Dividend payments		(280)	(12 091)
Net cash flows from financing activities		15 063	44 708
Net increase/(decrease) in cash and cash equivalents		11 185	14 362
Cash and cash equivalents at the beginning of the period		21 124	7 318
Effect of exchange rate fluctuations on cash		2 133	(556)
Cash and cash equivalents at the end of the period	14	34 442	21 124

The accompanying notes on pages 11 to 56 form an integral part of these consolidated financial statements.

Kieran Patrick Donnelly
Chairperson of the Board

15 April 2015

Consolidated Statement of Changes in Equity

Group	Share capital EUR'000	Reorganization reserve EUR'000	Currency translation reserve EUR'000	Share based payment reserve EUR'000	Legal 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
01.01.2013	31	3 135	4	87	145	38 762	42 164	469	42 633
Total comprehensive income									
Profit for the reporting period	-	-	-	-	-	35 204	35 204	586	35 790
Other comprehensive income	-	-	(866)	-	-	-	(866)	310	(556)
Transactions with shareholders recorded directly in equity									
Increase in share capital (refer to Note 35)	17 493	(17 493)	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	(12 034)	(12 034)	(57)	(12 091)
01.01.2014 (restated)	17 524	(14 358)	(862)	87	145	61 932	64 468	1 308	65 776
Total comprehensive income							-		-
Profit for the reporting period	-	-	-	-	-	45 646	45 646	614	46 260
Other comprehensive income	-	-	1 781	-	-	-	1 781	(524)	1 257
Transactions with shareholders recorded directly in equity									
Increase in share capital (refer to Note 35)	18 226	(18 226)	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	(284)	(284)
31.12.2014	35 750	(32 584)	919	87	145	107 578	111 895	1 114	113 009

The accompanying notes on pages 11 to 56 form an integral part of these consolidated financial statements.

Kieran Patrick Donnelly
Chairperson of the Board

15 April 2015

(1) Reporting entity

4finance Holding S.A. (the 'Company') is registered at 6, rue Guillaume Schneider, L-2522 Luxembourg, Grand Duchy of Luxembourg (reg. No B171059). On 30 April 2014, the Company changed its legal form from a private limited liability company to a joint stock company and was renamed accordingly from 4finance Holding S.à r.l. to 4finance Holding S.A. The Company, which does not have any operating activities, is the holding company for several subsidiaries in Europe and North America (together referred to as the 'Group'). Some of the Company's subsidiaries directly own other entities which are part of the Group. The Group entities provide consumer loans to hundreds of thousands of customers. Currently, the Group operates in Latvia, Lithuania, Finland, Sweden, Denmark, Poland, Spain, Czech Republic, Georgia and Bulgaria.

Prior to 30 April 2014, AS 4finance - the Latvian operating company was the parent company of the Group, and 4finance Holding S.à r.l. was one of AS 4finance's subsidiaries. On 30 April 2014, the Group restructuring was completed, pursuant to which AS 4finance and 4finance Holding S.A. (formerly 4finance Holding S.à r.l.) were effectively switched around in the Group structure. As a result, 4finance Holding S.A. became the parent company of the Group (refer to Note 35).

(2) Basis of preparation

(a) Statement of Compliance

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

These consolidated financial statements were approved by the Company's Board of Directors on 15 April 2015. 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 are prepared.

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

(b) Basis of Measurement

The consolidated financial statements are prepared on a historical cost basis except for financial assets and liabilities carried at fair value through profit or loss and disposal group held for sale carried at the lower of cost and fair value less cost to sell.

(c) Functional and presentation currency

The consolidated financial statements are presented in thousands of euro (EUR), unless stated otherwise. EUR is chosen as a presentation currency since most of the Group's operational activities are based in the European Union. During 2014 Group companies operated in the functional currencies of LTL, EUR, SEK, DKK, PLN, GBP, RUB, GEL, CZK, BGN and CAD, 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.

Basis of Consolidation

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Company. 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.

(i) Goodwill

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

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

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

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

(ii) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the operation at the exchange rate set by the Central Bank of the country of operation or the European Central Bank 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 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:

	31.12.2014		31.12.2013
LVL	-	LVL	1.42287
LTL	0.28962	LTL	0.28962
SEK	0.10646	SEK	0.11113
DKK	0.13431	DKK	0.13403
PLN	0.23402	PLN	0.24047
GBP	1.28386	GBP	1.19948
RUB	0.01382	RUB	0.02220
CZK	0.03606	CZK	0.03614
GEL	0.44138	GEL	0.42202
BGN	0.51130	BGN	0.51081
GIB	1.28866	GIB	1.20192
USD	0.82366	USD	0.73278
CAD	0.71109	CAD	0.68725

(ii) Foreign operations

The assets and liabilities of foreign operations are translated into EUR the Company's presentation currency at exchange rates set by the European Central Bank at the reporting date. The income and expenses of foreign operations are translated into the Company's functional currency at exchange rates at the dates of the transactions. 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.

(iii) Share-based payment transactions

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

(iv) Cash and cash equivalents

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.

(v) 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 way purchases of financial assets are accounted for at the settlement date.

(ii) Measurement

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

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

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

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(iii) Derecognition

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

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

(iv) Fair value measurement principles

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

When applicable, the Group measures the fair value of an instrument using 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.

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

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

(v) Derivative financial instruments

Derivative financial instruments include swap and forward instruments.

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

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

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

(vi) Loans and advances

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

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

(vi) 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) Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

(iii) 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:

Computer equipment	3 years
Long-term leasehold improvements	5 years
Other property and equipment	5 years

(vii) Intangible assets

Intangible assets, which are acquired by the Group, other than goodwill, are stated at cost less accumulated amortization and impairment losses.

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

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

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

(viii) Impairment

(i) Financial assets

At each reporting date the Group assesses 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 Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment 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 large number of small exposure loans that would make individual impairment testing impracticable.

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 statement of comprehensive income and reflected in an allowance account against loans and advances. Interest on impaired assets is recognized indirectly through change in net impairment allowance raised 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 statement of comprehensive income.

(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 largely are independent from other assets and groups. Impairment losses are recognised in 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 (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(ix) 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.

As at the end of the period, a provision for unused vacations has been recognized in accordance with local legislation in each separate country of operation and is based on the number of vacation days unused as at 31 December 2014 and historical remuneration.

(x) 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 presentation currency.

(ii) Legal reserve

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

(iii) Obligatory reserve

Under Lithuanian law, an annual allocation to the legal reserve should amount to at least 5% of the net profit until the reserve makes up 10% of the share capital. The reserve cannot be distributed; it can be used only to cover losses.

(iv) Reorganization reserve

Reorganization reserve relates to a row of legal reorganizations that took place in 2014. 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. For further details on the reserve please refer to Note 35.

(xi) Dividends

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

(xii) Taxation

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

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

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(xiii) 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 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) Penalty fee income

Income from penalty fees is recognized as received.

(xiv) Staff costs and related contributions

The Group's personnel expenses relate to only short-term benefits and related tax expense. The Group pays social security contributions to the state pension insurance system and to the state funded pension scheme in accordance with the Latvian and relevant foreign regulations. In accordance with the Republic of Latvia

Cabinet Regulations a part of the social insurance contributions is used to fund the state defined contribution pension system. State funded pension scheme is a defined contribution plan under which the Group pays fixed contributions determined by law and will have no legal or constructive obligation to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are accrued in the year in which the associated services are rendered by the employees of the Group.

(xv) Operating segments

Since the Group's debt is traded in a public market, it discloses information about its operating segments. The Group determines and presents operating segments based on the information that is internally provided to the Group Management Board, which is the Group's Chief Operating Decision Maker (CODM).

Comparative segment information has been presented in conformity with the IFRS requirements.

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.

(xvi) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represent a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations
- are operations that are ceased.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income (OCI) is represented as if the operation had been discontinued from the start of the comparative year.

(xvii) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on assets held for sale is allocated to the remaining assets and liabilities on a pro rata basis.

Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated.

(xviii) 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.

(xix) Changes in accounting policies

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

The Group have 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 2014:

- IFRS 10 *Consolidated Financial Statements (2011)*
- IFRS 11 *Joint Arrangements*

- IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 10 Consolidated Financial Statements (2011)

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.
In accordance with the transitional provisions of IFRS 10 (2011), the Group reassessed the control conclusion for its investees on 1 January 2014. The Group concluded that there are no changes in control assessment as a consequence of new rules introduced by IFRS 10 (2011).

IFRS 11 Joint Arrangements

Under IFRS 11, the structure of the joint arrangement, although still an important consideration, is no longer the main factor in determining the type of joint arrangement and therefore the subsequent accounting.

1 The Group's interest in a joint operation, which is an arrangement in which the parties have rights to the assets and obligations for the liabilities, will be accounted for on the basis of the Group's interest in those assets and liabilities.
2 The Group's interest in a joint venture, which is an arrangement in which the parties have rights to the net assets, will be equity-accounted.

The Group is not a party to any joint arrangements.

IFRS 12: Disclosure of Interests in Other Entities

IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a result of IFRS 12, the Group has expanded its disclosures about non-controlling interests in its subsidiaries (Note 37).

Other amendments to standards

The following amendments to standards with effective date of 1 January 2014 did not have any impact on these consolidated and separate financial statements:

- Amendments to IAS 32 on Offsetting Financial Assets and Financial Liabilities
- Amendments to IAS 36 on Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to IAS 39 on Novation of Derivatives and Continuation of Hedge Accounting

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

(i) IAS 19 Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 February 2015)

The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. When these criteria are met, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

The Group does not expect the amendment to have any impact on the consolidated financial statements since it does not have any defined benefit plans that involve contributions from employees or third parties.

(ii) IFRIC 21 Levies (effective for annual periods beginning on or after 17 June 2014)

The Interpretation provides guidance as to the identification of the obligating event giving rise to a liability, and to the timing of recognising a liability to pay a levy imposed by government. In accordance with the Interpretation, the obligating event is the activity that triggers the payment of that levy, as identified in the relevant legislation and as a consequence, the liability for paying the levy is recognised when this event occurs. The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time. If the obligating event is the reaching of a minimum activity threshold, the corresponding liability is recognised when that minimum activity threshold is reached. The Interpretation sets out that and entity cannot have a

constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.

It is expected that the Interpretation, when initially applied, will not have a material impact on the consolidated financial statements, since it does not result in a change in the entity's accounting policy regarding levies imposed by governments.

(iii) IFRS 9 Financial Instruments (effective for annual reporting periods beginning on or after 1 January 2018)

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances.

(iv) Revenue from Contracts with Customers (effective for annual reporting periods beginning on or after 1 January 2017)

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

(v) Annual Improvements to IFRSs

The improvements introduce eleven amendments to nine standards and consequential amendments to other standards and interpretations. Most of these amendments are applicable to annual periods beginning on or after 1 February 2015, with earlier adoption permitted. Another four amendments to four standards are applicable to annual periods beginning on or after 1 January 2015, with earlier adoption permitted.

None of these amendments are expected to have a significant impact on the consolidated financial statements of 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 risks
- Operational risks
- Reputational risks

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 Group's Credit Policy defines lending guidelines according to the business strategy and efficient risk management, protecting the Group's assets as well as complying with the local regulatory requirements. Loan credit risk is managed by the Group's Risk department. Lending rules and scorecards (the Credit scoring models) are implemented for all products and customer risk profile is analysed prior to the loan being issued. The Credit scoring models use

multiple triggers including but not limited to customer credit history checks and income levels. The use of the Credit scoring models exclude any possibility of judgment as scoring is done automatically and is based on statistical evidence. Specific Credit scoring models are adjusted to specific country requirements and tendencies. Credit scoring models are periodically reviewed and if necessary adjusted to follow market and specific client group tendencies. The Group has established a general Group Debt Collection policy. The Group has implemented specific country-specific debt collection procedures to ensure smooth collection of debts. Performance of different customer groups is analysed on a regular basis by the Group's Debt Collection department. Management believes that current procedures are sufficient to effectively monitor credit risk of customer groups, in addition the structure of portfolio is based on many small value loans as a result separate customer exposures cannot individually cause material losses to the Company. Calculation methodology of allowances for impairment on loans is described in Note 5. Quantitative information on the Group's credit risk is disclosed in Note 15.

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset when due. Liquidity position of the Group is managed by the Treasury department. The 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 Group has established the following processes and procedures: Group cash flow management procedure, Group bank account management procedure, Intra-Group Financing process. The Management believes that current processes and procedures are sufficient to effectively monitor and manage liquidity risk of the Group. The Group's financial assets and liabilities maturity structure is presented in Note 31.

(c) Market risk

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

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

(d) 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 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 repricing 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 the Group's borrowings have been received at fixed rates. Repricing of interest-bearing liabilities is not expected to take place within the next 12 months.

(e) 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 Currency risk monitoring and management policy. 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 the foreign currency exchange rates based on positions existing as at 31 December 2014 and 31 December 2013 and a simplified scenario of a change in SEK, DKK, USD, RUB, GEL, PLN to EUR exchange rates is as follows:

	31 December 2014		31 December 2013 (Not audited, restated)	
	Net income	Equity	Net income	Equity
5% appreciation of SEK against EUR	1 043	1 043	777	777
5% depreciation of SEK against EUR	(1 043)	(1 043)	(777)	(777)
5% appreciation of DKK against EUR	720	720	451	451
5% depreciation of DKK against EUR	(720)	(720)	(451)	(451)
5% appreciation of PLN against EUR	68	68	1 952	1 952
5% depreciation of PLN against EUR	(68)	(68)	(1 952)	(1 952)
10 % appreciation of USD against EUR	3 814	3 814	686	686
10% depreciation of USD against EUR	(3 814)	(3 814)	(686)	(686)
20% appreciation of RUB against EUR	597	597	807	807
20% depreciation of RUB against EUR	(597)	(597)	(807)	(807)
5% appreciation of GEL against EUR	1 331	1 331	214	214
5% depreciation of GEL against EUR	(1 331)	(1 331)	(214)	(214)

The foreign exchange rate LTL/EUR is pegged as at 31 December 2014 and 31 December 2013 and accordingly management does not consider there to be currency risk in these currencies, as the rate of exchange is likely only to change as a result of a change in macro-economic policy. In addition, Lithuania adopted the Euro as its currency in place of the LTL on 1 January 2015 at the same rate as prevailed as at 31 December 2014.

Currency risk analysis above illustrates the effect of an isolated appreciation/depreciation of each significant operating currency. The above analysis does not include any assumptions about correlation between these currencies. Refer to Note 19 for the description of the Group's currency risk management.

(f) Price risk

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 Group takes a long or short position in a financial instrument.

The Group is not exposed to price risk as it does not hold financial instruments dependent on changes in market prices.

(g) Operational risks

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

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

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

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified

- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Reputational risk in relation to the lending practices is employed by each component. 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 are legal and cooperates intensively with regulators, when requested.

(h) Capital management

Capital management of the Group is not controlled by any requirements set by regulatory institutions or international bodies. The management reviews capital position on a regular basis, to ensure positive equity in all subsidiaries of the Group and to maintain sufficient funds, to ensure medium and long term strategic goals of the Group. Equity is the residual interest in the assets of the Group after deducting all its liabilities.

(5) Use of estimates and judgments

The preparation of consolidated financial statements requires management to make judgments, 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.

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 2013. 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 are:

- Allowances for credit losses on loans and receivables (see Note 15)

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

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

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

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

The management closely follows recoveries from delinquent loans and revises LGD 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 the countries and is supported by actual past experience across numerous entities within the 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 Group has wider historical data availability. Projected loss given default rates vary across the countries depending on the specifics of individual countries.

During the year ended 31 December 2014, the management continually reassessed its impairment allowances for credit losses on loans and receivables. This assessment included a review of historical recovery trends impacting the loss given default ratio that underlies the impairment loss allowance calculation. As at 31 December 2014, the weighted average loss given default rate across portfolios was 47% (31 December 2013: 36.8%). Weighted average LGD rate has increased due to growth of individual LGD ratios in countries with the largest operating entities, like Spain and Poland.

An analysis of sensitivity of the Group's net income for the year and equity to changes in LGD rates and a simplified scenario of a 5% increase in LGD ratio for each operating entity would increase loan loss provisions by EUR 7 300 thousand (31 December 2013: EUR 4 299 thousand).

- Separation of embedded derivatives

The Group's borrowing notes issued in 2014 and maturing in 2019 have prepayment option for bond holders to request early redemption in 2017. There is also an early redemption option from the 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. The Group does not expect these options to be exercised.

- Deferred tax asset recognition (see Note 18)
- Fair value of financial instruments (see Note 19).

(6) Discontinued operation

The comparative consolidated statement of comprehensive income has been restated to show the discontinued operations separately from continuing operations.

In December 2013, a decision to discontinue operations in the United Kingdom and the North America business segments was made due to a strategic decision to place greater focus on markets which provide higher return on investment.

In December 2014, a decision to sell the Group's operations in the Russian Federation was made. The decision was primarily driven by political and economic uncertainties on the market. At the same time the decision to sell its effectively ceased operations in the UK to the effective local management was made.

Operating segments that are being sold by the management's decision are classified as held-for-sale as at 31 December 2014 and 31 December 2013. In 2014, the North America business segment was sold to a related party outside the reporting group. The Group gained profit of EUR 2 348 thousand from this sale due to the segment's retained losses. The Russian Federation business segment has been sold to a related party outside the reporting group and all related sales transactions will be completed in the first half of 2015. Sale of 85% of the ceased operations in the United Kingdom is effective from the 1st of January 2015 and all related transactions will be completed in the first half of 2015.

The below table includes the operating results of discontinued business segments. All of the discontinued operations are attributable to shareholders of the Company.

(a) Results of discontinued operation

	2014 EUR'000	2013 EUR'000 Not audited Restated
Interest income	10 053	21 073
Interest expenses	(10)	(1 209)
Impairment allowance	(4 304)	(12 766)
Net other expenses	(9 789)	(19 573)
Results from operating activities	**(4 050)**	**(12 475)**
Income tax	(330)	1 526
Results from operating activities, net of tax	**(4 380)**	**(10 949)**
Gain on sale of discontinued operations	2 348	-
Profit/(loss) for the period	**(2 032)**	**(10 949)**

The results from the discontinued operations in 2014 and 2013 are attributable to the owners of the Group.

(b) Cash flows from (used in) discontinued operations

	2014 EUR'000	2013 EUR'000 Not audited Restated
Net cash used in operating activities	(3 230)	(22 204)
Net cash from investing activities	(262)	(613)
Net cash flow from financing activities	23	9 554
Net cash flow for the year	(3 469)	(13 263)

(7) Interest income

Interest income represents revenue generated during the reporting period from the Group's basic activities – consumer loans. Interest income includes loan commission income and penalty fee income.

Interest income by geographic markets:

	2014 EUR'000	2013 EUR'000 Not audited Restated
Poland	61 448	24 606
Latvia	40 817	49 405
Lithuania	27 035	27 303
Georgia	20 276	1 194
Finland	19 951	17 042
Sweden	19 618	18 359
Spain	14 361	3 778
Denmark	12 974	7 228
Other	4 362	382
	220 842	149 297

(8) Interest expense

	2014 EUR'000	2013 EUR'000 Not audited Restated
Interest expense on notes	20 887	6 206
Interest expense on other loans	2 332	8 735
Interest expense on bank loans	531	415
	23 750	15 356

(9) Other income

	2014 EUR'000	2013 EUR'000 Not audited Restated
Gain from debt portfolio sale	922	-
Currency exchange effect from derivative financial instruments	-	2 447
Currency exchange effect from other revaluations	-	(648)
Other income	1 228	193
	2 150	1 992

During 2014, the Group sold portfolios in Latvia, Sweden and Finland. The net carrying amount of the portfolios on the date of sale amounted to EUR 905 thousand (2013: EUR 507 thousand). As a result of the sale the Group received consideration in the amount of 1 827 (2013: EUR 351 thousand) and it resulted in a gain of EUR 922 thousand (2013: EUR 176 thousand loss).

(10) Other expense

	2014 EUR'000	2013 EUR'000 Not audited Restated
Loss on debt portfolio sale	-	176
Currency exchange effect from derivative financial instruments	(16 581)	-
Currency exchange effect from other revaluations	20 487	-
Other expense	131	71
	4 037	247

(11) Net impairment losses on loans and receivables

	2014 EUR'000	2013 EUR'000 Not audited Restated
Impairment losses on loans	55 738	26 864
Recovery from written-off loans	(1 577)	(234)
	54 161	26 630

Changes in recovery from written-off loans mainly due to maturity structure changes of loan portfolio. For more details of write-off methodology see Note 5.

(12) General administrative expenses

	2014 EUR'000	2013 EUR'000 Not audited Restated
Marketing and sponsorship	34 177	23 314
Personnel costs	23 067	14 817
Debt collection costs	3 832	1 493
Legal and consulting	3 794	1 860
Application inspection costs	3 748	2 911
IT expenses	3 462	2 143
Communication expenses	2 359	1 890
Rent and utilities	1 489	1 103
Bank services	1 125	1 269
Depreciation and amortization	928	657
Travel	850	570
Other	2 282	1 230
	81 113	53 257

Auditor's fees	2014 EUR'000	2013 EUR'000 Not audited Restated
Audit fees	360	123
Audit related fees	70	83
Tax related fees	94	21
Total	524	227

Average number of employees	2014	2013 Not audited Restated
Senior management/Executives	5	3
Employees	917	544
Total	922	547

(13) Corporate income tax for the reporting period

	2014 EUR'000	2013 EUR'000 Not audited Restated
Current tax	18 474	11 275
Deferred tax	(6 835)	(2 804)
	11 639	8 471

Reconciliation of effective corporate income tax:

	2014 EUR'000	2013 EUR'000 Not audited Restated
Profit/(loss) before corporate income tax	59 931	55 210
Theoretical corporate income tax, 29%	17 380	16 011
CIT relief due to donation	(324)	(964)
Effect of recognized deferred tax asset (including tax losses and allowance for bad debts), not previously recognized	(658)	(1 375)
Tax effect of permanent differences related to non-deductible expenses	1901	1 150
Non-taxable gain on sale of discontinued operations	(681)	-
Impact of tax rate in other jurisdictions	(5 979)	(6 351)
Corporate income tax for the reporting year	11 639	8 471

(14) Cash and cash equivalents

	31.12.2014 EUR'000	31.12.2013 EUR'000 Restated
Bank balances	33 713	17 055
Cash and cash equivalents in the statement of financial position	**33 713**	**17 055**
Cash and cash equivalents included in assets held for sale	729	4 069
Cash and cash equivalents in the statement of cash flows	34 442	21 124

(15) Loans due from customers

	31.12.2014 EUR'000	31.12.2013 EUR'000 Restated
Long-term loans due from customers	15 730	9 690
Impairment of long-term loans due from customers	(2 740)	(2 107)
Long term	**12 990**	**7 583**
Short-term loans due from customers	301 063	210 434
Impairment of short-term loans due from customers	(72 678)	(40 113)
Short term	**228 385**	**170 321**
	241 375	177 904

The Group's long-term and short-term loans consist of loan balances not exceeding EUR 3 200 per loan with maturity of up to 3 years. Average loan size in both years is EUR 174. The loans are not collateralized.

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

	31.12.2014 EUR'000	31.12.2013 EUR'000 Not audited Restated
Allowance for doubtful debts		
Balance at the beginning of period	42 220	16 837
Charge for the period in continued operations	55 738	26 864
Amounts written-off	(16 749)	(4 763)
Written-off on disposal of portfolio	(1 882)	-
Reclassified to assets held-for-sale	(1 745)	-
Charge for the period in discontinued operations	-	4 007
Currency effect	(2 164)	(725)
Balance at period end	**75 418**	**42 220**

Loans by country and currency:

	Gross receivables 31.12.2014 EUR'000	Allowance for doubtful debts 31.12.2014 EUR'000	Net receivables 31.12.2014 EUR'000	Gross receivables 31.12.2013 EUR'000 Restated	Allowance for doubtful debts 31.12.2013 EUR'000 Restated	Net receivables 31.12.2013 EUR'000 Restated
Latvia (EUR)	61 914	(10 717)	51 197	58 781	(10 658)	48 123
Lithuania (LTL/EUR)	45 610	(7 633)	37 977	43 848	(8 445)	35 403
Finland (EUR)	26 837	(5 900)	20 937	20 298	(3 515)	16 783
Sweden (SEK)	30 634	(6 560)	24 074	21 399	(4 623)	16 776
Poland (PLN)	80 718	(26 080)	54 638	43 690	(5 939)	37 751
Denmark (DKK)	17 057	(3 863)	13 194	10 356	(1 838)	8 518
Georgia (GEL)	26 115	(3 969)	22 146	3 659	(145)	3 514
Spain (EUR)	20 868	(9 432)	11 436	7 181	(1 641)	5 540
Other	7 040	(1 264)	5 776	10 912	(5 416)	5 496
	316 793	(75 418)	241 375	220 124	(42 220)	177 904

(15) Loans due from customers (continued)

Credit quality of loan portfolio

	Gross receivables 31.12.2014 EUR'000	Allowance for doubtful debts 31.12.2014 EUR'000	Net receivables 31.12.2014 EUR'000	Gross receivables 31.12.2013 EUR'000 Restated	Allowance for doubtful debts 31.12.2013 EUR'000 Restated	Net receivables 31.12.2013 EUR'000 Restated
Not overdue	159 555	(4 003)	155 552	112 515	(2 404)	110 111
Overdue less than 90 days	48 787	(13 051)	35 736	38 754	(8 132)	30 622
Overdue more than 90 days	108 451	(58 364)	50 087	68 855	(31 684)	37 171
	316 793	(75 418)	241 375	220 124	(42 220)	177 904

(16) Property and equipment

	Leasehold improvements EUR'000	Computer equipment EUR'000	Other property and equipment EUR'000	Total EUR'000
Cost				
31.12.2012	241	831	285	1 357
Additions	284	991	508	1 783
Acquisitions through business combinations	-	-	41	41
Disposals	(2)	(23)	-	(25)
Reclassified to assets held for sale	(153)	(150)	(118)	(421)
Effect of changes in foreign exchange rates	(10)	65	(72)	(17)
31.12.2013 (restated)	**360**	**1 714**	**644**	**2 718**
Accumulated depreciation				
31.12.2012	64	235	54	353
Depreciation	112	407	112	631
Acquisitions through business combinations	-	-	2	2
Disposals	-	(13)	-	(13)
Reclassified to assets held for sale	(15)	(36)	(15)	(66)
Effect of changes in foreign exchange rates	(1)	19	(10)	8
31.12.2013 (restated)	**160**	**612**	**143**	**915**
Balance as at 31.12.2012	177	596	231	1 004
Balance as at 31.12.2013 (restated)	200	1 102	501	1 803

	Leasehold improvements EUR'000	Computer equipment EUR'000	Other property and equipment EUR'000	Total EUR'000
Cost				
31.12.2013 (restated)	360	1 714	644	2 718
Additions	41	1 038	279	1 358
Disposals	(46)	(43)	(38)	(127)
Reclassified to assets held for sale	-	(162)	(1)	(163)
Reclassification to intangible assets	-	(7)	(2)	(9)
Effect of changes in foreign exchange rates	(2)	(85)	-	(87)
31.12.2014	**353**	**2 455**	**882**	**3 690**
Accumulated depreciation				
31.12.2013 (restated)	160	612	143	915
Depreciation	57	607	144	808
Disposals	(13)	(30)	(15)	(58)
Reclassified to assets held for sale	-	43	-	43
Reclassification to intangible assets	-	(1)	-	(1)
Effect of changes in foreign exchange rates	-	(112)	(13)	(125)
31.12.2014	**204**	**1 119**	**259**	**1 582**
Balance as at 31.12.2013 (restated)	200	1 102	501	1 803
Balance as at 31.12.2014	149	1 336	623	2 108

(17) Intangible assets

	Licenses, trademarks and similar rights EUR'000	Software and other intangible assets EUR'000	Total EUR'000
Cost			
31.12.2012	231	277	508
Additions	288	174	462
Acquisitions through business combinations	-	24	24
Disposals	(37)	(1)	(38)
Reclassified to assets held for sale	-	(34)	(34)
Effect of changes in foreign exchange rates	-	(4)	(4)
31.12.2013 (restated)	482	436	918
Accumulated amortisation			
31.12.2012	106	168	274
Amortisation	91	58	149
Acquisitions through business combinations	-	2	2
Amortisation of disposals	(36)	(1)	(37)
Reclassified to assets held for sale	-	(9)	(9)
Effect of changes in foreign exchange rates	4	(5)	(1)
31.12.2013 (restated)	165	213	378
Balance as at 31.12.2012	125	109	234
Balance as at 31.12.2013 (restated)	317	223	540

	Licenses, trademarks and similar rights EUR'000	Software and other intangible assets EUR'000	Advances EUR'000	Total EUR'000
Cost				
31.12.2013 (restated)	482	436	-	918
Additions	526	5	2 269	2 800
Disposals	(7)	-	-	(7)
Reclassified to assets held for sale	(275)	-	(3)	(278)
Reclassification	129	(139)	-	(10)
Effect of changes in foreign exchange rates	(111)	(25)	2	(134)
31.12.2014	744	277	2 268	3 289
Accumulated amortisation				
31.12.2013 (restated)	165	213	-	378
Amortisation	249	27	-	276
Amortisation of disposals	(6)	-	-	(6)
Reclassified to assets held for sale	76	-	-	76
Reclassification	25	(25)	-	-
Effect of changes in foreign exchange rates	(184)	(2)	-	(186)
31.12.2014	325	213	-	538
Balance as at 31.12.2013 (restated)	317	223	-	540
Balance as at 31.12.2014	419	64	2 268	2 751

(18) 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 2014:

						31 December 2014	
	Net balance 1 January 2014	Recognised in profit or loss of continued operations	Recognised in profit or loss of discontinued operations	Effect of exchange rate fluctuations	Net balance 31 December 2014	Deferred tax asset	Deferred tax liabilities
Impairment losses on loans and receivables	6 619	1 957	-	(50)	8 526	8 526	-
Property and equipment	(44)	(58)	-	2	(100)	-	(100)
Other liabilities	(2 231)	3 886	(297)	(91)	1 267	1 267	-
Tax loss carry-forwards	11	1 050	-	(27)	1 034	1 034	-
Deferred tax assets (liabilities) before set-off	4 355	6 835	(297)	(166)	10 727	10 827	(100)
Set-off of tax						(100)	100
Net deferred tax assets (liabilities)						10 727	-

Movement in temporary differences and tax losses carried forward during the year ended 31 December 2013:

						31 December 2013 Restated	
	Net balance 1 January 2013	Recognised in profit or loss of continued operations	Recognised in profit or loss of discontinued operations	Effect of exchange rate fluctuations	Net balance 31 December 2013	Deferred tax asset	Deferred tax liabilities
Impairment losses on loans and receivables	2 114	4 406		99	6 619	6 619	-
Property and equipment	(46)	2		-	(44)	-	(44)
Other liabilities	(866)	(1 557)	222	(30)	(2 231)	-	(2 231)
Tax loss carry-forwards	59	(47)		(1)	11	11	-
Deferred tax assets (liabilities) before set-off	1 261	2 804	222	68	4 355	6 630	(2 275)
Set off of tax						(2 275)	2 275
Net deferred tax assets (liabilities)						4 355	-

The Group has recognized the deferred tax assets of EUR 10 727 thousand (31 December 2013: EUR 4 355 thousand) in Latvia, Lithuania, Sweden, Finland, Poland, Georgia, Czech Republic and Spain. The tax losses carried forward relate to Spain, Czech Republic and Latvia. EUR 765 thousand of the tax losses do not have an expiry period, whilst for EUR 161 thousand the expiry period is 5 years. EUR 616 thousand relate to the tax losses in Spain which the Group expects to realise in year 2015. The Group's component in Spain after making losses in its start-up phase demonstrates profitability signs. As at 31 December 2014, the Group had not recognised a deferred tax relating to tax losses of EUR 960 thousand (2013: EUR 577 thousand) due to uncertainty in utilisation of these tax benefits.

(19) Financial instruments at fair value through profit or loss

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. EUR to USD cross currency swap agreement with notional amount of USD 120 000 thousand, which matures on 31 January 2015, limits the Group's exposure to USD from notes due in January 2015. Under this agreement the Group pays EUR 88 203 thousand and receives USD 120 000 thousand subject to net settlement. The fair value of this forward agreement as at 31 December 2014 was EUR 10 866 thousand (31 December 2013: EUR 1 067 thousand negative to the Group).

To limit the Group's exposure to USD from notes due in August 2019, the Group has concluded EUR to USD forward agreements and European put option with notional amounts of USD 22 500 thousand and USD 72 500 thousand maturing in August 2019 and February 2016, respectively. Under the forward agreements, which have been concluded with related parties (refer to Note 26), the Group pays EUR 16 806 thousand and receives USD 22 500 thousand subject to net settlement at maturity. According to these forward agreements the Group also pays EUR 987 thousand and receives USD 1 321 thousand subject to net settlement at each semi-annual coupon payment date until the maturity of notes due in August 2019. The fair value of these forward agreements as at 31 December 2014 was EUR 2 444 thousand. Under the European put option the Group has the right to sell EUR 55 196 thousand for USD 72 500 thousand at the USD/EUR rate of 1.3135 at maturity.

To limit the Group's exposure to PLN from its operating activities in Poland, the Group has concluded PLN to EUR European call option with maturity in July 2015. Under the European call option the Group has the right to buy EUR 60 000 thousand for PLN 270 120 thousand at the PLN/EUR rate of 4.502 at maturity. The call option limits the Group's downward risk from adverse PLN/EUR exchange rate movements.

Sensitivity of exposures to open currency positions has been presented in Note 4(e). As at 31 December 2014, the fair value of these financial instruments is EUR 18 626 thousand (31 December 2013: EUR (2 422) thousand). The table below reflects fair value of each derivative type separately.

	31.12.2014 EUR'000	31.12.2013 EUR'000 Restated
Currency forward agreements	13 310	(2 422)
European put option	4 660	-
European call option	656	-
	18 626	(2 422)

(20) Other assets

	31.12.2014 EUR'000	31.12.2013 EUR'000 Restated
Funds deposited with trustee	44 477	-
Security deposits	2 120	3 124
Other receivables	1 684	808
	48 281	3 932

The Group has cash collateral of EUR 1 647 thousand (31 December 2013: EUR 2 785 thousand) pledged and deposited with counterparties with whom it has concluded cross currency swap agreement. The amount is included under Security deposits.

The Group has deposited with trustee funds EUR 44 477 thousand that were used to repay notes which are due on 31 January 2015 (refer to Note 22). The funds were placed with an EU financial institution with credit rating "A-" and were successfully used in the settlement of the previously issued notes. The deposited funds were acquired from note issued in August 2014 and were placed with the trustee directly without cash transactions through the Group's bank accounts.

(21) Disposal group held for sale

In December 2013, the management committed to sell its North American business segment. Accordingly, the segment is presented as a disposal group held for sale as at 31 December 2013. The sale was fully finalized in 2014.

In December 2014, the management committed to sell its Russian Federation business segment and to sell the UK business which had been ceased before. Accordingly, the segments are presented as a disposal group held for sale. The sale is expected to be fully finalized in the first half of 2015.

(a) Assets and liabilities of disposal group held for sale

	31.12.2014 EUR'000	31.12.2013 EUR'000 Restated
Cash and cash equivalents	729	4 069
Loans due from customers	2 886	11 018
Property and equipment	119	355
Intangible assets	203	25
Deferred tax asset	-	1 226
Other assets	481	675
Assets held for sale	**4 418**	**17 368**

	31.12.2014 EUR'000	31.12.2013 EUR'000 Restated
Loans and borrowings	161	12 915
Provisions	14	4
Corporate income tax payable	8	-
Other liabilities	492	1 128
Liabilities held for sale	**675**	**14 047**

(b) Cumulative income or expense included in OCI

	31.12.2014 EUR'000	31.12.2013 EUR'000 Not audited Restated
Foreign currency translation differences on foreign operations	1 265	165
	1 265	165

(22) Loans and borrowings

	31.12.2014 EUR'000	31.12.2013 EUR'000 Restated
Long term		
Notes	157 867	125 385
Loans from related parties	12 634	658
Loans from bank	6 188	3 065
	176 689	129 108

	31.12.2014 EUR'000	31.12.2013 EUR'000 Restated
Short term		
Notes	50 733	-
Loans from related parties	4 202	113
	54 935	113
Total	231 624	129 221

In May 2011, the Company's subsidiary AS 4finance signed a credit line agreement with AS Trasta Komercbanka with a maximum credit line limit of EUR 7 700 thousand maturing in April 2015 and a fixed annual interest rate of 10% for the part of the credit line used and 0.5% for the unused part of the facility.

In February 2014, the credit line agreement with AS Trasta Komercbanka was amended – maturing in January 2016 and a fixed annual interest rate of 8% for the part of credit line used. Neither the maximum credit line amount, nor the interest rate for the unused part of the facility have changed.

AS Trasta Komercbanka loans are secured by AS 4finance commercial pledge over all AS 4finance assets. The maximum amount secured by commercial pledge is EUR 16 144 thousand as at 31 December 2014. As at 31 December 2014, AS 4finance is compliant with all covenants included in the credit line agreement with the Bank.

In August 2013, AS 4finance listed USD 170 000 thousand 13% notes on the Irish Stock Exchange, which were due on 31 January 2015 and which were senior to all its future subordinated debt, if any. The notes were fully repaid at maturity.

The Group has obtained loans from related parties to finance expansion of its operating activities with annual interest rates between 12% and 13% with maturity in year 2017.

In August 2014, S.A. 4finance listed USD 200 000 thousand 11.75% notes on the Irish Stock Exchange, which are due in August 2019. These notes were used to refinance previously issued notes which are due on 31 January 2015. The management plans to evaluate additional funding options to facilitate further growth of the Group. From this note issuance the Group received net proceeds of USD 19 910 thousand after paying agent fees of USD 4 873 thousand, settling part of previously issued notes, which were tendered by their holders, in amount of USD 97 313 thousand and depositing funds with trustee in amount of USD 77 412 thousand to repay notes which were due on 31 January 2015 (refer to Note 20). The note holders were invited to tender voluntarily the Group's offer to repurchase the notes at nominal amount, plus the accrued interest.

(23) Other liabilities

	31.12.2014 EUR'000	31.12.2013 EUR'000 Restated
Deposits from customers	5 772	4 123
Accounts payable to suppliers	4 106	1 797
Accrued expenses	2 994	1 579
Taxes payable	1 180	334
Provisions for unused vacations	971	815
Other liabilities	3 292	1 176
	18 315	9 824

(24) Share capital

Share capital of the Company as at 31 December 2014 is EUR 35 750 thousand (31 December 2013: EUR 17 524 thousand) and it is divided into 3 575 000 000 ordinary shares (31 December 2013: 17 524 000 shares) with the nominal value of EUR 0.01 (31 December 2013: EUR 0.01) settled via contribution in kind. Equity caption includes negative reorganization reserve of EUR 32 584 thousand (31 December 2013: EUR 14 358 thousand) which 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 reorganisation (refer to Note 35).

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.

The Group's shareholders as at 31 December 2014 are FCI Investments Ltd, Malta (25% ownership), and Tirona Ltd, Cyprus (75% ownership). The Parent company's financial statements are not published.

In February 2015, the ultimate beneficial owners of Tirona Limited have been changed from 100% owned by Mr. Oleg Boyko to 25.5% by Mr. Uldis Arnicans, 25.5% by Mr. Edgars Dupats, and 49% by Mrs. Vera Boyko.

(25) Operating leases

Non-cancellable operating lease rentals are payable as follows:

	31.12.2014 EUR'000	31.12.2013 EUR'000 Restated
Less than one year	1 490	916
Between one and five years	3 467	2 893
More than five years	-	957
	4 957	4 766

The Company leases a number of premises and equipment under operating lease. The leases typically run for an initial period up to five years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

In year 2014, EUR 894 thousand was recognized as an expense in the income statement in respect of operating leases (2013: EUR 1 433 thousand).

(26) Related party transactions

(a) Transactions with parent

Borrowings and payables to related parties:	31.12.2014 EUR'000	31.12.2013 EUR'000 Restated
Loans and borrowings		
- Borrowings and payables at the end of the period	12 634	112

Interest expense to related parties:	2014 EUR'000	2013 EUR'000 Not audited Restated
Interest expense	1 458	7 849

(b) Transactions with other related parties

Interest income from related parties:	2014 EUR'000	2013 EUR'000 Not audited Restated
Other income		
- Interest income	779	-

Borrowings and payables to related parties:	31.12.2014 EUR'000	31.12.2013 EUR'000 Restated
Loans and borrowings		
- Borrowings and payables at the end of the period	4 202	659

Financial instruments at fair value through profit or loss	31.12.2014 EUR'000	31.12.2013 EUR'000 Restated
Financial assets/(liabilities) at fair value through profit or loss at the end of the period	2 444	(1 191)

Interest expense to related parties:	2014 EUR'000	2013 EUR'000 Not audited Restated
Interest expense	488	550

Receivables from related parties:	**31.12.2014 EUR'000**	**31.12.2013 EUR'000 Restated**
Loans issued to related parties	131	-
Interest receivable	3	-

Total remuneration included in administrative expenses:

	2014 EUR'000	**2013 EUR'000 Not audited Restated**
Executive committee and Board members	1 123	388

There are no outstanding balances as of 31 December 2014 with members of the Luxembourg Executive committee and Board members.

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

Gain on sale of discontinued operations (refer to Note 6)	**2014 EUR'000**	**2013 EUR'000 Not audited Restated**
Gain on sale of discontinued operations	2 348	-

(27) Personnel costs

	2014 EUR'000	2013 EUR'000 Not audited Restated
Type of costs		
Remuneration	17 926	11 512
Compulsory state social security contributions, pensions and other social security expenses	3 711	2 616
Other personnel costs	1 430	689
	23 067	14 817

(28) 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 operations of the Group.

(29) 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 2014	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets				
Financial instruments at fair value through profit or loss	-	18 626	-	18 626
	-	**18 626**	-	**18 626**

31 December 2014	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial liabilities				
Financial instruments at fair value through profit or loss	-	-	-	-
	-	-	-	-

31 December 2013 (restated)	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial liabilities				
Financial instruments at fair value through profit or loss	-	(2 422)	-	(2 422)
	-	(2 422)	-	(2 422)

As at 31 December 2013 the Group did not have financial assets measured at fair value.

