

**PROFI CREDIT BULGARIA EOOD**

**ANNUAL REPORT ON THE ACTIVITIES,  
INDEPENDENT AUDITOR'S REPORT AND  
ANNUAL FINANCIAL STATEMENTS,  
PREPARED IN ACCORDANCE WITH  
THE INTERNATIONAL FINANCIAL  
REPORTING STANDARDS**

**December 31, 2017**

***Unofficial translation of the original in Bulgarian***

**ANNUAL REPORT ON THE ACTIVITIES**  
**FOR 2017**

## ANNUAL MANAGEMENT REPORT

### 1. GENERAL INFORMATION

PROFI CREDIT BULGARIA EOOD ("the Company") is a sole-owned limited liability company established on April 19, 2006, registered under Company File No. 4083 / 2006 at the Sofia City Court, with a seat and management address: Sofia, 49 Bulgaria Blvd., bl. 53E, entr. B, 1404 Sofia, Identification Code 175074752.

The Company is specialized in providing consumer loans to individuals and purpose loans to small business.

PROFI CREDIT BULGARIA EOOD operates in full compliance to the regulations and legal provisions of the Commercial Act, Credit Institutions Act and Ordinance No 26 for financial institutions of the Bulgarian National Bank, dated 23.04.2009.

Pursuant to the regulations of Art. 3, Para 2 of the Credit Institutions Act, the Company is officially listed in the financial institutions registry according to order of the Bulgarian National Bank's deputy director, dated 05.02.2010.

The registered share capital of the Company is 14 027 500 BGN.

### 2. REVIEW OF THE ACTIVITY

#### GENERAL OVERVIEW

The Company provides loans to individuals and legal entities through its network for direct sales. The business is split in four major regions on the territory of Bulgaria: East, West, North and South region. At the end of 2016 the sales network of the Company includes 460 associates allocated among 65 offices in the country.

Collection of late receivables is organized and performed in three consecutive stages – call centre collection, field collection and enforcement proceeding. The call centre unit of the Company includes 8 full-time employees located in the Headquarter. The field collection is performed by collection network including 111 associates. Last stage of the collection process is managed by execution unit, which is engaged in application of legislative procedures for judicial collection of claimed loans receivables. Collection process is additionally supported by external parties.

The head office of the Company is located in Sofia. The staff in head office performs strategic planning and performance management, risk evaluation and analysis, approval of credit applications, collection processes management, staff and external collaborators training, human resources management, marketing, development and maintenance of information technologies, etc.

The Company receives financial and technical support by the Parent company PROFIREAL GROUP SE, The Netherlands and its subsidiaries.

As of 31<sup>st</sup> of December 2017 the total manpower of the Company includes 202 (2016: 217) full-time employees and 571 (2016: 686) external collaborators.

**REVIEW OF FINANCIAL RESULTS**

In 2017 the Company has provided 18,359 loans to clients (2016: 17,322) in net amount of BGN 28,663 thousand (2016: BGN 24,520 thousand). For the financial year PROFI CREDIT Bulgaria realized net loss at amount of BGN 7,279 thousand (2016: BGN 6562 thousand).

The raise in the net loss for 2016 was influenced by limited growth in revenues (interest and additional services revenues), while, growth in interest, other operational expenditures and impairment of receivables expenses exceeds revenues. Limited growth in revenues is result from lower increase in loan portfolio in comparison to the previous reporting periods.

Operating Loss for the period is at the amount BGN 36 thousand (2016: EBIT BGN 1,422 thousand), and rate of return on capital employed at 0.1% (2016: 2.8%).

**Net interest income**

Net interest income dropped with 23.0 % to BGN 8,430 thousand (2016: BGN 10,957 thousand).

Interest expenses for the reporting year amount to BGN 7,282 thousand (2016: BGN 7,996 thousand). They dropped with BGN 714 or 8.9% compared to the previous period.

The changes in the credit products lead to smooth alteration in structure of revenues, respectively, an increase of revenues from services, and decrease in interest revenues. This was the key factor for interest revenues drop to BGN 15,712 thousand (2016: BGN 18,953 thousand).