(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 2014	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	-	33 713	-	33 713	33 713
Loans due from customers	-	-	249 266	249 266	241 375
Other assets – Other loans to related parties	-	-	130	130	131
Other assets – Funds deposited with trustee	-	46 124	-	46 124	46 124
Assets held for sale			-	3 615	3 615
Financial liabilities					
Loans and borrowings	-	-	231 693	231 693	231 624
Other liabilities – Deposits from customers	-	-	5 656	5 656	5 772
Other liabilities – Accounts payable to suppliers	-	-	4 106	4 106	4 106
Liabilities held for sale	-	-	-	4 418	4 418

31 December 2013 (restated)	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	-	17 055	-	17 055	17 055
Loans due from customers	-	-	200 681	200 681	177 904
Other assets – Cash collateral pledged	-	2 785	-	2 785	2 785
Assets held for sale	-	-	-	17 368	17 368
Financial liabilities					
Loans and borrowings	-	-	128 840	128 840	129 221
Other liabilities – Deposits from customers	-	-	4 005	4 005	4 123
Other liabilities – Accounts payable to suppliers	-	-	1 797	1 797	1 797
Liabilities held for sale	-	-	-	14 047	14 047

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

Financial instruments measured at fair value

Type	Valuation technique	Significant unobservable inputs
Financial instruments at fair value through profit or loss	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 not measured at fair value

Type	Valuation technique	Significant unobservable inputs
Other borrowed funds, loans due from customers, deposits and balances due to customers	Discounted cash flows	Discount rates

Group's debt is not widely traded, therefore, the discount rates used in determining the fair value of its liabilities is management's judgment that is based on their experience in attracting debt in capital markets.

(30) Operating segments

The Group has six reportable segments, as described below, which are the Group's strategic segments. The strategic segments are primarily jurisdiction-based and offer similar type of products and services in each of the jurisdictions. Each segment is managed separately because they require different marketing strategies. For each of the strategic segments, the Group's Management Board reviews internal management reports on at least a monthly basis.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit or loss, as included in the internal management reports that are reviewed by the Group's Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments in relation 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 2014 and 2013 is set below:

	Latvia		Lithuania		Finland		Sweden		Poland		Georgia		All other segments		Total	
EUR'000	31 Dec 2014	31 Dec 2013 Not audited Restated	31 Dec 2014	31 Dec 2013 Not audited Restated	31 Dec 2014	31 Dec 2013 Not audited Restated	31 Dec 2014	31 Dec 2013 Not audited Restated	31 Dec 2014	31 Dec 2013 Not audited Restated	31 Dec 2014	31 Dec 2013 Not audited Restated	31 Dec 2014	31 Dec 2013 Not audited Restated	31 Dec 2014	31 Dec 2013 Not audited Restated
Interest income	40 317	49 405	27 039	27 343	19 951	17 042	19 610	18 359	61 448	24 606	20 256	1 194	41 750	32 461	230 193	170 370
Interest expense	(19 911)	(15 018)	(1 829)	(2 168)	(2 254)	(1 649)	(2 394)	(1 863)	(5 678)	(7 901)	(2 091)	(123)	(3 431)	(4 216)	(37 531)	(27 938)
Internal revenue	19 040	17 786	-	-	-	-	728	514	268	-	-	-	-	-	20 046	18 300
Net impairment losses on loans and receivables	(6 768)	(5 284)	(3 729)	(2 839)	(3 356)	(1 724)	(2 779)	(2 574)	(20 928)	(5 301)	(3 664)	(115)	(14 091)	(14 935)	(55 215)	(31 632)
Reportable segment profit/ (loss) before tax	20 958	23 296	16 035	12 301	4 549	4 098	9 163	7 579	15 369	2 980	11 940	109	(5 417)	2 379	72 663	58 242

Segment breakdown of assets and liabilities of the Group is set out below:

	Latvia		Lithuania		Finland		Sweden		Poland		Georgia		All other segments		Total	
EUR'000	31 Dec 2014	31 Dec 2013 Restated	31 Dec 2014	31 Dec 2013 Restated	31 Dec 2014	31 Dec 2013 Restated	31 Dec 2014	31 Dec 2013 Restated	31 Dec 2014	31 Dec 2013 Restated	31 Dec 2014	31 Dec 2013 Restated	31 Dec 2014	31 Dec 2013 Restated	31 Dec 2014	31 Dec 2013 Restated
Reportable segment assets	253 696	178 483	39 092	36 784	23 619	17 900	36 871	21 796	62 841	43 098	28 248	4 414	42 947	35 411	487 309	339 864
Reportable segment liabilities	188 959	133 765	23 846	18 101	17 135	13 175	28 487	14 440	32 837	28 555	17 222	3 686	58 701	10 190	360 187	231 920

Notes to the Consolidated Financial Statements

(30) Operating segments (continued)

Segment breakdown of interest income by products of the Group for the year ended 31 December 2014 and 2013 is set out below:

EUR'000	Latvia		Lithuania		Finland		Sweden		Poland		Georgia		All other segments		Total	
	31 Dec 2014	31 Dec 2013 Not audited Restated	31 Dec 2014	31 Dec 2013 Not audited Restated	31 Dec 2014	31 Dec 2013 Not audited Restated	31 Dec 2014	31 Dec 2013 Not audited Restated	31 Dec 2014	31 Dec 2013 Not audited Restated	31 Dec 2014	31 Dec 2013 Not audited Restated	31 Dec 2014	31 Dec 2013 Not audited Restated	31 Dec 2014	31 Dec 2013 Not audited Restated
Single payment loans	24 410	33 105	15 023	17 961	14 719	15 972	15 565	16 433	59 953	24 606	20 276	1 194	41 750	32 461	195 303	141 732
Instalment loans	16 399	16 305	12 012	9 342	1 633	1 070	4 053	1 926	1 495	-	-	-	-	-	35 592	28 643

(30) Operating segments (continued)

Reconciliation of reportable segment interest income

EUR'000	2014	2013 Not audited Restated
Total interest income for reportable segments	189 145	137 909
Interest income for other operating segments	41 750	32 461
Elimination of discontinued operations	(10 053)	(21 073)
Consolidated revenue	220 842	149 297

Reconciliation of reportable segment profit or loss

EUR'000	2014	2013 Not audited Restated
Total profit or loss for reportable segments	78 080	55 363
Profit or loss for other operating segments	(5 417)	2 879
Elimination of inter-segment dividends included in inter-segment profits	(13 274)	(12 058)
Elimination of discontinued operations	4 050	10 949
Elimination of other inter-segment profits from discontinued operations	(3 508)	(1 923)
Consolidated profit before tax from continued operations	59 931	55 210

Reconciliation of reportable segment interest expense

EUR'000	2014	2013 Not audited Restated
Total interest expense for reportable segments	34 100	23 722
Interest expense for other operating segments	3 431	4 216
Elimination of inter-segment transactions	(13 771)	(11 373)
Elimination of discontinued operations	(10)	(1 209)
Consolidated interest expense	23 750	15 356

Reconciliation of reportable segment assets

EUR'000	31 December 2014	31 December 2013 Restated
Total assets for reportable segments	444 367	304 475
Assets for other operating segments	42 942	35 411
Elimination of inter-group loans and receivables	(117 279)	(114 445)
Consolidated total assets	370 030	225 441

Reconciliation of reportable segment liabilities

EUR'000	31 December 2014	31 December 2013 Restated
Total liabilities for reportable segments	310 486	221 722
Liabilities for other operating segments	58 701	10 198
Elimination of inter-group borrowings and payables	(112 166)	(72 255)
Consolidated total liabilities	257 021	159 665

(31) Maturity analysis

The table below shows carrying amounts of financial assets and liabilities by remaining contractual maturity dates as at 31 December 2014.

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	More than 1 year	Overdue	TOTAL
Cash and cash equivalents	33 713	-	-	-	-	-	33 713
Loans due from customers	108 411	7 911	9 335	14 068	19 830	81 820	241 375
Financial assets at fair value through profit or loss	10 866	-	-	656	7 104	-	18 626
Other financial assets	46 161	-	131	-	-	-	46 292
Assets held for sale	4 418	-	-	-	-	-	4 418
Total financial assets	203 569	7 911	9 466	14 724	26 934	81 820	344 424

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	More than 1 year	Overdue	TOTAL
Loans and borrowings	50 961	3 500	1 431	5 378	170 354	-	231 624
Deposits from customers	2 585	656	625	873	1 033	-	5 772
Accounts payable to suppliers	4 106	-	-	-	-	-	4 106
Liabilities held for sale	675	-	-	-	-	-	675
Total financial liabilities	58 327	4 156	2 056	6 251	171 387	-	242 177
Net position	145 242	3 755	7 410	8 473	-144 453	81 820	102 247
Net cumulative position	145 242	148 997	156 407	164 880	20 427	-	-

The table below shows financial assets and liabilities by remaining contractual maturity dates as at 31 December 2013 (restated).

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	More than 1 year	Overdue	TOTAL
Cash and cash equivalents	17 055	-	-	-	-	-	17 055
Loans due from customers	81 645	5 224	5 555	7 982	12 109	65 389	177 904
Other financial assets	160	-	-	-	2 625		2 785
Assets held for sale	17 368	-	-	-	-	-	17 368
Total financial assets	116 228	5 224	5 555	7 982	14 734	65 389	215 112

Liabilities EUR'000	Demand less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	More than 1 year	Overdue	TOTAL
Loans and borrowings	2 679	-	-	106	126 436	-	129 221
Deposits from customers	3 842	46	129	38	68	-	4 123
Accounts payable to suppliers	1 797	-	-	-	-	-	1 797
Financial instruments at fair value through profit or loss	15	-	48	119	2 240	-	2 422
Liabilities held for sale	14 047	-	-	-	-	-	14 047
Total financial liabilities	22 380	46	177	263	128 744	-	151 610
Net position	93 848	5 178	5 378	7 719	(114 010)	65 389	63 502
Net cumulative position	93 848	99 026	104 404	112 123	(1 887)	-	-

(32) 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 2014 was as follows:

31 December 2014	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	231 624	303 267	43 805	13 415	1 954	15 621	228 472
Deposits from customers	5 772	6 358	293	3 923	239	672	1 231
Accounts payable to suppliers	4 106	4 106	4 106	-	-	-	-
Liabilities held for sale	675	675	675	-	-	-	-
Total	242 177	314 406	48 879	17 338	2 193	16 293	229 703
Credit related commitments	-	1 558	1 558	-	-	-	-

The analysis as at 31 December 2013 was as follows:

31 December 2013 (restated)	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	129 221	150 182	4 638	57	4 691	9 487	131 309
Deposits from customers	4 123	4 385	132	2 373	338	475	1 067
Accounts payable to suppliers	1 797	1 797	1 797	-	-	-	-
Liabilities held for sale	14 047	14 047	14 047	-	-	-	-
Derivative liabilities							
- Inflow	(138 613)	(143 688)	(7 154)	-	(3 927)	(7 854)	(124 753)
- Outflow	141 035	145 000	7 164	-	3 964	7 929	125 943
Total	151 610	171 723	20 624	2 430	5 066	10 037	133 566
Credit related commitments	-	1 576	1 576	-	-	-	-

(33) Currency analysis

The table below shows the currency structure of financial assets and liabilities as at 31 December 2014:

Assets EUR'000	GEL	LTL	EUR	SEK	PLN*	USD**	Other	TOTAL
Cash and cash equivalents	4 732	737	7 606	2 797	10 247	5 773	1 821	33 713
Loans due from customers	22 145	37 977	84 584	24 074	54 638	-	17 957	241 375
Other financial assets	-	-	228	28	77	46 124	110	46 567
Assets held for sale							4 418	4 418
Total financial assets	26 877	38 714	92 418	26 899	64 962	51 897	24 306	326 073
Off-balance	-	-	60 000	-	-	187 562	-	247 562

Liabilities EUR'000	GEL	LTL	EUR	SEK	PLN*	USD	Other	TOTAL
Loans and borrowings	-	-	30 283	-	-	201 341	-	231 624
Deposits from customers	-	-	-	5 772	-	-	-	5 772
Accounts payable to suppliers	251	269	1 916	258	382	11	1 019	4 106
Liabilities held for sale	-	-	-	-	-	-	675	675
Total financial liabilities	251	269	32 199	6 030	382	201 352	1 694	242 177
Off-balance	-	-	169 706	-	63 213	-	-	232 919
Net position (excluding off-balance)	26 626	38 445	60 219	20 869	64 580	-149 455	22 612	83 896
Net position (including off-balance)	26 626	38 445	-49 487	20 869	1 367	38 107	22 612	98 539

*) The Group manages its net position in PLN using option contract (refer to Note 19).

**) In addition to currency swap agreements, which are presented in off-balance line, the Group uses option contract to manage its net position in USD (refer to Note 19).

Currency risk of the open positions in USD and PLN is managed through the use of cross currency swap and option agreements and forward foreign currency contracts which minimize adverse effect of USD/EUR and PLN/EUR currency exchange rate fluctuations.

The Group monitors on a regular basis its foreign currency exposure to non-euro based currencies and will, if deemed commercial, consider hedging some of any exposure arising.

The table below shows the currency structure of financial assets and liabilities as at 31 December 2013 (restated):

Assets EUR'000	LVL	LTL	EUR	SEK	PLN	USD	Other	TOTAL
Cash and cash equivalents	3 209	860	4 160	2 894	1 510	2 047	2 375	17 055
Loans due from customers	48 113	35 392	22 591	16 880	37 828	-	17 100	177 904
Other financial assets	-	-	160	-	-	2 625	-	2 785
Assets held for sale	-	-	-	-	-	15 088	2 280	17 368
Total financial assets	51 322	36 252	26 911	19 774	39 338	19 760	21 755	215 112
Off-balance	-	-	-	-	-	124 054	-	124 054

Liabilities EUR'000	LVL	LTL	EUR	SEK	PLN	USD	Other	TOTAL
Loans and borrowings	-	-	3 836	-	-	125 385	-	129 221
Deposits from customers	-	-	-	4 123	-	-	-	4 123
Accounts payable to suppliers	445	243	439	118	304	-	248	1 797
Liabilities held for sale	-	-	-	-	-	11 578	2 469	14 047
Total financial liabilities	445	243	4 275	4 241	304	136 963	2 717	149 188
Off-balance	-	-	125 180	-	-	-	-	125 180
Net position (excluding off-balance)	50 877	36 009	22 636	15 533	39 034	(117 203)	19 038	65 924
Net position (including off-balance)	50 877	36 009	(102 544)	15 533	39 034	6 851	19 038	64 798

(34) Credit risk

The table below shows the Group's 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 of any collateral and other credit enhancement.

	31.12.2014 EUR'000	31.12.2013 EUR'000 Restated
Cash and cash equivalents	33 713	17 055
Loans due from customers	241 375	177 904
Credit related commitments	1 558	1 576
Funds deposited with trustee	44 477	-
Other receivables	1 647	2 785
Assets held for sale	4 418	17 368
Financial assets at fair value through profit or loss	18 626	-
	345 814	216 688

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments.

(35) Reorganisation reserve and restatement of comparatives

Prior to 30 April 2014, AS 4finance – the Latvian operating company, currently a subsidiary within the Group - was the parent company of the Group, and 4finance Holding S.A. was one of AS 4finance subsidiaries. On 30 April 2014, after a series of transactions, a Group restructuring was completed, pursuant to which AS 4finance and 4finance Holding S.A. were effectively switched around in the Group structure. As a result 4finance Holding S.A. became the parent company of the Group which included AS 4finance and its subsidiaries that were part of the Group before the reorganization. The reorganization was a business combination under common control since the shareholder structure of AS 4finance before the reorganization was the same as for 4finance Holding S.A. after the reorganization. The Group has decided to restate its comparatives and adjust its current reporting period before the date of the transaction as if 4finance Holding S.A. was the parent company before 1 January 2013 which is the earliest period presented. Restructuring was of legal nature and did not affect the beneficial ownership or economic fundamentals of the Group. Legal restructuring was conducted in several steps which are described below. Therefore, an accounting policy choice was made to treat these as common control transactions and perform accounting at book value. There is no impact on the consolidated statement of financial position, statement of profit or loss and comprehensive income, as previously reported in the consolidated financial statements of the Group's Latvian predecessor parent (AS 4finance), except that shareholders' equity was adjusted retrospectively to the start of the earliest date presented in the financial statements to reflect the legal share capital of 4finance Holding S.A. (the new legal parent of the Group) rather than the legal share capital of AS 4finance (the previously legal parent of the Group – until 30 April 2014).

Comparatives of AS 4finance consolidated equity are stated as follows:

	Share capital EUR'000	Reserves EUR'000	Total equity attributable to shareholders of the Company EUR'000	Non-controlling interests EUR'000	Total Equity EUR'000
01.01.2013	3 166	38 998	42 164	469	42 633
Profit for the reporting period	-	35 204	35 204	586	35 790
Other comprehensive income	-	(866)	(866)	310	(556)
Transactions with shareholders recorded directly in equity	-	-	-	-	-
Dividends	-	(12 034)	(12 034)	(57)	(12 091)
31.12.2013	3 166	61 302	64 468	1 308	65 776

As at 1 January 2013, the share capital of 4finance Holding S.A. amounted to EUR 31 thousand.

On 31 December 2013, AS 4finance increased the share capital of 4finance Holding S.A. – at that time a subsidiary of AS 4finance - via a contribution in kind investment of other entities of the Group at book value of AS 4finance investment in these entities. This resulted in an increase of the share capital by EUR 17 493 thousand. There was a corresponding charge of EUR 17 493 thousand in the reorganisation reserve with no effect on total equity. The reorganization reserve 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 reorganisation.

(35) Reorganisation reserve and restatement of comparatives (continued)

Comparatives of 4finance Holding S.A. equity are restated as follows:

	Share capital EUR'000	Reorganization reserve EUR'000	Other reserves EUR'000	Total equity attributable to shareholders of the Company EUR'000	Non-controlling interests EUR'000	Total Equity EUR'000
01.01.2013	**31**	**3 135**	**38 998**	**42 164**	**469**	**42 633**
Profit for the reporting period	-	-	23 170	23 170	586	23 756
Other comprehensive income	-	-	(866)	(866)	310	(556)
Transactions with shareholders recorded directly in equity	-	-	-	-	-	-
Increase in share capital	17 493	-	-	17 493	-	17 493
Reorganization reserve	-	(17 493)	-	(17 493)	-	(17 493)
Dividends	-	-	-	-	(57)	(57)
31.12.2013	17 524	(14 358)	61 302	64 468	1 308	65 776

On 30 April 2014, 4finance Holding S.A. share capital was further increased via a contribution in kind of AS 4finance shares. This increased the share capital of 4finance Holding S.A. by EUR 18 226 thousand, increasing it to EUR 35 750 thousand. There was a corresponding charge of EUR 18 226 thousand in the reorganisation reserve with no effect on total equity.

(36) Group entities

As at 31 December 2014, the Group consisted of the following entities:

Name of entity	Registered office	Ownership	Last financial statement date
4finance Holding S.A. (formerly 4finance Holding S. à.r.l.)	6, rue Guillaume Schneider, L-2522 Luxembourg, Grand Duchy of Luxembourg	100%	31 December 2014
AS 4finance	Lielirbes 17A-8, Riga, LV-1046, Latvia	100%	31 December 2014
4finance EOOD	5 Luchezar Stanchevm floor 14, Sofia 1756, Bulgaria	100%	31 December 2014
Zaplo Finance s.r.o. (formerly Vivus Finance s.r.o.)	Jankovcova 1037/49, Holešovice, 170 00 Prague 7, Czech Republic	100%	31 December 2014
4finance UAB	Jonavos g. 254a, LT-44132, Kaunas, Lithuania	97%	31 December 2014
4finance Oy	Mikonkatu 15B, 00100 Helsinki, Finland	100%	31 December 2014
4finance AB	Isafjordsgatan 30 164 40, Kista, Stockholm, Sweden	97%	31 December 2014
4finance ApS	Vesterbrogade 124 B 2 tv 1620 København V, Denmark	100%	31 December 2014
4finance OÜ	Veerenni 58a-V-3, Tallinn city, Harju county, 13314, Estonia	100%	31 December 2014
Intersales Services Limited	Icom house 1/5 Irish Town, Suite 3, Gibraltar	100%	31 December 2014

Name of entity	Registered office	Ownership	Last financial statement date
International Risk Management OÜ	Roosikrantsi tn.2-K148, Tallina linn, Harju maakond 10119, Estonia	100%	31 December 2014
4finance Ltd	City Tower, 40 Basinghall Street, London EC2V 5DE, United Kingdom	100%	31 December 2014
Vivus Finance Sp.z o.o.	ul. 17 Stycznia, nr 56, 02-146 Warsaw, Poland	100%	31 December 2014
Vivus Finance SA (formerly Vivus Finance SL)	Principe de Vergara 37, Planta Madrid 28001-Madrid, Spain	100%	31 December 2014
AS 4finance Ltd	2900-550 Burrard Street, BC V6C0A3, Vancouver, Canada	100%	31 December 2014
0973915 B.C. Ltd	2900-550 Burrard Street, BC V6C0A3, Vancouver, Canada	100%	31 December 2014
4finance LLC	Ts. Dadiani str.7, N b506, Tbilisi, Georgia	100%	31 December 2014
Piressa Holdings Limited	Nikou Georgiou 6 Block C, Office 704, P.C. 1095, Nikosia, Cyprus	100%	31 December 2013
4finance Malta branch	40, Villa Fairholme, Sir Augustus Bartolo Street, Ta'Xbiex, XBX 1095, Malta	100%	31 December 2014
Global Collection Management Sp.z o.o. SKA (formerly Palkow Sp.z o.o. SKA)	Stycznia 17, nr 56, Warsaw, 02-146, Poland	100%	31 December 2014
Gala Resources Limited	Trident Chambers, P.O. Box 146, Road Town, Tortola, British Virgin Islands	100%	31 December 2013
OOO Gefest-MSK	Proizvodstvennaya street, house 6, building 35, Moscow, 119619, Russia	100%	31 December 2013
4finance ZAO	115201 Kotlyakowskaya street, bld 3/13, room 402, Moscow, Russia	100%	31 December 2013
Zaplo Sp.z o.o. (formerly Palkow Sp.z o.o.)	Stycznia 17, nr 56, Warsaw, 02-146, Poland	100%	31 December 2014
Global Collection Management Sp.z o.o.	Stycznia 17, nr 56, Warsaw, 02-146, Poland	100%	31 December 2014
4Spar AB	Isafjordsgatan 30 164 40, Kista, Stockholm, Sweden	97%	31 December 2014
4finance S.A.	560A rue de Neudorf, L-2220, Luxembourg, Grand Duchy of Luxembourg	100%	31 December 2014
SIA Ondo	Lielirbes 17A-10, Rīga, LV-1046, Latvia	100%	31 December 2014

Name of entity	Registered office	Ownership	Last financial statement date
SIA Vivus.lv	Lielirbes 17A-9, Rīga, LV-1046, Latvia	100%	31 December 2014
4finance US Holding Company, Inc	615 South DuPont Highway, Diver, DE 19901, County of Kent, State of Delaware, USA	100%	31 December 2014
4finance Illinois, Inc	615 South DuPont Highway, Diver, DE 19901, County of Kent, State of Delaware, USA	100%	31 December 2014
4finance Ohio, Inc	615 South DuPont Highway, Diver, DE 19901, County of Kent, State of Delaware, USA	100%	31 December 2014
4finance Texas, Inc	615 South DuPont Highway, Diver, DE 19901, County of Kent, State of Delaware, USA	100%	31 December 2014
4finance Missouri, Inc	615 South DuPont Highway, Diver, DE 19901, County of Kent, State of Delaware, USA	100%	31 December 2014
4finance Delaware, Inc	615 South DuPont Highway, Diver, DE 19901, County of Kent, State of Delaware, USA	100%	31 December 2014
4finance IT SIA	Lielirbes 17A-10, Riga, LV-1046, Latvia	100%	31 December 2014
4finance IT SIA odštěpný závod v České republice	Jankovcova 1037/49, Holešovice, 170 00 Prague 7, Czech Republic	100%	31 December 2014
4finance IT SIA spółka z ograniczoną odpowiedzialnością Oddział w Polsce	ul 17 Stycznia street 56, 02-146 Warsaw, Poland	100%	31 December 2014
4finance IT SIA Lietuvos filialas	Kauno m. sav. Kauno m. Jonavos g., 254 A, Lithuania	100%	31 December 2014
Zaplo IFN S.A	Bucharest, district 1, 69-71 Şoseaua Bucuresti-Ploiesti, 1st floor, room 36 , Romania	100%	31 December 2014

All the new subsidiaries added during the year were established by the Group and no acquisitions took place in 2014. During the year, the Group disposed of the North America operations as disclosed in Note 6.

As at 31 December 2013, the Group consisted of the following entities:

Name of entity	Registered office	Ownership	Last financial statement date
4finance Holding S.à.r.l.	6, rue Guillaume Schneider, L-2522 Luxembourg, Grand Duchy of Luxembourg	100%	31 December 2013
AS 4finance	Lielirbes 17A-8, Rīga, LV-1046, Latvia	100%	31 December 2013
4finance EOOD	Maria Luiza blvd. 9-11, Sofia 1000, Bulgaria	100%	31 December 2013

Notes to the Consolidated Financial Statements

Name of entity	Registered office	Ownership	Last financial statement date
Vivus Finance s.r.o.	Klimentska 1215/26, 1100 Prague, Czech Republic	100%	31 December 2013
4finance UAB	Jonavos g. 254a, LT-44132, Kaunas, Lithuania	97%	31 December 2013
4finance Oy	Mikonkatu 15B, 00100 Helsinki, Finland	100%	31 December 2013
4finance AB	Master Samuelsg 60, 111 21 Stockholm, Sweden	97%	31 December 2013
4finance ApS	Vesterbrogade 124 B 2 tv 1620 København V, Denmark	100%	31 December 2013
4finance OÜ	Liivalaia 13, Tallinn, Estonia	100%	31 December 2013
Intersales Services Limited	Icom house 1/5 Irish Town, Suite 3, Gibraltar	100%	31 December 2013
International Risk Management OÜ	Roosikrantsi tn.2-K148, Tallina linn, Harju maakond 10119, Estonia	100%	31 December 2013
4finance Ltd	2nd Floor Scotswood House, Teesdale South Thornaby Place, Stockton-on Tees, Cleveland, TS17 6SB, United Kingdom	100%	31 December 2013
Vivus Finance Sp.z o.o.	ul. 17 Stycznia, nr 56, 02-146 Warsaw, Poland	100%	31 December 2013
Vivus Finance SL	Principe de Vergara 37, Planta Madrid 28001-Madrid, Spain	100%	31 December 2013
4finance Ltd	2900-550 Burrard Street, BC V6C0A3, Vancouver, Canada	100%	31 December 2013
0973915 B.C. Ltd	2900-550 Burrard Street, BC V6C0A3, Vancouver, Canada	100%	31 December 2013
4finance LLC	Ts. Dadiani str.7, N b506, Tbilisi, Georgia	100%	31 December 2013
Piressa Holdings Limited	Nikou Georgiou 6 Block C, Office 704, P.C. 1095, Nikosia, Cyprus	100%	31 December 2013
4finance Malta branch	40, Villa Fairholme, Sir Augustus Bartolo Street, Ta'Xbiex, XBX 1095, Malta	100%	31 December 2013
Palkow Sp.z o.o. SKA	Stycznia 17, nr 56, Warsaw, 02-146, Poland	100%	31 December 2013
Palkow Sp.z o.o.	Stycznia 17, nr 56, Warsaw, 02-146, Poland	100%	31 December 2013
Global Collection Management Sp.z o.o.	Stycznia 17, nr 56, Warsaw, 02-146, Poland	100%	31 December 2013
4Spar AB	Isafjordsgatan 30 164 40, Kista, Stockholm, Sweden	97%	31 December 2013
Gala Resources Limited	Trident Chambers, P.O. Box 146, Road Town, Tortola, British Virgin Islands	100%	31 December 2013

Name of entity	Registered office	Ownership	Last financial statement date
OOO Gefest-MSK	Proizvodstvennaya street, house 6, building 35, Moscow, 119619, Russia	100%	31 December 2013
4finance ZAO	115201 Kotlyakowskaya street, bld 3/13, room 402, Moscow, Russia	100%	31 December 2013
4finance S.A.	560A rue de Neudorf, L-2220, Luxembourg, Grand Duchy of Luxembourg	100%	31 December 2013
Vivus Servicing Ltd	2900-550- Burrard st., BC V6C0A3, Vancouver, Canada	100%	31 December 2013

(37) Non-controlling interest in subsidiaries

Non-controling interest 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 has material non-controlling interests (NCI), before any intra-group eliminations as at 31 December 2014:

'000 EUR	Lithuania	Sweden	Total
NCI percentage	3%	3%	
Cash and cash equivalents	754	2 645	3 399
Loans due from customers	37 977	24 074	62 051
Property and equipment	110	67	177
Intangible assets	9	10	19
Deferred tax asset	77	1 554	1 631
Other assets	165	328	493
Loans and borrowings	(7 575)	(13 093)	(20 668)
Corporate income tax payable	(684)	(1 532)	(2 216)
Other liabilities	(914)	(6 841)	(7 755)
Net assets	**29 919**	**7 212**	**37 131**
Carrying amount of NCI	898	216	1 114
Revenue	27 035	19 618	46 653
Profit	13 209	7 276	20 485
Total comprehensive income	13 207	7 276	20 483
Profit allocated to NCI	396	218	614
Cash flows from operating activities	11 547	2 589	14 136
Cash flows from investment activities	(40)	(55)	(95)
Cash flows from financing activities, before dividends to NCI	(11 621)	(674)	(12 295)
Cash flows from financing activities - cash dividends to NCI	(72)	(212)	(284)
Net increase (decrease) in cash and cash equivalents	**(186)**	**1 648**	**1 462**

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 2013 (restated):

'000 EUR	LT	SE	Total
NCI percentage	3%	3%	
Cash and cash equivalents	870	1 703	2 573
Loans due from customers	35 393	16 880	52 273
Property and equipment	120	43	163
Intangible assets	8	6	14
Deferred tax asset	-	1 024	1 024
Other assets	183	600	783
Loans and borrowings	(14 908)	(5 829)	(20 737)
Corporate income tax payable	(1 802)	(2 191)	(3 993)
Other liabilities	(846)	(4 860)	(5 706)
Net assets	**19 018**	**7 376**	**26 394**
Carrying amount of NCI	571	221	792
Revenue	27 303	18 359	45 662
Profit	12 203	7 578	19 781
Total comprehensive income	11 970	7 578	19 548
Profit allocated to NCI	359	227	586
Cash flows from operating activities	7 520	6 883	14 403
Cash flows from investment activities	(83)	(4 056)	(4 139)
Cash flows from financing activities, before dividends to NCI	(6 726)	(2 537)	(9 263)
Cash flows from financing activities - cash dividends to NCI	(229)	(23)	(252)
Net increase in cash and cash equivalents	482	267	749

(38) Subsequent events

On 1 January 2015, the Republic of Lithuania joined the Eurozone and the Lithuanian litas was replaced by the euro. As a result, 4finance UAB converted its financial accounting to euros as from 1 January 2015 and the financial statements for subsequent years will be prepared and presented in euros. Future comparative information will be translated into euros using the official exchange rate of LTL 3.4528 to EUR 1.

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To the Shareholders of
4finance Holding S.A. (formerly 4finance Holding S.à r.l.)
6, rue Guillaume Schneider
L-2522 Luxembourg

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of 4finance Holding S.A. (formerly 4finance Holding S.à r.l.), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

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

Responsibility of the Réviseur d'Entreprises agréé

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

KPMG Luxembourg, Société coopérative, a Luxembourg entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

TVA LU 27351518
R.C.S. Luxembourg B 149133

KPMG

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

Opinion

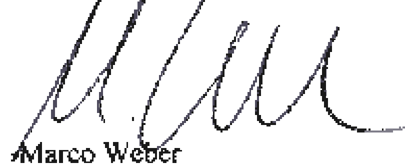
In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of 4finance Holding S.A. (formerly 4finance Holding S.à r.l.) as of 31 December 2014, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The consolidated management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements.

Luxembourg, 16 April 2015

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé



Marco Weber

TBI BANK EAD

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED FOR USE BY THE EUROPEAN UNION

31 DECEMBER 2016

Financial statements in English are translation from the original in Bulgarian. This version of the financial statements is a translation from the original, which was prepared in Bulgarian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.

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Annual Management Report
of TBI Bank EAD

TBI Bank EAD (the Bank) is a member of 4 Finance Group, which as at 31 December 2016 holds 100% (81,600,000 shares) of the Bank's capital through TBIF Financial Services B.V. TBI Bank EAD offers a wide range of banking services to local and foreign clients through its Head office in Sofia, the branch in Bucharest, 300 offices and outsourced working stations serviced by 1,474 employees (2015: 1,415 employees).

The Bank operates in Bulgaria through its Head office and in Romania through a branch registered in October 2012 on the basis of the single European passport. The subsidiaries of the company are providing banking and non-banking financial services through the existing office network, with a key focus on servicing individuals and small and medium-sized enterprises.

TBI Bank EAD has a two-tier management structure. All members of the Supervisory and Management Boards meet the requirements of the Law on Credit Institution and Regulation 20 of BNB, and have been explicitly approved by the Central Bank. TBI Bank EAD has a functioning Audit Committee, the structure of which is compliant to the requirements of the Independent Financial Audit Act.

TBI Bank EAD is the owner, as at 31 December 2016, of TBI RENT EAD, Bulgaria, and TBI CREDIT IFN S.A., Romania, and TBI Leasing IFN S.A., Romania (the Group). As at 31 December 2015 TBI Bank EAD was the owner of TBI RENT EAD, Bulgaria, and TBI CREDIT IFN S.A., Romania.

The Group holds a well-diversified client portfolio. The strategy adopted, which is focused on increased lending to individuals, predetermines the significant increase in the loan portfolio, a characteristic of the Group's activity in both years of 2015 and 2016. Although the newly attracted deposit resources are characterised with a decreasing cost, the profitability of the Group remains stable. The maintenance of stable liquidity levels is of great importance. Despite the expansion of the Bank's activity and the sharp increase in its lending operations, the Group maintains adequate levels of liquidity.

In 2016, the Group generated net interest income of BGN 85,163 thousand, or a 49 % increase compared to 2015 thanks to the significant growth in the loan portfolio. The net profit of the Group in 2016 amounts to BGN 32,543 thousand compared to a profit in the prior year of BGN 32,506 thousand.

Operating revenue (net interest income, net fee and commission income, net foreign exchange gains and other income) has increased by 19.10 % during the reporting period as compared to the prior year similarly to the net interest income.

The operating revenue structure is as follows: net interest income represents 79.11%, fee and commission income – 12.66 %, and the other types of income represent 8.23 %. The revenue structure is similar to that in the prior year.

In 2016 the total assets of the Group increased by 16.31 % compared to the end of 2015 and reached BGN 623,739 thousand (2015: BGN 536,263 thousand). At the end of 2016 the biggest increase was noted in placements with other banks by BGN 67,075 thousand, followed by held-for-sale non-current assets by BGN 21,195 thousand. The increase in the loan portfolio was due to the increase in retail exposures, which exceeded the share of loans to legal entities.

The Group's liabilities at 31 December 2016 amount to BGN 477,717 thousand (2015: BGN 425,409 thousand), 93.12 % of which or BGN 444,839 thousand (2015: BGN 395,978 thousand) represent deposits from clients and banks. An 18.22 %, or by BGN 67,657 thousand, increase in deposits from clients and a 76.17% decrease in deposits from banks were noted in 2016.

in BGN'000	2016	2015	2014	2013	2012	2011
Balance sheet figure	623,739	536,263	480,480	406,209	193,106	74,769
Equity	146,022	110,854	70 ,255	52,313	32,576	26,168

There is an increase in the Group's equity by 32 % as a result of the profit generated during the year and the increase in share capital.

The key events for the Group in 2016 were as follows:

- On 6 January 2016 the Bank acquired 99.9989 % of the shares of TBI LEASING IFN S.A., a company registered in Romania and specialised in finance lease of assets.
- On 12 March 2016 a share capital increase was registered by BGN 3,000 thousand (from BGN 78,600 thousand to BGN 81,600 thousand).

Liquidity and risks

According to the current liquidity measurement and management policy, the liquid assets ratio is used as a key indicator. At the end of 2016, this indicator was 38.51 % (2015: 35.40 %), illustrating the stability of the cash flows and exceeded significantly the minimum threshold required (20 % ratio of liquid assets to deposits other than those attracted from credit institutions).

	2016	2015	2014	2013	2012	2011
Liquidity ratio	38.51	35.40	40.15	39.46	36.07	38.41

Trends, events or risks that might have material effect on the operations:

The intense competition in the banking sector is a key factor affecting the development perspectives. In the year, the Bank passed successfully the asset quality test in compliance with the requirements of BNB.

The higher growth of the economy, globally as well as locally in Bulgaria, requires an in-depth and efficient analysis and complex risk monitoring. The expectations in general are for prudent increase in assets and mainly in loans, as also in funds attracted.

In a situation of limited economic growth, the Group works towards the efficient risk management with the efforts being focused on improvement of the processes in the area of lending, payments, customer service and maintenance of the credit portfolio quality. The emphasis is laid on the timely measures for the collection of problematic receivables. The trends for the future development of the Bank in general are for continued increase in assets and mainly in loans, as well as increase in attracted funds.

The major risks, relating to the operations of the Group and the banking sector as a whole are, as follows:

- Credit risk – the maximum exposure to credit risk as at 31 December 2016 amounts to BGN 594,634 thousand;
- Liquidity risk – the net difference in liquidity of assets and liabilities as at 31 December 2016 amounts to BGN 146,022 thousand;
- Currency risk – to hedge its currency risk, the Group uses currency swaps;
- Interest rate risk – the effect of changes in interest rates by +/- 100 basis points on the 2016 profit would amount to + / - BGN 295 thousand;
- Inflation risk;
- Business risk;

- Operational risk (including reputation risk).

In view of the economic environment, business risk and credit risk influence the Group's operations. To address these challenges, the Group has developed a clear development strategy and has focused on a specific circle of customers, as well as on enhancing its market share through geographic diversification of assets and liabilities.

Research and development

The Bank does not carry out any research and development activities.

Information in accordance with art. 33, para 1, item 7 of the Accountancy Act

The Group aims to maintain a positive balance with respect to its assets and liabilities. It should be pointed out that with respect to a large portion of the liabilities representing term deposits from individuals and legal entities relevant measures have been taken to motivate the clients to renew their deposits. Deposits received from legal entities are of significant amounts and the experience shows that the terms and conditions are usually reconsidered and negotiated again immediately before their maturity.

A policy of matching fixed and floating interest rate assets and liabilities is applied with respect to price (interest rate) risk. The Group's policy is to determine a minimum interest rate threshold for floating rate assets.

To manage credit risk the Group has developed strict potential borrowers analysis and assessment procedures, including scoring procedures and detailed verification of the data provided. In addition, the Group has developed an effective payment monitoring system, as well as active measures for collection of receivables. Preliminary analysis and subsequent monthly monitoring are in place to detect concentration of related parties by sectors of the economy and other cross-sections in compliance with the Group's internal rules.

Significant events after the annual closing of accounts

No significant events have occurred after 31 December 2016, which may have an effect on the Group's operations or may require adjustments in the financial statements.

Future plans of the Group

The Management Board of the Group expects the economic environment in Bulgaria to continue its stabilisation and passing on to gradual economic growth. The macroeconomic and financial stability will contribute to the growing market of financial services in a viable, efficient and competitive banking system. We expect acceleration of the process of integration of the Bulgarian economic and financial system within the European space. This will contribute to the implementation of new and expansion of the existing bank services and products. The Group will continue to maintain adequate financial, management, and technical capacity as basis for the implementation of efficient and prosperous banking operations.

The Group will continue its development in the main segments of the banking market – small and medium-sized enterprises (SME) and individuals. The main focus will be placed on lending to individuals and SME's, with a focus on loans to agricultural producers.

The Group will continue to develop products offering competitive conditions on deposits and current account to its customers, while developing project financing and commercial financing as well as new, innovative products. The future development of the Group is expressed in the creation of wider customer base and stable distribution network for financial services.

The Group will continue to attain the high corporate governance standards, and will work actively for the development of bank security, by implementing flexible and efficient organisational structure with clearly distinct duties and responsibilities.

The Group will continue to create opportunities for internal competition between the units, control and incentives for the activity with continuous improvement of the qualifications of its employees. It will follow an ambitious personnel recruitment, training and renewal policy.

The Group employs highly qualified personnel sharing the following major values:

- motivation and professional ambition;
- open and free communication;
- taking personal responsibility;
- commitment to the standards and goals of the organisation.

The main objectives and tasks the Group is facing are related to:

- ensuring maximum security for the customers and depositors of the Group;
- maintenance of very good quality of the assets with stable liquidity and profitability;
- maintenance of sufficient capital adequacy corresponding to the risk profile of the Group, and proper management of the currency, interest rate and other risks, inherent to the banking operations;
- performance of efficient cost control;
- ensuring good return on shareholders' equity.

Information required under art. 187(e) of the Commercial Act regarding treasury shares held, redeemed or transferred

No shares were redeemed or transferred during the year.

The interests held by the members of the Supervisory and Management Boards in commercial entities as unlimited liable partners, the holding of more than 25 percent of the capital of another entity, as well as their involvement in the management of other entities or cooperatives as procurators, general managers or board members are as follows:

- **Ariel Hason - Chairman of the Supervisory Board**

a) does not hold any interests in commercial entities as unlimited liable partner;
b) legal entities of which he holds, directly or indirectly, at least 25 percent of the votes in the general assembly or has control - Trailpoint Ltd., Israel;
c) legal entities where he sits on the management or controlling bodies:
TBIF Financial Services B.V., The Netherlands – member of the Board of Directors and Executive Director;
TBIF Financial Services B.V., The Netherlands– member of the Board of Directors and Executive Director;
Kardan Financial Services B.V., The Netherlands– member of the Board of Directors and Executive Director;
Kardan Land, China – member of the Board of Directors and Executive Director;
Tahal Group International B.V., The Netherlands– member of the Board of Directors and Executive Director;
TBI Leasing IFN S.A., Romania - member of the Administrative Board;

- **Valentin Galabov - member of the Supervisory Board**

a) does not hold any interests in commercial entities as unlimited liable partner;
b) legal entities of which he holds, directly or indirectly, at least 25 percent of the votes in the general assembly or where he has control – TBI Leasing – 100%;
c) legal entities where he sits on the management or controlling bodies:
TBI Rent EAD - member of the Board of Directors;

- **Nick Philpott – member of the Supervisory Board**

a) does not hold any interests in commercial entities as unlimited liable partner;
b) there are no legal entities of which he holds, directly or indirectly, at least 25 percent of the votes in the general assembly or where he has control;
c) legal entities where he sits on the management or controlling bodies:
SIA 4Finance IT, Latvia – member of the Board of Directors
SIA 4Finance IT, UK branch – Executive Director
SIA 4Finance Media, Latvia – member of the Board of Directors
Microfinance Organization 4Finance LLC, Georgia – member of the Supervisory Board
4Finance Group – member of the Executive Committee, Executive Remuneration Committee and the Remuneration Committee.

- **Kieran Donnelly – member of the Supervisory Board**

a) does not hold any interests in commercial entities as unlimited liable partner;
b) there are no legal entities of which he holds, directly or indirectly, at least 25 percent of the votes in the general assembly or where he has control;
c) legal entities where he sits on the management or controlling bodies:
Scion Spirits Co., Ireland – Chairman of the Board of Directors;

- **Gauthier Van Weddingen – member of the Supervisory Board**

a) does not hold any interests in commercial entities as unlimited liable partner;
b) there are no legal entities of which he holds, directly or indirectly, at least 25 percent of the votes in the general assembly or where he has control;
в) there are no legal entities where he sits on the management or controlling bodies.

- **Tsvetan Petrinin - Chief Executive Officer and Chairman of the Management Board**

a) does not hold any interests in commercial entities as unlimited liable partner;
b) there are no legal entities of which he holds, directly or indirectly, at least 25 percent of the votes in the general assembly or where he has control;
c) there are no legal entities where he sits on the management or controlling bodies.

- **Nora Petkova - member of the Management Board and Executive Director**

a) does not hold any interests in commercial entities as unlimited liable partner;
b) there are no legal entities of which she holds, directly or indirectly, at least 25 percent of the votes in the general assembly or where she has control;
c) there are no legal entities where she sits on the management or controlling bodies.

- **Ivan Ivanov - member of the Management Board and Executive Director**

a) does not hold any interests in commercial entities as unlimited liable partner;
b) there are no legal entities of which he holds, directly or indirectly, at least 25 percent of the votes in the general assembly or where he has control;
c) there are no legal entities where he sits on the management or controlling bodies.

- **Nikolay Spasov – member of the Management Board and Executive Director**

a) does not hold any interests in commercial entities as unlimited liable partner;
b) there are no legal entities of which he holds, directly or indirectly, at least 25 percent of the votes in the general assembly or where he has control;
c) there are no legal entities where he sits on the management or controlling bodies.

- **Filip Popov – member of the Management Board**

a) does not hold any interests in commercial entities as unlimited liable partner;
b) there are no legal entities of which he holds, directly or indirectly, at least 25 percent of the votes in the general assembly or where he has control;
c) there are no legal entities where he sits on the management or controlling bodies.

Contracts under art. 240 (b) of the Commercial Act in 2016:

The members of the Boards and their related parties have no contracts signed for activities beyond the ordinary ones, or at terms and conditions significantly different than the ordinary market conditions.

The total net income received by the members of the Management Board and the members of the Supervisory Board in 2016 amounts to BGN 700 thousand.

Information regarding shares and bonds acquired, held and transferred by the Boards members during the year

The members of the Management Board are not allowed to acquire shares and bonds issued by the Bank. Therefore, the members of the Management Board of the Bank had not acquired, held or transferred shares or bonds in 2016.

Management is required by Bulgarian legislation to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group and of its financial performance as at the year end. Management has prepared the accompanying financial statements in accordance with the International Financial Reporting Standards (IFRS), as adopted for use by the European Union.

Management confirms that it has consistently applied adequate accounting policies and has complied with the current IFRS requirements. The financial statements have been prepared on a going concern basis.

In the future TBI Bank EAD will continue to provide high quality banking services, market driven products and will strive to remain the best banking partner for its customers.

Nikolay Spasov
Executive Officer of TBI Bank EAD and
Member of the Management Board
21 March 2017

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Independent auditor's report

To the sole shareholder of

TBI BANK EAD

Report on the Audit of the Consolidated Financial Statements

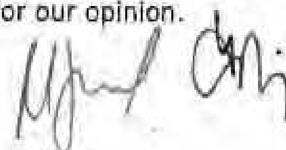
Opinion

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

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of 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 (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the consolidated financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Translation in English of the official Auditor's report issued in Bulgarian.

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Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the consolidated management report, including information on the activity of the Group as investment intermediary and the corporate governance statement of the Group prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless and to the extent explicitly specified in our report.

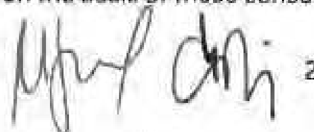
In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise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

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

Management is responsible for the preparation and presentation of the consolidated financial statements that give a true and fair view in accordance with IFRS as adopted by the EU and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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.



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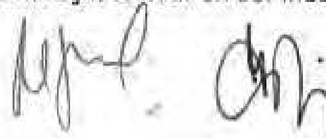
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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.



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Report on Other Legal and Regulatory Requirements

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, described above in the *Information Other than the Consolidated Financial Statements and Auditor's Report Thereon* section, in relation to the *Consolidated* management report, including information on the activity of the Group as investment intermediary the corporate governance statement of the Group, we have also performed the procedures added to those required under ISAs in accordance with the Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA), issued on 29 November 2016 / approved by its Management Board on 29 November 2016. These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act applicable in Bulgaria.

Opinion in connection with Art. 37, paragraph 6 of the Accountancy Act

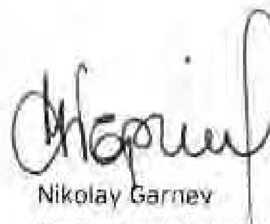
Based on the procedures performed, our opinion is that:

a) The information included in the consolidated management report referring to the financial year for which the consolidated financial statements have been prepared is consistent with those consolidated financial statements.

b) The consolidated management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

c) The corporate governance statement of the Group referring to the financial year for which the consolidated financial statements have been prepared presents the information required under Chapter Seven of the Accountancy Act and Art. 100 (m), paragraph 8 of the Public Offering of Securities Act.

Audit Firm Ernst & Young Audit OOD:



Milka Natcheva-Ivanova
Legal Representative

Nikolay Garnev
Registered Auditor in charge of the audit

Sofia, Bulgaria
22 March 2017

Consolidated statement of comprehensive income for the year ended 31 December 2016

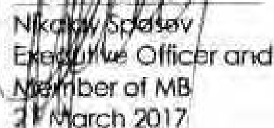
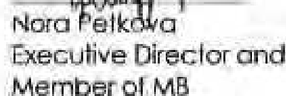
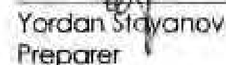
	Notes	For the year ending 31 December	
		2016	**2015**
Continuing operations			
Interest income	4	91,535	66,396
Interest expense	4	(6,372)	(9,252)
Net interest income		**85,163**	**57,144**
Fee and commission income	5	16,896	19,658
Fee and commission expense	5	(3,270)	(3,639)
Net fee and commission income		**13,626**	**16,019**
Net trading gain	6	3,961	9,126
Other operating expenses	7	(62,015)	(45,225)
Loss on impairment of financial assets	18	(11,516)	(8,182)
Impairment of other assets	23	(82)	(177)
Loss on derivative instruments	26	(885)	(767)
Other operating income	9	8,450	8,053
Profit before tax from continuing operations		**36,702**	**35,991**
Income tax expense	10	(4,159)	(3,485)
Profit for the year from continuing operations		**32,543**	**32,506**
Profit for the year		**32,543**	**32,506**
Attributable to:			
The owners of the parent		32,543	32,518
Non-controlling interest		-	(12)

(continued on the following page)

The notes on pages 11 to 78 form an integral part to the accompanying consolidated financial statements.

**Consolidated statement of comprehensive income
for the year ended 31 December 2016 (continued)**

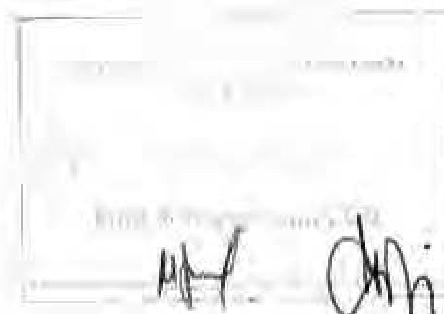
	Notes	For the year ending 31 December	
		2016	2015
Profit for the year		**32,543**	**32,506**
Other comprehensive income			
Other comprehensive income to be reclassified to the profit or loss in subsequent periods:			
Foreign exchange differences from translation of the financial statements of foreign operations	30	(142)	(53)
Net gain/(loss) on available for sale financial assets	30	141	(54)
Other comprehensive income for the period, net of tax		**(1)**	**(107)**
Total comprehensive income for the year		**32,542**	**32,399**
Attributable to:			
The owners of the parent		32,542	32,411
Non-controlling interest		-	(12)

Nikolay Spasov
Executive Officer and
Member of MB
21 March 2017

Nora Petkova
Executive Director and
Member of MB

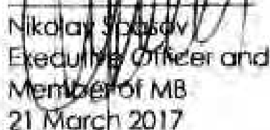
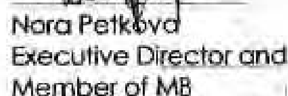
Yordan Stoyanov
Preparer



The notes on pages 11 to 78 form an integral part to the accompanying consolidated financial statements.

Consolidated Balance Sheet
as of 31 December 2016

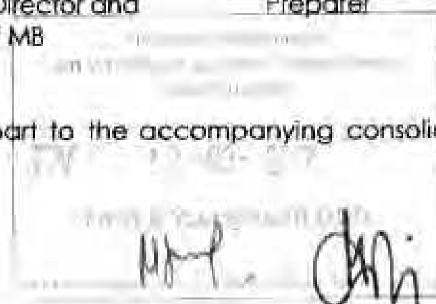
	Notes	As of 31 December 2016	2015
ASSETS			
Cash on hand and balances with central banks	11	66,402	109,620
Placements with other banks	12	107,341	40,266
Held-for-trading financial assets	13	1,019	-
Available-for-sale financial assets	14	10,764	11,878
Other assets	23	5,428	7,360
Current tax assets		254	242
Loans to customers	16	349,668	331,092
Finance lease	17	30,261	-
Held-to-maturity investments	15	8,081	-
Intangible assets	21	1,629	2,243
Property and equipment	22	12,742	24,607
Non-current assets held for sale	20	30,150	8,955
Total assets		**623,739**	**536,263**
LIABILITIES			
Derivatives	2b	31	17
Deposits from banks	24	5,879	24,675
Deposits from customers	25	438,960	371,303
Other borrowings	26	924	12,195
Deferred tax liabilities		128	115
Other liabilities	27	22,522	17,104
Held-for-sale non-current liabilities	20	9,273	-
Total liabilities		**477,717**	**425,409**
EQUITY			
Share capital	30	81,600	78,600
Statutory reserves	30	7,187	4,349
Revaluation reserve	30	99	(42)
Foreign currency translation reserve	30	(191)	(49)
Accumulated profit		57,327	28,008
Equity attributable to the owners of the parent		**146,022**	**110,866**
Non-controlling interest		-	(12)
Total equity		**146,022**	**110,854**
Total equity and liabilities		**623,739**	**536,263**

Nikolay Spasov
Executive Officer and
Member of MB
21 March 2017

Nora Petkova
Executive Director and
Member of MB

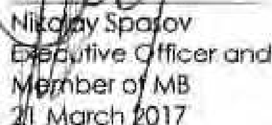
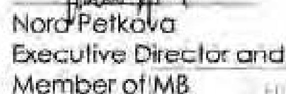
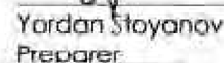
Yordan Stoyanov
Preparer



The notes on pages 11 to 78 form an integral part to the accompanying consolidated financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2016

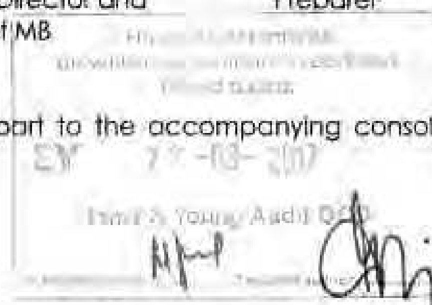
	Share capital (Note 30)	Statutory reserves (Note 30)	Revaluation reserve (Note 30)	Foreign currency translation reserve (Note 30)	Accumulated loss/ Retained earnings	Attributable to the parent company's equity owners	Non-controlling interest	Total equity
At 1 January 2016	**78,600**	**4,349**	**(42)**	**(49)**	**28,008**	**110,866**	**(12)**	**110,854**
Other comprehensive income	-	-	141	(142)		(1)	-	(1)
Profit for the year	-	-	-	-	32,543	32,543	-	32,543
Total comprehensive income for the year	-	-	**141**	**(142)**	**32,543**	**32,542**	-	**32,542**
Reclassification of non-controlling interest							12	12
Other	-	-	-	-	(386)	(386)	-	(386)
Reserve transfer		2,838			(2,838)	-		-
Capital increase	3,000	-	-	-	-	3,000	-	3,000
As of 31 December 2016	**81,600**	**7,187**	**99**	**(191)**	**57,327**	**146,022**	-	**146,022**
At 1 January 2015	**70,400**	**2,596**	**12**	**4**	**(2,757)**	**70,255**	-	**70,255**
Other comprehensive income	-	-	(54)	(53)	-	(107)	(12)	(119)
Profit for the year	-	-	-	-	32,518	32,518	(12)	32,506
Total comprehensive income for the year	-	-	**(54)**	**(53)**	**32,518**	**32,411**	**(12)**	**32,399**
Reserve transfer	-	1,753	-	-	(1,753)	-	-	-
Capital increase	8,200	-	-	-	-	-	-	8,200
As of 31 December 2015	**78,600**	**4,349**	**(42)**	**(49)**	**28,008**	**110,866**	**(12)**	**110,854**

Nikolay Spasov
Executive Officer and Member of MB
21 March 2017

Nora Petkova
Executive Director and Member of MB

Yordan Stoyanov
Preparer



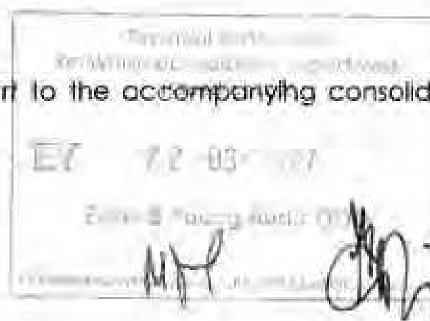
The notes on pages 11 to 78 form an integral part to the accompanying consolidated financial statements.

Consolidated statement of cash flows for the year ended 31 December 2016

	Notes	For the year ending 31 December 2016	2015
Cash flows from operating activities			
Profit for the year		32,543	32,506
Adjustments to reconcile the profit after tax to the net cash flows			
Non-monetary			
Impairment of financial assets	18	11,516	8,182
Impairment of non-current assets held for sale	23	82	177
Impairment of property and equipment, and intangible assets	21,22	5,501	4,182
Taxes paid		(12)	(164)
Gain on disposal of property and equipment		(76)	-
Net losses on transactions with non-current assets held for sale	6	-	9
Unused leaves provisions	27	65	51
Negative goodwill recognised in profit or loss		(178)	(747)
Unrealised foreign exchange losses	6	363	327
Cash flows from in operating activities before changes in operating assets and liabilities		**49,804**	**44,523**
Changes in operating assets and liabilities			
Net (increase) / decrease in the statutory reserves with Central banks	11	(8,807)	1,356
Net decrease in loans to banks < 3 months	12	(9,188)	-
Net (increase) in loans to customers	16	(36,196)	(53,451)
Net (increase) in finance lease	17	(30,356)	-
Net decrease / (increase) in Available-for-sale financial assets	14	1,114	(10,769)
Net (increase) in non-current assets held for sale	20	(1,322)	(8,073)
Net (increase) in derivatives		(14)	(4)
Net (increase) in financial assets and liabilities carried at fair value	13	(1,007)	-
Net (increase) in other assets	23	(5,393)	4,476
Net increase / (decrease) in deposits from banks	24	(8,078)	23,564
Net increase / (decrease) in deposits from customers	25	70,617	(16,058)
Net increase / (decrease) in other liabilities	27	4,184	11,786
Net cash flows from operating activities		**25,358**	**(2,650)**

(continued on the following page)

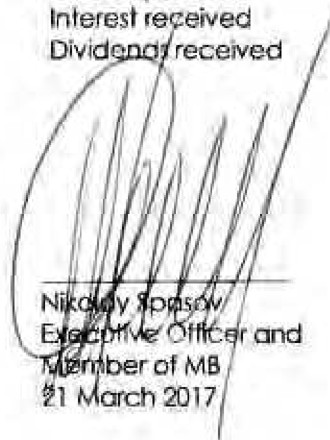
The notes on pages 11 to 78 form an integral part to the accompanying consolidated financial statements.

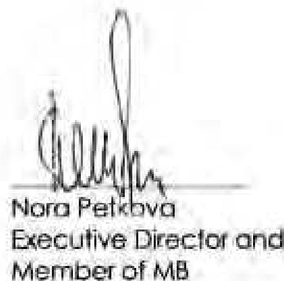


Consolidated statement of cash flows
for the year ended 31 December 2016 (continued)

	Notes	For the year ending 31 December	
		2016	2015
Cash flows from investing activities			
Purchases in held-to-maturity financial assets	15	(8,081)	-
Purchase of intangible assets	21	(108)	(1,514)
Proceeds from disposal of property and equipment	22	2,669	-
Purchase of property and equipment	22	(6,001)	(17,066)
Net cash flows used in investing activities		**(11,521)**	**(18,580)**
Cash flows from financing activities			
Payments received on other borrowings	26	-	1,209
Payments made on other borrowings	26	(10,975)	(4,333)
Share capital increase	30	3,000	8,200
Net cash flows from/used in financing activities		**(7,975)**	**5,076**
Net increase in cash and cash equivalents		**5,862**	**(16,154)**
Cash and cash equivalents at the beginning of the period	31	118,361	134,515
Cash and cash equivalents at the end of the period	31	**124,223**	**118,361**

Cash flows related to interest and dividends	For the year ending 31 December 2016	2015
Interest paid	(7,049)	(9,419)
Interest received	93,797	69,069
Dividends received	(947)	5



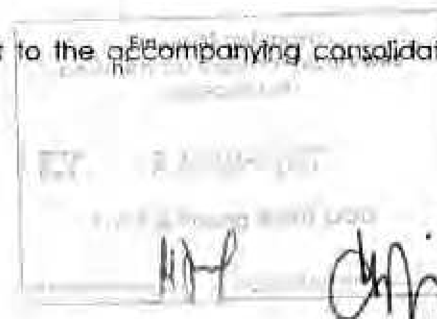


Nikolay Spasov
Executive Officer and
Member of MB
21 March 2017

Nora Petkova
Executive Director and
Member of MB

Yordan Stoyanov
Preparer

The notes on pages 11 to 78 form an integral part to the accompanying consolidated financial statements.



Notes to the Consolidated financial statements

1 General information and accounting policies

TBI Bank EAD (the Bank) was incorporated on 11 November 2002 as a joint-stock company with a two-tier management system under the name West - East Bank AD with the following shareholders: Aktiva Holding B.V., Factor Banka d.d. and LB Maxima D.O.O. The Bank was registered at Sofia City Court as a joint-stock company on 28 August 2003, UIC 131134023, after receiving a licence from the Bulgarian National Bank allowing it to render banking services on 13 August 2003. It started its operations on 1 October 2003. In 2006 Nova Ljubljanska Banka d.d. consecutively acquired 97.01% of the share capital of the Bank: on 14 April 2006 - 72.51 %, and then on 28 December 2008 another 24.50 % of the capital. The name of the Bank was initially changed to NLB Banka West – East AD, and subsequently to NLB Banka Sofia AD. Until mid-2011 the Bank, still under the name of NLB Banka Sofia AD, is controlled by Nova Ljubljanska Banka d.d., which holds 97.01% of its shares. The remaining 2.99% of the shares are held by Factor Banka d.d.

At the end of July 2011 TBIF Financial Services B.V., having its registered office in the Netherlands, acquired 100 % (38,399,001 shares) of the Bank's capital. The legal form of the Bank was changed – from a joint-stock company it was transformed into a sole owner joint-stock company. In October 2011 the Bank's capital was increased by BGN 8,001 thousand, and at the end of November 2011 the name of the Bank was changed to TBI Bank EAD. As at 31 December 2016 the Bank's capital amounted to BGN 81,600 thousand, distributed in 81,600,000 ordinary dematerialised shares with a par value of BGN 1 each.

The Head office of the Bank was moved to a new registered office in September 2012, as follows: Sofia, 52-54, Dimitar Hadzhikotzev street. The operations of the Bank are carried out through the Head office in Sofia, the branch in Bucharest, 294 offices and outsourced working stations. At the end of 2012 the Bank obtained permit issued by the Bulgarian National Bank to open a branch in the Republic of Romania and launched the steps required for the coordination, technical and resource provisioning for the operations related to the upcoming start of the work of the branch. The branch launched its operations in 2013 with a focus on providing financing to individuals and legal entities.

The parent of the Bank is Tirona Limited, Cyprus. The parent is looking for opportunities to invest in financial services, particularly banking, mortgage and consumer financing, asset management and investment advisory services in Central and Eastern Europe, and in some former CIS republics. The ultimate parent of the Bank is 4Finance having its registered address in Latvia. The bonds of the company are quoted on the stock exchanges Frankfurt Stock, Irish Stock Exchange and Nasdaq Stockholm.

The Bank is managed by Management Board under the supervision of a Supervisory Board. The Management Board at 31 December 2016 comprises four members with a mandate of up to five years, elected by the Supervisory Board. Three of the members are also Executive Directors and the Bank is represented jointly by either two of the Executive Directors. The Supervisory Board comprises at least three but not more than seven members with a mandate of up to five years. The persons charged with governance are represented by the Audit Committee (Ariel Hason, Petr Baron and Dmitry Kislyakov) and the Supervisory Board (Ariel Hason, Valentin Angelov Galabov, Kieran Donnelly, Nicholas John Philpott and Gauthier Van Weddingen) of the Bank.

As of 31 December 2016 the Bank held the controlling interest of TBI CREDIT IFN S.A., with place of business and country of incorporation Romania, and of TBI RENT EAD, with place of business and country of incorporation Bulgaria, and TBI Leasing INF S.A., with place of business and country of incorporation Romania.

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its fully owned subsidiaries:

- TBI RENT EAD, incorporated in the Republic of Bulgaria on 19 July 2005;
- TBI CREDIT IFN S.A., incorporated in the Republic of Romania on 11 January 2008;
- TBI LEASING INF S.A., incorporated in the Republic of Romania on 28 February 2002.

The financial statements of the subsidiaries are prepared for the same reporting period as the Bank, by applying consistent accounting policies.

The subsidiaries are fully consolidated from the date of acquisition, which is the date on which control is transferred to the Bank, and continue to be consolidated until the date such control ceases.

The accompanying consolidated financial statements were approved by the Management Board by virtue of Decision dated 21 March 2017.

The following note presents the significant accounting policies according to which the financial statements have been prepared, to the extent they have not yet been disclosed in previous notes. These policies have been applied to all years presented, unless expressly state otherwise.

Basis of preparation of the financial statements

Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRIC) as adopted by the European Union. Reporting framework "IFRS as adopted by the EU" is essentially the defined national basis of accounting "IAS, as adopted by the EU", specified in the Bulgarian Accountancy Act and defined in paragraph 8 of its Additional provisions.

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

- Available for sale financial assets, fiancial assets and liabilities held for trading (including derivative instruments), certain classes of property,financial assets at fair value through profit and loss plant and equipment and investment property – measured at fair value;
- Non-current assets held for sale – measured at fair value less cost of disposal;

The accounting policies adopted by the Group are consistent with those of the previous financial year, except for the following amendments to IFRS that have been adopted as of 1 January 2016:

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

b Amendments to accounting policies and disclosures applicable to reporting periods ending 31 December 2016

Comparability of data

The financial statements provide comparative data with respect to the previous period. Aiming at achieving a better presentation, the Group's management judged as necessary and revised the previous period's presentation of certain items of the consolidated financial statements. The revision relates to the disclosure of the statement of comprehensive income, statement of equity, financial risk management and the notes. The reclassifications made do not have an effect on the reported financial position, operating results and cash flows.

IAS 16 *Property, Plant and Equipment and* IAS *38 Intangible assets (Amendments): Clarification of Acceptable Methods of Depreciation and Amortization*
The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment or amortise intangible assets. The amendments have no effect on the financial position or performance of the Group.

IAS 16 *Property, Plant and Equipment and* IAS 41 *Agriculture (Amendments): Bearer Plants*
According to the amendments bearer plants are within the scope of IAS 16 and are subject to all of the requirements therein. This includes the ability to choose between the cost model and revaluation model for subsequent measurement. Agricultural produce growing on bearer plants (e.g., fruit growing on a tree) remains within the scope of IAS 41. Government grants relating to bearer plants are accounted for in accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, instead of in accordance with IAS 41. The amendments have no effect on the financial position or performance of the Group.

IAS 19 *Employee benefits (Amended): Employee Contributions*
The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendment has no effect on the financial position or performance of the Group.

IFRS 11 *Joint Arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations*
The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS. The Group had no transactions in scope of this amendment.

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

b Amendments to accounting policies and disclosures applicable to reporting periods ending 31 December 2016 (continued)

IFRS 10, IFRS 12 *and* IAS 28: *Investment Entities: Applying the Consolidation Exception (Amendments)*
The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Also, the amendments clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendments have no effect on the financial position or performance of the Group.

IAS 1 *Presentation of Financial Statements: Disclosure Initiative (Amendment)*
The amendments to IAS 1 Presentation of Financial Statements further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. They clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted Investments. The amendments to IAS 1 affect presentation only and have no impact on the Group's financial position or performance.

Annual improvements to IFRSs 2010-2012 Cycle
Summary of amendments and related standards are provided below:

- IFRS 2 Share-based Payments – amended definitions of 'vesting conditions' and 'market condition' and adding the definitions of 'performance condition' and 'service condition';
- IFRS 3 Business Combinations – clarification on the accounting for contingent consideration arising from business combination;
- IFRS 8 Operating Segments – additional disclosures of management judgement on aggregating operating segments and clarification on reconciliation of total segments' assets to the entity's assets;
- IFRS 13 Fair Value Measurement – clarification on interaction with IFRS 9 as regards short-term receivables and payables;
- IAS 16 Property, Plant and Equipment – amended to state that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount while the accumulated depreciation is calculated as a difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses;
- IAS 24 Related Party Disclosures – clarified that a management entity that provides key management services to a reporting entity is deemed to be a related party; disclosure of the service fee paid or payable is required;
- IAS 38 Intangible Assets – same amendment as IAS 16 above.

The adoption of the above amendments to standards has no effect on these financial statements of the Group.

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

b Amendments to accounting policies and disclosures applicable to reporting periods ending 31 December 2016 (continued)

Annual improvements to IFRSs 2012-2014 Cycle
Summary of amendments and related standards are provided below:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – clarification that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan;
- IFRS 7 Financial Instruments: Disclosures – provides examples of continuing involvement in a financial asset and clarifies required disclosures in the condensed interim financial report;
- IAS 19 Employee Benefits – clarification on long-term liability discount rate determination;
- IAS 34 Interim Financial Reporting – clarification on required interim disclosures: they must either be in the interim financial statements or incorporated by cross-reference to other interim financial information (e.g., in the management report) that is available to users on the same terms as the interim financial statements and at the same time.

The adoption of the above amendments to standards has no effect on these financial statements of the Group.

c Standards issued but not yet effective and not early adopted

IFRS 9 *Financial Instruments*: *Classification and Measurement*
The standard is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. The final version of IFRS 9 reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The Group will analyse and assess the impact of the new standard on its future financial position or performance. After discussions held with representatives of external audit firms, the Group is to conclude a contract for consulting and expert assistance in connection with the introduction of the standard on 1 January 2018. The Bank has initiated IFRS 9 project where PD and LGD parameters will be defined. No any impact is known yet.

IFRS 15 *Revenue from Contracts with Customers*
The standard is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles).
Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Group has not yet analysed and assessed the impact of the new standard on its financial position or performance.

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

c Standards issued but not yet effective and not early adopted (continued)

IFRS 15 *Revenue from Contracts with Customers (Clarifications)*
The clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or elect to apply the modified retrospective approach. These clarifications have not yet been endorsed by the EU. The Group will analyse and assess the impact of these clarifications on its financial position or performance.

IFRS 10, IFRS 12 and IAS 28: *Investment Entities: Applying the Consolidation Exception* (Amendments) apply to the exemption from presenting consolidated financial statements of investment entities. The exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Also, the amendments clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendments have no effect on the financial position or performance of the Group.

IFRS 16 *Leases*
The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their balance sheet and to have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The standard has not been yet endorsed by the EU. The Group will analyse and assess the impact of the new standard on its financial position or performance.

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

c Standards issued but not yet effective and not early adopted (continued)

Amendments in* IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognized when a transaction involves a business or a partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. It is not expected that these amendments would impact the financial position or performance of the Group.

IAS 12 *Income taxes (Amendments): Recognition of Deferred Tax Assets for Unrealised Losses*
The amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. The objective of these amendments is to clarify the accounting for deferred tax assets for unrealised losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and combined versus separate assessment. These amendments have not yet been endorsed by the EU. It is not expected that these amendments would be relevant to the Group.

IAS 7 *Statement of Cash Flows (Amendments): Disclosure Initiative*
The amendments are effective for annual periods beginning on or after 1 January 2017, with earlier application permitted. The objective of these amendments is to enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments will require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. These amendments have not yet been endorsed by the EU. It is not expected that these amendments would impact the financial position or performance of the Group.

IFRS 4 *Insurance Contracts (Amendments): Applying* IFRS 9 *Financial Instruments with* IFRS 4 *Insurance Contracts*
The amendments are effective for annual periods beginning on or after 1 January 2018. The objective of these amendments is to address issues arising from the different effective dates of IFRS 9 Financial Instruments and the upcoming new insurance contracts standard IFRS 17 Insurance Contract. Entities issuing insurance contracts will still be able to adopt IFRS 9 on 1 January 2018. The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9. The overlay approach allows an entity applying IFRS 9 from 2018 onwards to remove from profit or loss the effects of some of the accounting mismatches that may occur from applying IFRS 9 before IFRS 17 is applied. These amendments have not yet been endorsed by the EU. It is not expected that these amendments would impact the financial position or performance of the Group.

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

c Standards issued but not yet effective and not early adopted (continued)

IFRS 2 *Share-based Payment (Amendments): Classification and Measurement of Share based Payment Transactions*
The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These amendments have not yet been endorsed by the EU. It is not expected that these amendments would impact the financial position or performance of the Group.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*
The interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. This interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The interpretation has not yet been endorsed by the EU. The Group is in the process of assessing the impact of the new interpretation on its financial position or performance.

IAS 40 *Investment Property (Amendments): Transfers of Investment Property*
The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The amendments clarify transfers of property to, or from, investment property when there is a change in the use of such property which is supported by evidence. These amendments have not yet been endorsed by the EU. It is not expected that these amendments would impact the financial position or performance of the Group.

Annual Improvements to IFRSs 2014-2016 Cycle
In the 2014-2016 annual improvements cycle, the IASB issued amendments to three standards which are effective for annual periods beginning on or after 1 January 2017 / 1 January 2018. Summary of amendments and related standards are provided below:

- IFRS 1 First-time Adoption of International Financial Reporting Standards - deletion of short-term exemptions for first-time adopters (effective for annual periods beginning on or after 1 January 2018);
- IFRS 12 Disclosure of Interests in Other Entities - clarification of the scope of the Standard (effective for annual periods beginning on or after 1 January 2017), and
- IAS 28 Investments in Associates and Joint Ventures - measuring an associate or joint venture at fair value (effective for annual periods beginning on or after 1 January 2018).

The improvements to IFRSs 2014 – 2016 Cycle have not yet been endorsed by EU. The Group is in the process of assessing the impact of the amendments on its financial statements.

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

d Foreign currency transactions

(a) Functional and presentation currency

The items included in the Group's financial statements are measured and presented in Bulgarian levs, which is the functional and presentation currency of the Parent bank. The Bulgarian lev is pegged to the EURO at an exchange rate BGN 1.95583 to EUR 1 as of 1 January 1999 under the provisions of the BNB Act of 1997.

(b) Transactions and balances

Foreign currency transactions are translated to the functional currency using the exchange rates valid on the dates of the transactions. Foreign currency gains and losses arising as a result of the settlement of such transactions, as well as translation of monetary assets and liabilities denominated in foreign currencies at the exchange rates valid at the year-end, are recognised in the profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated to the functional currency using the exchange rate as of the date of initial transaction (purchase).

As at 31 December 2016 monetary assets and liabilities denominated in foreign currencies were translated at the official exchange rate quoted by BNB on this date – BGN 1.95583 = EUR 1, BGN 1.85545 = USD 1 and BGN 0. 430894 = RON 1 (31 December 2015: BGN 1.95583 = EUR 1, BGN 1.79007 = USD 1, BGN 0. 431789 = RON 1).

The Group's foreign operation assets and liabilities, through its branch in Bucharest, Romania, were translated into Bulgarian lev at the closing exchange rate quoted by BNB, valid for the new Romanian leu as at 31 December 2016. The foreign operation income and expenses were translated at the average exchange rate for the reporting period, which amounted to BGN 0. 435557 = RON 1 in 2016 (2015: 0.440019). The effects of the translation of the functional currency of the branch into the functional currency of the Group are recognised in the other comprehensive income.

e Interest income and expense

Income is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of the timing of the payment. Interest income expense is recognised in the statement of comprehensive income for all interest-bearing instruments measured at amortised cost, based on the accruals principal using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and allocating interest income or interest expense over the respective time period. The effective interest rate is the rate that discounts exactly the estimated future cash inflows or outflows over the expected life of the financial instrument, or a shorter period, as appropriate, to the net carrying amount of the financial asset or financial liability.

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

e Interest income and expense (continued)

In calculating the effective interest rate the Group makes an estimate of the cash flows taking into account all contractual terms and conditions of the financial instrument (such as, early payment options), excluding any future loan losses. The calculation includes all fees, paid or received between the parties under the contract, which form an integral part of the effective interest rate, the transaction costs and any other premiums or discounts.

If the collectability of a loan is uncertain it is written down to its recoverable amount and the interest income is recognised based on the interest rate which is the original effective interest rate on the financial asset. The fees on the unabsorbed portion of loans are deferred (together with the related direct costs) and are recognised as an adjustment to the effective interest rate on the respective loans.

f Fee and commission income and expenses

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

g Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments, available for sale financial assets, and other assets. Management designates the classification of its investments upon initial recognition.

(a) Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired or originated in order to be sold or repurchased in a short-term or is part of a portfolio of designated financial assets managed on aggregate basis for which objective data is available as a result of recent specific short-term profit generation pattern.

Derivative instruments are also classified as financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss are initially recognised at fair value and are subsequently measured at fair value based on the current dealing prices as at the date of the financial statements. Any realised or unrealised gains and losses arising are included in the net gain from dealing transactions as they occur. The interest on held-for-trading financial assets is recorded as interest income.

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

g Financial assets (continued).

Held-for-trading financial assets

Held-for-trading investments are part of the fair value throught profit and loss category and comprise those financial assets that the Bank acquires for generating a profit in the short-term fluctuations in price or trader's margin.. Held-for-trading financial assets are recognised initially on the Bank's statement of financial position and subsequently, they are revalued at fair value with transaction costs being reported directly in profit or loss.

(b) Loans and receivables

Loans and receivables, as well as other receivables, are non-derivative financial assets with fixed or determinable payments that are not traded in an active market other than: *(a)* loans and receivables which the entity intends to sell immediately or over a short period of time, which are classified as assets held for trading, or those which are designated as loans and receivables at fair value through profit or loss upon their initial recognition; *(b)* those which are designated as available-for-sale assets upon initial recognition; or *(c)* those for which the holder is unable to recover fully the initial investment due to reasons other than the deterioration of the credit quality. Loans and receivables are recognised upon the disbursement of the cash to the borrowers. Following initial recognition loans and receivables are subsequently carried at amortised cost, less any impairment allowance, using the effective interest method.

(c) Held-to-maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities which the Group's management intends to and is capable to hold to maturity. If the Group intends to sell a material portion of the value of held to maturity assets the whole category is reclassified as available for sale financial assets. Following initial recognition held to maturity investments are measured at amortised cost applying the effective interest rate method before impairment allowances. Interest income on investments held to maturity is reported as interest income. The Group assesses its intention and ability to holds its investments to maturity not only upon the initial recognition of these financial assets, but subsequently at each balance sheet date.

(d) Available-for-sale financial assets

Available-for-sale investments are the ones 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 held-for-trading, held-to-maturity and available-for-sale financial assets are recognised on the trade date - the date when the Group has committed to purchase or sell the asset.

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

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

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

g Financial assets (continued)

(d) Available-for-sale financial assets (continued)

Equity investments traded in an active market are measured at fair values. Equity investments that are not traded in an active market are carried at cost less any impairment loss, if it exists. Dividends are recognised in the statement of comprehensive income in the period in which the Group becomes entitled to receive them.

h Impairment of financial assets

(a) Assets carried at amortised cost

At each date of financial statements the Group assesses whether there are any objective evidence that a financial asset or a group of financial assets may be impaired. A financial asset or group of financial assets is 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 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.

The Group initially estimates whether objective evidence for impairment exist separately for individually significant financial assets, and individually or on portfolio basis for financial assets that are not significant individually. If the Group assesses that no objective evidence for impairment exist 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 portfolio basis. Assets which 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 portfolio basis.

If there is objective evidence that impairment loss exists for loans and receivables, or held to maturity investments, 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.

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

h Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

If a loan or held to maturity investment is bearing a floating interest rate, the discount rate used to determine the impairment loss is the current effective interest rate set out in the agreement. When practicable, the Group may calculate the impairment based on the fair value of the instrument using observable market price.
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 the Group accrues collective impairment which reflects the expectations of the management for the future cash flows from the consumer portfolio. When applying collective impairment the loan portfolio of the Group is assessed on portfolio basis, taking into account the homogeneous nature of the exposure's risk profile. Impairment is calculated applying certain percentage on the gross exposure based on the number of days the payments are overdue.

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 at the Group and the historical loss experience on credit risk bearing assets similar to those at the Group. The loss assessed, based on the 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.

(b) Available-for-sale financial assets

At each balance sheet date the Group assesses whether objective data exists that a financial asset or group of financial assets should be impaired. For equity investments classified as investments available for sale, a prolonged or significant decline in the fair value of the security below its cost is taken into account in assessing whether the assets are impaired.

(c) Renegotiated loans

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

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

i Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and are carried at their net amount in the Group's balance sheet, if and only if there is legal right to offset the recognised amounts, and when there is an intention to settle them at maturity on net basis and the realisation of the asset and the settlement of the liabilities can be done simultaneously.

j Derecognition of financial assets and liabilities

Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:
- the contractual rights to receive cash flows from the financial asset have expired;
- the contractual rights to receive cash flows from the financial asset have been retained, but there is a contractual obligation to pay all cash flows collected, without significant delay, to a third party under a transfer arrangement, or the contractual rights to receive cash flows from the financial assets have been transferred, where (a) the Group has transferred significantly all risks and rewards from the ownership of the transferred asset; or (b) the Group has neither transferred, not retained significantly all risks and rewards from the ownership of the financial asset, but has not retained control over the asset.

Where the Group has transferred its contractual rights to receive cash flows from a financial asset and has neither transferred, nor retained substantially all the risks and rewards from the ownership of the asset, but has retained control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase. In the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities
A financial liability is derecognised from the balance sheet when settled, i.e. the obligation under the contract is discharged or cancelled or expired. Where an existing financial liability is replaced by another debt instrument from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original financial liability and the recognition of a new financial liability. The difference in the respective carrying amounts of the original and the new liability is recognised in profit or loss.

k Property and equipment

Equipment and other tangible assets are carried at historical cost less any depreciation and impairment. The historical cost includes expenses directly related to the acquisition of the tangible assets.

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

k Property and equipment (continued)

The subsequent costs are included in the carrying amount of a tangible asset or are recognised as a separate asset only when it is probable that the latter will bring future economic benefits to the Group and its cost can be measured reliably. All costs for current repair and maintenance are recognised in the statement of comprehensive income as incurred.

Depreciation is charged under the straight-line method over the useful life of the asset. At each balance sheet date the residual amount of the asset and its useful life are reviewed and adjusted as appropriate.

The annual depreciation rates are as follows:

Buildings	4 %
Computers and periphery	25 %
Leasehold asset improvements	15 %
Other tangible assets	15 %

Assets that are subject to depreciation are reviewed for impairment when events or changes in circumstances indicate that their carrying amount may not be recoverable. The carrying amount of the asset is written down to its recoverable amount if it is higher than the asset's estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less the costs to make the sale and the value in use.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds from the disposals and the carrying amounts of the respective assets. These are included in profit or loss.

The depreciation rate adopted in respect of leasehold improvements is the lower of the useful life of the assets and the term of the lease contract.

l Intangible assets

Intangible assets comprise mainly software and are stated at historical cost less the accumulated amortisation and impairment. Amortisation is charged under the straight-line method over the useful life of the asset. At each date of financial statements the residual amount of the asset and its useful life are reviewed and adjusted as appropriate.