**Impairment losses**

Impairment losses for the year amount to BGN 14,047 thousand (2016: BGN 16,200 thousand). The 51.2% impairment loss as percentage of revenue is in line with our targets (2016: 54.5%).

Loans in delay over 60 days have net book value BGN 23,020 thousand (2016: 24,568 thousand) with increasing share in total loan portfolio to 50.3% (2016: 50.8%).

Main reason for increase of impairment losses in 2017 and 2016 is the change in the maturity structure of portfolio. The Company expects in the following financial years decrease of impairment losses due to stable level of credit risk. The Company has implemented comprehensive statistical models and rules for evaluation of customer's risk profile, which moderately balancing business growth with expected loan losses. More than a half of applicants are being rejected because of the credit risk management criteria.

Notes 5 and 12 to the annual financial statements present more detailed information about the impairment losses and the quality of the loan portfolio.

**Net fees and commissions costs**

The net fees and commissions costs increase with 16.7% to BGN 3,176 thousand (2016: BGN 2,721 thousand). The key components of net fees and commission costs are the following:

- Court charges, arbitrary fees and bailiff charges amounting to BGN 885 thousand and decrease by BGN 224 thousand according to previous reporting period (2016: BGN 1,109 thousand). The decrease in cost is caused by legal changes in force from 27.01.2017, which abolish arbitration proceedings;
- Sales commissions' costs that are not included into effective interest rate calculation at amount of BGN 692 thousand for 2017 (2016: BGN 527 thousand).
- Commissions' costs paid to external collectors, which in 2017 amounted to BGN 885 thousand (2016: 952 thousand). The collectors are external collaborators of the Company that are collecting receivables from overdue loans and receivables from legally prosecuted loans. The increase of commissions in the last 2 reporting years is due to higher amount of loans served by the external collectors, as well as to expanding the functions of the external collectors network towards serving loans and clients with lower levels of delay;
- Cost for sales commissions paid out to credit advisors, which are not completely amortized in the interest income, in case of early repayment of the loans. In 2017 this cost amounted to BGN 2,294 thousand compared to BGN 1,478 thousand in 2016;
- Revenues from credit advisor commissions' write-offs, which in 2016 amounted to BGN 2,024 thousand compared to BGN 1,888 thousand for the previous year. Mostly these are non-monetary revenues from undue sales commissions, that were initially included into effective interest rate calculation, but later on part of them were not really paid out to credit advisors due to the following reasons: if the loan contract is legally prosecuted; upon early repayment of the loan; if the credit advisor haven't met the criteria for getting of commission for payment of loan instalment; when the instalment have been collected from external collector; etc.

Note 6 to the annual financial statements comprise detailed information about the components of net fees and commissions costs.

### **General and administrative expenses**

The general and administrative expenses preserve their level from the previous reporting period at the amount of BGN 9,600 BGN thousand (2016: BGN 8,727 thousand). The general and administrative expenses include personnel expenses, other administrative expenses and depreciation and amortization of fixed assets.

#### *Personnel expenses*

Personnel expenses have the major share in the general and administrative expenses and in reporting period they increase by BGN 605 thousand or 12.1% - from BGN 4,996 thousand in 2016 to 5,601 thousand in 2017.

***Other administrative expenses***

Other administrative expenses increase by BGN 232 thousand or 6.6% compared to previous reporting period - from BGN 3,514 thousand in 2016 to BGN 3,746 thousand in 2017. Other administrative expenses include office rental and overhead costs, marketing and advertising costs, postage and telecommunication expenses, national and foreign business trip expenses, consulting services, etc.

***Depreciation/amortization of fixed assets***

The depreciation/amortization charges of fixed assets increased by BGN 36 thousand - from BGN 217 thousand in 2016 to BGN 253 thousand in 2017. Increase in depreciation/amortization charges is result by investments in new company vehicles and IT equipment performed in 2017.

Note 7 to the annual financial statements comprise detailed information about the structure of general and administrative expenses.