The annual amortisation rates are as follows:

Software	25%
Other	25%

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

m Non-current assets classified as held for sale

Non-current assets classified as held for sale are assets acquired as a result of the acquisition of collaterals on non-performing loans. The comprise buildings and land. This group of assets is measured at the lower of the assets' fair value less the costs to make the sale and their carrying amounts. The assets are measured at cost upon initial recognition, which is the fair value as at the acquisition date.

n Cash and cash equivalents

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

o Taxes

Current income taxes are calculated in accordance with the requirements of the Bulgarian tax legislation - the Corporate Income Tax Act and the Romanian tax legislation with respect to the income taxes of the branch. The nominal tax rate applicable in Bulgaria in 2016 is 10 % (2015: 10%), and the tax rate applicable in Romania is 15% (2015: 16 %). Current tax for the reporting period is based on the taxable profit for the year at the tax rates in effect as at the balance sheet date. Tax expenses, other than income taxes, are included in the other operating costs.

Deferred tax is provided using the liability method for all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts.

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences and carry-forward tax loss, to the extent it is probable that they will reverse and that sufficient taxable profit will be available in the future or taxable temporary differences, against which such deductible differences can be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset by the Group, if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

p Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the liability, and the liability can be measured reliably.

q Financial liabilities

Borrowings are initially recognised at the fair value of the cash inflows upon origination of the liability, less any transaction costs. Subsequently borrowings are measured at amortised cost and any difference between the net cash flows and the amortised cost is recognised in profit or loss using the effective interest rate method over the useful life of the liability.

The Group only holds financial liabilities carried at amortised cost. Financial liabilities that are not classified at fair value through profit or loss, fall into this category and are measured at amortised cost. Financial liabilities at amortised cost are deposits from banks or customers, subordinated term debt and other liabilities.

r Share capital

The Group's share capital is the share capital of the Bank that is reported at the nominal value of the shares. Incremental costs, directly attributable to the issue of new shares or options, or the acquisition of business, are stated in the equity as a decrease in proceeds, net of tax.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made as to whether an arrangement contains a lease after inception of the lease only if one of the following applies:

- There is a change in contractual terms, other than a renewal or extension of the arrangement;
- A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- There is a change in the determination of whether fulfilment is dependent on a specified asset;
- There is a substantial change to the asset.

Where reassessment is made and it is determined that the arrangement contains or does not contain a lease, lease accounting shall commence or cease from:

- the date when the change in the circumstances gave rise to the reassessment for scenarios a), c) or d) above;
- the date of renewal or extension of the period for scenario b).

The Group as a lessor
Finance lease

Lease contracts are classified as finance leases when the Group has transferred to the lessee all material risks and rewards associated with the leased assets. The Group applies its accounting policies for impairment of financial assets when finance lease contracts are impaired.

Notes to the Consolidated financial statements (continued)

1 *General information and accounting policies (continued)*
r Share capital (continued)

Operating lease

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred by the Group in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Group as Lessee

s

Payments made under operating leases are charged in equal portions to the statement of comprehensive income on a straight line basis.

t Financial guarantee contracts

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 for the purpose of recognising in the statement of comprehensive income the 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 the experience with similar transactions and history of past losses, supplemented by the judgement of the management.

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

u Employee benefits

According to the local legislation the Group is obliged to make defined contributions to the state social security fund on behalf of the employee. All such payments / liabilities are recognised as an expense in the period they refer to.

v Dividends

Dividends are recognised as a liability when a decision is made by the sole owner of the equity to distribute dividends.

w Fiduciary assets in custody

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

x Business combinations and goodwill

Business combinations are reported using the acquisition method. The amount of the consideration paid is measured at fair value as at the acquisition date, and the value of the non-controlling interest in the acquiree. For each business combination the acquirer measures the non-controlling interest in the acquiree at fair value or at the proportionate share in the identifiable net assets of the acquiree. Costs related to the acquisition are taken to the profit or loss for the period.

When the Group acquires a business it assesses whether the financial assets and liabilities acquired are classified and presented appropriately in view of the contractual terms and conditions and the economic conditions, and the relevant circumstances at the acquisition date. This involves separation of any embedded derivatives from the host contracts of the acquiree.

If a business combination is realised in stages, the fair value at the acquisition of interests held in the acquiree earlier are remeasured at fair value at the date of the acquisition through the profit or loss for the period.

Contingent consideration that should be transferred by the acquirer is recognised at the fair value at the acquisition date. Subsequent movements in the fair value of the contingent consideration, which is classified as an asset or a liability, are recognised in accordance with IAS *39 Financial Instruments: Recognition and Measurement*, or in the profit or loss, or in the other comprehensive income.

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

x Business combinations and goodwill (continued)

If the contingent consideration is classified as an equity instrument, it is not remeasured until it is ultimately settled within the equity.

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

Following initial recognition, goodwill is carried at cost less any accumulated impairment losses. For impairment testing goodwill acquired in a business combination is allocated, as of the acquisition date, to each of the cash generating units of the Group that are expected to benefit from the combination, regardless of whether other assets and liabilities of the acquiree have been allocated to these units or not.

When goodwill forms part of cash generating unit and some of the operations of this unit are disposed, the goodwill attributable to the disposed portion is included in the carrying amount of the operation in determining the gain or loss on its disposal. Goodwill disposed in this manner is measured based on the relative values of the disposed operation and the retained portion of the cash generating unit.

If the initial accounting for the business combination is not completed by the end of the reporting period during which the combination occurs because the fair values that have to be determined for the acquiree's identifiable assets acquired and liabilities taken over, or the amount of the consideration transferred, or the non-controlling interest can be determined only contingently, the Group reports the combination using these contingent assets and liabilities.

The Group adjusts these contingent assets and liabilities as a result of the finalisation of the initial accounting within twelve months as of the acquisition date and as of this date retrospectively.

y General information

The Bank provides services as an investment intermediary in accordance with the provisions of the Public Offering of Securities Act (POSA). Being an investment intermediary, the Bank is obliged to comply with certain requirements for safeguarding the customers' interests in compliance with the Markets in Financial Instruments Act (MFIA) and Ordinance 38, issued by the Financial Supervision Commission (FSC). The Bank has developed and implements organisation for the conclusion and implementation of the contracts with clients; observing the requirement for information from customers, as well as keeping of the corresponding accounts and preserving the customer's assets in compliance with the statutory legislation and in particular, the requirements of Ordinance 38, articles 28-31l. The Bank has elaborated internal control rules and procedures in order to insure compliance with the above legislation.

Notes to the Consolidated financial statements (continued)

2 Financial risk management

In performing its activities the Group is exposed to variety of financial risks: market risk (including currency risk, risk of changes in the fair value of financial instruments as a result of movements in the interest rates, risk of changes in the cash flows as a result of changes in the market interest rates and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise the potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor adherence to the risk limits by means of a reliable and up-to-date information system. The Bank regularly reviews its risk management policies and systems to reflect in a timely manner changes in the markets, products and emerging best practice.

In 2016, the Group updated its Rules and procedures for managing, monitoring, reporting and assessing the capital adequacy, Operational risk management rules, and Credit risk assessment and management rules, and in the previous year, the Rules and procedures for managing the systemic risk linked to financing the activities, and Liquidity risk management rules.

The risk control policy of the Group's management is aimed at ensuring compliance with the principles of hierarchy and centralization, and includes:

- Risk management policy, risk measurement rules and methods, based on both statistical models and international best banking practices, as also on the historical experience of the Group.
- Risk assessment by a specialized unit of the Group in accordance with the established rules, proposed for approval and resolution by the Management Board.

The Supervisory Board passes decisions on the measures to be taken by the Group with respect to its long-term risk management policy and strategy.
The process of risk management includes the following stages:
- risk identification – definition of its nature and description;
- risk measurement and assessment – methods to measure the risks and to ensure reliable outgoing data for risk measurement;
- risk mitigation – mitigation of potential and probable losses by means of definition of acceptable risk levels, outsourcing, monitoring and other risk mitigation methods.

Risk management units:
- coordinate the work of the departments related to analysis, assessment, supervision, management and control over risk;
- develop and implement an internal rating system for the customers of the Group;
- develop and implement approaches to meet the requirements of Basel III and the respective internal rules.

At present, the Group assesses the risk by applying the standardised risk assessment methods.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk

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

The Group structures the levels of credit risk it undertakes by placing limits on the amount of acceptable risk in relation to its exposure to one borrower or a group of borrowers, as also by geographical regions and industry segments. Such risks are monitored regularly and are subject to annual or more frequent review.

Loans to other banks and customers
In measuring the credit risk of loans to other banks and customers the Group considers the following components:
- international ratings awarded by recognised rating agencies;
- assessment of the financial position of the individual debtor;
- ability of the debtor to secure sufficient funds for regular repayment of its future payables to the Group;
- servicing of past liabilities of the debtor to the Group and/or to other institutions;
- type and amount of providing for the balance sheet and contingent liabilities of the customer.

The Group manages the credit risk on loans and advances to customers or banks through a comprehensive set of policies and procedures to ensure that all aspects of credit risk are adequately covered. Financial risk is assessed following detailed analysis of the financial statements of the borrower/guarantor, based on a system of creditworthiness indicators.

Market risk is assessed based on the economic characteristics/prospects of the relevant market and the competitive position of the proposed borrower.

Risk exposures are evaluated and classified based on the credit risk level, the period of delay of the amounts due, the analysis of the financial position of the debtor and the main sources for repayment of the debtor's liabilities. The assessment of the financial position includes qualitative and quantitative analyses taking into account all circumstances which may affect debt repayment according to the clauses of the loan agreement. Risk exposures on loans extended to individuals are measured and classified completely based on the defaults on any amounts due.

The Group's risk exposures are classified in four groups based on the criteria of credit risk level, as follows:

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Standard exposures - standard risk exposures are those, which are serviced and the information on the debtor's financial position casts no doubts that the debtor will be capable to repay the debt in full. A risk exposure is classified as a standard exposure if all of the conditions listed below are met simultaneously:
- the principal and the interest are repaid currently in accordance with the contractual terms or repayments on them have been past due up to 30 days, provided the delay is accidental;
- the debtor uses the loan for the purposes stipulated in the agreement;
- the Group has sufficient updated information on the debtor's financial position and the sources for repayment of the debtor's liabilities, as well as other documents relating to the debtor's activity.

Watch exposures – watch exposures are risk exposures where insignificant weaknesses exist with respect to their servicing or there is a possibility for deterioration in the financial position of the debtor which may cast doubts as to the full repayment of the obligation. A risk exposure is classified as watch exposure provided it meets one of the conditions listed below:
- principal or interest arrears payments have been past due 31 to 90 days;
- the debtor uses the loan for the purposes other than the ones stipulated in the agreement;
- the final maturity of a loan with bullet repayment granted to a newly established company or a company with poor credit history has been renegotiated.

Non-performing exposures – non-performing exposures are risk exposures where significant weaknesses exist with respect to their servicing or available information points that the debtor's financial position is unstable, current and anticipated proceeds are insufficient for the full repayment of the obligations to the Group and to other creditors, as well as where weaknesses have been found with the distinct possibility that the Group will sustain loss. A risk exposure is classified as non-performing exposure provided it meets one of the conditions listed below:
- principal or interest arrears payments have been past due 91 to 180 days;
- the debtor's financial position has deteriorated significantly and may jeopardise the repayment of his obligations.

Loss– exposures classified as a loss are those risk exposures where as a result of the debtor's deteriorated financial position it is expected for the obligations to become uncollectible, even though they have partial recovery value that may be realised in the future. A risk exposure is classified as a loss provided it meets one of the conditions listed below:
- principal or interest arrears payments have been past due more than 180 days;
- the debtor suffers a permanent shortage of money;
- the debtor has been declared bankrupt or is in a liquidation procedure and there is a risk of leaving creditors unsatisfied;
- the receivable reported as a balance sheet item is subject to court proceedings or the court has awarded it to the Group but it has not been collected;
- other conditions providing grounds to consider that the risk exposure is jeopardised by non-repayment.

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

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

The following types of collateral are considered by the Group as highly liquid: cash in Bulgarian levs and foreign currencies; guarantees by states, governments, banks or institutions with awarded high ratings from recognised rating agencies; first-ranking mortgage on a real estate in a residential, commercial, administrative or hotel building insured against loss in favour of the Group; first-ranking mortgage on regulated land property. The value of highly liquid collaterals is determined in accordance with the internal policy of the Group, taking into account evaluations and analyses prepared by independent appraisers and / or internal experts of the Group. Such values are reviewed regularly to ensure adequacy of the respective valuation. Placements with other banks are not secured.

The table below shows the total gross amount of loans to customers by type of collateral:

As of 31 December	Loans to customers			
	2016		2015	
	Gross amount of loans	Collateral	Gross amount of loans	Collateral
Loans, collateralized by mortgages	75,391	73,918	80,385	69,036
Loans with cash collateral	80	30	319	245
Loans with other collateral	22,001	19,015	12,288	12,597
Unsecured loans	278,766	-	260,412	-
Total	**376,238**	**92,963**	**353,404**	**81,878**

The table below shows the level of coverage of credit risk by collateral provided as a percentage of the carrying amount of the loans, by types of collateral as of 31 December 2016 and 31 December 2015. The amount of collateral is considered up to the amount of exposures it relates to, thus eliminating the effect of collateral exceeding the exposure. Exposures secured by mortgage are 98 % covered for credit risk, and those secured by cash – 38 %, which illustrates the level of the Group's exposure to risk of credit losses.

	2016	2015
Loans, collateralized by mortgages	98%	86%
Loans with cash collateral	38%	77%
Loans with other collateral	86%	82%

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Contingent liabilities and irrevocable commitments

Guarantees and letters of credit which represent irrevocable commitment by the Group to make the respective payment if the customer fails to discharge its liability to a third party give rise to the same type of risk as loans. Documentary and commercial letters of credit which represent written commitments of the Bank on behalf of a customer that has authorised a third party to issue orders to the Group up to an agreed amount in accordance with specific conditions, are secured with cash deposits or other pledges in favour of the Bank and therefore, the Bank reports minimum risk levels.

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

Maximum exposure to credit risk before collaterals

The table below presents the worst case scenario of exposure to credit risk of the Group as at 31 December 2016 and 31 December 2015 without taking into account any collateral. Exposures for balance sheet assets are based on the net book values reported at the balance sheet date.

As of 31 December		**Maximum exposure**
	2016	**2015**
Cash on hand and balances with central banks	54,943	100,310
Placements with other banks	107,341	40,266
Held-for-trading financial assets	1,019	-
Loans to customers:		
Corporate clients	91,280	126,976
Individuals	258,388	204,116
Finance lease	30,261	-
Available-for-sale investments	10,764	11,878
Held-to-maturity investments	8,081	-
Other receivables	3,920	5,560
Credit risk exposures related to contingent liabilities and irrevocable commitments are as follows:		
Guarantees	950	1,787
Undrawn loans commitments	16,228	15,118
Total maximum exposure to credit risk	**583,175**	**506,011**

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Loans to customers are summarised as follows :

As of 31 December 2016	Loans to customers	Financial leases
Neither past due, nor impaired individually	274,240	15,754
Past due but not impaired individually	89,121	12,100
Impaired individually	12,877	3,836
Gross amount	**376,238**	**31,690**
Less: allowance for impairment losses	(26,570)	(1,429)
Carrying amount	**349,668**	**30,261**

As of 31 December 2015	Loans to customers	Financial leases
Neither past due, nor impaired individually	262,119	-
Past due but not impaired individually	70,001	-
Impaired individually	21,283	-
Gross amount	**353,403**	**-**
Less: allowance for impairment losses	(22,311)	-
Carrying amount	**331,092**	**-**

The total allowance for impairment losses of loans and advances at 31 December 2016 is BGN 26,570 thousand (2015: BGN 22,311 thousand). Allowances accrued on individually assessed financial assets amount to BGN 2,800 thousand (2015: BGN 2,774 thousand), and allowances based on collective impairment assessment amount to BGN 23,770 thousand (2015: BGN 19,537 thousand).

In 2016 loans to customers granted by the Group before impairment increased by 6.46% YoY. For the purpose of the effective credit risk management, the Group continues to be actively involved in renegotiation, restructuring and closing of existing risk exposures. An expert working group for collection of bad debts functions. This group holds weekly meetings.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Loans to customers that are neither past due, nor impaired individually

Loans to customers and financial leases that are neither past due nor impaired individually are presented in the table below depending on the purpose of the loan:

As of 31 December 2016	Corporate clients	Individuals	Financial leases	Total
Total	**59,859**	**214,381**	**15,754**	**289,994**
Including				
Standard risk loans	59,748	214,354	15,754	289,856
Higher risk loans	111	27	-	138

Higher risk loans are loans which have had some breaches in the last six months as of the date of the financial statements are neither past due nor impaired.

As of 31 December 2015	Corporate clients	Individuals	Financial leases	Total
Total	**85,003**	**177,116**	**-**	**262,119**
Including				
Standard risk loans	85,003	177,013	-	262,049
Higher risk loans	-	103	-	70

The consumer loan portfolio, which represents more than 78.20% (2015: 67.56%) of all receivables that are neither past due nor individually impaired, is strongly diversified both in terms of number and of amount. The latter comprises many small exposures without geographic and sector concentrations, characterised with its short-term nature and high quality based on past experience. With respect to loans to enterprises, these are primarily SMEs of acceptable quality and within the Bank's risk appetite. The loan portfolio comprises loans secured mainly by mortgages and loans financed under joint schemes with SFA and NGF.

Loans to customers that are neither past due nor individually impaired are divided on the basis of historical analysis of non-performance of the customers' obligations. The group bearing higher risk includes exposures past due for more than 90 days over the last six months as at the date of the financial statements. All other exposures are included in the group of standard quality of credit risk.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Loans to customers that are past due, but are not impaired individually

31 December 2016	Corporate clients	Individuals	Financial leases	Total
Past due up to 30 days	6,069	38,597	3,495	**48,161**
Past due from 31 to 60 days	6,594	7,504	4,148	**18,246**
Past due from 61 to 90 days	1,723	2,534	1,456	**5,713**
Past due more than 90 days	7,909	18,191	3,001	**29,101**
Total gross amount	**22,295**	**66,826**	**12,100**	**101,221**
Less: allowance for impairment losses	(841)	(22,929)	(306)	**(24,076)**
Carrying amount	**21,454**	**43,897**	**11,794**	**77,145**

31 December 2015	Corporate clients	Individuals	Financial leases	Total
Past due up to 30 days	9,488	20,880	-	**30,368**
Past due from 31 to 60 days	3,571	4,667	-	**8,238**
Past due from 61 to 90 days	826	1,346	-	**2,172**
Past due more than 90 days	9,281	19,942	-	**29,223**
Total gross amount	**23,166**	**46,835**	**-**	**70,001**
Less: allowance for impairment losses	-	(19,537)	-	**(19,537)**
Carrying amount	**23,166**	**27,298**	**-**	**50,464**

Loans to customers impaired individually

31 December 2016	Corporate clients	Individuals	Financial leases	Total
Gross amount	12,877	-	**3,836**	**16,713**
Less: allowance for impairment losses	(2,800)	-	**(1,123)**	**(3,923)**
Carrying amount	**10,077**	**-**	**2,713**	**12,790**

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Loans to customers that are impaired individually (continued)

31 December 2015	Corporate clients	Individuals	Financial leases	Total
Gross amount	21,283	-	-	**21,283**
Less: allowance for impairment losses	(2,774)	-	-	**(2,774)**
Carrying amount	**18,509**	**-**	**-**	**18,509**

For individually assessed accounts loans are treated as impaired as soon as objective evidence indicate that an impairment loss has been incurred.

Concentration of risks by geographic sectors for financial assets with credit risk exposure

Geographic sectors

Financial assets	2016	2015
Bulgaria	227,617	254,950
Romania	324,684	227,482
Latvia	9,100	-
Other countries	4,596	6,674
Total financial assets	**565,997**	**489,106**
Exposures to credit risk related to contingent liabilities and irrevocable commitments:		
Bulgaria	12,873	11,760
Romania	4,305	5,142
Other countries	-	3
Total financial assets and contingent liabilities and irrevocable commitments	**583,175**	**506,011**

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

The table below presents an analysis of deposits with other banks at 31 December 2016 and 31 December 2015 based on criteria set by a rating agency as a result of credit assessments of a recognised external institution. Ratings awarded by Standard & Poor's or their equivalents are shown in the table below:

	31 December 2016			31 December 2015	
Rating	**Available for sale financial assets**	**Placements with other banks**	**Rating**	**Available for sale financial assets**	**Placements with other banks**
BBB+ (Fitch)	-	86	BBB+ (Fitch)	-	5,970
Baa1 (Moody's)	-	536	Baa1 (Moody's)	-	-
BBB (Fitch)	-	78,665	BBB (Fitch)	-	8,095
Baa2 (Moody's)	-	2,427	Baa2 (Moody's)	-	-
BBB- (Fitch)	10,675	43	BBB- (Fitch)	11,789	4,346
BBB- (BCRA)	-	946	BBB- (BCRA)	-	-
BB+ (Fitch)	-	21	BB+ (Fitch)	-	-
BB+ (BCRA)	-	1	BB+ (BCRA)	-	1
Ba1 (Moody's)	-	-	Ba1 (Moody's)		97
BB (Fitch)	-	629	BB (Fitch)	-	999
BB- (Fitch)	-	23,847	BB- (Fitch)	-	20,731
Ba3 (Moody's)	-	4	Ba3 (Moody's)	-	-
B- (Fitch)	-	129	B- (Fitch)	-	9
CCC+ (Fitch)	-	-	CCC+ (Fitch)	-	2
Caa3 (Moody's)	-	-	Caa3 (Moody's)	-	16
RD (Fitch)		7	RD (Fitch)	-	-
Unrated	89	-	Unrated	89	-
Total	**10,764**	**107,341**	**Total**	**11,878**	**40,266**

At 31 December 2016 and 31 December 2015 other receivables were neither past due nor impaired. Other receivables are settled within 30 days after the date of occurrence and therefore, they are considered not past due. Other receivables were fully paid at the date of issue of the financial statements.

As of 31 December 2016 the rating of held-for-trading and held-to-maturity financial assets is B3 (Moody's).

As of 31 December 2016 the rating of cash balances on accounts with central banks was BBB- (2015: BBB-).

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

b Market risk

The Group is exposed to market risk. Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices. Market risk arises from open positions in interest rate, currency and equity items, which are exposed to the general and specific movements in market rates and prices, such as interest rates, credit spreads, foreign exchange rates and security prices. The components of market risk include foreign currency risk, risk of changes in the fair value of financial instruments due to changes in the interest rates, risk of changes in the cash flows as a result of changes in the market interest rates and price risk.

Interest rate risk is the risk of a potential loss as a result from adverse changes in the interest rates. These include risk of changes in the yield curve, basis risk, spread risk, etc.

Foreign currency risk is the risk of a potential loss as a result of adverse changes in foreign currency exchange rates against the main currency. It includes the overall risk (or global currency risk – impacts the complete operations of the Group – income, expenses, cash flow dynamics, regardless of which market transactions are oriented to), volatility risk and convertibility risk.

The risk related to the changes in the fair value of security prices is the risk of a potential loss as a result of changes in these prices.

The Group's market risk policy is developed by the Risk Management Units and is approved by the Management Board of the Bank. The market risk policy is reviewed at least annually and the changes are submitted to the Management Board. The market risk policy is applied in respect of control of this risk, arising on all assets, liabilities, contingencies and commitments of the Group and accordingly covers financial and non-financial transactions that are subject to market risk.

The objectives of market risk control and supervision are:

- to protect the Group against unforeseen market losses; - to contribute to more stable and predictable earnings; and - to develop transparent, objective and consistent market risk information which is to serve as basis for sound decision making.

Market risk measurement techniques

The risk factors which generate market risk and should be included in the market risk measurement system consist of, but are not limited to:

- foreign exchange rates;
- interest rates;
- fair value of securities. The Group assesses the risk as immaterial.

The Group's exposure to derivative contracts is monitored as part of the overall market risk management.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

b Market risk (continued)

Upon their origination derivatives frequently include only a mutual promise for an exchange against the payment of low or no consideration. Nevertheless, these instruments often lead to high indebtedness levels and are extremely volatile. A relatively small change in the value of assets, interest rate levels or other indices underlying the derivative contracts may have significant impact on the Group's profit and loss.

Swaps are contractual arrangements between two parties to exchange payments over fixed periods of time and based on nominal amount set in relation to a contractual index such as interest rate, foreign exchange rate or capital index.

In foreign exchange swaps the Group pays a fixed amount in certain currency and receives a fixed amount in another currency.

The Group uses foreign currency swaps to hedge potential changes in the exchange rates.

The nominal amounts in the table below show the volume of outstanding transactions related to derivative contracts as of 31 December 2016 and 31 December 2015.

	Assets 2016	Liabilities 2016	Nominal amount 2016
Derivatives aimed to hedge changes in interest rates/currency risk			
FX swaps	-	31	64,572

	Assets 2015	Liabilities 2015	Nominal amount 2015
Derivatives aimed to hedge changes in interest rates/currency risk			
FX swaps	-	17	39,073

As of 31 December 2016 the Group had two active derivatives. The effect of the concluded derivative contracts on the profit and loss in the reporting period is a loss of BGN 885 thousand (2015: BGN 767 thousand).

Foreign currency risk

Fluctuations in the foreign exchange rates have impact on the financial position and cash flows of the Group and expose it to foreign currency risk. The Management Board sets limits to control the risk on open FX positions, which are monitored daily. As a rule the Group does not maintain material open positions in currencies other than the Bulgarian lev and Euro. The Group does not measure sensitivity to foreign currency risk since as at 31 December 2016 the Bulgarian lev is pegged to the Euro. The open FX position in RON, which amounted to BGN 83,359 thousand as at 31 December 2016 (2015: BGN 55,206 thousand), is hedged by means of FX swap with a nominal amount of BGN 64,572 thousand (2015: BGN 39,073 thousand).

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

b Market risk (continued)

Currency risk (continued)

The sensitivity to changes in exchange rates has been calculated directly on the basis of the total net open FX position of the Group in all foreign currencies (other than EUR) as a 10% amortisation of the value of the local currency compared to all foreign currencies (other than EUR). The exchange rate BGN/EUR is fixed at a ratio BGN 1.95583: EUR 1 as part of the Currency Board parameters.

As of 31 December 2016

Exchange rates	Direct effect on profit/loss
- 10% devaluation of local currency	(7,090)
+ 10% enhancement of local currency	7,090

As of 31 December 2015

Exchange rates	Direct effect on profit/loss
- 10% impairment of local currency	(3,389)
+ 10% impairment of local currency	3,389

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will vary due to changes in the market interest rates. Interest rate risk is the risk that the fair value of a financial instrument will vary due to changes in the market interest rates.

The Group takes on risks related to the effect of changes in the market interest rates both in respect of its own financial assets, and in respect of the cash flows. As a result of such changes interest rate margins may increase but they may decrease as well and cause losses in case of unforeseen shocks. The management sets limits to maintain an acceptable level of interest rate imbalance and these limits are monitored regularly.

The sensitivity analysis below illustrates the potential impact on the statement of comprehensive income of floating rate items. The table below shows possible acceptable deviations selected based on the market and economic environment during the reporting period.

As of 31 December 2016

Interest rates	Effect of changes in interest rates on profit/loss
+100 bpchange	295
-100 bp change	(295)

As of 31 December 2015

Interest rates	Effect of changes in interest rates on profit/loss
+100 bp change	227
-100 bp change	(227)

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

c Fair value of financial assets and liabilities

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market should be accessible to the Group.

Fair value of an asset or liability is measured making assumptions that market participants would make to determine the price of the asset or liability, assuming that they would act in their best economic interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

External valuers are usually engaged for the measurement of the fair values of the material assets and liabilities. The need to engage external valuers is assessed by the Group's management every year. Selection criteria for external valuers include professional experience, qualities and reputation. The management decides, after discussions with the valuation experts, which valuation techniques and inputs to use for each case.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured as per the Group's accounting policies. This involves verification of the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The management, in conjunction with the valuation experts, also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

c Fair value of financial assets and liabilities (continued)

	Carrying amount		Fair value	
	2016	**2015**	**2016**	**2015**
Financial assets				
Cash on hand and balances with central banks	66,402	109,620	66,402	109,620
Placements with other banks	107,341	40,266	107,341	40,266
Held-for-trading financial assets	1,019	-	1,019	-
Loans to customers:				
Corporate clients	*91,390*	*126,976*	*93,228*	*131,316*
Individuals	*258,278*	*204,116*	*261,566*	*203,923*
Finance lease	*30,261*	-	*29,731*	-
Available-for-sale investments	10,764	11,878	10,764	11,878
Held-to-maturity investments	8,152	-	8,152	-
Other receivables	3,920	5,560	3,920	5,560
Financial liabilities				
Deposits from banks	5,879	24,675	5,764	24,675
Derivatives	31	17	31	17
Deposits from customers	438,960	371,461	439,927	371,310
Other borrowings	924	12,195	924	12,195
Held-for-sale non-current liabilities	9,273	-	9,273	-
Other liabilities	12,663	12,393	12,663	12,393

(a) Financial assets and liabilities carried at fair value

Financial assets and liabilities are carried at fair value by using quoted market prices in an active market at the date of the reporting period. In case of lack of quoted prices, the fair values used are the historical amounts, less any impairment losses.

(b) Financial assets and liabilities not carried at fair value

Placements with other banks

Placements with other banks include inter-banking deposits and current accounts. The fair value of floating rate and overnight deposits approximates their carrying amount. The estimated fair value of fixed rate deposits is based on the discounted cash flows using average market interest rates for liabilities with similar credit risk and remaining maturity.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

c Fair value of financial assets and liabilities (continued)

(b) Financial assets and liabilities not carried at fair value (continued)

- *Loans to customers*

Loans to customers are carried at amortised cost less any impairment allowance. The fair value of fixed interest rate loans to customers is the discounted future cash inflows by applying interest rate statistical data published by the relevant Central banks.

- *Deposits from banks and from customers*

The fair value of deposits from banks approximates their carrying amount due to their short-term nature. The fair value of fixed-rate deposits from customers is the discounted amount of the estimated future cash outflows. In 2015 and 2016 the Bank extended consumer loans mainly bearing fixed interest rates.

- *Other borrowings*

The fair value of other fixed rate borrowings without quoted market prices is based on the discounted cash flows using interest rates for new liabilities with similar remaining maturity. The fair value of other borrowings approximates their carrying amount due to the fact that as at 31 December 2016 most of them bear floating interest rates.

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are measured at fair value on a recurring basis, the Group reviews their categorisation at the respective fair value hierarchy level (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period and determines whether transfer(s) should be made between levels.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

c Fair value of financial assets and liabilities (continued)

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Fair value hierarchy

The tables below present the fair value hierarchy of the Group's assets and liabilities measured as at 31 December 2016 and 31 December 2015.

Quantitative disclosures of the fair value hierarchy as at 31 December 2016

	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value				
Available-for-sale financial assets	**10,764**	10,675	-	89
Held-for-trading financial assets	**1,019**	1,019	-	-
Assets not measured at fair value				
Loans to customers:				
Corporate clients	**93,228**	-	93,228	-
Individuals	**261,566**	-	261,566	-
Finance lease	**29,731**		29,731	
Held-to-maturity investments	**8,081**	8,152	-	-
Liabilities measured at fair value				
Derivatives	**31**	-	31	-
Liabilities not measured at fair value				
Deposits from customers	**439,927**	-	439,927	-
Other borrowings	**924**	-	924	-

Due to the short-term nature of other assets, placements with other banks, placements from other banks and other liabilities the Group's management believes that their fair value approximates their carrying amounts as at 31 December 2016.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

c Fair value of financial assets and liabilities (continued)

Fair value hierarchy (continued)

Management believes that no significant changes occurred at 31 December 2016 in the market at which the assets subject to the transaction have been originated and that its parameters reflect the acceptable yield level for the respective type of financial instrument and risk to the Group.

In consumer loan measurements classified as Level 3 management adjusts the market observable yields for the respective type of financial instrument which it believes reflect the risk profiles of the ceded receivables.

Reconciliation of Level 3 fair value measurement

Balance at 1 January 2016	**89**
Transfers to Level 3	-
Total profit/(loss) for the period recognised in the income statement	-
Total profit/(loss) for the period recognised in the statement of comprehensive income	-
Newly acquired assets/(sales) of assets	-
Balance at 31 December 2016	**89**

In general, the fair value of unquoted equity instruments available for sale is calculated by: 1) using valuation reports of third parties based on the investee's net assets and management makes no further adjustments, and 2) assessment of net assets adjusted, if necessary.

Transfers were not made in 2016 between the fair value hierarchy levels, nor any changes in the valuation techniques used during the period.

Description of valuation techniques and significant inputs to fair value measurement as at 31 December 2016:

	Valuation technique	**Significant observable inputs**	**Range (weighted average)**	**Sensitivity analysis**
Loans to customers	DCFM	Statistical data of Central banks for interest rates on new business by loans of sectors non-financial entities and mortgage loans by original maturity	3.20% - 39.8% (21.5 %)	Increase (decrease) in interest rates by 5 % would result in a change in the fair value
Deposits from customers	DCFM	Statistical data of Central banks for interest rates on new business by term deposits of sectors non-financial entities and households	0.1% - 2.77% (1.44 %)	Increase (decrease) in interest rates by 2 % would result in a change in the fair value
Other borrowings	DCFM	Current interest rate on borrowings	2%	

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

c Fair value of financial assets and liabilities (continued)

Fair value hierarchy (continued)

Quantitative disclosures of the fair value hierarchy as at 31 December 2015

	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value				
Available-for-sale financial assets	**11,878**	11,789	-	89
Assets not measured at fair value				
Loans to customers:				
Corporate clients	**131,316**	-	131,316	-
Individuals	**203,923**	-	203,923	-
Held-to-maturity investments	**-**	-	-	-
Liabilities measured at fair value				
Derivatives	**17**	-	17	-
Liabilities not measured at fair value				
Deposits from customers	**371,310**	-	371,310	-
Other borrowings	**12,195**	-	12,195	-

Due to the short-term nature of other assets, placements with other banks, placements from other banks and other liabilities the Group's management believes that their fair value approximates their carrying amounts as at 31 December 2015.

Reconciliation of Level 3 fair value measurement

Balance at 1 January 2015	**89**
Transfers to Level 3	-
Total profit/(loss) for the period recognised in the income statement	-
Total profit/(loss) for the period recognised in the statement of comprehensive income	-
Newly acquired assets/(sales) of assets	-
Balance at 31 December 2015	**89**

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

B Fair value of financial assets and liabilities (continued)

Fair value hierarchy (continued)

Neither transfers between fair value hierarchy levels, nor there were any changes in the valuation techniques used during the period were made in 2015.

Description of valuation techniques and significant inputs to fair value measurement as at 31 December 2015:

	Valuation technique	Significant observable inputs	Range (weighted average)	Sensitivity analysis
Loans to customers	DCFM	Statistical data of Central banks for interest rates on new business by loans of sectors non-financial entities and mortgage loans by original maturity	3.75% - 19.3% (11.53 %)	Increase (decrease) in interest rates by 5 % would result in a change in the fair value
Deposits from customers	DCFM	Statistical data of Central banks for interest rates on new business by term deposits of sectors non-financial entities and households	0.1% - 4.25% (2.18 %)	Increase (decrease) in interest rates by 2 % would result in a change in the fair value
Other borrowings	DCFM	Current interest rate on borrowings	2% - 7.55% (4.78 %)	

d Liquidity risk

Liquidity risk is the risk that the available cash resources of the Group may be insufficient to cover the withdrawals on financial liabilities as they fall due, and the inability to replace funds when they are withdrawn. The consequences may lead to inability to cover liabilities to make payments to depositors and to fulfil commitments to disburse loans.

Liquidity risk management process

The Group adopts appropriate liquidity risk management policies which have to ensure:
- that sufficient liquid assets are available to meet the liabilities as they arise;
- financing of medium term assets with medium-term liabilities in a prudent proportion;
- that the liquidity position is monitored on a daily basis and in the course of dealing operations.

The Management Board of the Group assigns the Asset and Liabilities Management Committee, as the primary responsible unit, with the task to advise the Management Board on the liquidity management strategy.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

d Liquidity risk(continued)

The Asset and Liabilities Management Committee manages:

- the Group's assets and liabilities to ensure regular and timely meeting of current and future obligations;
- the Group's cash inflows and outflows (liquidity sources) and the ratios between assets and liabilities;
- the liquidity ratios in compliance with the indicators set by the parent; and
- the liquidity ratios recommended by the competent regulatory authority.

The operational management of the Group's assets and liabilities and the execution of the decisions of the Assets and Liabilities Management Committee are assigned to the head of the Financial Markets and Liquidity Department.

The table below presents the financial liabilities of the Group, payables to personnel and taxes, other than income tax, by maturity groups based on the period remaining from the balance sheet date to the maturity date of the contract. The amounts disclosed in the table represent the contractual undiscounted cash flows.

As of 31 December 2016	**Gross outflow**	**Less than 1 month**	**1-3 months**	**3 -12 months**	**1-5 years**
Deposits from banks	6,148	9	18	1,242	4,879
Derivatives	31	31	-	-	-
Deposits from customers	443,515	124,735	56,354	235,278	27,148
Other borrowings	957	75	79	271	532
Held-for-sale non-current liabilities	11,160	-	11,160	-	-
Other liabilities	22,522	16,645	4,385	1,492	-
Total liabilities (contractual maturity dates)	**484,333**	**141,495**	**71,996**	**238,283**	**32,559**

As of 31 December 2015	**Gross outflow**	**Less than 1 month**	**1-3 months**	**3 -12 months**	**1-5 years**
Deposits from banks	24,680	22,712	-	1,968	-
Derivatives	17	17	-	-	-
Deposits from customers	372,959	164,175	54,585	154,158	41
Other borrowings	12,824	192	214	8,584	3,834
Other liabilities	17,104	1,486	15,365	253	-
Total liabilities (contractual maturity dates)	**427,584**	**188,582**	**70,164**	**164,963**	**3,875**

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

d Liquidity risk(continued)

Contingent liabilities and irrevocable commitments

The terms of the agreed amounts of contingent liabilities and irrevocable commitments, to which the Group is committed with respect to extension of the term of loans to customers and other terms and conditions, are presented in the following table.

Financial guarantees are presented in the table below based on the earliest agreed maturity date.

As of 31 December 2016	Within 1 year	1-5 years	Over 5 years	Total
Guarantees:				
- financial	159	35	-	**194**
- good performance guarantees	625	131	-	**756**
Commitments:				
- undrawn loan commitments	5,733	8,404	2,091	**16,228**
Total contingent liabilities and irrevocable commitments	**6,517**	**8,570**	**2,091**	**17,178**

As of 31 December 2015	Within 1 year	1-5 years	Over 5 years	Total
Guarantees:				
- financial	604	-	-	**604**
- good performance guarantees	1,183	-	-	**1,183**
Commitments:				
- undrawn loan commitments	5,820	7,816	1,482	**15,118**
Total contingent liabilities and irrevocable commitments	**7,607**	**7,816**	**1,482**	**16,905**

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

d Liquidity risk(continued)

The table below presents an analysis of the Group's assets and liabilities by maturity structure at the balance sheet date, based on the remaining period to the agreed maturity dates. Loans to customers with remaining maturity of more than five years are included in the column "not defined".

As of 31 December 2016	On demand / up to 1 month	1-3 months	3-12 months	1-5 years	Not defined	Total
Assets						
Cash on hand and balances with central banks	66,402	-	-	-	-	66,402
Placements with other banks	107,341	-	-	-	-	107,341
Held-for-trading financial assets	1,019	-	-	-	-	1,019
Non-current assets held for sale	-	-	30,150	-	-	30,150
Loans to customers	21,622	165,425	99,085	54,299	9,237	349,668
Finance lease	2,862	1,026	5,731	20,642	-	30,261
Available-for-sale investments	-	-	1,009	9,666	89	10,764
Held-to-maturity investments	-	-	-	8,081	-	8,081
Other assets	3,426	745	1,257	-	-	5,428
Current tax assets	254	-	-	-	-	254
Tangible and intangible assets	-	-	-	-	14,371	14,371
Total assets	**202,926**	**167,196**	**137,232**	**92,688**	**23,697**	**623,739**
Liabilities						
Deposits from banks	-	-	1,184	4,695	-	5,879
Derivatives	31	-	-	-	-	31
Deposits from customers	123,340	56,269	233,484	25,867	-	438,960
Other borrowings	-	-	406	518	-	924
Deferred tax liabilities	128	-	-	-	-	128
Held-for-sale non-current liabilities	-	9,273	-	-	-	9,273
Other liabilities	16,645	4,385	1,492	-	-	22,522
Total liabilities	**140,144**	**69,927**	**236,566**	**31,080**	**-**	**477,717**
Net liquidity gap	**62,782**	**97,269**	**(99,334)**	**61,608**	**23,697**	**146,022**
Cumulative cash flows	**62,782**	**160,051**	**60,717**	**122,325**	**146,022**	**-**

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

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

d Liquidity risk(continued)

As of 31 December 2015	On demand / up to 1 month	1-3 months	3-12 months	1-5 years	Not defined	Total
Assets						
Cash on hand and balances with central banks	109,620	-	-	-	-	109,620
Placements with other banks	40,266	-	-	-	-	40,266
Non-current assets held for sale	-	-	8,955	-	-	8,955
Loans to customers	17,048	12,028	86,049	168,740	47,227	331,092
Available-for-sale financial assets	-	-	-	11,878	-	11,878
Other assets	-	-	7,360	-	-	7,360
Current tax assets	242	-	-	-	-	242
Tangible and intangible assets	-	-	-	-	26,850	26,850
Total assets	**167,176**	**12,028**	**102,364**	**180,618**	**74,077**	**536,263**
Liabilities						
Deposits from banks	22,712	-	1,963	-	-	24,675
Derivatives	17	-	-	-	-	17
Deposits from customers	163,866	54,472	152,712	253	-	371,303
Other borrowings	24	76	7,876	4,219	-	12,195
Other liabilities	115	-	-	-	-	115
	1,486	15,365	253	-	-	17,104
Total liabilities	**188,220**	**69,913**	**162,804**	**4,472**	**-**	**425,409**
Net liquidity gap	**(21,044)**	**(57,885)**	**(60,440)**	**176,146**	**74,077**	**110,854**
Cumulative cash flows	**(21,044)**	**(78,929)**	**(139,369)**	**36,777**	**110,854**	**-**

Fiduciary assets in custody

The Group is registered as investment intermediary and performs transactions on behalf of its customers in compliance with the requirements of the Financial Supervision Commission. The Group has approved rules and procedures regulating its fiduciary transactions for customers.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

e Capital management

The objectives of the Group's management in capital management, as a broader concept compared to the "equity" on the face of the balance sheet, include:

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

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

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%., formed based on total capital adequacy requirement of 8%, protective capital buffer of 2.5% and systemic risk buffer of 3%.