**Net additional service income**

During the reporting period the net additional service income increases by 9.0% to BGN 11,714 thousand (2016: BGN 10,747 thousand). Major reason for significant growth is the strong increase in value-added services revenues to BGN 13,234 thousand (2016: 11,871 thousand), which is immediate effect of the modifications in product portfolio from 2015 and introduced packages of additional services to the loans in particular.

Note 8 to the annual financial statements comprise detailed information about the net insurance income.

**Other operating expenses, net**

During the reporting period other net operating expenses amounted to BGN 639 thousand compared to BGN 630 thousand in 2016. Key components of net operating expenses during 2017 are:

- Hired services from related parties amounting to BGN 663 thousand (2016: BGN 658 thousand);
- Costs for fees and taxes (road tax, waste disposal fee, other fees) in the amount of BGN 30 thousand (2016: BGN 30 thousand);
- Costs caused by negative exchange rates differences in the amount of BGN 5 thousand (2015: BGN 9 thousand);

Notes 9 and 25 a) to the annual financial statements comprise detailed information about the components of other operating expenses.

**ASSETS**

As of December 31, 2017 the assets amounted to BGN 50,124 thousand. The decrease the previous year is 0.4% (2016: BGN 50,305 thousand).

The statement of financial position structure is not changed significantly compared to prior year. At the end of 2017, the biggest share of assets belongs to loans to customers, which constitute 91.3% of total assets (2016: 96.2%), followed by cash and cash equivalents – 4.1% (2016: 0.3%), etc.

**LIABILITIES**

As of December 31, 2017 liabilities amounted to BGN 48,602 thousand. The decrease compared to prior reporting period is estimated at 5.2% (2016: BGN 51,284 thousand).

At the end of 2017 other received loans amounted to BGN 46,175 thousand (2016: BGN 48,729 thousand), representing 95.0% of total liabilities compared to 95.0% at the end of 2016. The main part of the amount represents principle and interest payable for December 2017 for loan received from foreign company with maximum credit limit up to EUR 27,000 thousand matured on December 31, 2030. The loan is secured by total receivables from loans to customers as well as a blank promissory note is issued to the creditor and with registered pledge of company shares.

**EQUITY**

As of December 31, 2017 the Company reported positive equity amounting to BGN 1,522 thousand (compared with negative in 2016: BGN 979 thousand).

In 2016 the share capital of PROFIT CREDIT BULGARIA EOOD is BGN 14,028,000.

**3. SIGNIFICANT EVENTS OCCURRED AFTER THE REPORTING PERIOD**

At the date of preparation of this annual report the Company is in the procedure of capital increase, which is expected to be completed till May 2018. The share capital of the Company is increasing with BGN 972 500 as 389 new shares will be issued, with a nominal value at the amount of BGN 2 500 each. All Company's shares be acquired by PROFIREAL GROUP S.E. The new shares are subscribed and acquired at an issue price of BGN 38 560.41 per share. The total value of agio (the difference between the issue and nominal value) for the new 389 company shares is BGN 14 027 500 and shall be accounted to cover accumulated losses. The capital increase is performed by monetary contribution. The capital increase will significantly reduce the Company's obligations, which will reduce future interest expenses and its dependence on external creditors.

#### **4. FUTURE DEVELOPMENT OF THE COMPANY**

The Company set the following main objectives for 2018:

- ⇒ Sustainable growth of disbursed new loans to clients;
- ⇒ Product portfolio diversification and product development;
- ⇒ Optimize and increase the efficiency of the distribution network through restructuring and introduction of motivational tools;
- ⇒ Improvement of loan portfolio quality;
- ⇒ Improvement of the processes and results of legal collection units;
- ⇒ Strict control and increased costs efficiency;
- ⇒ Diversification of the sources of financing;
- ⇒ Implementation of a new internal information system for the purposes of customer's portfolio.

#### **5. DEVELOPMENT AND RESEARCH ACTIVITIES**

The Company did not perform any research and development activities during the year.

#### **6. DESCRIPTION OF THE SIGNIFICANT RISKS TO THE COMPANY**

Risk management, being a key indication in lending activities, is among the strategic goals of the Company's management. PROFIT CREDIT Bulgaria pays particular attention and allocates resources for preventive management of risk factors, and implements on a timely basis leading practices in the area. Significant investments for development of the information technologies of the Company have been made.

For more detailed information about the Company's exposure to significant risks, see note 23 to the annual financial statements.

##### **Credit risk**

Credit risk is reflected in the probability of a counterparty to a financial instrument not being able to fulfil its payment obligation as it falls due and thus to cause financial losses to the Company.

The main financial assets of the Company as of December 31, 2017 comprise cash and cash equivalents amounting to BGN 2,077 thousand (2016: BGN 157 thousand) and loans granted to customers amounting to BGN 45,775 thousand (2016: BGN 48,397 thousand).

The Company is exposed to credit risk related to the risk some of the clients not being able to fulfil their liabilities.

The Company uses its own network of employees (collection of receivables coordinators), as well as a developed network of external assistants - credit agents and collectors of the Company's receivables.

The credit risk is diversified among a significant number of clients around the country. Some of the loans are additionally secured by third parties – guarantors.



In 2010, after change in Ordinance 22 of the Bulgarian National Bank, PROFIT CREDIT Bulgaria EOOD obtained an access to the Central Credit Register of BNB. Access to the information in the register will contribute to additional mitigation of the credit risk.

**Liquidity risk**

Liquidity risk is the risk the Company not being able to meet its payment obligations or provide loans to customers, which may originate from a gap between the Company's cash flows. With respect to the liquidity risk management, the Company's objective is to perform timely its payment obligations as well as ensuring sufficient resources for achieving high growth in assets.

**Price risk**

PROFIT CREDIT BULGARIA EOOD operates in a very well developed and competitive market of financial services, and therefore, it is exposed to price risk. Some of the Company's competitors are banks and financial institutions having access to cheap financial resources, which puts them in a better position in pricing competitive products.

**Foreign currency risk**

Foreign currency risk is the risk of change of the financial instruments value due to significant changes in foreign currency markets. The difference between the levels of financial instruments, and respectively, of assets and liabilities denominated in foreign currencies, reflects the extent to which a particular financial instrument is exposed to a foreign currency risk.

The Company performs its monetary operation mainly in EUR, CZK and BGN. The loans granted to clients are in BGN only. The exchange rate of EUR/BGN is fixed according to an Agreement between the Republic of Bulgaria and the International Monetary Fund and in compliance with the Bulgarian National Bank Law.

**Interest rate risk**

Interest rate risk relates to the possible adverse effect to the Company which fluctuations in interest rates might have on the net interest income. Company uses long-term financing with a fixed interest rate. Loans to customers' bear fixed interest rate largely exceeding the interest rates at which the Company obtains its financing. Therefore, management believes that the activity of PROFIT CREDIT Bulgaria is not very sensitive to interest rate fluctuations.

**7. REMUNERATIONS RECEIVED BY MANAGEMENT DURING THE YEAR**

	2017	2016
Number of members	4	4
Remunerations accrued	283	211
Others (social security and health insurance, etc.)	18	16
<b>Total (In BGN thousand)</b>	<b>301</b>	<b>227</b>

**8. PARTICIPATION OF MANAGING DIRECTORS IN OTHER COMPANIES**

Name	Company in the management and control bodies of which the persons participate
David Chour	Cash Gate, s.r.o. PGJT B.V. PROFI CREDIT Czech, a.s Profi Consulting, s.r.o. Profi Investment NL N.V PROFIREAL Group SE Profi Credit Polska S.A. Profi Credit Slovakia, s.r.o. LLC Microcredit company Profireal, a.s. Profi Investment BG B.V. Profi Credit Bulgaria
Ondrej Lokvenc	
Svetoslav Nikolov	Profidebt Bulgaria EOOD
Irina Georgieva	Izdatelska Kashta Oktopod OOD