The 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:

(a) Tier one capital which comprises the following elements:

- registered and paid-in capital, excluding preference shares;
- Reserve fund;
- other reserves for general purposes set aside from the profit after tax;
- retained earnings from prior years;
- current year profit less any taxes due, expected dividend payments and other deductions.

The Group includes the retained earnings from prior years in the capital, once the audited separate financial statements are approved by the sole owner of the capital and dividend payments and other deductions have been made.

Once included as elements of the tier-one capital the retained earnings from prior years may be used to pay dividends only after approval by the Regulatory Authority.

The current year profit can be included in the capital only if the following conditions are met:

- the maximum amount of expected dividend payments and other deductions is set;
- the profits and taxes due are confirmed by the specialised audit firm employed by the Group;
- a notice is sent to the Regulatory Authority with attached documents evidencing the circumstances related to the mandatory conditions and the Regulatory Authority has not objected and / or has given its approval.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

e Capital management (continued)

The tier-one capital is reduced by:

- the current and prior year losses;
- the carrying amount of the treasury shares held by the Group;
- the amount of intangible assets;
- the unrealised loss on available for sale financial instruments.

(b) Tier-two capital which comprises the following elements:

- revaluation reserves on the real estates occupied by the Group;

- the amounts attracted by the Group in debt – equity (hybrid) instruments and other financial instruments without specified terms, as well as preference shares with accumulating dividends and without any term set, provided these instruments meet the following specific requirements:
  -- the amounts on these instruments are fully paid;
  -- their payment is not limited by a term;
  -- their repayment is not guaranteed by the Group in any form;
  -- in case of liquidation or insolvency of the Group their repayment is admissible after the claims of all other creditors have been satisfied;
  -- the receivables on these instruments as regards the principal may not become collectable without written permission of the Regulatory Authority;
  -- the terms under which the Group has attracted these funds entitle the Group to defer the payment of the interest income on them, if it has not generated profit or if profit is insufficient;

- the amounts attracted as subordinated term debt, as well as term cumulative preference shares and long-term debt – equity (hybrid) instruments, provided these instruments meet the following specific requirements:
  -- the amounts on the instruments are fully paid;
  -- their payment is not guaranteed by the Group in any form;
  -- their original term to maturity is at least 5 years;
  -- their early payment cannot be made without the prior written permission of the Regulatory Authority;
  -- the contract may not provide for a possibility for mid-term collectability of the instruments;
  -- in case of liquidation or bankruptcy of the Group their payment is admissible after the claims of all other creditors are satisfied in full.

Instruments attracted as a subordinate term debt are included in the tier-two capital reduced in accordance with the remaining term to the contractual maturity dates. After the instruments mature they are entirely excluded from the calculation of the equity (capital base).

Tier-two capital cannot exceed tier-one capital.

Tier-two capital attracted as subordinated term debt, term cumulative preference shares and long-term debt-equity (hybrid) instruments, cannot exceed 50% of the tier-one capital.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

e Capital management (continued)

Tier-two capital includes the elements described above, in case they meet the following requirements:
- the funds are entirely available to the Group to cover ordinary bank risks, when the losses of revenue or capital are not yet established;
- their availability is shown in the Group's accounting ledgers;
- their amounts is determined by the competent managing body of the Group and confirmed by an independent external auditor;
- the Regulatory Authority is acquainted with and may exercise supervision over the funds existence and utilisation.

The Group cannot include in its equity:
- reserves from cash flow hedges of items previously measured at amortised cost and cash flow hedges related to forecasted transactions;
- gains or losses on liabilities measured at fair value due to changes in the assessment of the credit quality of the Group;
- unrealised gain on investment properties and available-for-sale financial instruments.

The equity is reduced by:
- the carrying amount of investments in shares or other forms of shareholdings of more than 10 percent of the paid-in capital of a bank or credit institution under the Credit Institutions Act, as well as investments in long-term debt (hybrid) instruments and subordinated term debt in such institutions in which the Group holds more than 10 percent of the paid-in capital, for each individual case, where they are not consolidated in the Group's balance sheet;
- the carrying amount of investments in shares or other forms of shareholding in the capital, long-term debt-equity (hybrid) instruments and subordinated term debt in another bank or financial institution under the Credit Institutions Act, where their total amount exceeds 10 percent of the Group's equity prior to deductions;
- the carrying amount of investments in shares or another form of direct or indirect shareholding, when they represent 20 or more than 20 percent of the paid-in capital on insurance, reinsurance undertakings and insurance holdings;
- the carrying amount of all investments in shares or other forms of shareholdings when they represent 10 or more than 10 percent of the paid-in capital of unconsolidated undertakings other than those listed above.

The amounts under the above items are reduced in a 50% ratio from tier-one capital and 50% from tier-two capital, and when the respective reduction exceeds the tier-two capital, the excess is reduced from tier-one capital.

Risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of and reflecting the assessment of the credit, market and other related risks for each assets and counterparty, taking into account any eligible collateral or guarantee.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

e Capital management (continued)

A similar treatment is adopted for contingencies and commitments, with some adjustments to reflect the more contingent nature of potential losses.

The table below summarises the structure of equity and the Groups ratios as at 31 December of the respective reporting years. During these two years the Group has complied with the capital requirements to lending institutions.

	As of 31 December	
	2016	**2015**
Tier-one capital		
Share capital	81,600	78,600
Reserves and accumulated profit/(loss) from prior years	31,971	(161)
Less:		
Intangible assets	(1,629)	(1,808)
Other deductions	(89)	(435)
Total tier-one capital	**111,853**	**76,196**
Tier-two capital		
Subordinated term debt	-	535
Total tier-two capital	-	**535**
Risk-weighted assets		
Balance sheet items	361,630	291,803
Off-balance sheet items	761	21
Total risk-weighted assets	**362,391**	**291,824**
Capital adequacy ratio	**22.34%**	**19.48%**

3 Significant accounting estimates and judgements in applying the accounting policies

Impairment of financial assets

The 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 the historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group reviews its loan and lease portfolios to assess the need for impairment at least on a monthly basis. In determining whether the impairment loss should be recorded in the statement of comprehensive income the Group makes an analysis whether objective data exist indicating that there is significant decrease in the estimated future cash flows from a loan portfolio, before the decrease can be associated with an individual loan in that portfolio. Such evidence may include observable data, indicating adverse change in the borrowers' ability to meet their loan obligations

3 Significant accounting estimates and judgements in applying the accounting policies (continued)

in the respective portfolio, or their national or local economic conditions that correlate with defaults on the repayments of the loans to the Group. The management uses estimates based on the historical loss experience for assets with the credit risk features and objective evidence for impairment similar to those in the portfolio when planning the cash flows. The methodology and assumptions used to estimate the amount and timing of the future cash flows are reviewed regularly, in order to reduce any differences between the loss estimates and the actual loss experience.

The value of collaterals representing real estates is determined by independent expert appraisers, using generally accepted valuation techniques. Such techniques include the revenue method and the discounted cash flows method. In certain cases, the fair values are determined based on recent transactions with real estates with similar features and locations as the collaterals. The definition of the fair value of the collaterals requires the use of estimates, such as the future cash flows from the assets and the discount rates applicable to these assets. These estimates are based on the conditions at the local market existing as at the valuation date. The continuing volatility and uncertainty of the global financial system is reflected in the uncertainties at the real estate markets. Therefore, in determining the estimates of the collaterals in 2015 the appraisers have used their knowledge of the market and their professional judgement, and did not simply rely of historical benchmarks for the transactions. Under the circumstances the estimated values of the collaterals are underpinned by a higher level of uncertainty than that existing in a more active market.

The assets acquired as collateral on loans are classified as non-current assets held for sale. The Group measures collateral acquired in relation to non-performing loans at the lower of their value upon acquisition and the fair value less the costs to make the sale. The definition of the fair value of the collaterals requires the use of estimates, such as the future cash flows from the assets and the discount rates applicable to these assets. These estimates are based on the conditions at the local market existing as at the valuation date. The Group's management has committed to specific actions aimed at the realisation of these assets through disposal.

The definition of the fair value of financial assets requires the use of estimates, such as the future cash flows from the assets and the discount rates applicable to these assets. These estimates are based on the conditions of the local market existing as at the valuation date.

Deferred Tax Asset

The carrying amount of deferred tax assets is reviewed by the Group at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be recovered. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The most significant assumptions are disclosed in Note 2 and Note 17.

Notes to the Consolidated financial statements (continued)

4 Net interest income

	2016	2015
Interest income		
Loans to customers	86,901	65,598
Incl. Impaired loans to customers	*17,101*	*12,235*
Finance lease	4,439	-
Placements with other banks and financial institutions	12	753
Available-for-sale investments	98	43
Held-to-maturity investments	76	-
Held-for-trading investments	9	2
Total interest income	**91,535**	**66,396**
Interest expenses		
Deposits from banks and financial institutions	910	1,431
Deposits from customers	5,292	7,549
Other borrowings	170	272
Total interest expenses	**6,372**	**9,252**
Net interest income	**85,163**	**57,144**

5 Net fee and commission income

	2016	2015
Fee and commission income		
Guarantees and letters of credit	32	306
Transfers and transactions	3,934	8,287
Agent's commissions	12,472	8,769
Other	458	2,296
Total fee and commission income	**16,896**	**19,658**
Fee and commission expense		
Bank transactions	1,550	685
Agents' commissions	1,633	1,283
Other	87	1,671
Total fee and commission expense	**3,270**	**3,639**
Net fee and commission income	**13,626**	**16,019**

Agent’s commission income originates from an insurance agency contract. Costs of agent’s commissions relate to a credit brokerage contract.
The reduction in fee and commission income is due to the Bank‘s curtailing its electronic payment facilitation services during the year in line with its strategy to focus on core banking activities.

Notes to the Consolidated financial statements (continued)

6	Net trading gains	2016	2015
	Net foreign currency transaction (loss)	(363)	(327)
	Net foreign translation gain	776	9,497
	Net gain/(loss) on financial assets	3,456	(35)
	Net gain/(loss) on dealings with non-current assets held for sale	92	(9)
	Total net trading gains	**3,961**	**9,126**

7	Other operating expenses	2016	2015
	Administrative expenses	19,816	17,638
	Staff costs (Note 8)	32,004	21,277
	Depreciation and amortisation (Notes 21 and 22)	5,501	4,182
	Operating lease rentals and other related costs	2,994	1,330
	Materials	1,700	798
	Total other operating expenses	**62,015**	**45,225**

Administrative expenses	2016	2015
Other admiistrative expenses	2,954	5,661
Consultancy, legal and other professional services	5,288	1,287
IT services	1,057	533
Advertising expenses	1,587	1006
Tax expenses	2,103	2,540
Annual contribution to DGF и FOBR	1,556	1,760
Other	5,271	4,851
Total administrative expenses	**19,816**	**17,638**

Tax expenses item consists of withholding tax on interest income received from Romania. The withholding tax at 31 December 2016 amounts to BGN 966 thousand (2015: BGN 1,015 thousand).

The amounts charged throughout the year for the services provided by the registered auditor of the Bank are as follows: for independent financial audit: BGN 148 thousand (2015: BGN 223 thousand), for advisory services: BGN 6 thousand (2015: 37 thousand), and for other non-audit services: BGN 64 thousand (2015: BGN 52 thousand).

8	Staff costs	2016	2015
	Wages and salaries	26,836	18,004
	Social security contributions	5,168	3,273
	- incl. Pension Fund	*3,483*	*2,218*
	Total staff costs	**32,004**	**21,277**

The number of the Group's employees at the end of 2016 was 1,474 (2015: 1,415 employees).

Notes to the Consolidated financial statements (continued)

9 Other operating income	2016	2015
Dividend income	8	5
Rental income	6,772	4,945
Bargain purchase recognised as profit	178	747
Gain on sale of property	283	17
Income from administration of receivables	-	236
Other income	1,209	2,103
Other operating income	**8,450**	**8,053**

10 Tax expenses

	2016	2015
Current tax	(3,871)	(3,485)
Deferred tax	(288)	-
Total tax expenses	**(4,159)**	**(3,485)**

The tax on the operating profit differs from the theoretical amount, which would arise using th basic tax rate, as follows:

	2016	2015
Pre-tax profit	36,702	35,991
Estimated corporate tax at a statutory rate of 10 %	(4,321)	(3,599)
Tax effect of expense not deductible for tax purposes	14	(26)
Tax effect of withholding tax	(32)	(101)
Tax effect of unrecognized deferred tax	(41)	(54)
Current tax paid abroad	-	295
Other tax movements	221	-
Tax expense	**(4,159)**	**(3,485)**

The total tax loss, which may be carried forward in future periods, amounted to BGN 1,444 thousand as at 31 December 2016 (2015: BGN 1,473 thousand). The Bank has the right to carry forward the accumulated losses over the next 5 years, until fully utilised.

Year	Tax loss for the year	Remaining tax loss as at 31 December 2016	Unrecognised deferred tax asset	Year of expiration
2015	-	1,473	147	2020
2016	-	1,444	144	2021

Notes to the Consolidated financial statements (continued)

10 Tax expense (continued)

Deferred tax assets of BGN 144 thousand as at 31 December 2016 (2015: BGN 147 thousand) were not recognised.

The tax administration authorities have the right to examine the accounting books and transactions of the Bank within a 5-year period from the date of the reporting tax year, and could assess additional taxes and penalties. However, there are no circumstances known to management that would result in a potential tax liability in this connection.

11 Cash on hand and balances with central banks

	2016	2015
Cash on hand	11,459	9,310
Cash at central banks other than the minimum statutory reserve	14,611	68,785
Cash and cash equivalents for the purposes of the cash flow (Note 31)	**26,070**	**78,095**
Minimum statutory reserve	40,332	31,525
Total cash on hand and cash at central banks	**66,402**	**109,620**

As at 31 December 2016 the statutory minimum reserves held with the Bulgarian National Bank (BNB) amount to 10 % (2015: 10 %) of the deposits attracted, except: 5% of funds attracted from abroad and 0 % of funds attracted from other local banks, through branches of a local bank abroad; through debt/equity (hybrid) instruments; as subordinated term debt. As at 31 December 2016 the statutory minimum reserves held at the National Bank of Romania (NBR) amount to 10% of the funds attracted in new Romanian Lei and 14 % of the funds attracted in currencies other than new Romanian lei, except funds attracted from other local banks and funds attracted with residual maturity of less than two years without early termination clauses. The statutory minimum reserves are not available for use in the Group's day-to-day operations. BNB may charge interest on the minimum statutory reserves and excess reserves, whereas the interest charged could be a negative figure; the reserves in NBR are interest bearing with positive interest rates.

12 Placements with other banks

	2016	2015
Deposits with foreign banks with original maturity of up to three months	9,188	5,266
Current accounts with foreign banks	97,202	5,530
Current accounts with local banks	951	29,470
Included in cash and cash equivalents for the purpose of the cash flows (Note 31)	**98,153**	**40,266**
Total placements with other banks	**107,341**	**40,266**

Notes to the Consolidated financial statements (continued)

13 Held-for-trading financial assets

	2016	2015
Debt securities	1,019	-
Total held-for-trading financial assets	**1,019**	**-**

As of 31 December 2016 held-for-trading debt securities consist of foreign corporate securities with coupon of 11.25% per annum. Debt securities are stated at fair value based on quoted market prices as of the date of the financial statements. Interest accumulated at 31 December 2016 amounts to BGN 12 thousand.

14 Available-for-sale financial assets

	2016	2015
Securities available for sale:		
- unlisted equity securities	89	89
- debt securities traded in an official market	10,675	11,789
Total available-for-sale financial assets	**10,764**	**11,878**

Debt securities at 31 December 2016 represent two types of issued Romanian government bonds: in EUR with a maturity on 21 January 2019 and coupon of 3.40 % per annum; in RON with a maturity on 11 May 2017 and coupon of 6.75 % per annum. Interest accumulated as at 31 December 2016 amounts to BGN 319 thousand. Debt securities are carried at fair value based on listed market prices as at the date of the financial statements.

15 Held-to-maturity investments

	2016	2015
Debt securities	8,081	-
Total held-to-maturity investments	**8,081**	**-**

As of 31 December 2016 debt securities consist of foreign corporate securities with coupon of 11.25% per annum. Debt securities are stated at amortised value using the effective interest rate method. Interest accumulated at 31 December 2016 amounts to BGN 92 thousand.

16 Loans to customers

	2016	2015
Loans extended by the Group to:		
Corporate clients	95,031	129,452
Individuals	279,538	223,010
Staff	1,669	941
Total loans to customers	**376,238**	**353,403**
Impairment allowance (Note 18)	(26,570)	(22,311)
Total net loans to customers	**349,668**	**331,092**

Notes to the Consolidated financial statements (continued)

16 Loans to customers (continued)

Loans to customers include accrued interest of BGN 6,251 thousand (2015: BGN 5,706 thousand). Loans to customers bearing floating interest rates amount to BGN 80,918 thousand (2015: BGN 112,656 thousand), and loans to customers bearing fixed interest rate amount to BGN 295,320 thousand (2015: BGN 240,747 thousand).

17 Finance lease

	2016	2015
Within 1 year	13,950	23
From 1 to 5 years	20,221	79
Over 5 years	7,007	-
Gross investment in lease contracts	**41,178**	**102**
Unrealised finance income	(9,488)	(18)
Gross amount before provisions	**31,690**	**84**
Less: allowance for impairment losses	(1,429)	-
Net amount of lease payments	**30,261**	**84**

18 Impairment loss allowances

The movement in impairment loss allowances is as follows:

Specific allowance for individually assessed financial assets	2016	2015
At 1 January	**2,776**	**10,189**
Impairment loss allowance charged	2,900	6,470
Reversed allowance	(1,085)	(4,556)
Loans written off against the allowance	(1,277)	(9,330)
Foreign currency differences	76	3
As of 31 December	**3,390**	**2,776**

Specific allowance for individually assessed financial assets	2016	2015
At 1 January	**19,535**	**11,091**
Impairment loss allowance charged	17,090	5,769
Reversed allowance	(8,375)	(1,683)
Loans written off against provision	(5,545)	-
Foreign currency differences	(67)	(6)
As of 31 December	**24,610**	**19,535**

Notes to the Consolidated financial statements (continued)

19 Structure of the loan portfolio by economic sectors

The structure of the loan portfolio by economic sectors is as follows:

	2016	2016	2015	2015
Commerce	14,482	3.85%	25,520	7.22%
Agriculture	13,638	3.62%	10,991	3.11%
Construction and real estate	39,047	10.38%	42,913	12.14%
Services	10,089	2.68%	25,813	7.30%
Manufacturing	5,501	1.46%	5,025	1.42%
Tourism	12,193	3.24%	19,001	5.38%
Other financial institutions	81	0.02%	189	0.05%
Individuals	279,538	74.30%	223,010	63.10%
Staff	1,669	0.44%	941	0.27%
Total loans to customers	**376,238**	**100.00%**	**353,403**	**100.00%**

The ten largest loans to customers as of 31 December 2016 represent 7.88% of the Group's portfolio, net of provisions (2015: 10.10%).

20 Non-current assets and liabilities held for sale

	2016	2015
Assets		
Repossessed assets	14,658	8,955
Tangible assets	13,045	
Other assets	2,447	-
Total non-current assets held for sale	**30,150**	**8,955**
Liabilities		
Other borrowings	(7,820)	-
Other liabilities	(1,453)	-
Total non-current liabilities held for sale	**(9,273)**	-
Net assets	**20,877**	**8,955**

Notes to the Consolidated financial statements (continued)

20 Non-current assets held for sale (continued)

As at 31 December 2016 the Group repossessed assets under terminated or overdue loan agreements of BGN 14,658 thousand (2015: BGN 8,955 thousand), net of impairment. As at 31 December 2016 the Group accrued impairment of BGN 96 thousand (2015: BGN 221 thousand), and the forfeited assets item is presented net of the impairment charged.

In 2015 the Group sold assets classified in this category of BGN 1,260 thousand (2015: BGN 241 thousand). Impairment written off in relation to these assets amounted to BGN 0 (2015: BGN 188 thousand). In 2016 the Group acquired assets of BGN 6,524 thousand (2015: BGN 8,126 thousand) classified as held for sale.

As of 31 December 2016 the Group classified the assets and liabilities of its subsidiary TBI Rent as held for sale.

The Group intends to realise the non-current assets held for sale through disposal over the next reporting period.

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

	Total
As of 1 January 2015	**409**
Impairment charged	-
Impairment written off	(188)
As of 31 December 2015	**221**
Impairment charged	1,439
Impairment written off	(385)
As of 31 December 2016	**1,275**

Information about the fair value of non-current assets held for sale, depending on the property's function, is disclosed in the following table:

	2016	**2015**
Type of repossessed assets		
Commercial (buildings and land)	11,224	6,867
Land	3,896	2,660
Plant and equipment	348	-
Total repossessed assets	**15,468**	**9,527**

In 2016 and 2015 there were no transfers into or from a fair value hierarchy level.

Notes to the Consolidated financial statements (continued)

20 Non-current assets held for sale (continued)

Quantitative information about fair value measurement of held-for-sale non-current assets by using significant non-observable inputs (Level 3):

Type of assets for sale	Valuation technique	Significant unobservable inputs	Range (weighted average) for 2016	Range (weighted average) for 2015	Significant unobservable Inputs
Land	MVM	Price per sq. m.	€10.17 - €341.25 (€38.00)	€9.25 - €310.23 (€34.55)	Significant increase in the price per sq. m. will result in a higher fair value.
	RAM	Price per sq. m.			Significant increase in the price per sq. m. will result in a higher fair value.
Commercial (buildings and land)	RVM	Price per sq. m.	€412.74 - €547.55 (€552.18)	€375.22 - €547.55 (€501.98)	Significant increase in the price per sq. m. will result in a higher fair value.
	MCFCF	Price per sq. m.			Significant increase in the price per sq. m. will result in a higher fair value.

In 2016 and 2015 there were no transfers into or from a fair value hierarchy level.

Residual amount method (RAM) is used for determining the market value of regulated land property when there is data about building-up indicators in accordance with an effective spatial plan. The residual amount is derived from the market value of a completed building (subject to future construction), less any types of expenses relating to the entrepreneurial initiative and entrepreneur's profit, and the risk inherent to this type of business. In this case, the market value is the updated amount of the net result at the end of the entrepreneurial cycle.

Notes to the Consolidated financial statements (continued)

20 Non-current assets held for sale (continued)

Real value method (RVM) is a key method for determining the fair value of buildings „that are under construction, or that are not yet commissioned and/or that need construction and repair works in order to be used pursuant to their purpose". This method is based on the calculation of the building's recoverable amount at the time of valuation. For the purpose, a unit price per square meter of the total built-out area or a price per cubic meter of the built-out area of newly constructed facilities with identical functional purpose, construction, specifics of any additional, completion, installation and other works are used. The unit price includes costs of designing and any expenditure on the construction of the facility. As unit prices are used standard construction prices, average for the country. The market value of the property is its amortised recoverable amount, which reflects the wear and tear due to ageing, any construction defects and damages (costs of completion, if it is a new construction), functional and economic obsolescence. The market value of the right of construction / the adjacent plot is added to the so-calculated amount of the building. the construction defects and damages and economic obsolescence are determined in percentages of the recoverable amount of the facility, based on expert observations and available information.

When **the market value method (MVM)** is used, an indicative amount is determined by comparing the asset, the object of evaluation, with identical or similar assets, for which pricing information is available. If at the date of valuation there are no transactions involving identical properties, the method is based on accepted assumptions. The information used is extracted from announcements and information about similar facilities published by real estate agencies and offers published in specialised websites. Additional adjustments are made to reflect the functionality, size, location, etc. Market comparatives current for the period of valuation are used. In addition, adjustments are made for offer prices due to the „limited demand and difficult accomplishment of such deals". In assessing the final fair value of the property, the average unit price of the adjusted comparatives is used, which is multiplied by the total area of the assessed property.

When **the method of capitalisation of future cash flows (MCFCF)** is used, the fair value results from the nature and ability of the property to ensure for the owners, now and in the future, revenue from its use, through its letting out, at market prices current at the date of valuation. The monthly rent is estimated after conducting a research of the rental market for similar facilities in the same location. The necessary operating expenses, property management expenses, taxes and charges are determined by experts as a percentage of gross revenue and represent the normal expenses for maintenance of buildings of identical age and size.

Notes to the Consolidated financial statements (continued)

21 Intangible assets

	Software	Other	Total
Balance at 1 January 2015			
Book value	2,869	26	2,895
Accumulated amortisation	(1,568)	-	(1,568)
Carrying amount at the period-end	**1,301**	**26**	**1,327**
Year ending 31 December 2015			
Carrying amount at the beginning of the period	1,301	26	1,327
Additions	947	567	1,514
Disposals	(17)	-	(17)
Transfers	(16)	-	(16)
Foreign currency differences	(558)	(7)	(565)
Amortisation	**1,657**	**586**	**2,243**
Carrying amount at the period-end			
As of 31 December 2015			
Book value	4,303	604	4,907
Accumulated amortisation	(2,646)	(18)	(2,664)
Carrying amount at the period-end	**1,657**	**586**	**2,243**
Year ending 31 December 2016			
Carrying amount at the beginning of the period	1,657	586	2,243
Additions	448	106	554
Disposals	-	(435)	(435)
Transfers	124	(140)	(16)
Foreign currency differences	(1)	-	(1)
Amortisation	(716)	-	(716)
Carrying amount at the period-end	**1,512**	**117**	**1,629**
Book value	5,304	117	5,421
Accumulated amortisation	(3,792)	-	(3,792)
Carrying amount	**1,512**	**117**	**1,629**

Intangible assets with book value of BGN 3 thousand and accumulated amortisation of BGN 3 thousand were written off in 2016. Assets with book value of BGN 315 thousand and accumulated amortisation of BGN 308 thousand were written off in 2015.

At the end of 2016 the book value of intangible assets, fully amortised, but still in use, amounted to BGN 1,094 thousand (2015: BGN 601 thousand).

Notes to the Consolidated financial statements (continued)

22 Property and equipment

	Buildings	Equipment	Motor vehicles	Leasehold improvements	Total
As of 1 January 2015					
Book value	10,835	2,703	-	575	14,113
Accumulated depreciation	(433)	(1,440)	-	(211)	(2,084)
Carrying amount	**10,402**	**1,263**	**-**	**364**	**12,029**
Year ended 31 December 2015					
Carrying amount at the beginning of the period	10,403	1,263	-	363	12,029
Additions	-	1,171	15,888	7	17,066
Disposals	-	-	(798)	-	(798)
Foreign currency differences	(72)	(2)	-	1	(73)
Depreciation	(332)	(571)	(2,625)	(89)	(3,617)
Carrying amount at the period-end	**9,999**	**1,861**	**12,465**	**282**	**24,607**
As of 31 December 2015					
Book value	10,759	6,411	19,693	581	37,444
Accumulated depreciation	(760)	(4,550)	(7,228)	(299)	(12,837)
Carrying amount	**9,999**	**1,861**	**12,465**	**282**	**24,607**
Year ended 31 December 2016					
Carrying amount at the beginning of the period	9,999	1,861	12,465	282	24,607
Additions	1,492	1,160	6,326	9	8,987
Disposals	(1,164)	(467)	(1,412)	(13)	(3,056)
Impairment	35	-	-	-	35
Transfers	-	(44)	(13,000)	-	(13,044)
Foreign currency differences	(3)	(2)	3	-	(2)
Depreciation	(365)	(721)	(3,623)	(76)	(4,785)
Carrying amount at the period-end	**9,994**	**1,787**	**759**	**202**	**12,742**
As of 31 December 2016					
Book value	11,114	7,049	3,050	553	21,766
Accumulated depreciation	(1,120)	(5,262)	(2,291)	(351)	(9,024)
Carrying amount	**9,994**	**1,787**	**759**	**202**	**12,742**

Notes to the Consolidated financial statements (continued)

22 Property and equipment (continued)

Equipment with book value of BGN 497 thousand and accumulated depreciation thereon of BGN 30 thousand were written off in 2016. No equipment was written off in 2015. A building with book value of BGN 1,282 thousand and accumulated depreciation thereon of BGN 118 thousand were written off in 2016. In 2016 cars with book value of BGN 4,312 thousand and accumulated depreciation thereon of BGN 2,900 thousand were written off. In 2015 cars with book value of BGN 1,898 thousand and accumulated depreciation thereon of BGN 1,102 thousand were written off. Leasehold improvements with book value of BGN 37 thousand and accumulated depreciation thereon of BGN 23 thousand were written off in 2016.

At the end of 2016 the book value of property and equipment, fully depreciated, but still in use, amounted to BGN 1,003 thousand (2015: BGN 881 thousand).

23 Other assets

	2016	2015
Prepayments	497	1,075
Receivables from suppliers	1,173	725
Collateral MasterCard	955	215
VAT receivables	417	104
Other taxes and government agencies	518	377
Rental deposits	193	174
Legal fees	240	202
Insurance receivables	139	27
Other receivables	1,296	4,461
Total other assets	**5,428**	**7,360**

Management assesses the risk of uncollectability of receivables and as a result, the Group has impaired receivables of high risk included in the line item Other assets. The impairment for 2016 amounts to BGN 82 thousand (2015: BGN 177 thousand). Other financial assets comprise monthly receivables on assignment contracts.

24 Deposits from banks

	2016	2015
Deposits from banks	-	24,675
Loans from banks	5,879	-
Total deposits from banks	**5,879**	**24,675**

Deposits from banks at the end of 2016 include accrued interest of BGN 23 thousand (2015: BGN 37 thousand). Loans from other banks bear a fixed interest rate of 1.75% plus a margin of 0.05% per annum.

Notes to the Consolidated financial statements (continued)

25 Deposits from customers

	2016	2015
Corporate clients		
- current/settlement accounts	51,622	97,200
- term deposits	42,941	33,803
Individuals		
- current/settlement accounts	25,262	24,697
- term deposits	319,135	215,603
Total deposits from customers	**438,960**	**371,303**

Deposits from customers at the end of 2016 include interest payable of BGN 1,586 thousand (2015: BGN 2,134 thousand), with an average interest rate of 1.6% (2015 : 2.1%).

26 Other borrowings

	2016	2015
State Fund "Agriculture"	924	1,706
Subordinated term debt from Nova Ljubljanska Banka d.d.	-	2,618
Other deposits from banks	-	7,871
Total other borrowings	**924**	**12,195**

At the end of 2016 long-term borrowings included interest of BGN 1 thousand (2015: BGN 77 thousand).

Borrowings from State Fund Agriculture bear a fixed interest rate of 2%.

In 2016, after obtaining the permit of Bulgarian National Bank, the Bank early repaid its liability to Nova Ljubljanska Banka, Republic of Slovenia.

27 Other liabilities

	2016	2015
Ordered transfers	414	517
Prepaid repayment instalments on loans to individuals	11,745	8,475
Other liabilities	6,973	5,822
Payables to employees	2,359	1,701
Unused leave provisions	361	296
Taxes payable, other than income tax	670	293
Total other liabilities	**22,522**	**17,104**

Prepaid repayment instalments on loans to individuals represent instalments that have not matured yet. Upon request by a customer, the Group is obliged to repay the amounts to the respective borrower. There is no litigation provisions accrued as of 31 December 2016 (2015: nil). Other financial liabilities comprise payables to traders and suppliers.

Notes to the Consolidated financial statements (continued)

28 Contingent liabilities and irrevocable commitments

The 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 customers.

Contingencies on loans and credit lines extended by the 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 the utilisation, as well as an obligation of the Group to maintain continuously amounts available up to those agreed to 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 Group.

Guarantees and letters of credit obliged the 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 Group recognises the provision in its financial statements for the period of the occurred change.

The contingent liabilities and irrevocable commitments (except for operating lease commitments) of the Group at 31 December 2016 and 31 December 2015 are as follows:

	2016	**2015**
Guarantees		
Corporate clients	950	1,787
Undrawn credit commitments		
Corporate clients	5,715	5,856
Individuals	10,513	9,262
Total contingent liabilities and irrevocable commitments	**17,178**	**16,905**

29 Pledged assets

As of 31 December 2016 the Group pledged as collateral deposits placed with foreign banks of BGN 9,188 thousand (2015: BGN 5,266 thousand) against the FX risk hedging transactions. Derivatives are renewed on a monthly basis and the Bank is not able to dispose of any deposits provided as collateral prior to the expiry of the relevant hedge contract. The outcome of the FX hedging as at 31 December 2016 and 31 December 2015 is disclosed in Note 2. The receivables on loans to customers comprise a pledge in favour of Bulgarian Development Bank pursuant to a loan contract. Other assets consist of a guarantee deposit to the benefit of Mastercard of BGN 733 thousand and pledged fixed assets to the benefit of Allianz Bank pursuant to a loan contract.

	2016	**2015**
Placements with foreign banks	9,188	5,266
Loans to customers	515	-
Other assets	11,450	-
Total pledged assets	**21,153**	**5,266**

Notes to the Consolidated financial statements (continued)

30 Equity

The total registered ordinary dematerialised shares at 31 December 2016 are 81,600,000 (2015: 78,600,000), with par value of BGN 1 each. All shares are fully paid-in and vest equal voting rights.

The Group's management has not changed its capital management methodology as compared to 2015.

Share capital

The table below presents the majority shareholders of the Group at the end of 2016 and 2015:

	31 December 2016		31 December 2015	
	BGN	**(%)**	**BGN**	**(%)**
TBIF Financial Services B.V.	81,600,000	100.00%	78,600,000	100.00%
Total	**81,600,000**	**100.00%**	**78,600,000**	**100.00%**

Movements in the number of shares

	Number of shares
As of 1 January 2015	**70,400,000**
Newly issued shares	8,200,000
As of 31 December 2015	**78,600,000**
As of 1 January 2016	**78,600,000**
Newly issued shares	3,000,000
As of 31 December 2016	**81,600,000**

Foreign currency translation reserve

The foreign currency translation reserve at 31 December 2016 amounts to BGN (191) thousand (2015: BGN (42) thousand) and includes the translation of the operations of the branch of the Group in Romania from its functional currency – the new Romanian leu (RON) into the presentation currency of the Group – Bulgarian levs.

Revaluation reserve

Revaluation reserve on available for sale financial instruments includes unrealised gains and losses on fair value movements of the instruments. The annual movements are included in the statement of comprehensive income. As at 31 December 2016 the accumulated revaluation reserve amounted to BGN 99 thousand (2015: BGN 42 thousand).

Notes to the Consolidated financial statements (continued)

30 Equity (continued)

Statutory reserves

In accordance with the requirements of the Commercial Act the Bank is required to set Reserves Fund equalling at least 1/10 of the profit, which is set aside until the fund reaches 1/10 or more of the capital set out in the Statutes.

If the amounts in the Reserves Fund fall below the minimum the Group 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. As at 31 December 2016 the Reserves Fund amounted to BGN 7,187 thousand (2015: BGN 4,349 thousand).

31 Cash and cash equivalents

	2016	2015
Cash at central banks other than the minimum statutory reserve (Note 11)	26,070	78,095
Deposits with other banks (Note 12)	98,153	40,266
Total cash and cash equivalents	**124,223**	**118,361**

32 Business combinations

In connection with the restructuring of the Group of TBIF Financial Services B.V., to be effected as a result of the transaction in 2016 involving the transfer of the ownership to 4Finance, in January 2016 TBI Bank acquired 100% of the ownership of the shares of TBI Leasing IFN S.A., a company, registered in Romania and specialised in finance lease of assets. The cost of acquiring the shares amounted to BGN 2,934 thousand and was paid in cash. As a result of this transaction, the Bank earned profits amounting to BGN 190 thousand being the positive difference between the remuneration transferred and the net amount of assets acquired and liabilities assumed. The profit is recognized as Other operating income and originates from foreign currency differences between the cost of acquisition (fixed in EUR) and the net assets acquired (denominated in RON).

The amount of the income (including interest income, fee and commission income, and other operating income), recognized in these financial statements in connection with the investment in TBI Leasing IFN S.A., was BGN 2,915 thousand. The amount of the losses, recognized in these financial statements in connection with the investment in TBI Leasing IFN S.A., was BGN 2,791 thousand. For consolidation purposes, the transaction is deemed concluded on the first day of the reporting period and the above amounts cover the entire year of 2016.

Notes to the Consolidated financial statements (continued)

32 Business combinations (continued)

The fair values of identifiable assets and liabilities assumed at the date of acquisition of the company are as follows:

Assets	**As of 01 January 2016**
Cash on hand and placements with banks	3,014
Loans to customers	135
Finance lease	731
Non-current assets held for sale	4,833
Other assets	1,912
Deferred tax assets	393
Fixed assets	2,533
Total assets	**13,551**
Liabilities	
Payables to banks	-
Deferred tax liabilities	26
Other liabilities	10,401
Total liabilities	**10,427**
Fair value of net asses	3,124
Gain on the transaction	(190)
Cost of acquisition	**2,934**

33 Related party transactions

In the ordinary course of business the Group carries out bank transactions with related parties based on the principle of equality and party's independence. These include mostly loans and deposits, as also purchase of receivables with the aim to invest the Group's free cash. As at 31 December 2016 the Group did not set aside provisions for overdue receivables relating to funds provided to related parties (2015: nil). Such evaluation is carried out annually, by conducting an analysis of the financial position and the market in which these related parties operate.

As at 31 December 2016 the Group is controlled by TBIF Financial Services B.V. (registered in the Netherlands), which holds 100% of the ordinary dematerialised shares of the Bank.

The ultimate parent is 4Finance S.A., Latvia.

Notes to the Consolidated financial statements (continued)

33 Related party transactions (continued)

The balances with the other related parties from the TBIF Group, as well as the related income and expenses, are as follows:

31 December 2016	Parent company	Other related parties	Total
Debt securities	9,100	-	9,100
Borrowings	64	-	64
Interest income	85	-	85
Fee and commission income	14	-	14

31 December 2015	Parent company	Other related parties	Total
Other assets	-	5,057	5,057
Borrowings	16,846	3,680	20,526
Other liabilities	-	127	127
Purchase of receivables	-	24,862	24,862
Sale of receivables	-	22	22
Interest income		203	203
Fee and commission income	1	13	14
Fee and commission expenses	-	(2)	(2)
Other operating income	-	33	33
Other operating expenses	-	(887)	(887)

Transactions and balances with other related parties in 2015 include transactions with TBI CREDIT IFN S.A. (before acquisition) and transactions and balances with TBI LEASING INF S.A. which as at 31 of December was not part of TBI Bank group. The company is fully owned by TBI Bank starting from the beginning of 2016 and any balances and transactions with it are eliminated on consolidation in 2016.

The total remuneration paid to the directors in 2016 amounts to BGN 700 thousand (2015: BGN 744 thousand). The accrued but not paid remuneration to the directors as at 31 December 2016 amounts to Nil (2015: BGN 50 thousand). Other benefits were not paid to management, including pension plans, share based payments, etc.

34 Events after the balance sheet date

On 20 February 2017 Mr Ivan Ivanov was deleted as a member of the Management Board of TBI Bank EAD;

On 08 March 2017 Mrs Florentina Virginia Mircea was elected as a member of the Management Board of TBI Bank EAD;

No material events have occurred after the balance sheet date, which may require adjustments or disclosures in the financial statements as at 31 December 2016.

TBI BANK EAD

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED FOR USE BY THE EUROPEAN UNION

31 DECEMBER 2015

Financial statements in English are translation from the original in Bulgarian. This version of the financial statements is a translation from the original, which was prepared in Bulgarian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.

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Independent auditor's report

To the Shareholders of TBI Bank EAD

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of TBI Bank EAD and its subsidiaries (the 'Group') which comprise the consolidated balance sheet as of 31 December 2015 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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Registered with the Sofia City Court under company file number 13424/1997.

This version of our report/the accompanying documents is a translation from the original, which was prepared in Bulgarian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

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Opinion

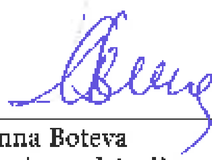
In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

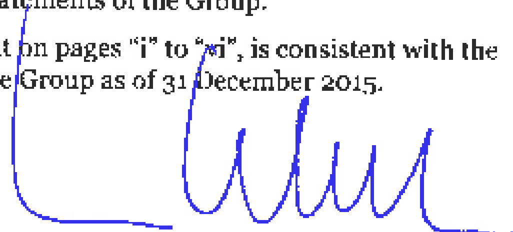
Report on Other Legal and Regulatory Requirements

Management is also responsible for preparing the consolidated Annual Report in accordance with the Accounting Act.

We are required by the Accounting Act to express an opinion whether the consolidated Annual Report is consistent with the annual consolidated financial statements of the Group.

In our opinion, the consolidated Annual Report set out on pages "i" to "xi", is consistent with the accompanying consolidated financial statements of the Group as of 31 December 2015.





Anna Boteva
Registered Auditor

Stefan Weiblen
PricewaterhouseCoopers Audit OOD

31 March 2016
Sofia, Bulgaria

TBI Bank

Annual Management Report
of TBI Bank EAD

TBI Bank EAD (the Bank) is member of the Kardan Group N.V., which as at 31 December 2015 holds 100% (78,600,000 shares) of the Bank's capital through TBIF Financial Services B.V. TBI Bank EAD offers a wide range of banking services to local and foreign clients through its Head office in Sofia, the branch in Bucharest, 294 offices and outsourced working stations serviced by 1,415 officers (2014: 722 employees).

TBIF Financial Services B.V. is a company operating in Bulgaria, Romania, and Ukraine. The subsidiaries of the company are providing banking and non-banking financial services with a key focus on servicing individuals and small and medium-sized enterprises.

TBI Bank EAD has a two-tier management structure. All members of the Supervisory and Management Boards meet the requirements of the Law on Credit Institution and Regulation 20 of BNB, and have been explicitly approved by the Central Bank. TBI Bank EAD has a functioning Audit Committee, the structure of which is compliant to the requirements of the Independent Financial Audit Act.

At 31 December 2015 TBI Bank EAD is the owner of TBI RENT EAD Bulgaria and TBI CREDIT IFN S.A. Romania (the Group). As at 31 December 2014 TBI Bank EAD does not hold shares or shareholdings in other entities.