  
**Svetoslav Nikolov**  
 Managing Director

Date: April 26, 2018



  
**Irina Georgieva**  
 Managing Director

**INDEPENDENT AUDITOR'S REPORT AND  
ANNUAL FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

*This document is a translation of the original Bulgarian text,  
in case of divergence the Bulgarian text shall prevail.*

## INDEPENDENT AUDITOR'S REPORT

To the sole owner of Profi Credit Bulgaria EOOD

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### Opinion

We have audited the accompanying financial statements of Profi Credit Bulgaria EOOD (the "Company"), which comprise the statement of financial position as at December 31, 2017, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017, and its financial performance and its 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 Financial Statements section of our report. We are independent of the Company 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 financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the requirements of IFAA. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Information Other than the Financial Statements and Auditor's Report Thereon

The Managing Directors (the Management) are responsible for the other information. The other information comprises the annual report on activities, prepared by the management in accordance with Chapter Seven of the Accountancy Act, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless it is not specifically stated in our auditor's report and to the extent it is specifically stated.

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In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 for the Financial Statements**

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Additional matters, required to be reported by the Accountancy Act

In addition to our reporting responsibilities according to ISAs described in section "Information Other than the Financial Statements and Auditor's Report Thereon", with respect to the annual report on activities, we have also performed the procedures required by the "Guidelines regarding new extended reports and communication by the auditor" of the Professional Organization of Registered Auditors in Bulgaria - Institute of Certified Public Accountants (ICPA). These procedures include tests over the existence, form and content of the other information in order to assist us in forming an opinion as to whether the other information includes the disclosures and reporting as required by Chapter Seven of the Accountancy Act, applicable in Bulgaria.

### Opinion under Article 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, in our opinion:

- The information included in the annual report on the activities for the financial year for which the financial statements have been prepared, is consistent with the financial statements.
- The annual report on the activities has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

Deloitte Audit

Deloitte Audit OOD



Sylvia Peneva  
Statutory manager  
Registered Auditor



103, Al. Stambolijski Blvd  
1303 Sofia, Bulgaria

26 April 2018

**PROFI CREDIT BULGARIA EOOD**

All amounts are in thousand Bulgarian Levs, except otherwise stated

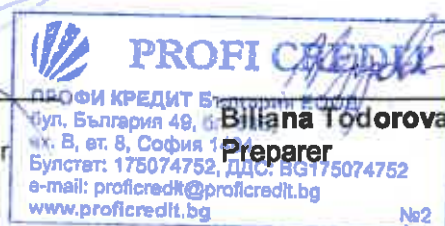
**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE PERIOD JANUARY 1 - DECEMBER 31, 2017**

	Notes	2017	2016
Interest Income		15 712	18 953
Interest expenses		(7 282)	(7 996)
<b>Net Interest Income</b>	<b>4</b>	<b>8 430</b>	<b>10 957</b>
Impairment losses	5	(14 047)	(16 200)
<b>Net Interest Income after Impairment losses</b>		<b>(5 617)</b>	<b>(5 243)</b>
Net fees and commissions costs	6	(3 176)	(2 721)
General and administrative expenses	7	(9 600)	(8 727)
Net additional service income	8	11 714	10 747
Other operating expenses, net	9	(639)	(630)
<b>(Loss)/profit before taxes</b>		<b>(7 318)</b>	<b>(6 574)</b>
Income taxes	10	39	12
<b>Net (loss)/profit for the period</b>		<b>(7 279)</b>	<b>(6 562)</b>
Other components of comprehensive income		--	--
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>(7 279)</b>	<b>(6 562)</b>

These financial statements are approved by the Managing Directors of the Company on 26.04.2018

  
**Svetoslav Nikolov**  
Managing Director

  
**Irlina Georgieva**  
Managing Director



The original financial statements were signed by Sylvia Peneva, Registered Auditor and Statutory Manager at Deloitte Audit OOD on 26 April, 2018.