As at 31 December 2013 the Bank held controlling interest in the milk processing company Opicvet Milk AD. In May 2014 the Bank disposed of its interest in this company.

In October 2012 the Bank registered its branch in Romania, based on the Single European Passport right.

The Group holds a well-diversified client portfolio. The strategy adopted, focused on increased lending to individuals, predetermines the significant increase in the loan portfolio. Although the newly attracted resources are characterised with a decreasing cost, the profitability of the Group remains stable. The maintenance of stable liquidity levels is of great importance. Despite the expansion of the Bank's activity and the sharp increase in the lending operations, the Group maintains adequate levels of liquidity.

In 2015 the Group generated net interest income amounting to BGN 57,144 thousand, or a 66 % increase compared to 2014 as a result of the significant growth in the loan portfolio. The net profit of the Group in 2015 amounts to BGN 32,506 thousand compared to a profit in the prior year amounting to BGN 18,182 thousand.

Operating revenue (net interest income, net fee and commission income, net foreign exchange gains and other income) has increased by 92 % during the reporting period as compared to the prior year similarly to the net interest income.

The operating revenue structure is as follows: net interest income represents 64 %, fee and commission income - 16 %, and the other types of income represent 20 %. The revenue structure is similar to that in the prior year.

In 2015 the total assets of the Group had increased by 12 % compared to the end of 2014 and reached BGN 536,263 thousand (2014: BGN 480,480 thousand). At the end of 2015 the biggest increase was noted in loans to customers by 45,269 thousand, followed by cash on hand and balances with Central banks - by BGN 32,679 thousand. The increase in the loan portfolio was due to the increase in retail exposures, which exceed the share of loans to legal entities.

As at 31 December 2015 the Group's liabilities amount to BGN 425,409 thousand (2014: BGN 410,225 thousand), 93 % of which or BGN 395,978 thousand (2014: BGN 396,343 thousand) represent deposits from clients and banks. A 4 %, or by BGN 16,058 thousand decrease in deposits from clients and an 175 % increase in deposits from banks are noted in 2015.

in BGN'000	2015	2014	2013	2012	2011
Balance sheet figure	536,263	480,480	406,209	193,106	74,769
Equity	110,854	70,255	52,313	32,576	26,168

There is an increase in the Group's equity by 58 % as a result of the profit generated during the year and the increase in share capital.

The key events for the Group in 2015 were as follows:

- On 7 May 2015 Mr. Filip Popov was elected a member of the Management Board of TBI Bank EAD;
- On 10 August 2015 share capital increased was registered at the amount of BGN 8,200 thousand (from BGN 70,200 thousand to BGN 76,800 thousand).

Liquidity

According to the current liquidity measurement and management policy in effect the liquid assets ratio is used as a key indicator. As at the end of 2015 this indicator is 35.40 % (2014: 40.15 %), illustrating the stability of the cash flows and exceeds significantly the minimum threshold required (15 % ratio of liquid assets to deposits other than those attracted from credit institutions).

	2015	2014	2013	2012	2011
Liquidity ratio	35.40	40.15	39.46	36.07	38.41

Trends, events or risks that might have material effect on the operations:

The global financial and economic crisis and the intense competition in the banking sector are the key factors affecting the development perspectives. The Group has passed the liquidity stress test in real environment after the events which occurred in the banking system during the year.

The slowing down of the economy, globally as well as locally in Bulgaria, requires an in-depth and efficient analysis and complex risk monitoring. The expectations in general are for prudent increase in assets and mainly in loans, as well as increase in attracted funds.

In a situation of limited economic growth the Group works towards the efficient risk management with the efforts being focused on improvement of the processes in the area of lending, payments, customer service and maintenance of the credit portfolio quality. The emphasis is laid on the timely measures for the collection of problematic receivables. The trends for the future development of the Group in general are for continued increase in assets and mainly in loans, as well as increase in attracted funds.

The major risks, relating to the operations of the Group and the banking sector as a whole are, as follows:

- Credit risk;
- Inflation risk;
- Interest rate risk;
- Business risk;
- Liquidity risk;
- Currency risk;
- Operational risk (including reputation risk).

In view of the economic environment business risk and credit risk influence the Group's operations. To address these challenges the Bank has identified and has focused on specific circle of customers, as well as clear development strategy.

Research and development

The Group has not carried out any research and development.

Information in accordance with art. 33, para 1, item 7 of the Accountancy Act

The Group aims to maintain positive balance with respect to its assets and liabilities. It should be pointed out that with respect to a large portion of the liabilities representing term deposits from individuals and legal entities relevant measures are taken against the clients to motivate renewal of their deposits. Deposits received from legal entities are of significant amounts and the experience shows that the terms and conditions are usually reconsidered and negotiated again immediately before their maturity.

A policy of matching fixed and floating interest rate assets and liabilities is applied with respect to price (interest rate) risk. The Group's policy is to determine a minimum interest rate threshold for floating rate assets.

To manage credit risk the Group has developed strict potential borrowers analysis and assessment procedures, including scoring procedures and detailed verification of the data provided. In addition, the Group has developed an effective payment monitoring system as well as active policy of measures for collection of receivables. Preliminary analysis and subsequent monthly monitoring are in place to detect concentration of related parties by sectors of the economy and other cross-sections in compliance with Group's internal rules.

Significant events after the annual closing of accounts

No significant events have occurred after 31 December 2015, which may have an effect on the Group's operations or may require adjustments in the financial statements.

On 6 January 2016 the Bank acquired 99.9989 % of the shares of TBI LEASING IFN S.A., a company registered in Romania and specialised in finance lease of assets.

Future plans of the Group

The Management Board of the Group expects the economic environment in Bulgaria to continue its stabilisation and passing on to gradual economic growth. The macroeconomic and financial stability will contribute to the growing market of financial services in a viable, efficient and competitive banking system. We expect acceleration of the process of integration of the Bulgarian economic and financial system within the European space. This will contribute to the implementation of new and expansion of the existing bank services and products. The Group will continue to maintain adequate financial, management, and technical capacity as basis for the implementation of efficient and prosperous banking operations.

The Group will continue its development in the main segments of the banking market – small and medium-sized enterprises (SME) and individuals. The main focus will be placed on lending to individuals and SME's, with a focus on loans to agricultural producers.

The Group will continue to develop products offering competitive conditions on deposits and current account to its customers, while developing project financing and commercial financing as well as new, innovative products. The future development of the Group is expressed in the creation of wider customer base and stable distribution network for financial services.

The Group will continue to attain the high corporate governance standards, and will work actively for the development of bank security, implementing flexible and efficient organisational structure with clearly distinct duties and responsibilities.

The Group will continue to create opportunities for internal competition between the units, control and incentives for the activity with continuous improvement of the qualifications of its employees. It will follow an ambitious personnel recruitment, training and renewal policy.

The Group employs highly qualified personnel sharing the following major values:

- motivation and professional ambition;
- open and free communication;
- taking personal responsibility;
- commitment to the standards and goals of the organisation.

The main objectives and tasks the Group is facing are related to:

- ensuring maximum security for the customers and depositors of the Group;
- maintenance of very good quality of the assets with stable liquidity and profitability;
- maintenance of sufficient capital adequacy corresponding to the risk profile of the Group, and proper management of the currency, interest rate and other risks, inherent to the banking operations;
- performance of efficient cost control;
- ensuring good return on shareholders' equity.

Information required under art. 187(e) of the Commercial Act regarding treasury shares held, redeemed or transferred

No shares were redeemed or transferred during the year.

The interests held by the members of the Supervisory and Management Boards in commercial entities as unlimited liable partners, the holding of more than 25 percent of the capital of another entity, as well as their involvement in the management of other entities or cooperatives as procurators, general managers or board members are as follows:

- **Ariel Hason - Chairman of the Supervisory Board**

a) does not hold any interests in commercial entities as unlimited liable partner;
b) there are no legal entities where he holds, directly or indirectly, at least 25 percent of the votes in the general assembly or where he has control;
c) legal entities where he sits on the management or controlling bodies:
TBIF Financial Services B.V., the Netherlands – member of the Board of Directors and Executive Director;
TBI Financial Services Bulgaria EAD - member of the Board of Directors and Executive Director;
AVIS, Ukraine - member of the Supervisory Board;
TBI Leasing IFN S.A., Romania - member of the Administrative Board;
S. C. TBI Credit IFN S.A. Romania - member of the Board of Directors;
Sofia Portfolio B.V., the Netherlands - Executive Director;
Creditex OOD - General Manager.

- **Valentin Galabov - member of the Supervisory Board**

a) does not hold any interests in commercial entities as unlimited liable partner;
b) there are no legal entities where he holds, directly or indirectly, at least 25 percent of the votes in the general assembly or where he has control;
c) legal entities where he sits on the management or controlling bodies:
TBI Leasing EAD - member of the Board of Directors and Executive Director;
TBI Rent EAD - member of the Board of Directors;
TBI Financial Services Bulgaria EAD - member of the Board of Directors;
Sofia Portfolio B.V., the Netherlands - Executive Director;
Hypocredit AD - member of the Board of Directors.

- **Zvi Ziv - member of the Supervisory Board**

a) does not hold any interests in commercial entities as unlimited liable partner;
b) there are no legal entities where he holds, directly or indirectly, at least 25 percent of the votes in the general assembly or where he has control;
c) legal entities where he sits on the management or controlling bodies:
Gulliver Energy Ltd., Israel – member of the Board of Directors;
Tradair Ltd. - member of the Board of Directors.

- **Tsvetan Petrinin - Chief Executive Officer and Chairman of the Management Board**

a) does not hold any interests in commercial entities as unlimited liable partner;
b) there are no legal entities where he holds, directly or indirectly, at least 25 percent of the votes in the general assembly or where he has control;
c) there are no legal entities where he sits on the management or controlling bodies.

- **Nora Petkova - member of the Management Board and Executive Director**

a) does not hold any interests in commercial entities as unlimited liable partner;
b) there are no legal entities where she holds, directly or indirectly, at least 25 percent of the votes in the general assembly or where she has control;
c) there are no legal entities where she sits on the management or controlling bodies.

- **Ivan Ivanov - member of the Management Board and Executive Director**

a) does not hold any interests in commercial entities as unlimited liable partner;
b) there are no legal entities where he holds, directly or indirectly, at least 25 percent of the votes in the general assembly or where he has control;
c) there are no legal entities where he sits on the management or controlling bodies.

- **Filip Popov – member of the Management Board**

a) does not hold any interests in commercial entities as unlimited liable partner;
b) there are no legal entities where he holds, directly or indirectly, at least 25 percent of the votes in the general assembly or where he has control;
c) there are no legal entities where he sits on the management or controlling bodies.

Contracts under art. 240 (b) of the Commercial Act in 2015:

The members of the Boards and their related parties have no contracts signed for activities beyond the ordinary ones, or at terms and conditions significantly different than the ordinary market conditions.

The total net income received by the members of the Management Board and the members of the Supervisory Board in 2015 amounts to BGN 744 thousand.

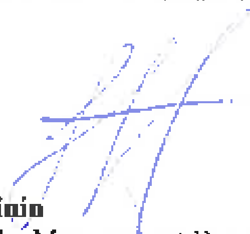
Information regarding shares and bonds acquired, held and transferred by the Boards members during the year

The members of the Management Board are not allowed to acquire shares and bonds issued by the Bank. Therefore, the members of the Management Board of the Bank had not acquired, held or transferred shares or bonds in 2015.

Management is required by Bulgarian legislation to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group and of its financial performance as at the year end. Management has prepared the accompanying financial statements in accordance with the International Financial Reporting Standards (IFRS), as adopted for use by the European Union.

Management confirms that it has consistently applied adequate accounting policies and has complied with the current IFRS requirements. The financial statements have been prepared on a going concern basis.

In the future TBI Bank EAD will continue to provide high quality banking services, market driven products and will strive to remain the best banking partner for its customers.



Tsvetan Petrinin
Chairman of the Management Board
and Chief Executive Officer of TBI Bank EAD
28 March 2016

Consolidated statement of comprehensive income

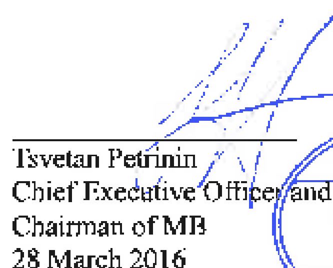
	Notes	For the year ended 31 December	
		2015	2014
Continuing operations			
Interest income	4	66,396	45,962
Interest expense	4	(9,252)	(11,441)
Net interest income		**57,144**	**34,521**
Fee and commission income	5	17,703	10,962
Fee and commission expense	5	(3,639)	(1,895)
Net fee and commission income		**14,064**	**9,067**
Net trading gain	6	9,126	2,374
Other operating expenses	7	(45,225)	(23,379)
Loss on impairment of financial assets	15	(8,182)	(4,853)
Impairment of other assets	17,21	(177)	(137)
Loss on derivative instruments	2	(767)	(812)
Gain for the year from disposal of business	20	-	856
Other operating income	9	10,008	706
Profit before tax from continuing operations		**35,991**	**18,343**
Income tax expense	10	(3,485)	-
Profit for the year from continuing operations		**32,506**	**18,343**
Discontinued operations			
Loss after tax for the year from discontinued operations	31	-	(161)
Profit for the year		**32,506**	**18,182**
Attributable to:			
The owners of the parent		32,518	18,227
Non-controlling interest		(12)	(45)

(continued on the following page)

The notes on pages 7 to 71 form an integral part to the accompanying consolidated financial statements

Consolidated statement of comprehensive income (continued)

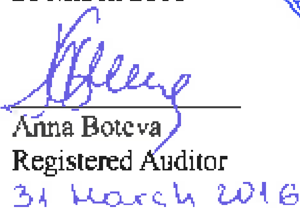
	Notes	For the year ended 31 December 2015	2014
Profit for the year		**32,506**	**18,182**
Other comprehensive income			
Other comprehensive income to be reclassified to the profit or loss in subsequent periods:			
Foreign exchange differences from translation of the financial statements of foreign operations	29	(53)	4
Net gain/(loss) on available for sale financial assets	29	(54)	12
Other comprehensive income for the period		**(107)**	**16**
Total comprehensive income for the year		**32,399**	**18,198**
Attributable to:			
The owners of the parent		32,411	18,243
Non-controlling interest		(12)	(45)



Tsvetan Petrinin
Chief Executive Officer and
Chairman of MB
28 March 2016

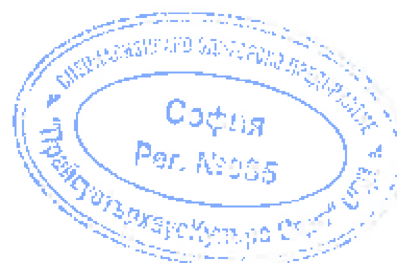
Ivan Ivanov
Executive Director and
Member of MB

Daniela Kostadinova
Chief Accountant



Anna Boteva
Registered Auditor
31 March 2016

Stefan Weiblen
PricewaterhouseCoopers Audit OOD
31 March 2016



Consolidated Balance Sheet

	Notes	As of 31 December 2015	2014
ASSETS			
Cash on hand and balances with central banks	11	109,620	76,941
Placements with other banks	12	40,266	90,455
Non-current assets held for sale	17	8,955	882
Loans to customers	14	331,092	285,823
Available for sale financial assets	13	11,878	1,109
Other assets	21	7,360	11,836
Current tax assets		242	78
Intangible assets	18	2,243	1,327
Property and equipment	19	24,607	12,029
Total assets		**536,263**	**480,480**
LIABILITIES			
Deposits from banks	22	24,675	8,982
Derivatives	2	17	21
Deposits from customers	23	371,303	387,361
Other borrowings	24	12,195	7,448
Deferred tax liabilities		115	-
Other liabilities	25	17,104	6,413
Total liabilities		**425,409**	**410,225**
EQUITY			
Share capital	29	78,600	70,400
Statutory reserves	29	2,596	2,596
Revaluation reserve	29	(42)	12
Foreign currency translation reserve	29	(49)	4
Accumulated profit/(loss)		29,761	(2,757)
Equity attributable to the owners of the parent		**110,866**	**70,255**
Non-controlling interest		(12)	-
Total equity		**110,854**	**70,255**
Total equity and liabilities		**536,263**	**480,480**

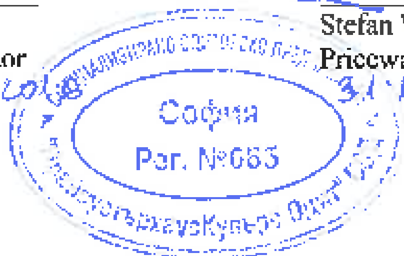
Tsvetan Petrinin
Chief Executive Officer and Chairman of MB
28 March 2016

Ivan Ivanov
Executive Director and Member of MB

Daniela Kostadinova
Chief Accountant

Anna Boteva
Registered Auditor
31 March 2016

Stefan Weiblen
PricewaterhouseCoopers Audit OOD
31 March 2016



Consolidated statement of changes in equity

	Share capital (Note 29)	Statutory reserves (Note 29)	Revaluation reserve (Note 29)	Foreign currency translation reserve (Note 29)	Accumulated loss/ Retained earnings	Attributable to the parent company's equity owners	Non-controlling interest	Total
At 1 January 2014	70,400	2,165	-	-	(20,553)	52,012	301	52,313
Other comprehensive income	-	-	12	4	-	16	-	16
Profit for the year	-	-	-	-	18,227	18,227	(45)	18,182
Total comprehensive income for the year	-	-	12	4	18,227	18,243	(45)	18,198
Transfer of reserves	-	431	-	-	(431)	-	-	-
Effect from disposal of business	-	-	-	-	-	-	(256)	(256)
As of 31 December 2014	70,400	2,596	12	4	(2,757)	70,255	-	70,255
At 1 January 2015	70,400	2,596	12	4	(2,757)	70,255	-	70,255
Other comprehensive income	-	-	(54)	(53)	-	(107)	(12)	(119)
Profit for the year	-	-	-	-	32,518	32,518	(12)	32,506
Total comprehensive income for the year	-	-	(54)	(53)	32,518	32,411	(12)	32,399
Capital increase	8,200	-	-	-	-	8,200	-	8,200
As of 31 December 2015	78,600	2,596	(42)	(49)	29,761	110,866	(12)	110,854

Tsvetan Petrinin
Chief Executive Officer and Chairman of MB
28 March 2016

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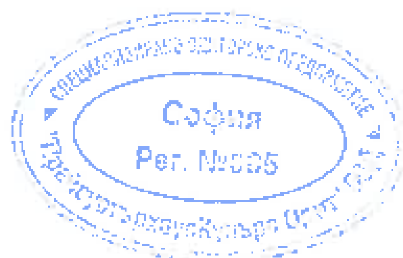
31 March 2016

Stefan Weiblen
PricewaterhouseCoopers Audit OOD
31 March 2016



Consolidated statement of cash flows

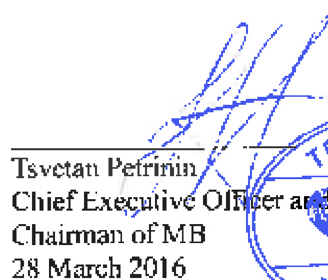
	Notes	For the year ending 31 December 2015	2014
Cash flows from operating activities			
Profit for the year		32,506	17,536
Adjustments to reconcile the profit after tax to the net cash flows			
Non-monetary			
Impairment of financial assets	15	8,182	4,853
Impairment of non-current assets held for sale	17,21	177	137
Impairment of property and equipment, and intangible assets	18,19	4,182	1,267
Taxes paid		(164)	(1)
Gain on disposal of property and equipment		-	(35)
Gain on disposal of investments in subsidiaries	20	-	(49)
Net losses on transactions with non-current assets held for sale	6	9	23
Unused leaves provisions	25	51	13
Negative goodwill recognised in profit or loss		(747)	-
Unrealised foreign exchange losses	6	327	110
Cash flows from/used in operating activities before changes in operating assets and liabilities		**44,523**	**23,854**
Changes in operating assets and liabilities			
Net decrease/(increase) in the statutory reserves with Central banks	11	1,356	(2,475)
Net decrease/(increase) in loans to customers	14,15	(53,451)	(46,427)
Net decrease/(increase) in non-current assets held for sale	17	(8,073)	321
Net decrease/(increase) in derivatives	2	(4)	(35)
Net decrease/(increase) in other assets	21	4,476	(6,546)
Net (decrease)/increase in deposits from banks	22	23,564	4,978
Net (decrease)/increase in deposits from customers	23	(16,058)	51,341
Net (decrease)/increase in other liabilities	25	10,195	1,755
Net cash flows from operating activities		**6,614**	**26,766**

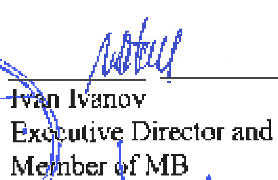
(continued on the following page)

Consolidated statement of cash flows (continued)

	Notes	For the year ending 31 December 2015	2014
Cash flows from investing activities			
Cash payments related to available for sale investments	13	(10,769)	(1,020)
Proceeds from disposal of business	20	-	1,745
Purchase of intangible assets	18	(1,514)	(425)
Proceeds from disposal of property and equipment	19	-	182
Purchase of property and equipment	19	(17,066)	(3,677)
Net cash flows used in investing activities		**(29,349)**	**(3,195)**
Cash flows from financing activities			
Payments received on other borrowings	24	1,209	4,559
Payments made on other borrowings	24	(4,333)	(5,755)
Share capital increase	29	8,200	-
Net cash flows from/used in financing activities		**5,076**	**(1,196)**
Net increase in cash and cash equivalents		**(17,659)**	**22,375**
Cash and cash equivalents at the beginning of the period	30	134,515	112,140
Cash and cash equivalents at the end of the period	30	**116,856**	**134,515**

Cash flows related to interest and dividends	For the year ending 31 December 2015	2014
Interest paid	(9,419)	(13,943)
Interest received	69,069	44,829
Dividends received	5	7





Tsvetan Petrinin
Chief Executive Officer and Chairman of MB
28 March 2016

Ivan Ivanov
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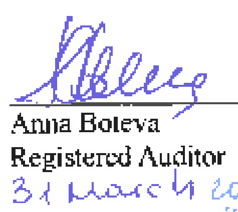
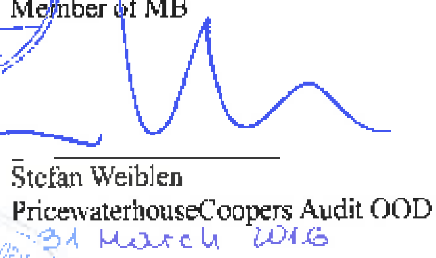
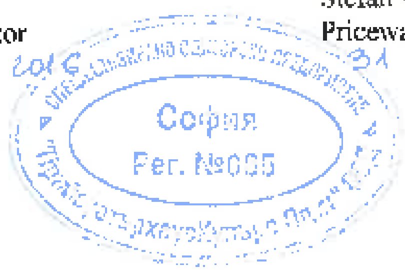



Anna Boteva
Registered Auditor
31 March 2016

Stefan Weiblen
PricewaterhouseCoopers Audit OOD
31 March 2016



Notes to the consolidated financial statements

1 General information and accounting policies

TBI Bank EAD (the Bank) was incorporated on 11 November 2002 as a joint-stock company with a two-tier management system under the name West - East Bank AD with the following shareholders: Aktiva Holding B.V., Factor Banka d.d. and LB Maxima D.O.O. The Bank was registered at Sofia City Court as a joint-stock company on 28 August 2003 after receiving a licence from the Bulgarian National Bank allowing it to render banking services on 13 August 2003. It started its operations on 1 October 2003. In 2006 Nova Ljubljanska Banka d.d. consecutively acquired 97.01% of the share capital of the Bank: on 14 April 2006 - 72.51 %, and then on 28 December 2008 another 24.50 % of the capital. The name of the Bank was initially changed to NLB Banka West – East AD, and subsequently to NLB Banka Sofia AD. Until mid-2011 the Bank, still under the name of NLB Banka Sofia AD, is controlled by Nova Ljubljanska Banka d.d., which holds 97.01% of its shares. The remaining 2.99% of the shares are held by Factor Banka d.d.

At the end of July 2011 TBIF Financial Services B.V., having its registered office in the Netherlands, acquired 100 % (38,399,001 shares) of the Bank's capital. The legal form of the Bank was changed – from a joint-stock company it was transformed into a sole owner joint-stock company. In October 2011 the Bank's capital was increased by BGN 8,001 thousand, and at the end of November 2011 the name of the Bank was changed to TBI Bank EAD. As at 31 December 2015 the Bank's capital amounted to BGN 78,600 thousand, distributed in 78,600,000 ordinary dematerialised shares with a par value of BGN 1 each.

The Head office of the Bank was moved to a new registered office in September 2012, as follows: Sofia, 52-54, Dimitar Hadzhikotzev street. The operations of the Bank are carried out through the Head office in Sofia, the branch in Bucharest, 294 offices and outsourced working stations. At the end of 2012 the Bank obtained permit issued by the Bulgarian National Bank to open a branch in the Republic of Romania and launched the steps required for the coordination, technical and resource provisioning for the operations related to the upcoming start of the work of the branch. The branch launched its operations in 2013 with a focus on providing financing to individuals and legal entities.

The parent of the Bank is TBIF Financial Services B.V., with address of management at 30, Clod Debussy, Amsterdam, Netherlands. The parent is looking for opportunities to invest in financial services, particularly banking, mortgage and consumer financing, asset management and investment advisory services in Central and Eastern Europe, and in some former CIS republics. Majority holder of TBIF Financial Services B.V. is Kardan Financial Services B.V. (100 %). The ultimate parent of the Bank is Kardan N.V. having its registered address in the Netherlands. The company is quoted on the stock exchanges Euronext Amsterdam and Tel Aviv.

The Bank is managed by Management Board under the supervision of a Supervisory Board. The Management Board at 31 December 2015 comprises four members with a mandate of up to five years, elected by the Supervisory Board. Three of the members are also Executive Directors and the Bank is represented jointly by either two of the Executive Directors. The Supervisory Board comprises at least three but not more than seven members with a mandate of up to five years.

As of 31 December 2015 the Bank held the controlling interest of TBI CREDIT IFN S.A., with place of business and country of incorporation Romania, and of TBI RENT EAD, with place of business and country of incorporation Bulgaria.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries:

- TBI RENT EAD, incorporated in the Republic of Bulgaria on 19 July 2005;
- TBI CREDIT IFN S.A., incorporated in the Republic of Romania on 11 January 2008.

The financial statements of the subsidiaries are prepared for the same reporting period as the Bank, by applying consistent accounting policies.
The subsidiaries are fully consolidated from the date of acquisition, which is the date on which control is transferred to the Bank, and continue to be consolidated until the date such control ceases.

The accompanying consolidated financial statements were approved by the Management Board by virtue of Decision dated 28 March 2016.

The following note presents the significant accounting policies according to which the financial statements have been prepared, to the extent they have not yet been disclosed in previous notes. These policies have been applied to all years presented, unless expressly state otherwise.

a Basis of preparation of the financial statements

(i) Compliance with IFRS

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRIC) as adopted by the European Union.

(ii) Historical cost convention

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

- Available for sale financial assets, financial assets and liabilities (including derivative instruments), certain classes of property, plant and equipment and investment property – measured at fair value;
- Assets held for sale – measured at fair value less cost of disposal;

(iii) Amendments to published standards and interpretations which have come into force and have been applied by the Group since 1 January 2015

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2015:

- *Annual Improvements to IFRSs 2011 – 2013 Cycle (EU effective date – 1 January 2015);*
- *IFRIC Interpretation 21 Levies (EU effective date – 17 June 2014);*

The changes did not have a significant impact on these financial statements except for introducing certain new disclosures.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

a Basis of preparation of the financial statements (continued)

(iv) Amendments to published standards and interpretations which have not yet come into force and will be applied by Group Bank in the next financial years

The Group will apply the following standards and amendments for the first time for their annual reporting period commencing 1 January 2016 (EU effective date – 1 February 2015):

- *Annual Improvements to IFRSs - 2010-2012 Cycle;*
- *Defined Benefit Plans: Employee Contributions – Amendments to IAS 19 'Employee Benefits'* - these changes had no impact on the financial statements of the Bank.

Annual Improvements to IFRSs 2010-2012, concern 7 standards and include changes in presentation, recognition and measurement, as well as terminology and editorial changes:

- *IFRS 2 'Share-based payments'*- clarified the definitions of terms: 'market condition', 'performance condition', 'service condition' and 'vesting condition';
- *IFRS 3 'Business combinations'* – amended provisions concerning the recognition of change in fair value of other contingent considerations, currently the standard allow to recognise them only in the income statement;
- *IFRS 8 'Operating Segments'* obligation to disclose a judgement made by the management in aggregating operating segments;
- *IAS 16 'Property, plant and equipment' and IAS 38 'Intangible assets'* – amended provisions concerning the revaluation model;
- *IAS 24 'Related Party Disclosures'* – an entity, that provides services of key management personnel, was added as a related party. A requirement to disclose the amounts paid for management services to this entity was introduced;
- *IAS 37 'Provisions, contingent liabilities and contingent assets' and 'IAS 39 'Financial instruments: recognition and measurement'* amended in accordance with amendments to *IFRS 3 'Business combinations'*.

The above-mentioned amendments will apply for the first time for the financial statements of the Group for the year 2016 and they will have a presentation character, requiring a possible extension of disclosures.

The Group also has assessed the adoption of the following amendments (EU effective date – 1 January 2016):

- *IFRS 11 'Joint Arrangements';*
- *IAS 16 'Property, plant and equipment' and IAS 38 'Intangible assets' concerning amortisation and depreciation;*
- *IFRS 5 'Non-current assets held for sale and discontinued operations';*
- *IAS 19 'Employee Benefits';*
- *IAS 34 'Interim financial reporting'.*

These changes will have no significant impact on the financial statements of the Group.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

a Basis of preparation of the financial statements (continued)

Other new accounting pronouncements:

- *IAS 1 - 'Presentation of the financial statements'*

The introduced amendments clarify that the principle of materiality applies to both the primary part of the financial statements and explanatory notes, also indicate that it is required to disclose only the information that is relevant. The Group will review the financial statements for significance and relevance of disclosure in the notes.

- *Amendments to IAS 27 'Separate Financial Statements'*

The amendments allow the reporting entity the application of the equity method for accounting for its investments in subsidiaries, associates and joint ventures in the separate financial statements. The amendments precise also that if a parent company is no longer an investment entity, it should account for its investments in subsidiaries at cost or using the equity method, or in accordance with *'IAS 39 'Financial instruments: recognition and measurement'/IFRS 9 'Financial Instruments'*. In case the Group applies equity method, this will enable the Group to diagnosis results of subsidiaries, associates and joint ventures earlier.
The Group has not yet taken final decision on the approach to be adopted.

Standards issued but not yet approved by the EU are listed below. This listing includes issued standards and interpretations. The Group reasonably expects the latter will have impact on its disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

IFRS 9 'Financial Instruments' (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement and that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

a Basis of preparation of the financial statements (continued)

- Most of the requirements in *IAS 39 'Financial instruments: recognition and measurement'* for classification and measurement of financial liabilities were carried forward unchanged to *IFRS 9'Financial Instruments'*. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities, designated at fair value through profit or loss, in other comprehensive income.
- *IFRS 9'Financial Instruments'* introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of *IFRS 9'Financial Instruments'* and continuing applying *IAS 39 'Financial instruments: recognition and measurement'* to all hedges because the standard currently does not address accounting for macro hedging.
- *IFRS 9'Financial Instruments'* introduces an expected credit loss model that will apply to all financial instruments that are subject to impairment accounting and replaces the incurred loss model in *IAS 39 'Financial instruments: recognition and measurement'*.
- The new requirements eliminate the threshold in *IAS 39 'Financial instruments: recognition and measurement'* that required a credit event to have occurred before credit losses were recognised. Under *IFRS 9 'Financial Instruments'*, a loss allowance will be recognised for all financial assets, therefore the new requirements will result in the earlier recognition of credit losses. The standard is expected to have a significant impact on the Bank`s loan impairment provisions. The Bank has already started assessing the impact of the new standard on its financial statements.

IFRS 9 'Financial Instruments' must be applied for financial years commencing on or after 1 January 2018.

***IFRS 15 'Revenue from contracts with customers'* and associated amendments to various other standards.** The IASB has issued a new standard for the recognition of revenue. This will replace *IAS 18 'Revenue'* which covers contracts for goods and services and *IAS 11 'Construction contracts'* which covers construction contracts. *IFRS 15 'Revenue from contracts with customers'* establishes a single comprehensive revenue recognition model to be applied consistently to all contracts with customers, determining when and how much revenue to recognize, but has no impact on income recognition related to financial instruments which is under the scope of *IFRS 9 'Financial Instruments'* and *IAS 39 'Financial instruments: recognition and measurement'*. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

a Basis of preparation of the financial statements (continued)

A new five-step process must be applied before revenue can be recognised:

- identify contracts with customers;
- identify the separate performance obligation;
- determine the transaction price of the contract;
- allocate the transaction price to each of the separate performance obligations, and
- recognise the revenue as each performance obligation is satisfied.

Entities will have a choice of full retrospective application, or prospective application with additional disclosures.
IFRS 15 '*Revenue from contracts with customers*' must be applied for financial years commencing on or after 1 January 2018. The Group is currently assessing the impact of the new standard on its financial statements.

Amendments to *IFRS 10 'Consolidated Financial Statements'* and *IAS 28 'Associates and joint ventures'* concern the sale or contribution of assets by an investor to its joint venture or associate. In the case of a transaction involving an associate or joint venture, the extent of the gains or losses recognised is dependent upon whether the assets sold or contributed constitute a business. If an entity sells or contributes assets constituting a business to an associate or joint venture or loses control over a subsidiary that contains a business but retains joint control or significant influence; gains or losses relating to the transaction are recognised in the full amount. These amendments will not have an impact on disclosures extension.

Amendments to *IFRS 10 'Consolidated Financial Statements'*, *IFRS 12 'Disclosure of interests in other entities'* and *IAS 28 'Associates and joint ventures'* concern the application of the exception from the consolidation of investment entities. The ability to exclude subsidiaries of investment entities from the consolidation was confirmed, even if the parent company of an investment entity measures all its subsidiaries at fair value. In addition, the amendments clarify when an investment entity should consolidate a subsidiary providing services related to investment activities instead of measuring it at fair value and to facilitate the use of the equity method for an entity, which is not an investment entity itself but has shares in an associated investment entity.
It is not expected that these amendments would be relevant to the Group.

IFRS 16 'Leases' (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019) - the new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 'Leases' eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 'Leases' and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 'Leases' substantially carries forward the lessor accounting requirements in IAS 17 'Leases'. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.
The Group will analyse and assess the impact of the new standard on its financial position or performance.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

a Basis of preparation of the financial statements (continued)

Disclosure Initiative: Amendments to *IAS 7 'Statement of Cash Flows'* (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017) - the amended *IAS 7 'Statement of Cash Flows'* will require disclosure of a reconciliation of movements in liabilities arising from financing activities.
The Group is currently assessing the impact of the new standard on its financial statements.

IAS 12 'Income tax' (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017) - the amendments concern the clarification of how to account for deferred tax assets concerning debt instruments measured at fair value.
Impact of these changes on the Group is yet to be estimated.

b Foreign currency transactions

(a) Functional and presentation currency

The items included in the Group's financial statements are measured and presented in Bulgarian levs, which is the functional and presentation currency of the Group.

The Bulgarian lev is pegged to the EURO at an exchange rate BGN 1.95583 to EUR 1 as of 1 January 1999 under the provisions of the BNB Act of 1997.

(b) Transactions and balances

Foreign currency transactions are translated to the functional currency using the exchange rates valid on the dates of the transactions. Foreign currency gains and losses arising as a result of the settlement of such transactions, as well as translation of monetary assets and liabilities denominated in foreign currencies at the exchange rates valid at the year-end, are recognised in the profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated to the functional currency using the exchange rate as of the date of initial transaction (acquisition).

As at 31 December 2015 monetary assets and liabilities denominated in foreign currencies were translated at the official exchange rate quoted by BNB on this date – BGN 1.95583 = EUR 1, BGN 1.79007 = USD 1 and BGN 0.431789= RON 1 (31 December 2014: BGN 1.95583 = EUR 1, BGN 1.60841 = USD 1, BGN 0. 436112 = RON 1).

The Group's foreign operation assets and liabilities, through its branch in Bucharest, Romania, were translated into Bulgarian lev at the closing exchange rate quoted by BNB, valid for the new Romanian leu as at 31 December 2015. The foreign operation income and expenses were translated at the average exchange rate for the reporting period, which amounted to BGN 0. 440019 = RON 1 in 2015 (2014: 0.440214). The effects of the translation of the functional currency of the branch into the functional currency of the Group are recognised in the other comprehensive income.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

c Interest income and expense

Income is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of the timing of the payment. Interest income expense is recognised in the statement of comprehensive income for all interest-bearing instruments measured at amortised cost, based on the accruals principal using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and allocating interest income or interest expense over the respective time period. The effective interest rate is the rate that discounts exactly the estimated future cash inflows or outflows over the expected life of the financial instrument, or a shorter period, as appropriate, to the net carrying amount of the financial asset or financial liability.

In calculating the effective interest rate the Group makes an estimate of the cash flows taking into account all contractual terms and conditions of the financial instrument (such as, early payment options), excluding any future loan losses. The calculation includes all fees, paid or received between the parties under the contract, which form an integral part of the effective interest rate, the transaction costs and any other premiums or discounts.

If the collectability of a loan is uncertain it is written down to its recoverable amount and the interest income is recognised based on the interest rate which is the original effective interest rate on the financial asset. The fees on the unabsorbed portion of loans are deferred (together with the related direct costs) and are recognised as an adjustment to the effective interest rate on the respective loans.

d Fee and commission income and expenses

Fees and commissions are recognised based on the accruals principle upon the rendering of the service. Fee and commission income comprise 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.

e Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value, loans and receivables, held-to-maturity investments, and available for sale financial assets. Management designates the classification of its investments upon initial recognition.

(a) Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired or originated in order to be sold or repurchased in a short-term or is part of a portfolio of designated financial assets managed on aggregate basis for which objective data is available as a result of recent specific short-term profit generation pattern.

Derivative instruments are also classified as financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss are initially recognised at fair value and are subsequently measured at fair value based on the current dealing prices as at the date of the financial statements. Any realised or unrealised gains and losses arising are included in the net gain from dealing transactions as they occur. The realised interest income on financial assets held for trading is reported as interest income.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

e Financial assets (continued)

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market other than: *(a)* loans and receivables which the entity intends to sell immediately or over a short period of time, which are classified as assets held for trading, or those which are designated as loans and receivables at fair value through profit or loss upon their initial recognition; *(b)* those which are designated as available-for-sale assets upon initial recognition; or *(c)* those for which the holder is unable to recover fully the initial investment due to reasons other than the deterioration of the credit quality. Loans and receivables are recognised upon the disbursement of the cash to the borrowers. Following initial recognition loans and receivables are subsequently carried at amortised cost, less any impairment allowance, using the effective interest method.

(c) Investments held to maturity

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities which the Group's management intends to and is capable to hold to maturity. If the Group intends to sell a material portion of the value of held to maturity assets the whole category is reclassified as available for sale financial assets. Following initial recognition held to maturity investments are measured at amortised cost applying the effective interest rate method before impairment allowances. Interest income on investments held to maturity is reported as interest income. The Group assesses its intention and ability to holds its investments to maturity not only upon the initial recognition of these financial assets, but subsequently at each balance sheet date.

(d) Financial assets available for sale

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

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

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

Equity investments traded in an active market are measured at fair values. Equity investments that are not traded in an active market are carried at cost less any impairment loss, if it exists. Dividends are recognised in the statement of comprehensive income in the period in which the Group becomes entitled to receive them.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

f Impairment of financial assets

(a) Assets carried at amortised cost

At each date of financial statements the Group assesses whether there are any objective evidence that a financial asset or a group of financial assets may be impaired. A financial asset or group of financial assets is 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 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.

The Group initially estimates whether objective evidence for impairment exist separately for individually significant financial assets, and individually or on portfolio basis for financial assets that are not significant individually. If the Group assesses that no objective evidence for impairment exist 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 portfolio basis. Assets which 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 portfolio basis.

If there is objective evidence that impairment loss exists for loans and receivables, or held to maturity investments, 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.

If a loan or held to maturity investment is bearing a floating interest rate, the discount rate used to determine the impairment loss is the current effective interest rate set out in the agreement. When practicable, the Group may calculate the impairment based on the fair value of the instrument using observable market price.

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 the Group accrues collective impairment which reflects the expectations of the management for the future cash flows from the consumer portfolio. When applying collective impairment the loan portfolio of the Group is assessed on portfolio basis, taking into account the homogeneous nature of the exposure's risk profile. Impairment is calculated applying certain percentage on the gross exposure based on the number of days the payments are overdue. For exposures that are not overdue - 0 percent impairment is applied, for exposures that are less than 29 days overdue - 0.5 percent impairment is applied, for exposures overdue 30 to 89 days - 10 percent impairment is applied, for exposures overdue 90 to 179 days - 50 percent impairment is applied, for exposures overdue more than 180 days - 100 percent impairment is applied.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

f Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

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 at the Group and the historical loss experience on credit risk bearing assets similar to those at the Group. The loss assessed, based on the 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.

(b) Available-for-sale financial assets

At each balance sheet date the Group assesses whether objective data exists that a financial asset or group of financial assets should be impaired. For equity investments classified as investments available for sale, a prolonged or significant decline in the fair value of the security below its cost is taken into account in assessing whether the assets are impaired.

(c) Renegotiated loans

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

g Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and are carried at their net amount in the Group's balance sheet if and only when there is legal right to offset the recognised amounts, and when there is an intention to settle them at maturity on net basis and the realisation of the asset and the settlement of the liabilities can be done simultaneously.

h Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the contractual rights to receive cash flows from the financial asset have expired;
- the contractual rights to receive cash flows from the financial asset have been retained, but there is a contractual obligation to pay all cash flows collected, without significant delay, to a third party under a transfer arrangement, or the contractual rights to receive cash flows from the financial assets have been transferred, where (a) the Group has transferred significantly all risks and rewards from the ownership of the transferred asset; or (b) the Group has neither transferred, not retained significantly all risks and rewards from the ownership of the financial asset, but has not retained control over the asset.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

h Derecognition of financial assets and liabilities (continued)

Financial assets (continued)

Where the Group has transferred its contractual rights to receive cash flows from a financial asset and has neither transferred, nor retained substantially all the risks and rewards from the ownership of the asset, but has retained control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase. In the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised from the balance sheet when settled, i.e. the obligation under the contract is discharged or cancelled or expired. Where an existing financial liability is replaced by another debt instrument from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original financial liability and the recognition of a new financial liability. The difference in the respective carrying amounts of the original and the new liability is recognised in profit or loss.

i Property and equipment

Equipment and other tangible assets are carried at historical cost less any depreciation and impairment. The historical cost includes expenses directly related to the acquisition of the tangible assets.