The accompanying notes are an integral part of these financial statements

**PROFI CREDIT BULGARIA EOOD**

All amounts are in thousand Bulgarian Levs, except otherwise stated

**STATEMENT OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2017**

	Notes	2017	2016
<b>Assets</b>			
Cash and cash equivalents	11	2 077	157
Loans to customers	12	45 775	48 397
Other receivables	13	1 081	947
Inventories	14	6	3
Deferred tax assets	10	81	42
Property, plant and equipment	15	591	733
Intangible assets	16	513	26
<b>Total assets</b>		<b>50 124</b>	<b>50 305</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Liabilities on finance lease	17	289	318
Other loans received	18	46 175	48 729
Other liabilities	19	2 112	2 175
Provisions	20	26	62
<b>Total liabilities</b>		<b>48 602</b>	<b>51 284</b>
<b>Equity</b>			
Share capital	21	14 028	4 250
Share premium		802	800
Retained earnings/(accumulated loss)		(13 308)	(6 029)
<b>Total equity</b>	22	<b>1 522</b>	<b>(979)</b>
<b>Total liabilities and equity</b>		<b>50 124</b>	<b>50 305</b>

These financial statements are approved by the Managing Directors of the Company on 26.04.2018

  
**Svetoslav Nikolov**  
Managing Director

  
**Irina Georgieva**  
Managing Director

 **PROFI CREDIT**  
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**Billiana Todorova**  
Preparer

The original financial statements were signed by Sylvia Peneva, Registered Auditor and Statutory Manager at Deloitte Audit OOD on 26 April, 2018.

The accompanying notes are an integral part of these financial statements.



**PROFI CREDIT BULGARIA EOOD**

All amounts are in thousand Bulgarian Levs, except otherwise stated

**CASH FLOW STATEMENT  
FOR THE PERIOD JANUARY 1 - DECEMBER 31, 2017**

	<b>2017</b>	<b>2016</b>
<b>Net (loss)/profit</b>	<b>(7 279)</b>	<b>(6 562)</b>
<b>Adjustments for non-monetary items</b>		
Impairment losses	14 047	16 200
Change in deferred taxes	39	12
Depreciation/amortization of assets	253	217
Increase of provisions	(36)	59
Effect of change in foreign exchange rates	8	12
Interest expense	7 282	7 995
<b>Changes in operating assets and liabilities</b>		
Increase of investments in loans to customers	(11 424)	(11 928)
Net decrease/(increase) in other assets	(175)	(432)
Net (decrease)/increase in other liabilities	(109)	595
Loan interests paid	(6 258)	(8 018)
<b>Net cash flow used in operating activities</b>	<b>(3 652)</b>	<b>(1 850)</b>
<b>Cash flows from investing activities</b>		
Acquisition of fixed assets	(598)	(320)
<b>Net cash flow used in investing activities</b>	<b>(598)</b>	<b>(320)</b>
<b>Cash flow from financial activities</b>		
Finance lease	(29)	1
Non-bank loans received	6 199	1 985
<b>Net cash flows from financing activities</b>	<b>6 170</b>	<b>1 986</b>
<b>Net change in cash and cash equivalents</b>	<b>1 920</b>	<b>(184)</b>
<b>Cash and cash equivalents in the beginning of the period</b>	<b>157</b>	<b>341</b>
<b>Cash and cash equivalents at the end of the period (Note 11)</b>	<b>2 077</b>	<b>157</b>

These financial statements are approved by the Managing Directors of the Company on 26.04.2018

  
**Svetoslav Nikolov**  
Managing Director

  
**Irina Georgieva**  
Managing Director

  
**PROFI CREDIT**  
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www.proficredit.bg  
Preparer

The original financial statements were signed by Sylvia Peneva, Registered Auditor and Statutory Manager at Deloitte Audit OOD on 26 April, 2018.

The accompanying notes are an integral part of these financial statements.