The subsequent costs are included in the carrying amount of a tangible asset or are recognised as a separate asset only when it is probable that the latter will bring future economic benefits to the Group and its cost can be measured reliably. All costs for current repair and maintenance are recognised in the statement of comprehensive income as incurred.

Depreciation is charged under the straight-line method over the useful life of the asset. At each balance sheet date the residual amount of the asset and its useful life are reviewed and adjusted as appropriate.

The annual depreciation rates are as follows:	
Buildings	4 %
Computers and periphery	25 %
Leasehold asset improvements	15 %
Other tangible assets	15 %

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

i Property and equipment (continued)

Assets that are subject to depreciation are reviewed for impairment when events or changes in circumstances indicate that their carrying amount may not be recoverable. The carrying amount of the asset is written down to its recoverable amount if it is higher than the asset's estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less the costs to make the sale and the value in use.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds from the disposals and the carrying amounts of the respective assets. These are included in profit or loss.

The depreciation rate adopted in respect of leasehold improvements is the lower of the useful life of the assets and the term of the lease contract.

j Intangible assets

Intangible assets comprise mainly software and are stated at historical cost less the accumulated amortisation and impairment. Amortisation is charged under the straight-line method over the useful life of the asset. At each date of financial statements the residual amount of the asset and its useful life are reviewed and adjusted as appropriate.

The annual amortisation rates are as follows:

Software	25%
Other	25%

k Non-current assets classified as held for sale

Non-current assets classified as held for sale are assets acquired as a result of the acquisition of collaterals on non-performing loans. The comprise buildings and land. This group of assets is measured at the lower of the assets' fair value less the costs to make the sale and their carrying amounts. The assets are measured at cost upon initial recognition, which is the fair value as at the acquisition date.

l Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and cash at bank accounts, held with central banks, as well as cash at nostro accounts held with other banks, as well as deposits with banks with original maturity of less than three months.

m Taxes

Current income taxes are calculated in accordance with the requirements of the Bulgarian tax legislation - the Corporate Income Tax Act and the Romanian tax legislation with respect to the income taxes of the branch. The nominal tax rate applicable in Bulgaria in 2015 is 10 % (2014: 10%), and the tax rate applicable in Romania is 16% (2014: 16 %). Current tax for the reporting period is based on the taxable profit for the year at the tax rates in effect as at the balance sheet date. Tax expenses, other than income taxes, are included in the other operating costs.

Deferred tax is provided using the liability method for all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

m Taxes (continued)

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences and carry-forward tax loss, to the extent it is probable that they will reverse and that sufficient taxable profit will be available in the future or taxable temporary differences, against which such deductible differences can be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

n Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the liability, and the liability can be measured reliably.

o Financial liabilities

Borrowings are initially recognised at the fair value of the cash inflows upon origination of the liability, less any transaction costs. Subsequently borrowings are measured at amortised cost and any difference between the net cash flows and the amortised cost is recognised in profit or loss using the effective interest rate method over the useful life of the liability.

The Group only holds financial liabilities carried at amortised cost. Financial liabilities that are not classified at fair value through profit or loss, fall into this category and are measured at amortised cost. Financial liabilities at amortised cost are deposits from banks or customers, subordinated term debt and other liabilities.

p Share capital

The Group's share capital is the share capital of the Bank and it is reported at the nominal value of the shares. Incremental costs, directly attributable to the issue of new shares or options, or the acquisition of business, are stated in the equity as a decrease in proceeds, net of tax.

q Operating leases

Payments made under operating leases are charged in profit or loss on straight line basis.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

r Financial guarantee contracts

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 for the purpose of recognising in the statement of comprehensive income the 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 the experience with similar transactions and history of past losses, supplemented by the judgement of the management.

s Employee benefits

According to the local legislation the Group is obliged to make defined contributions to the state social security fund on behalf of the employee. All such payments / liabilities are recognised as an expense in the period they refer to.

t Dividends

Dividends are recognised as a liability when a decision is made by the sole owner of the equity to distribute dividends.

u Fiduciary assets in custody

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

v Finance leases

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

w Business combinations and goodwill

Business combinations are reported using the purchase method. Cost is determined as the amount of the consideration paid, measured at fair value as at the acquisition date, and the value of the non-controlling interest in the acquiree. For each business combination the acquirer measures the non-controlling interest in the acquiree at fair value or at the proportionate share in the identifiable net assets of the acquiree. Costs related to the acquisition are taken to the profit or loss for the period.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

w Business combinations and goodwill (continued)

When the Group acquires a business it assesses whether the financial assets and liabilities acquired are classified and presented appropriately in view of the contractual terms and conditions and the economic conditions, and the relevant circumstances at the acquisition date. This involves separation of any embedded derivatives from the host contracts of the acquiree.

If a business combination is realised in stages, the fair value at the acquisition of interests held in the acquiree earlier are remeasured at fair value at the date of the acquisition through the profit or loss for the period.

Contingent consideration that should be transferred by the acquirer is recognised at the fair value at the acquisition date. Subsequent movements in the fair value of the contingent consideration, which is classified as an asset or a liability, are recognised in accordance with IAS *39 Financial Instruments: Recognition and Measurement*, or in the profit or loss, or in the other comprehensive income. If the contingent consideration is classified as an equity instrument, it is not remeasured until it is ultimately settled within the equity.

Goodwill is initially measured at cost which is the excess of the transferred consideration over the net identifiable assets acquired and liabilities taken over by the Group. If the consideration is lower than the fair value of the net assets of the acquired subsidiary, the difference is recognised in the profit or loss.

Following initial recognition, goodwill is carried at cost less any accumulated impairment losses. For impairment testing goodwill acquired in a business combination is allocated, as of the acquisition date, to each of the cash generating units of the Group that are expected to benefit from the combination, regardless of whether other assets and liabilities of the acquiree have been allocated to these units or not.

When goodwill forms part of cash generating unit and some of the operations of this unit are disposed, the goodwill attributable to the disposed portion is included in the carrying amount of the operation in determining the gain or loss on its disposal. Goodwill disposed in this manner is measured based on the relative values of the disposed operation and the retained portion of the cash generating unit.

If the initial accounting for the business combination is not completed by the end of the reporting period during which the combination occurs because the fair values that have to be determined for the acquiree's identifiable assets acquired and liabilities taken over, or the amount of the consideration transferred, or the non-controlling interest can be determined only contingently, the Group reports the combination using these contingent values.

The Group adjusts these contingent amounts as a result of the finalisation of the initial accounting within twelve months as of the acquisition date and as of this date retrospectively.

2 Financial risk management

In performing its activities the Group is exposed to variety of financial risks: market risk (including currency risk, risk of changes in the fair value of financial instruments as a result of movements in the interest rates, risk of changes in the cash flows as a result of changes in the market interest rates and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise the potential adverse effects on the Group's financial performance.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor adherence to the risk limits by means of a reliable and up-to-date information system. The Group regularly reviews its risk management policies and systems to reflect in a timely manner changes in the markets, products and emerging best practice. The Group has not changed its risk management methodology as compared to 2014.

The process of risk management includes the following stages:
- risk identification – definition of its nature and description of the risks for the Group;
- risk measurement and assessment – methods to measure the risks and to ensure reliable outgoing data for risk measurement;
- risk mitigation – mitigation of potential and probable losses by means of definition of acceptable risk levels, outsourcing, monitoring and other risk mitigation methods.

Risk management units:
- coordinate the work of the departments related to analysis, assessment, supervision, management and control over risk;
- develop and implement an internal rating system for the customers of the Group;
- develop and implement approaches to meet the requirements of Basel III and the respective internal rules.

a Credit risk

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

The Group structures the levels of credit risk it undertakes by placing limits on the amount of acceptable risk in relation to its exposure to one borrower or a group of borrowers, as also by geographical regions and industry segments. Such risks are monitored regularly and are subject to annual or more frequent review.

Loans to other banks and customers
In measuring the credit risk of loans to other banks and customers the Group considers the following components:
- international ratings awarded by recognised rating agencies;
- assessment of the financial position of the individual debtor;
- ability of the debtor to secure sufficient funds for regular repayment of its future payables to the Group;
- servicing of past liabilities of the debtor to the Group and/or to other institutions;
- type and amount of providing for the balance sheet and contingent liabilities of the customer.

The Group manages the credit risk on loans and advances to customers or banks through a comprehensive set of policies and procedures to ensure that all aspects of credit risk are adequately covered. Financial risk is assessed following detailed analysis of the financial statements of the borrower/guarantor, based on a system of creditworthiness indicators.
Market risk is assessed based on the economic characteristics/prospects of the relevant market and the competitive position of the proposed borrower.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Risk exposures are evaluated and classified based on the credit risk level, the period of delay of the amounts due, the analysis of the financial position of the debtor and the main sources for repayment of the debtor's liabilities. The assessment of the financial position includes qualitative and quantitative analyses taking into account all circumstances which may affect debt repayment according to the clauses of the loan agreement. Risk exposures on loans extended to individuals are measured and classified completely based on the defaults on any amounts due.

The Group's risk exposures are classified in four groups based on the criteria of credit risk level, as follows:

Standard exposures - standard risk exposures are those which are serviced and the information on the debtor's financial position casts no doubts that the debtor will be capable to repay the debt in full. A risk exposure is classified as a standard exposure if all of the conditions listed below are met simultaneously:
- the principal and the interest are repaid currently in accordance with the contractual terms or repayments on them have been past due up to 30 days, provided the delay is accidental;
- the debtor uses the loan for the purposes stipulated in the agreement;
- the Group has sufficient updated information on the debtor's financial position and the sources for repayment of the debtor's liabilities, as well as other documents relating to the debtor's activity.

Watch exposures – watch exposures are risk exposures where insignificant weaknesses exist with respect to their servicing or there is a possibility for deterioration in the financial position of the debtor which may cast doubts as to the full repayment of the obligation. A risk exposure is classified as watch exposure provided it meets one of the conditions listed below:
- principal or interest arrears payments have been past due 31 to 90 days;
- the debtor uses the loan for the purposes other than the ones stipulated in the agreement;
- the final maturity of a loan with bullet repayment granted to a newly established company or a company with poor credit history has been renegotiated.

Non-performing exposures – non-performing exposures are risk exposures where significant weaknesses exist with respect to their servicing or available information points that the debtor's financial position is unstable, current and anticipated proceeds are insufficient for the full repayment of the obligations to the Group and to other creditors, as well as where weaknesses have been found with the distinct possibility that the Group will sustain loss. A risk exposure is classified as non-performing exposure provided it meets one of the conditions listed below:
- principal or interest arrears payments have been past due 91 to 180 days;
- the debtor's financial position has deteriorated significantly and may jeopardise the repayment of his obligations.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Loss– exposures classified as a loss are those risk exposures where as a result of the debtor's deteriorated financial position it is expected for the obligations to become uncollectible, even though they have partial recovery value that may be realised in the future. A risk exposure is classified as a loss provided it meets one of the conditions listed below:
- principal or interest arrears payments have been past due more than 180 days;
- the debtor suffers a permanent shortage of money;
- the debtor has been declared bankrupt or is in a liquidation procedure and there is a risk of leaving creditors unsatisfied;
- the receivable reported as a balance sheet item is subject to court proceedings or the court has awarded it to the Group but it has not been collected;
- other conditions providing grounds to consider that the risk exposure is jeopardised by non-repayment.

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

Risk limitation control and mitigation policies

The Group managers limits and controls the concentration of credit risk whenever they are identified in particular to individual counterparties, groups, and industries.

The Group has established a set of credit approval levels with the relevant approval bodies in order to manage its credit risk. Depending on the amount of the facility requested, loans are submitted for approval to the appropriate level. The Group assesses the financial, market and business risk, as well as the adequate structuring of the deals. Credit risk is measured following detailed analysis of the financial statements of the borrower guarantor based on a system of creditworthiness indicators.

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, daily delivery risks in relation to trading items such as forwards. The actual exposures against the respective limits are monitored on a daily basis. Exposure to credit risk is managed through regular analysis of the ability of the borrowers and potential borrowers to meet their obligations and through a change in the lending limits, where appropriate.

Collateral

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

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

In order to minimise credit loss the Group requires additional collateral from the counterparties as soon as impairment indicators are noticed for the relevant individual loans receivable. Collateral held as 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 Group's business and the increasing portfolio of small consumer loans, the share of unsecured loans within the Group's portfolio is growing. This type of loans are mostly short-term (average term of the portfolio is approximately 31 months) and they have very low limits (average amount receivable approximately BGN 1 thousand), therefore providing collateral is expensive and unjustified.

The following types of collateral are considered by the Group as highly liquid: cash in Bulgarian levs and foreign currencies; guarantees by states, governments, banks or institutions with awarded high ratings from recognised rating agencies; first-ranking mortgage on a real estate in a residential, commercial, administrative or hotel building insured against loss in favour of the Bank; first-ranking mortgage on regulated land property. The value of highly liquid collaterals is determined in accordance with the internal policy of the Group, taking into account evaluations and analyses prepared by independent appraisers and / or internal experts of the Group. Such values are reviewed regularly to ensure adequacy of the respective valuation. Placements with other banks are not secured.

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

As of 31 December	Loans to customers			
	2015		2014	
	Gross amount	Collateral	Gross amount	Collateral
Mortgages	80,385	237,463	81,691	127,441
Cash collateral	319	406	14,669	14,929
Other collateral	12,287	43,185	6,367	30,484
Unsecured	260,412	-	204,376	90,446
Total	**353,403**	**281,054**	**307,103**	**263,300**

The table below shows the level of coverage of credit risk by collateral provided as a percentage of the carrying amount of the loans, by types of collateral as of 31 December 2015 and 31 December 2014. The amount of collateral is considered up to the amount of exposures it relates to, thus eliminating the effect of collateral exceeding the exposure. Exposures secured by mortgage are 92 % covered for credit risk, and those secured by cash – 78 %, which illustrates the level of the Group's exposure to risk of credit losses.

	2015	2014
Mortgages	92 %	68 %
Cash collateral	78 %	100 %
Other collateral	82 %	66 %

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Contingent liabilities and irrevocable commitments

Guarantees and letters of credit which represent irrevocable commitment by the Group to make the respective payment if the customer fails to discharge its liability to a third party give rise to the same type of risk as loans. Documentary and commercial letters of credit which represent written commitments of the Group on behalf of a customer that has authorised a third party to issue orders to the Group up to an agreed amount in accordance with specific conditions, are secured with cash deposits or other pledges in favour of the Group and therefore the Group reports minimum risk levels.

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

Maximum exposure to credit risk before collaterals

The table below presents the worst case scenario of exposure to credit risk of the Group as at 31 December 2015 and 31 December 2014 without taking into account any collateral. Exposures for balance sheet assets are based on the net book values reported at the balance sheet date.

As of 31 December	**Maximum exposure**	
	2015	**2014**
Balances with central banks	100,310	67,405
Placements with other banks	40,266	90,455
Loans to customers:		
Mortgage loans	64,596	70,582
Agriculture loans	7,177	4,304
Commercial loans	55,203	43,059
Consumer loans	204,116	167,878
Financial assets available for sale	11,878	1,109
Other receivables	5,560	9,715
Credit risk exposures related to contingent liabilities and irrevocable commitments are as follows:		
Guarantees	1,787	2,501
Undrawn loans commitments	15,118	13,630
Total maximum exposure to credit risk	**506,011**	**470,638**

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Loans to customers are summarised as follows :

As of 31 December 2015	**Loans to customers**
Neither past due, nor impaired	256,493
Past due but not impaired	30,985
Past due and impaired	65,925
Gross amount	**353,403**
Less: allowance for impairment losses	(22,311)
Carrying amount	**331,092**

As of 31 December 2014	**Loans to customers**
Neither past due, nor impaired	207,776
Past due but not impaired	37,913
Past due and impaired	61,414
Gross amount	**307,103**
Less: allowance for impairment losses	(21,280)
Carrying amount	**285,823**

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

The total allowance for impairment losses of loans and advances at 31 December 2015 is BGN 22,311 thousand (2014: BGN 21,280 thousand). Allowances accrued on individually assessed financial assets amount to BGN 2,775 thousand (2014: BGN 10,188 thousand), and allowances based on collective impairment assessment amount to BGN 19,537 thousand (2014: BGN 11,092 thousand). Further information on the impairment allowance for loans to customers is provided in Note 15.

In 2015 loans to customers granted by the Group before impairment increased by 15.08% compared to the prior year. For the purpose of the effective credit risk management the Group continues to be actively involved in renegotiation, restructuring and closing of existing risk exposures. An expert working group for collection of bad debts functions. This group holds weekly meetings.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Loans to customers that are neither past due, nor impaired

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

Loans to customers that are neither past due nor impaired are presented in the table below depending on the purpose of the loan:

31 December 2015	**Consumer**	**Mortgage**	**Agriculture**	**Corporate**	**Total**
Total	**171,407**	**47,556**	**3,724**	**33,806**	**256,493**
Of which					
Standard risk loans	*171,304*	*47,556*	*3,724*	*33,806*	***256,390***
Higher risk loans	*103*	-	-	-	***103***

31 December 2014	**Consumer**	**Mortgage**	**Agriculture**	**Corporate**	**Total**
Total	**139,389**	**34,546**	**2,169**	**31,672**	**207,776**
Of which					
Standard risk loans	*139,319*	*34,087*	*2,169*	*31,672*	***207,247***
Higher risk loans	*70*	*459*	-	-	***529***

Agriculture loans that are neither past due, nor impaired at 31 December 2015 include exposures amounting to BGN 465 thousand (2014: BGN 542 thousand) that are secured by mortgage.

The consumer loan portfolio which represents more than 67.47% of all receivables that are neither past due, nor impaired, is strongly diversified both in terms of number and of amount. The latter comprises many small exposures without geographic and sector concentrations, characterised with its short-term nature and high quality based on past experience. With respect to loans to enterprises, these are primarily SMEs of acceptable quality and within the Bank's risk appetite. The loan portfolio comprises loans secured mainly by mortgages and loans financed under joint schemes with SFA and NGF.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Loans to customers that are neither past due, nor impaired (continued)

For the purposes of presentation the credit risk quality, loans to customers that are neither past due, nor impaired are divided on the basis of historical analysis of non-performance of the customers' obligations. The group bearing higher risk includes exposures past due for more than 90 days over the last six months as at the date of the financial statements. All other exposures are included in the group of standard quality of credit risk.

Loans to customers that are neither past due, nor impaired

31 December 2015	Consumer	Mortgage	Agriculture	Corporate	Total
Past due up to 29 days	11,679	7,337	452	2,583	22,051
Past due 30 to 89 days	39	3,280	139	867	4,325
Past due more than 90 days	7	2,158	24	2,420	4,609
Total	11,725	12,775	615	5,870	30,985

31 December 2014	Consumer	Mortgage	Agriculture	Corporate	Total
Past due up to 29 days	10,338	2,341	713	110	13,502
Past due 30 to 89 days	33	7,290	219	63	7,605
Past due more than 90 days	2	16,804	-	-	16,806
Total	10,373	26,435	932	173	37,913

Loans to customers which are not past due and are impaired

31 December 2015	Consumer	Mortgage	Agriculture	Corporate	Total
Total	-	193	533	1,787	2,513

31 December 2014	Consumer	Mortgage	Agriculture	Corporate	Total
Total	-	920	478	4,262	5,660

Loans to customers which are past due and are impaired

For individually assessed accounts loans are treated as impaired as soon as objective evidence indicate that an impairment loss has been incurred.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Loans to customers which are past due and are impaired (continued)

31 December 2015	Consumer	Mortgage	Agriculture	Corporate	Total
Past due up to 29 days	17,022	1,064	2,230	5,431	25,747
Past due 30 to 89 days	7,774	-	672	2,410	10,856
Past due 90 to 179 days	2,041	-	15	173	2,229
Past due more than 180 days	13,683	3,234	-	10,176	27,093
Total gross amount	**40,520**	**4,298**	**2,917**	**18,190**	**65,925**
Less: impairment loss allowances	(19,536)	(33)	(79)	(2,663)	(22,311)
Carrying amount	**20,984**	**4,265**	**2,838**	**15,527**	**43,614**

31 December 2014	Consumer	Mortgage	Agriculture	Corporate	Total
Past due up to 29 days	14,741	4,464	902	9,506	29,613
Past due 30 to 89 days	6,004	229	357	2,090	8,680
Past due 90 to 179 days	1,336	-	-	26	1,362
Past due more than 180 days	7,135	14,454	-	170	21,759
Total gross amount	**29,216**	**19,147**	**1,259**	**11,792**	**61,414**
Less: impairment loss allowances	(11,100)	(9,653)	(46)	(481)	(21,280)
Carrying amount	**18,116**	**9,494**	**1,213**	**11,311**	**40,134**

Agriculture loans at 31 December 2015 include exposures amounting to BGN 344 thousand (2014: BGN 141 thousand) that are secured by mortgage.

Consumer loans which are past due and impaired at 31 December 2015 include exposures impaired on a portfolio basis amounting to BGN 38,016 thousand (2014: BGN 29,216 thousand). The other items listed in the table above are subject to individual impairment.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Concentration of risks by geographic sectors for financial assets with credit risk exposure

Geographic sectors

Financial assets	2015	2014
Bulgaria	254,950	250,247
Romania	227,482	175,159
Other countries	6,674	29,101
Total financial assets	**489,106**	**454,507**
Exposures to credit risk related to contingent liabilities and irrevocable commitments:		
Bulgaria	11,760	15,870
Romania	5,142	261
Other countries	3	-
Total financial assets and contingent liabilities and irrevocable commitments	**506,011**	**470,638**

The table below presents an analysis of deposits with other banks at 31 December 2015 and 31 December 2014 based on criteria set by a rating agency as a result of credit assessments of a recognised external institution. Ratings awarded by Standard & Poor's or their equivalents are shown in the table below:

	31 December 2015			31 December 2014	
Rating	**Available for sale financial assets**	**Placements with other banks**	**Rating**	**Available for sale financial assets**	**Placements with other banks**
AA	-	-	AA	-	25,138
A - to A+ (S&P)	-	-	A - to A+ (S&P)	-	-
A+ (Fitch)	-	-	A+ (Fitch)	-	-
BBB (Fitch)	-	18,411	BBB (Fitch)	-	34,242
BBB - (Fitch)	11,789	-	BBB - (Fitch)	1,020	-
BB - (Fitch)	-	21,827	BB - (Fitch)	-	17,721
Ba2 (Moody's)	-	10	Ba2 (Moody's)	-	13,353
CCC (Fitch)	-	18	CCC (Fitch)	-	1
Unrated	89	-	Unrated	89	-
Total	**11,878**	**40,266**	**Total**	**1,109**	**90,455**

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

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

At 31 December 2015 and 31 December 2014 other receivables were neither past due nor impaired. Other receivables are settled within 30 days after the date of occurrence and therefore, they are considered not past due. Other receivables were fully paid at the date of issue of the financial statements.

As of 31 December 2015 the rating of cash balances on accounts with central banks was BBB- (2014: BBB-).

b Market risk

The Group is exposed to market risk. Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices. Market risk arises from open positions in interest rate, currency and equity items, which are exposed to the general and specific movements in market rates and prices, such as interest rates, credit spreads, foreign exchange rates and security prices. The components of market risk include foreign currency risk, risk of changes in the fair value of financial instruments due to changes in the interest rates, risk of changes in the cash flows as a result of changes in the market interest rates and price risk.

Interest rate risk is the risk of a potential loss as a result from adverse changes in the interest rates. These include risk of changes in the yield curve, basis risk, spread risk, etc.

Foreign currency risk is the risk of a potential loss as a result of adverse changes in foreign currency exchange rates against the main currency. It includes the overall risk (or global currency risk – impacts the complete operations of the Group – income, expenses, cash flow dynamics, regardless of which market transactions are oriented to), volatility risk and convertibility risk.

The risk related to the changes in the fair value of security prices is the risk of a potential loss as a result of changes in these prices.

The Group's market risk policy is developed by the Risk Management Units and is approved by the Management Board of the Bank. The market risk policy is reviewed at least annually and the changes are submitted to the Management Board. The market risk policy is applied in respect of control of this risk, arising on all assets, liabilities, contingencies and commitments of the Group and accordingly covers financial and non-financial transactions that are subject to market risk.

The objectives of market risk control and supervision are:

- to protect the Group against unforeseen market losses;

- to contribute to more stable and predictable earnings; and

- to develop transparent, objective and consistent market risk information which is to serve as basis for sound decision making.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

b Market risk (continued)

Market risk measurement techniques

The risk factors which generate market risk and should be included in the market risk measurement system consist of, but are not limited to:

- foreign exchange rates;
- interest rates;
- fair value of securities.

The Group's exposure to derivative contracts is monitored as part of the overall market risk management.

Upon their origination derivatives frequently include only a mutual promise for an exchange against the payment of low or no consideration. Nevertheless, these instruments often lead to high indebtedness levels and are extremely volatile. A relatively small change in the value of assets, interest rate levels or other indices underlying the derivative contracts may have significant impact on the Group's profit and loss.

Swaps are contractual arrangements between two parties to exchange payments over fixed periods of time and based on nominal amount set in relation to a contractual index such as interest rate, foreign exchange rate or capital index.

In foreign exchange swaps the Group pays a fixed amount in certain currency and receives a fixed amount in another currency.

The Group uses foreign currency swaps to hedge potential changes in the exchange rates.

The nominal amounts in the table below show the volume of outstanding transactions related to derivative contracts as of 31 December 2015 and 31 December 2014

	Assets 2015	Liabilities 2015	Nominal amount 2015
Derivatives aimed to hedge changes in interest rates/currency risk			
FX swaps	-	17	39,073

	Assets 2014	Liabilities 2014	Nominal amount 2014
Derivatives aimed to hedge changes in interest rates/currency risk			
FX swaps	-	21	39,094

As of 31 December 2015 the Group had two active derivatives maturing on 18 January 2016 and 21 January 2016, respectively. The effect of the concluded derivative contracts on the profit and loss in the reporting period is a loss amounting to BGN 767 thousand (2014: BGN 812 thousand).

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

b Market risk (continued)

Foreign currency risk

Fluctuations in the foreign exchange rates have impact on the financial position and cash flows of the Group and expose it to foreign currency risk. The Management Board sets limits to control the risk on open FX positions, which are monitored daily. As a rule the Group does not maintain material open positions in currencies other than the Bulgarian lev and Euro. The Group does not measure sensitivity to foreign currency risk since as at 31 December 2015 the Bulgarian lev is pegged to the Euro, and open positions in other currencies are insignificant. The open FX position in RON, which amounted to BGN 55,206 thousand as at 31 December 2015 (2014: BGN 42,770 thousand), is hedged by means of FX swap with a nominal amount of BGN 39,073 thousand (2014: BGN 39,094 thousand).

The table below presents a summary of the extent in which the Group is exposed to foreign currency risk as at 31 December 2015. Assets and liabilities are stated at their carrying amounts and classified by currency.

As of 31 December 2015	BGN	EUR	RON	Other currencies	Total
Assets					
Cash on hand and balances with central banks	37,255	64,316	8,049	-	**109,620**
Placements with other banks	48	26,951	2,361	10,906	**40,266**
Loans to customers	139,993	74,613	116,484	2	**331,092**
Financial assets available for sale	69	9,757	2,052	-	**11,878**
Current tax assets	-	-	242	-	**242**
Other assets	30,123	179	12,648	215	**43,165**
Total assets	**207,488**	**175,816**	**141,836**	**11,123**	**536,263**
Liabilities					
Deposits from banks	17,530	1,963	5,182	-	**24,675**
Derivatives	-	-	17	-	**17**
Deposits from customers	115,051	171,469	73,312	11,471	**371,303**
Other borrowings	5,977	6,218	-	-	**12,195**
Deferred tax liabilities	115	-	-	-	**115**
Other liabilities	8,153	832	8,119	-	**17,104**
Total liabilities	**146,826**	**180,482**	**86,630**	**11,471**	**425,409**
Net balance sheet position	**60,662**	**(4,666)**	**55,206**	**(348)**	**110,854**
Contingent liabilities and irrevocable commitments	11,550	1,928	3,427	-	**16,905**

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

b Market risk (continued)

Foreign currency risk (continued)

As of 31 December 2014	BGN	EUR	RON	Other currencies	Total
Assets					
Cash on hand and balances with central banks	43,678	23,640	9,361	262	**76,941**
Placements with other banks	1	23,095	224	67,135	**90,455**
Loans to customers	116,283	91,441	78,099	-	**285,823**
Financial assets available for sale	69	20	1,020	-	**1,109**
Placements with other banks	1	-	77	-	**78**
Other assets	8,604	439	16,935	96	**26,074**
Total assets	**168,636**	**138,635**	**105,716**	**67,493**	**480,480**
Liabilities					
Deposits from banks	6,993	1,966	-	23	**8,982**
Derivatives	-	-	21	-	**21**
Deposits from customers	107,537	150,310	62,540	66,974	**387,361**
Other borrowings	4,829	2,619	-	-	**7,448**
Other liabilities	5,613	29	385	386	**6,413**
Total liabilities	**124,972**	**154,924**	**62,946**	**67,383**	**410,225**
Net balance sheet position	**43,664**	**(16,289)**	**42,770**	**110**	**70,255**
Contingent liabilities and irrevocable commitments	15,141	769	221	-	16,131

The sensitivity to changes in exchange rates has been calculated directly on the basis of the total net open FX position of the Group in all foreign currencies (other than EUR) as a 10% amortisation of the value of the local currency compared to all foreign currencies (other than EUR). The exchange rate BGN/EUR is fixed at a ratio BGN 1.95583: EUR 1 as part of the Currency Board parameters.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

b Market risk (continued)

Foreign currency risk (continued)

As of 31 December 2015

Exchange rates	Eeffect on profit/loss
- 10% impairment of local currency	374

As of 31 December 2014

Exchange rates	Effect on profit/loss
- 10% impairment of local currency	379

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will vary due to changes in the market interest rates. Interest rate risk is the risk that the fair value of a financial instrument will vary due to changes in the market interest rates.

The Group takes on risks related to the effect of changes in the market interest rates both in respect of its own financial assets, and in respect of the cash flows. As a result of such changes interest rate margins may increase but they may decrease as well and cause losses in case of unforeseen shocks. The management sets limits to maintain an acceptable level of interest rate imbalance and these limits are monitored regularly.

The sensitivity analysis below illustrates the potential impact on the statement of comprehensive income of floating rate items. The table below shows possible acceptable deviations selected based on the market and economic environment during the reporting period.

As of 31 December 2015

Interest rates	Effect of changes in interest rates on profit/loss
+100 % change	227
-100 % change	(227)

As of 31 December 2014

Interest rates	Effect of changes in interest rates on profit/loss
+100 % change	145
-100 % change	(145)

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

c Fair value of financial assets and liabilities

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market should be accessible to the Group.

Fair value of an asset or liability is measured making assumptions that market participants would make to determine the price of the asset or liability, assuming that they would act in their best economic interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

External valuers are usually engaged for the measurement of the fair values of the material assets and liabilities. The need to engage external valuers is assessed by the Group's management every year. Selection criteria for external valuers include professional experience, qualities and reputation. The management decides, after discussions with the valuation experts, which valuation techniques and inputs to use for each case.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured as per the Group's accounting policies. This involves verification of the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The management, in conjunction with the valuation experts, also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

c Fair value of financial assets and liabilities (continued)

	Carrying amount		Fair value	
	2015	**2014**	**2015**	**2014**
Financial assets				
Cash on hand and balances with central banks	109,620	76,941	109,620	76,941
Placements with other banks	40,266	90,455	40,266	90,455
Loans to customers:				
Mortgage loans	64,596	70,582	67,605	70,130
Agriculture loans	7,177	4,304	7,175	4,202
Commercial loans	55,203	43,059	56,536	43,038
Consumer loans	204,116	167,878	203,923	168,634
Financial assets available for sale	11,878	1,109	11,878	1,109
Other receivables	5,560	9,715	5,560	9,715
Financial liabilities				
Deposits from banks	24,675	8,982	24,675	8,982
Derivatives	17	21	17	21
Deposits from customers	371,303	387,361	371,310	388,344
Other borrowings	12,195	7,448	12,195	7,448
Other liabilities	12,393	4,042	12,393	4,042

(a) Financial assets and liabilities carried at fair value

Financial assets and liabilities are carried at fair value by using quoted market prices in an active market at the date of the reporting period. In case of lack of quoted prices, the fair values used are the historical amounts, less any impairment losses.

(b) Financial assets and liabilities not carried at fair value

- *Placements with other banks*

Placements with other banks include inter-banking deposits and current accounts. The fair value of floating rate and overnight deposits approximates their carrying amount. The estimated fair value of fixed rate deposits is based on the discounted cash flows using average market interest rates for liabilities with similar credit risk and remaining maturity.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

c Fair value of financial assets and liabilities (continued)

(b) Financial assets and liabilities not carried at fair value (continued)

- *Loans to customers*

Loans to customers are carried at amortised cost less any impairment allowance. The fair value of fixed interest rate loans to customers is the discounted future cash inflows by applying interest rate statistical data published by the relevant Central banks.

- *Deposits from banks and from customers*

The fair value of deposits from banks approximates their carrying amount due to their short-term nature. The fair value of fixed-rate deposits from customers is the discounted amount of the estimated future cash outflows. In 2014 and 2015 the Bank extended consumer loans mainly bearing fixed interest rates.

- *Other borrowings*

The fair value of other fixed rate borrowings without quoted market prices is based on the discounted cash flows using interest rates for new liabilities with similar remaining maturity. The fair value of other borrowings approximates their carrying amount due to the fact that as at 31 December 2015 most of them bear floating interest rates.

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are measured at fair value on a recurring basis, the Group reviews their categorisation at the respective fair value hierarchy level (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period and determines whether transfer(s) should be made between levels.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

c Fair value of financial assets and liabilities (continued)

Fair value hierarchy

The tables below present the fair value hierarchy of the Group's assets and liabilities measured as at 31 December 2015 and 31 December 2014.

Quantitative disclosures of the fair value hierarchy as at 31 December 2015

	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value				
Financial assets available for sale	**11,878**	11,789	-	89
Assets not measured at fair value				
Loans to customers:				
Mortgage loans	**67,605**	-	67,605	-
Agriculture loans	**7,175**	-	7,175	-
Commercial loans	**56,536**	-	56,536	-
Consumer loans	**203,923**	-	141,342	62,5811
Liabilities measured at fair value				
Derivatives	**17**	-	17	-
Liabilities not measured at fair value				
Deposits from customers	**371,310**	-	371,310	-
Other borrowings	**12,195**	-	12,195	-

Due to the short-term nature of other assets, placements with other banks, placements from other banks and other liabilities the Group's management believes that their fair value approximates their carrying amounts as at 31 December 2015.

Consumer loans classified as Level 3 represent a portfolio of ceded receivables with a contractual first priority to satisfy the Group from the mass of the total contributions collected for the total portfolio.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

c Fair value of financial assets and liabilities (continued)

Fair value hierarchy (continued)

Management believes that no significant changes occurred at 31 December 2015 in the market at which the assets subject to the transaction have been originated and that its parameters reflect the acceptable yield level for the respective type of financial instrument and risk to the Group.

In consumer loan measurements classified as Level 3 management adjusts the market observable yields for the respective type of financial instrument which it believes reflect the risk profiles of the ceded receivables.

Reconciliation of Level 3 fair value measurement

Balance at 1 January 2015	**89**
Transfers to Level 3	-
Total profit/(loss) for the period recognised in the income statement	-
Total profit/(loss) for the period recognised in the statement of comprehensive income	-
Newly acquired assets/(sales) of assets	-
Balance at 31 December 2015	**89**

In general, the fair value of unquoted equity instruments available for sale is calculated by: 1) using valuation reports of third parties based on the investee's net assets and management makes no further adjustments, and 2) assessment of net assets adjusted, if necessary.

No transfers between fair value hierarchy levels were made in 2015, nor changes in the valuation techniques used during the period.

Description of valuation techniques and significant inputs to fair value measurement as at 31 December 2015:

	Valuation technique	Significant observable inputs	Range (weighted average)	Sensitivity analysis
Loans to customers	DCFM	Statistical data of Central banks for interest rates on new business by loans of sectors non-financial entities and mortgage loans by original maturity	3.75% - 19.3% (11.53 %)	Increase (decrease) in interest rates by 5 % would result in a change in the fair value
Deposits from customers	DCFM	Statistical data of Central banks for interest rates on new business by term deposits of sectors non-financial entities and households	0.1% - 4.25% (2.18 %)	Increase (decrease) in interest rates by 2 % would result in a change in the fair value
Other borrowings	DCFM	Current interest rate on borrowings	2% - 7.55% (4.78 %)	

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

c Fair value of financial assets and liabilities (continued)

Fair value hierarchy (continued)

Quantitative disclosures of the fair value hierarchy as at 31 December 2014

	Total	Quoted prices in active markets	Significant observable inputs	Significant unobservable inputs
		(Level 1)	(Level 2)	(Level 3)
Assets measured at fair value				
Financial assets available for sale	**1,109**	1,020	-	89
Assets not measured at fair value				
Loans to customers:				
Mortgage loans	**70,130**	-	70,130	-
Agriculture loans	**4,202**	-	4,202	-
Commercial loans	**43,038**	-	43,038	-
Consumer loans	**168,634**	-	108,824	59,810
Liabilities measured at fair value				
Derivatives	21	-	21	-
Liabilities not measured at fair value				
Deposits from customers	**388,344**	-	388,344	-
Other borrowings	**7,448**		7,448	

Due to the short-term nature of other assets, placements with other banks, placements from other banks and other liabilities the Group's management believes that their fair value approximates their carrying amounts as at 31 December 2014.

Reconciliation of Level 3 fair value measurement

Balance at 1 January 2014	**89**
Transfers to Level 3	-
Total profit/(loss) for the period recognised in the income statement	-
Total profit/(loss) for the period recognised in the statement of comprehensive income	-
Newly acquired assets/(sales) of assets	-
Balance at 31 December 2014	**89**

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

c Fair value of financial assets and liabilities (continued)

Fair value hierarchy (continued)

Neither transfers between fair value hierarchy levels, nor changes in the valuation techniques used during the period were made in 2014.

Description of valuation techniques and significant inputs to fair value measurement as at 31 December 2014:

	Valuation technique	Significant observable inputs	Range (weighted average)	Sensitivity analysis
Loans to customers	DCFM	Statistical data of Central banks for interest rates on new business by loans of sectors non-financial entities and mortgage loans by original maturity	5.5% - 19.93% (12.72 %)	Increase (decrease) in interest rates by 5 % would result in a change in the fair value
Deposits from customers	DCFM	Statistical data of Central banks for interest rates on new business by term deposits of sectors non-financial entities and households	0.1% - 5% (3.27 %)	Increase (decrease) in interest rates by 2 % would result in a change in the fair value
Other borrowings	DCFM	Current interest rate on borrowings	2% - 7.89% (4.95 %)	

d Liquidity risk

Liquidity risk is the risk that the available cash resources of the Group may be insufficient to cover the withdrawals on financial liabilities as they fall due, and the inability to replace funds when they are withdrawn. The consequences may lead to inability to cover liabilities to make payments to depositors and to fulfil commitments to disburse loans.

Liquidity risk management process

The Group adopts appropriate liquidity risk management policies which have to ensure that:
- sufficient liquid assets are available to meet the liabilities as they arise;
- financing of medium term assets with medium-term liabilities in a prudent proportion;
- the liquidity position is monitored on a daily basis and in the course of dealing operations.

The Management Board of the Group assigns the Asset and Liabilities Management Committee, as the primary responsible unit, to advise the Management Board on the liquidity management strategy.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

d Liquidity risk(continued)

The Asset and Liabilities Management Committee manages:

- the Group's assets and liabilities to ensure regular and timely meeting of current and future obligations;
- the Group's cash inflows and outflows (liquidity sources) and the ratios between assets and liabilities;
- the liquidity ratios in compliance with the indicators set by the parent; and
- the liquidity ratios recommended by the competent regulatory authority.

The operational management of the Group's assets and liabilities and the execution of the decisions of the Assets and Liabilities Management Committee are assigned to the head of the Financial Markets and Liquidity Department.

The table below presents the financial liabilities of the Group, payables to personnel and taxes, other than income tax, by maturity groups based on the period remaining from the balance sheet date to the maturity date of the contract. The amounts disclosed in the table represent the contractual undiscounted cash flows.

As of 31 December 2015	Gross outflow	Less than 1 month	1-3 months	3 -12 months	1-5 years	More than 5 years
Deposits from banks	24,680	22,712	-	1,968	-	-
Derivatives	17	17	-	-	-	-
Deposits from customers	372,959	164,175	54,585	154,158	41	-
Other borrowings	12,824	192	214	8,584	3,834	-
Other liabilities	17,104	1,486	15,365	253	-	-
Total liabilities (contractual maturity dates)	**427,584**	**188,582**	**70,164**	**164,963**	**3,875**	**-**

As of 31 December 2014	Gross outflow	Less than 1 month	1-3 months	3 -12 months	1-5 years	More than 5 years
Deposits from banks	9,008	3,026	4,013	1,969	-	-
Derivatives	21	21	-	-	-	-
Deposits from customers	391,640	194,720	47,071	149,379	247	223
Other borrowings	8,008	42	328	2,761	4,877	-
Other liabilities	6,413	1,229	4,982	202	-	-
Total liabilities (contractual maturity dates)	**415,090**	**199,038**	**56,394**	**154,311**	**5,124**	**223**

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

d Liquidity risk(continued)

Contingent liabilities and irrevocable commitments

The terms of the agreed amounts of contingent liabilities and irrevocable commitments, to which the Group is committed with respect to extension of the term of loans to customers and other terms and conditions, are presented in the following table.
Financial guarantees are presented in the table below based on the earliest agreed maturity date.

As of 31 December 2015	Within 1 year	1-5 years	Over 5 years	Total
Guarantees:				
- financial	604	-	-	604
- good performance guarantees	1,183	-	-	1,183
Commitments:				
- undrawn loan commitments	5,820	7,816	1,482	15,118
Total contingent liabilities and irrevocable commitments	7,607	7,816	1,482	16,905

As of 31 December 2014	Within 1 year	1-5 years	Over 5 years	Total
Guarantees:				
- financial	1,162	-	-	1,162
- good performance guarantees	1,339	-	-	1,339
Commitments:				
- undrawn loan commitments	10,317	2,207	1,106	13,630
Total contingent liabilities and irrevocable commitments	12,818	2,207	1,106	16,131

The table below presents an analysis of the Group's assets and liabilities by maturity structure at the balance sheet date, based on the remaining period to the agreed maturity dates. Loans to customers with remaining maturity of more than five years are included in the column "not defined".

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

d Liquidity risk(continued)

As of 31 December 2015	Demand / up to 1 month	1-3 months	3-12 months	1-5 years	Not defined	Total
Assets						
Cash on hand and balances with central banks	109,620	-	-	-	-	109,620
Placements with other banks	40,266	-	-	-	-	40,266
Non-current assets held for sale	-	-	8,955	-	-	8,955
Loans to customers	17,048	12,028	86,049	168,740	47,227	331,092
Financial assets available for sale	11,878	-	-	-	-	11,878
Other assets	-	-	7,360	-	-	7,360
Placements with other banks	242	-	-	-	-	242
Tangible and intangible assets	-	-	-	-	26,850	26,850
Total assets	**179,054**	**12,028**	**102,364**	**168,740**	**74,077**	**536,263**
Liabilities						
Deposits from banks	22,712	-	1,963	-	-	24,675
Derivatives	17	-	-	-	-	17
Deposits from customers	163,866	54,472	152,712	253	-	371,303
Other borrowings	24	76	7,876	4,219	-	12,195
Deferred tax liabilities	115					115
Other liabilities	1,486	15,365	253	-	-	17,104
Total liabilities	**188,220**	**69,913**	**162,804**	**4,472**	-	**425,409**
Net liquidity gap	**(9,166)**	**(57,885)**	**(60,440)**	**164,268**	**74,077**	**110,854**
Cumulative cash flows	**(9,166)**	**(67,051)**	**(127,491)**	**36,777**	**110,854**	-

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

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

d Liquidity risk(continued)

As of 31 December 2014	Demand / up to 1 month	1-3 months	3-12 months	1-5 years	Not defined	Total
Assets						
Cash on hand and balances with central banks	76,941	-	-	-	-	76,941
Placements with other banks	90,455	-	-	-	-	90,455
Non-current assets held for sale	-	-	882	-	-	882
Loans to customers	32,302	12,164	92,266	132,044	17,047	285,823
Financial assets available for sale	-	-		1,020	89	1,109
Other assets	-	-	11,836	-	-	11,836
Placements with other banks	78	-	-	-	-	78
Tangible and intangible assets	-	-	-	-	13,356	13,356
Total assets	**199,776**	**12,164**	**104,984**	**133,064**	**30,492**	**480,480**
Liabilities						
Deposits from banks	3,026	4,000	1,956	-	-	8,982
Derivatives	21	-	-	-	-	21
Deposits from customers	194,619	46,747	145,545	231	219	387,361
Other borrowings	34	288	2,606	4,520	-	7,448
Other liabilities	1,229	4,982	202	-	-	6,413
Total liabilities	**198,929**	**56,017**	**150,309**	**4,751**	**219**	**410,225**
Net liquidity gap	**847**	**(43,853)**	**(45,325)**	**128,313**	**30,273**	**70,255**
Cumulative cash flows	**847**	**(43,006)**	**(88,331)**	**39,982**	**70,255**	**-**

Fiduciary assets in custody

The Group is registered as investment intermediary and performs transactions on behalf of its customers in compliance with the requirements of Ordinance No. 38 of the Financial Supervision Commission. The Group has an approved policy regulating its fiduciary transactions for customers, which has been elaborated on the basis of the requirements of Ordinance No. 38 of the Financial Supervision Commission.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

e Capital management

The objectives of the Group's management in capital management, as a broader concept compared to the "equity" on the face of the balance sheet, include:

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

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

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%., formed based on total capital adequacy requirement of 8%, protective capital buffer of 2.5% and systemic risk buffer of 3%.

The 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:

(a) Tier one capital which comprises the following elements:

- registered and paid-in capital, excluding preference shares;
- Reserve fund;
- other reserves for general purposes set aside from the profit after tax;
- retained earnings from prior years;
- current year profit less any taxes due, expected dividend payments and other deductions.

The Group includes the retained earnings from prior years in the capital, once the audited separate financial statements are approved by the sole owner of the capital and dividend payments and other deductions have been made.

Once included as elements of the tier-one capital the retained earnings from prior years may be used to pay dividends only after approval by the Regulatory Authority.

The current year profit can be included in the capital only if the following conditions are met:

- the maximum amount of expected dividend payments and other deductions is set;
- the profits and taxes due are confirmed by the specialised audit firm employed by the Group;
- a notice is sent to the Regulatory Authority with attached documents evidencing the circumstances related to the mandatory conditions and the Regulatory Authority has not objected and / or has given its approval.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

e Capital management (continued)

The tier-one capital is reduced by:

- the current and prior year losses;
- the carrying amount of the treasury shares held by the Group;
- the amount of intangible assets;
- the unrealised loss on available for sale financial instruments.

(b) Tier-two capital which comprises the following elements:

- revaluation reserves on the real estates occupied by the Group;

- the amounts attracted by the Group in debt – equity (hybrid) instruments and other financial instruments without specified terms, as well as preference shares with accumulating dividends and without any term set, provided these instruments meet the following specific requirements:
  -- the amounts on these instruments are fully paid;
  -- their payment is not limited by a term;
  -- their repayment is not guaranteed by the Group in any form;
  -- in case of liquidation or insolvency of the Group their repayment is admissible after the claims of all other creditors have been satisfied;
  -- the receivables on these instruments as regards the principal may not become collectable without written permission of the Regulatory Authority;
  -- the terms under which the Group has attracted these funds entitle the Group to defer the payment of the interest income on them, if it has not generated profit or if profit is insufficient;

- the amounts attracted as subordinated term debt, as well as term cumulative preference shares and long-term debt – equity (hybrid) instruments, provided these instruments meet the following specific requirements:
  -- the amounts on the instruments are fully paid;
  -- their payment is not guaranteed by the Group in any form;
  -- their original term to maturity is at least 5 years;
  -- their early payment cannot be made without the prior written permission of the Regulatory Authority;
  -- the contract may not provide for a possibility for mid-term collectability of the instruments;
  -- in case of liquidation or bankruptcy of the Group their payment is admissible after the claims of all other creditors are satisfied in full.

Instruments attracted as a subordinate term debt are included in the tier-two capital reduced in accordance with the remaining term to the contractual maturity dates. After the instruments mature they are entirely excluded from the calculation of the equity (capital base).

Tier-two capital cannot exceed tier-one capital.

Tier-two capital attracted as subordinated term debt, term cumulative preference shares and long-term debt-equity (hybrid) instruments, cannot exceed 50% of the tier-one capital.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

e Capital management (continued)

Tier-two capital includes the elements described above, in case they meet the following requirements:
- the funds are entirely available to the Group to cover ordinary bank risks, when the losses of revenue or capital are not yet established;
- their availability is shown in the Group's accounting ledgers;
- their amounts is determined by the competent managing body of the Group and confirmed by an independent external auditor;
- the Regulatory Authority is acquainted with and may exercise supervision over the funds existence and utilisation.

The Group cannot include in its equity:
- reserves from cash flow hedges of items previously measured at amortised cost and cash flow hedges related to forecasted transactions;
- gains or losses on liabilities measured at fair value due to changes in the assessment of the credit quality of the Group;
- unrealised gain on investment properties and available-for-sale financial instruments.

The equity is reduced by:
- the carrying amount of investments in shares or other forms of shareholdings amounting to more than 10 percent of the paid-in capital of a bank or credit institution under the Credit Institutions Act, as well as investments in long-term debt (hybrid) instruments and subordinated term debt in such institutions in which the Group holds more than 10 percent of the paid-in capital, for each individual case, where they are not consolidated in the Group's balance sheet;
- the carrying amount of investments in shares or other forms of shareholding in the capital, long-term debt-equity (hybrid) instruments and subordinated term debt in another bank or financial institution under the Credit Institutions Act, where their total amount exceeds 10 percent of the Group's equity prior to deductions;
- the carrying amount of investments in shares or another form of direct or indirect shareholding, when they represent 20 or more than 20 percent of the paid-in capital on insurance, reinsurance undertakings and insurance holdings;
- the carrying amount of all investments in shares or other forms of shareholdings when they represent 10 or more than 10 percent of the paid-in capital of unconsolidated undertakings other than those listed above.

The amounts under the above items are reduced in a 50% ratio from tier-one capital and 50% from tier-two capital, and when the respective reduction exceeds the tier-two capital, the excess is reduced from tier-one capital.

Risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of and reflecting the assessment of the credit, market and other related risks for each assets and counterparty, taking into account any eligible collateral or guarantee.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

c Capital management (continued)

A similar treatment is adopted for contingencies and commitments, with some adjustments to reflect the more contingent nature of potential losses.

The table below summarises the structure of equity and the Groups ratios as at 31 December of the respective reporting years. During these two years the Group has complied with the capital requirements to lending institutions.

	As of 31 December	
	2015	**2014**
Tier-one capital		
Share capital	78,600	70,400
Reserves and accumulated profit/loss from prior years	(161)	(17,697)
Less:		
Intangible assets	(1,808)	(1,327)
Other deductions	(435)	-
Total tier-one capital	**76,196**	**51,376**
Tier-two capital		
Subordinated term debt	535	1,051
Total tier-two capital	**535**	**1,051**
Risk-weighted assets		
Balance sheet items	291,803	256,385
Off-balance sheet items	21	237
Total risk-weighted assets	**291,824**	**256,622**
Capital adequacy ratio	**19.48%**	**18.06%**

Notes to the consolidated financial statements (continued)

3 Significant accounting estimates and judgements in applying the accounting policies

The 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 the historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group reviews its loan portfolios to assess the need for impairment at least on a quarterly basis. In determining whether the impairment loss should be recorded in the statement of comprehensive income the Group makes an analysis whether objective data exist indicating that there is significant decrease in the estimated future cash flows from a loan portfolio, before the decrease can be associated with an individual loan in that portfolio. Such evidence may include observable data, indicating adverse change in the borrowers' ability to meet their loan obligations in the respective portfolio, or their national or local economic conditions that correlate with defaults on the repayments of the loans to the Group. The management uses estimates based on the historical loss experience for assets with the credit risk features and objective evidence for impairment similar to those in the portfolio when planning the cash flows. The methodology and assumptions used to estimate the amount and timing of the future cash flows are reviewed regularly, in order to reduce any differences between the loss estimates and the actual loss experience.

The value of collaterals representing real estates is determined by independent expert appraisers, using generally accepted valuation techniques. Such techniques include the revenue method and the discounted cash flows method. In certain cases, the fair values are determined based on recent transactions with real estates with similar features and locations as the collaterals. The definition of the fair value of the collaterals requires the use of estimates, such as the future cash flows from the assets and the discount rates applicable to these assets. These estimates are based on the conditions at the local market existing as at the valuation date. The continuing volatility and uncertainty of the global financial system is reflected in the uncertainties at the real estate markets. Therefore, in determining the estimates of the collaterals in 2015 the appraisers have used their knowledge of the market and their professional judgement, and did not simply rely of historical benchmarks for the transactions. Under the circumstances the estimated values of the collaterals are underpinned by a higher level of uncertainty than that existing in a more active market.

The assets acquired as collateral on loans are classified as non-current assets held for sale. The Group measures collateral acquired in relation to non-performing loans at the lower of their value upon acquisition and the fair value less the costs to make the sale. The definition of the fair value of the collaterals requires the use of estimates, such as the future cash flows from the assets and the discount rates applicable to these assets. These estimates are based on the conditions at the local market existing as at the valuation date. The Group's management has committed to specific actions aimed at the realisation of these assets through disposal.

The definition of the fair value of financial assets requires the use of estimates, such as the future cash flows from the assets and the discount rates applicable to these assets. These estimates are based on the conditions of the local market existing as at the valuation date.

The most significant assumptions are disclosed in Note 2 and Note 17.

Notes to the consolidated financial statements (continued)

4 Net interest income

	2015	2014
Interest income		
Loans to customers	65,598	45,030
Incl. Impaired loans to customers	*12,235*	*10,547*
Placements with other banks and financial institutions	753	924
Available-for-sale investments	43	8
Held-for-trading investments	2	-
Total interest income	**66,396**	**45,962**
Interest expenses		
Deposits from banks and financial institutions	1,431	1,838
Deposits from customers	7,549	9,245
Other borrowings	272	358
Total interest expenses	**9,252**	**11,441**
Net interest income	**57,144**	**34,521**

5 Net fee and commission income

	2015	2014
Fee and commission income		
Guarantees and letters of credit	306	44
Transfers and transactions	8,287	5,365
Agent's commissions	6,814	4,610
Other	2,296	943
Total fee and commission income	**17,703**	**10,962**
Fee and commission expense		
Bank transactions	685	602
Agents' commissions	1,283	1,231
Other	1,671	62
Total fee and commission expense	**3,639**	**1,895**
Net fee and commission income	**14,064**	**9,067**

Notes to the consolidated financial statements (continued)

6 Net trading gain

	2015	2014
Net foreign translation gain/(loss)	(327)	(110)
Net foreign currency transaction gain /(loss)	9,497	2,513
Net gain/(loss) on financial assets	(35)	(6)
Net gain/(loss) on dealings with non-current assets held for sale	(9)	(23)
Total net trading gains	**9,126**	**2,374**

7 Other operating expenses

	2015	2014
Administrative expenses	17,638	9,362
Staff costs (Note 8)	21,277	11,096
Depreciation and amortisation (Notes 18 and 19)	4,182	1,267
Operating lease rentals and other related costs	1,330	1,399
Materials	798	255
Total other operating expenses	**45,225**	**23,379**

Administrative expenses	**2015**	**2014**
Costs of hired services	5,661	1,875
Consultancy, legal and other professional services	1,287	1,496
IT services	533	351
Advertising expenses	1,006	841
Tax expenses	2,540	2,405
Other	6,610	2,394
Total administrative expenses	**17,638**	**9,362**

Tax expenses item consists of withholding tax on interest income received from Romania. The withholding tax at 31 December 2015 amounts to BGN 1,015 thousand (2014: BGN 1,004 thousand).

8 Staff costs

	2015	2014
Wages and salaries	18,004	9,499
Social security contributions	3,273	1,597
- incl. Pension Fund	2,218	450
Total staff costs	**21,277**	**11,096**

The number of the Group's employees at the end of 2015 was 1,415 (2014: 722 employees).

Notes to the consolidated financial statements (continued)

9 Other operating income

	2015	2014
Dividend income	5	7
Rental income	4,945	131
Negative goodwill recognised as profit	747	-
Gain on sale of property	17	34
Income from insurance broker's activities	1,955	-
Derecognised liabilities	-	191
Income from administration of receivables	236	324
Other income	2,103	19
Other operating income	**10,008**	**706**

10 Tax expenses

	2015	2014
Current tax	(3,485)	-
Deferred tax	-	-
Total tax expenses	**(3,485)**	**-**

The tax on the operating profit differs from the theoretical amount, which would arise using the basic tax rate, as follows:

	2015	2014
Pre-tax profit	35,991	18,182
Estimated corporate tax at a statutory rate of 10 % (2014: 10 %)	(3,599)	(1,818)
Tax effect of income not deductible for tax purposes	-	86
Tax effect of expenses not deductible for tax purposes	(127)	-
Tax effect of deduction of prior period tax losses for which no deferred tax asset was recognised	(3)	1,779
Tax effect of permanent differences for which no deferred tax asset was recognised	(51)	
Tax losses of foreign operation for which no deferred tax asset was recognised	-	(53)
Current tax paid abroad	295	6
Tax (credit)/expense	**(3,485)**	**-**

The total tax loss, which may be carried forward in future periods, amounted to BGN 1,473 thousand as at 31 December 2015 (2014: BGN 1,478 thousand). The Group has the right to carry forward the accumulated losses over the next 5 years, until fully utilised.

Year	Tax loss for the year	Remaining tax loss as at 31 December2014	Unrecognised deferred tax asset	Year of expiration
2014	528	1,478	148	2019
2015	-	1,473	147	2020

Notes to the consolidated financial statements (continued)

10 Tax expenses (continued)

Deferred tax assets amounting to BGN 147 thousand as at 31 December 2015 (2014: BGN 148 thousand) were not recognised.

The tax administration authorities have the right to examine the accounting books and transactions of the Bank within a 5-year period from the date of the reporting tax year, and could assess additional taxes and penalties. However, there are no circumstances known to management that would result in a potential tax liability in this connection.

11 Cash on hand and balances with central banks

	2015	2014
Cash on hand	9,310	9,536
Cash at central banks other than the minimum statutory reserve	68,785	34,524
Cash and cash equivalents for the purposes of the cash flow (Note 30)	**78,095**	**44,060**
Minimum statutory reserve	**31,525**	**32,881**
Total cash on hand and cash at central banks	**109,620**	**76,941**

As at 31 December 2015 the statutory minimum reserves held with the Bulgarian National Bank (BNB) amount to 10 % (2014: 10 %) of the deposits attracted, except: 5% of funds attracted from abroad and 0 % of funds attracted from other local banks, through branches of a local bank abroad; through debt/equity (hybrid) instruments; as subordinated term debt. As at 31 December 2015 the statutory minimum reserves held at the National Bank of Romania (NBR) amount to 10% of the funds attracted in new Romanian Lei and 14 % of the funds attracted in currencies other than new Romanian lei, except funds attracted from other local banks and funds attracted with residual maturity of less than two years without early termination clauses. The statutory minimum reserves are not available for use in the Group's day-to-day operations. Cash on hand is not interest bearing. Minimum statutory reserves and balances with BNB are not interest bearing, and those in NBR are interest bearing.

12 Placements with other banks

	2015	2014
Deposits with foreign banks with original maturity up to three months	5,266	20,785
Deposits with local banks with original maturity up to three months	-	40,050
Current accounts with foreign banks	5,530	26,049
Current accounts with local banks	29,470	3,571
Included in cash and cash equivalents for the purpose of the cash flows (Note 30)	**40,266**	**90,455**
Total placements with other banks	**40,266**	**90,455**

Notes to the consolidated financial statements (continued)

13 Financial assets available for sale

	2015	2014
Securities available for sale:		
- unlisted equity securities	89	89
- debt securities traded in an official market	11,789	1,020
Total financial assets available for sale	**11,878**	**1,109**

Debt securities at 31 December 2015 represent three types of issued Romanian government bonds: in EUR with a maturity on 21 January 2019 and coupon of 3.40 % per annum; in RON with a maturity on 11 May 2017 and coupon of 6.75 % per annum; in RON with a maturity on 29 August 2016 and coupon 4.75% per annum. Interest accumulated as at 31 December 2015 amounts to BGN 333 thousand. Debt securities are carried at fair value based on listed market prices as at the date of the financial statements.

14 Loans to customers

	2015	2014
Loans extended by the Group to:		
Corporate clients	129,452	126,873
Individuals	223,010	179,208
Staff	941	1,022
Total loans to customers	**353,403**	**307,103**
Impairment allowance (Note 15)	(22,311)	(21,280)
Total net loans to customers	**331,092**	**285,823**

Loans to customers include accrued interest amounting to BGN 5,706 thousand (2014: BGN 8,441 thousand). Loans to customers bearing floating interest rates amount to BGN 112,656 thousand (2014: BGN 95,665 thousand), and loans to customers bearing fixed interest rate amount to BGN 240,747 thousand (2014: BGN 211,438 thousand).

The line item Loans to corporate customers provided by the Group also includes receivables on finance lease contracts with a book value of BGN 81 thousand as at 31 December 2015 (2014: BGN 6,736 thousand).

Information on receivables as at 31 December 2015 is presented in the table below:

	Within 1 year	1 to 5 years	Over 5 years	Total
Gross investment in lease contracts	23	76	-	99
Unrealised finance income	(7)	(11)	-	(18)
Net value of lease payments	**16**	**65**	**-**	**81**

Notes to the consolidated financial statements (continued)

14 Loans to customers (continued)

Information on receivables as at 31 December 2014 is presented in the table below:

	Within 1 year	1 to 5 years	Over 5 years	Total
Gross investment in lease contracts	1,042	4,020	4,872	9,934
Unrealised finance income	(552)	(1,771)	(875)	(3,198)
Net value of lease payments	**490**	**2,249**	**3,997**	**6,736**

15 Impairment loss allowances

The movement in impairment loss allowances is as follows:

Specific allowance for individually assessed financial assets	**2015**	**2014**
At 1 January	**10,189**	**9,283**
Impairment loss allowance charged	6,470	5,392
Reversed allowance	(4,556)	(4,220)
Loans written off against the allowance in connection with disposals of a business	-	(231)
Loans written off against the allowance	(9,330)	(35)
Foreign currency differences	3	-
As of 31 December	**2,776**	**10,189**

Specific allowance for collectively assessed financial assets	**2015**	**2014**
At 1 January	**11,091**	**7,410**
Impairment loss allowance charged	7,951	3,734
Reversed allowance	(1,683)	(53)
Acquired through business combination	2,182	-
Foreign currency differences	(6)	-
As of 31 December	**19,535**	**11,091**

Notes to the consolidated financial statements (continued)

16 Structure of the loan portfolio by economic sectors

The structure of the loan portfolio by economic sectors is as follows:

	2015	2015	2014	2014
Commerce	25,520	7.22%	37,006	12.05%
Agriculture	10,991	3.11%	5,958	1.94%
Construction and real estate	42,913	12.14%	34,164	11.12%
Services	25,813	7.30%	34,933	11.38%
Manufacturing	5,025	1.42%	5,663	1.84%
Tourism	19,001	5.38%	9,149	2.98%
Other financial institutions	189	0.05%	-	-
Individuals	223,010	63.10%	179,208	58.36%
Staff	941	0.27%	1,022	0.33%
Total loans to customers	**353,403**	**100.00%**	**307,103**	**100.00%**

The ten largest loans to customers as of 31 December represent 10.10 % of the Group's portfolio, net of provisions (2014: 15.67 %).

17 Non-current assets held for sale

	2015	2014
Repossessed assets, including:		
Book value	9,176	1,291
Accumulated impairment	(221)	(409)
Total non-current assets held for sale	**8,955**	**882**

As at 31 December 2015 the Group repossessed assets under terminated or overdue loan agreements amounting to BGN 8,955 thousand (2014: BGN 882 thousand), net of impairment. As at 31 December 2015 the Group accrued impairment amounting to BGN 221 thousand (2014: BGN 409 thousand), and the forfeited assets item is presented net of the impairment charged.

In 2015 the Group sold assets classified in this category amounting to BGN 241 thousand (2014: BGN 406 thousand). Impairment written off in relation to these assets amounted to BGN 188 thousand (2014: BGN 62 thousand). In 2015 the Group acquired assets amounting to BGN 8,126 thousand (2014: BGN 689 thousand) classified as held for sale.

The Group intends to realise the non-current assets held for sale through disposal over the next reporting period.

Notes to the consolidated financial statements (continued)

17 Non-current assets held for sale (continued)

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

	Total
At 1 January 2014	334
Impairment charged	137
Impairment written off	(62)
As of 31 December 2014	**409**
Impairment charged	-
Impairment written off	(188)
As of 31 December 2015	**221**

Information about the fair value of non-current assets held for sale, depending on the property's function, is disclosed in the following table:

	2015	2014
Type of repossessed assets		
Commercial (buildings and land)	6,867	937
Land	2,660	-
Total repossessed assets	**9,527**	**937**

Quantitative information about fair value measurement of held-for-sale non-current assets by using significant non-observable inputs (Level 3):

Type of assets for sale	Valuation technique	Significant unobservable inputs	Range (weighted average) for 2015	Range (weighted average) for 2014	Significant unobservable inputs
Land	MVM	Price per sq. m.			Significant increase in the price per sq. m. will result in higher fair value.
	RAM	Price per sq. m.	€9.25 - €310.23 (€34.55)	€8.05 - €51.84 (€27.81)	Significant increase in the price per sq. m. will result in higher fair value.
Commercial (buildings and land)	RVM	Price per sq. m.			Significant increase in the price per sq. m. will result in higher fair value.
	MCFCF	Price per sq. m.	€375.22 - €547.55 (€501.98)		Significant increase in the price per sq. m. will result in higher fair value.

In 2015 and 2014 there were no transfers into or from a fair value hierarchy level.

Notes to the consolidated financial statements (continued)

17 Non-current assets held for sale (continued)

Residual amount method (RAM) is used for determining the market value of regulated land property when there is data about building-up indicators in accordance with an effective spatial plan. The residual amount is derived from the market value of a completed building (subject to future construction), less any types of expenses relating to the entrepreneurial initiative and entrepreneur's profit, and the risk inherent to this type of business. In this case, the market value is the updated amount of the net result at the end of the entrepreneurial cycle.

Real value method (RVM) is a key method for determining the fair value of buildings „that are under construction, or that are not yet commissioned and/or that need construction and repair works in order to be used pursuant to their purpose". This method is based on the calculation of the building's recoverable amount at the time of valuation. For the purpose, a unit price per square meter of the total built-out area or a price per cubic meter of the built-out area of newly constructed facilities with identical functional purpose, construction, specifics of any additional, completion, installation and other works are used. The unit price includes costs of designing and any expenditure on the construction of the facility. As unit prices are used standard construction prices, average for the country. The market value of the property is its amortised recoverable amount, which reflects the wear and tear due to ageing, any construction defects and damages (costs of completion, if it is a new construction), functional and economic obsolescence. The market value of the right of construction / the adjacent plot is added to the so-calculated amount of the building. the construction defects and damages and economic obsolescence are determined in percentages of the recoverable amount of the facility, based on expert observations and available information.

When **the market value method (MVM)** is used, an indicative amount is determined by comparing the asset, the object of evaluation, with identical or similar assets, for which pricing information is available. If at the date of valuation there are no transactions involving identical properties, the method is based on accepted assumptions. The information used is extracted from announcements and information about similar facilities published by real estate agencies and offers published in specialised websites. Additional adjustments are made to reflect the functionality, size, location, etc. Market comparatives current for the period of valuation are used. In addition, adjustments are made for offer prices due to the „limited demand and difficult accomplishment of such deals". In assessing the final fair value of the property, the average unit price of the adjusted comparatives is used, which is multiplied by the total area of the assessed property.

When **the method of capitalisation of future cash flows (MCFCF)** is used, the fair value results from the nature and ability of the property to ensure for the owners, now and in the future, revenue from its use, through its letting out, at market prices current at the date of valuation. The monthly rent is estimated after conducting a research of the rental market for similar facilities in the same location. The necessary operating expenses, property management expenses, taxes and charges are determined by experts as a percentage of gross revenue and represent the normal expenses for maintenance of buildings of identical age and size.

Notes to the consolidated financial statements (continued)

18 Intangible assets

	Software	Other	Total
Balance at 1 January 2014			
Book value	2,460	10	2,470
Accumulated amortisation	(1,041)	-	(1,041)
Carrying amount at the period-end	**1,419**	**10**	**1,429**
Year ended 31 December 2014			
Carrying amount at the beginning of the period	1,419	10	1,429
Additions	304	122	426
Disposals	-	-	-
Transfers	106	(106)	-
Foreign currency differences	(1)	-	(1)
Amortisation	(527)	-	(527)
Carrying amount at the period-end	**1,301**	**26**	**1,327**
As of 31 December 2014			
Book value	2,869	26	2,895
Accumulated amortisation	(1,568)	-	(1,568)
Carrying amount at the period-end	**1,301**	**26**	**1,327**
Year ended 31 December 2015			
Carrying amount at the beginning of the period	1,301	26	1,327
Additions	947	567	1,514
Disposals	(17)		(17)
Foreign currency differences	(16)	-	(16)
Amortisation	(558)	-	(565)
Carrying amount at the period-end	**1,657**	**593**	**2,243**
As of 31 December 2015			
Book value	4,303	604	4,907
Accumulated amortisation	(2,646)	-	(2,664)
Carrying amount at the period-end	**1,657**	**604**	**2,243**

Assets with a book value amounting to BGN 315 thousand and accumulated amortisation amounting to BGN 308 were written off in 2015. No intangible assets were written off in 2014.

At the end of 2015 the book value of intangible assets, which are fully amortised but are still in use, amounted to BGN 601 thousand (2014: BGN 808 thousand).

Notes to the consolidated financial statements (continued)

19 Property and equipment

	Buildings	Equipment	Motor vehicles	Leasehold improvements	Total
At 1 January 2014					
Book value	7,811	2,302	-	545	10,658
Accumulated depreciation	(198)	(1,122)	-	(100)	(1,420)
Carrying amount	**7,613**	**1,180**	**-**	**445**	**9,238**
Year ended 31 December 2014					
Carrying amount at the beginning of the period	7,613	1,180	-	446	9,239
Additions	3,227	421	-	29	3,677
Disposals	(120)	(3)	-	-	(123)
Foreign currency differences	(23)	(1)	-	-	(24)
Depreciation	(294)	(334)	-	(112)	(740)
Carrying amount at the period-end	**10,403**	**1,263**	**-**	**363**	**12,029**
As of 31 December 2014					
Book value	10,835	2,703	-	575	14,113
Accumulated depreciation	(433)	(1,440)	-	(211)	(2,084)
Carrying amount	**10,402**	**1,263**	**-**	**364**	**12,029**
Year ended 31 December 2015					
Carrying amount at the beginning of the period	10,403	1,263	-	363	12,029
Additions	-	1,171	15,888	7	17,066
Disposals	-	-	(798)	-	(798)
Foreign currency differences	(72)	(2)	-	1	(73)
Depreciation	(332)	(571)	(2,625)	(89)	(3,617)
Carrying amount at the period-end	**9,999**	**1,861**	**12,465**	**282**	**24,607**
As of 31 December 2015					
Book value	10,759	6,411	20,795	581	38,546
Accumulated depreciation	(760)	(4,550)	(8,330)	(299)	(13,939)
Carrying amount	**9,999**	**1,861**	**12,465**	**282**	**24,607**

Notes to the consolidated financial statements (continued)

19 Property and equipment (continued)

No equipment was written off in 2015. Equipment with a book value amounting to BGN 19 thousand and accumulated depreciation thereon amounting to BGN 16 thousand were written off in 2014. Buildings with a book value amounting to BGN 231 thousand and accumulated depreciation thereon amounting to BGN 111 thousand were written off in 2014. In 2015 cars with a book value amounting to BGN 1,898 thousand and accumulated depreciation thereon amounting to BGN 1,102 thousand (2014: nil) were written off.

The book value of buildings and land, which the Group has disposed of in relation to the disposal of a business in 2014, amounts to BGN 638 thousand and the accumulated depreciation thereon amounts to BGN 18 thousand. The book value of equipment, which the Group has disposed of in relation to the disposal of a business in 2014, amounts to BGN 931 thousand and the accumulated depreciation thereon amounts to BGN 78 thousand. The book value of motor vehicles, which the Group has disposed of in relation to the disposal of a business in 2014, amounts to BGN 58 thousand and the depreciation accumulated thereon amounts to BGN 13 thousand.

At the end of 2015 the book value of property and equipment, fully depreciated, but still in use, amounted to BGN 881 thousand (2014: BGN 797 thousand).

20 Disposals of a business

In 2012 the Management Board of the Bank passed a decision for the Group to become the founding partner in the company Opicvet Milk AD with object of activities including processing, production, import and export of milk and dairy products, wholesale and retail. The company's registered address and address of management is in Sofia, 52-54 Dimitar Hadzhikotzev street. As at the date of incorporation the company's capital was distributed in BGN 50 thousand ordinary registered voting shares with a par value of BGN 1 each. The non-controlling interest as at the date of the disposal was 28% (31 December 2014: none and 31 December 2013: 28 %).

In 2014 the Group disposed of Opicvet Milk AD, which represented the Group's total dairy business. The Group realised gain on the disposal amounting to BGN 856 thousand which was included in the statement of comprehensive income on the line item Gain on disposal of a business for the year. The gain was formed taking into account the company's net assets, which as at the date of the disposal amounted to BGN 1,146 thousand, the non-controlling interest amounted to BGN 256 thousand and the consideration received amounted to BGN 1,746 thousand.

21 Other assets

	2015	2014
Other financial assets		
Other receivables	5,560	9,715
Other non-financial assets		
Prepayments	1,075	439
Receivables from suppliers	725	262
Advances for acquisition of assets	-	1,420
Total other assets	**7,360**	**11,836**

Management assesses the risk of uncollectability of receivables and as a result, the Group has impaired receivables of high risk included in the line item Other assets. The impairment for 2015 amounts to BGN 177 thousand. As at 31 December 2014 advances on acquisition of assets represented payments relating to the future acquisition of properties – collateral on loans awarded in favour of the Group in court proceedings for debt exigibility.

Notes to the consolidated financial statements (continued)

22 Deposits from banks

	2015	2014
Deposits from banks	24,675	8,866
Current accounts of banks	-	116
Total deposits from banks	**24,675**	**8,982**

Deposits from banks at the end of 2015 include accrued interest amounting to BGN 37 thousand (2014: BGN 11 thousand).

23 Deposits from customers

	2015	2014
Corporate customers		
- current/settlement accounts	97,200	152,145
- term deposits	33,803	41,557
Individuals		
- current/settlement accounts	24,697	18,347
- term deposits	215,603	175,312
Total deposits from customers	**371,303**	**387,361**

Deposits from customers at the end of 2015 include interest payable amounting to BGN 2,134 thousand (2014: BGN 2,994 thousand).

24 Other borrowings

	2015	2014
State Fund "Agriculture"	1,706	4,829
Subordinated term debt from Nova Ljubljanska Banka d.d.	2,618	2,619
Other deposits from banks	7,871	-
Total other borrowings	**12,195**	**7,448**

At the end of 2015 long-term borrowings included interest amounting to BGN 77 thousand (2014: BGN 83 thousand).

Borrowings from State Fund Agriculture bear fixed interest rate of 2%.

The subordinated term debt includes the following items:

- Subordinated term debt of 11 February 2010, principal – BGN 2,543 thousand, applicable interest rate 6M EURIBOR + 7.50 %, maturity 11 February 2017.

Other deposits from banks bear a fixed interest rate of 4.95 % and mature on 25 November 2016.

Early repayment of any amounts on borrowings in the form of subordinated term debt and any amendments in the agreements may only be made with the prior written permission of the Bulgarian National Bank.

Notes to the consolidated financial statements (continued)

25 Other liabilities

	2015	2014
Other financial liabilities		
Ordered transfers	517	386
Prepaid repayment instalments on loans to individuals	3,144	2,320
Other liabilities	8,732	1,336
Other non-financial liabilities		
Payables to employees	1,701	1,229
Unused leave provisions	296	202
Taxes payable, other than income tax	293	236
Other liabilities	2,421	704
Total other liabilities	**17,104**	**6,413**

Prepaid repayment instalments on loans to individuals represent instalments that have not matured yet. Upon request by a customer, the Group is obliged to repay the amounts to the respective borrower. There is no litigation provisions accrued as of 31 December 2015 (2014: nil).

26 Contingent liabilities and irrevocable commitments

The 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 customers.

Contingencies on loans and credit lines extended by the 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 the utilisation, as well as an obligation of the Group to maintain continuously amounts available up to those agreed to 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 Group.

Guarantees and letters of credit obliged the 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 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 Group at 31 December 2015 and 31 December 2014 are as follows:

	2015	2014
Guarantees		
Corporate clients	1,787	2,501
Undrawn credit commitments		
Corporate clients	5,856	5,817
Individuals	9,262	7,813
Total contingent liabilities and irrevocable commitments	**16,905**	**16,131**

Notes to the consolidated financial statements (continued)

27 Operating lease commitments

In the cases when the Group is a lessee it shall make the following minimum lease payments related to rentals of buildings and cars:

	2015	2014
Within 1 year	1,454	1,168
From 2 to 5 years	1,184	1,183
Total finance lease commitments	**2,638**	**2,351**

The Group's commitments related to operating lease contracts are for an average term of one and a half year. The Group's commitments under lease contracts for buildings and cars are cancellable provided the fixed notice terms set are complied with in case of future termination.

28 Pledged assets

As at 31 December 2015 the Group pledged as collateral deposits placed with foreign banks amounting to BGN 5,266 thousand (2014: BGN 4,887 thousand) against the FX risk hedging transactions. The outcome of the FX hedging as at 31 December 2015 and 31 December 2014 is disclosed in Note 2.

29 Equity

The total registered ordinary dematerialised shares at 31 December 2015 are 78,600,000 (2014: 70,400,000), with a par value of BGN 1 each. All shares are fully paid-in and have equal voting rights.

The Group's management has not changed its capital management methodology as compared to 2014.

Share capital

The table below presents the majority shareholders of the Group at the end of 2015 and 2014:

	31 December 2015		31 December 2014	
	BGN	(%)	BGN	(%)
TBIF Financial Services B.V.	78,600,000	100.00%	70,400,000	100.00%
Total	**78,600,000**	**100.00%**	**70,400,000**	**100.00%**

Movements in the number of shares

	Number of shares
At 1 January 2014	70,400,000
Newly issued shares	-
As of 31 December 2014	70,400,000
At 1 January 2015	70,400,000
Newly issued shares	8,200,000
As of 31 December 2015	78,600,000

Notes to the consolidated financial statements (continued)

29 Equity (continued)

Foreign currency translation reserve

The foreign currency translation reserve at 31 December 2015 includes the translation of the operations of the branch of the Group in Romania from its functional currency – the new Romanian leu (RON) into the presentation currency of the Group – Bulgarian levs.

Revaluation reserve

Revaluation reserve on available for sale financial instruments includes unrealised gains and losses on fair value movements of the instruments. The annual movements are included in the statement of comprehensive income. As at 31 December 2015 the accumulated revaluation reserve amounted to BGN 42 thousand (2014: BGN 12 thousand).

Statutory reserves

In accordance with the requirements of the Commercial Act the Bank is required to set Reserves Fund equalling at least 1/10 of the profit, which is set aside until the fund reaches 1/10 or more of the capital set out in the Statutes.

If the amounts in the Reserves Fund fall below the minimum the Group 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. As at 31 December 2015 the Reserves Fund amounted to BGN 2,596 thousand (2014: BGN 2,596 thousand).

30 Cash and cash equivalents

	2015	2014
Cash at central banks other than the minimum statutory reserve (Note 11)	78,095	44,060
Deposits with other banks (Note 12)	38,761	90,455
Total cash and cash equivalents	**116,856**	**134,515**

31 Discontinued operation

On 13 April 2014 the Group signed a contract to sell its shares in Opicvet Milk AD, a subsidiary in which it held controlling interest. The result of Opicvet Milk AD was presented in the statement of comprehensive income for the year ended 31 December 2014 as discontinued operation. Until 13 April 2014 the business of Opicvet Milk AD represented the whole milk processing operating segment of the Group. The results of Opicvet Milk AD for the year are presented on the following page:

Notes to the consolidated financial statements (continued)

31 Discontinued operation (continued)

	For the year ended 31 December	
	2015	2014
Income	-	763
Expenses	-	(915)
Operating profit	-	(152)
Finance costs	-	(9)
Profit / (loss) before tax from discontinued operation	-	(161)
Tax expenses	-	-
Profit/(loss) for the year from discontinued operation	-	**(161)**

32 Related party transactions

In the ordinary course of business the Group carries out bank transactions with related parties based on the principle of equality and party's independence. These include mostly loans and deposits, as also purchase of receivables with the aim to invest the Group's free cash. As at 31 December 2015 the Group did not set aside provisions for overdue receivables relating to funds provided to related parties (2014: nil). Such evaluation is carried out annually, by conducting an analysis of the financial position and the market in which these related parties operate.

As at 31 December 2015 the Group is controlled by TBIF Financial Services B.V. (registered in the Netherlands), which holds 100% of the ordinary dematerialised shares of the Bank.

The ultimate parent is Kardan N.V., the Netherlands.

The balances with the other related parties from the TBIF Group, as well as the related income and expenses, are as follows:

31 December 2015	Parent company	Other related parties	Total
Other assets	-	5,057	5,057
Borrowings	16,846	3,680	20,526
Other liabilities	-	127	127
Purchase of receivables	-	24,862	24,862
Sale of receivables	-	22	22
Interest income	-	203	203
Interest expenses	-	-	-
Fee and commission income	1	13	14
Fee and commission expenses	-	(888)	(888)
Other operating income	-	33	33
Other operating expenses	-	(1)	(1)

Notes to the consolidated financial statements (continued)

32 Related party transactions (continued)

31 December 2014	Parent company	Other related parties	Total
Loans granted	-	15,346	15,346
Other assets	-	9,564	9,564
Borrowings	10,006	39,359	49,365
Other liabilities	-	183	183
Guarantees issued		79	79
Interest income	-	656	656
Interest expenses	(1)	(660)	(661)
Fee and commission income	1	114	115
Fee and commission expenses	-	(1,018)	(1,018)
Other operating income	-	43	43
Other operating expenses	-	(800)	(800)

The total remuneration paid to the directors in 2015 amounts to BGN 744 thousand (2014: BGN 505 thousand). The accrued but not paid remuneration to the directors as at 31 December 2015 amounts to BGN 50 thousand (2014: BGN 50 thousand). They are short-term in their nature. Other benefits were not paid to management, including pension plans, share based payments, etc.

33 Events after the balance sheet date

On 06 January 2016 TBI Bank EAD acquired 99.9989 % of the capital of TBI LEASING IFN S.A. for the price of EUR 1,500 thousand (BGN 2,933 thousand).

As of 12 March 2016 the Bank's capital was increased by a monetary contribution amounting to BGN 3,000 thousand.

Except as disclosed above, no other material events have occurred after the balance sheet date that require adjustments or disclosures in the financial statements as at 31 December 2015.

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USD 325,000,000

4finance S.A.

USD 325,000,000 10.75% Senior Notes due 2022

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