**PROFI CREDIT BULGARIA EOOD**

All amounts are in thousand Bulgarian Levs, except otherwise stated

**STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD JANUARY 1 - DECEMBER 31, 2017**

	Share capital	Share premium	Retained earnings/ (accumulated loss)	Total
<b>January 1, 2016</b>	<b>4 250</b>	<b>800</b>	<b>534</b>	<b>5 584</b>
Loss for the period	—	--	(6 562)	(6 562)
Other changes	—	--	(1)	(1)
<b>December 31, 2016</b>	<b>4 250</b>	<b>800</b>	<b>(6 029)</b>	<b>(979)</b>
<b>January 1, 2017</b>	<b>4 250</b>	<b>800</b>	<b>(6 029)</b>	<b>(979)</b>
Loss for the period	—	--	(7 279)	(7 279)
Other changes	9 778	2	--	9 780
<b>December 31, 2017</b>	<b>14 028</b>	<b>802</b>	<b>(13 308)</b>	<b>1 522</b>

These financial statements are approved by the Managing Directors of the Company on 26.04.2018

  
**Svetoslav Nikolov**  
Managing Director

  
**Irina Georgieva**  
Managing Director



The original financial statements were signed by Sylvia Peneva, Registered Auditor and Statutory Manager at Deloitte Audit OOD on 26 April, 2018.

The accompanying notes are an integral part of these financial statements.

## **PROFI CREDIT BULGARIA EOOD**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017**

All amounts are in thousand Bulgarian Levs, except otherwise stated

#### **1. Description of the main activity**

PROFI CREDIT BULGARIA EOOD ("the Company") was registered on April 19, 2006 under company case 4083/2006 as a sole owned limited liability company according to the requirements of the Bulgarian Commercial Act.

On February 11, 2008 the name of the Company was changed from Profireal Bulgaria EOOD to Profi Credit Bulgaria EOOD.

The Company is specialized in providing loans to individuals and small business enterprises.

***The share capital is BGN 14 027 500.***

#### ***Structure of property***

The owner of the Company as of December 31, 2016 and 2015 is:

Profireal Group S.E., The Netherlands      100%

The ultimate owner of the Company is David Beran.

#### ***Headquarters and address of management***

PROFI CREDIT Bulgaria EOOD  
49, Bulgaria Blvd., bl. 53 E, entrance B  
Sofia, Sredets Municipality, Bulgaria

#### ***Identification number***

175074752

#### ***VAT number***

BG175074752

#### ***Managing Directors of the Company as of December 31, 2017 are:***

Ondrej Lokvenc

David Chour

Svetoslav Nikolaev Nikolov

Irina Haralampieva Georgieva

## **PROFI CREDIT BULGARIA FOOD**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2017**

**All amounts are in thousand Bulgarian Levs, except otherwise stated**

#### **1. Description of the main activity (continued)**

##### ***Changes in the commercial register***

The following changes have been made till the date of the preparation of the statement of financial position:

- On April 20, 2017 in the Commercial Register at the Registry Agency was registered changing of circumstances in basic capital of the Company by increasing it to 14 027 500.
- On July 11, 2017 in the Commercial Register at the Registry Agency was registered changing of circumstances in the management of the Company by appointing of Ondrej Locvenc as Managing Director and deletion of Jaromir Vsetecka. Retained is the way of representation of the Company, precisely: always both managers together.

##### ***Organizational structure***

The activities of the Company are organized in four geographical regions: East, West, North and South. The head office is in Sofia. The staff in the head office performs strategic planning and management, services in the field of corporate finance, marketing and information technologies.

#### **2. Basis for preparation of the financial statements and accounting principles**

These financial statements are prepared in all material respects in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and the Interpretations, issued by the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union (the "EU") and applicable in the Republic of Bulgaria.

##### ***(a) Changes in IFRS***

##### ***Initial application of new amendments to the existing standards effective for the current reporting period***

The following amendments to the existing standards issued by the IASB and adopted by the EU are effective for the current reporting period:

- **Amendments to IAS 7 "Statement of Cash Flows"** - Disclosure Initiative – adopted by EU on November 6, 2017 (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 "Income Taxes"** - Recognition of Deferred Tax Assets for Unrealised Losses – adopted by EU on November 6, 2017 (effective for annual periods beginning on or after January 1, 2017),
- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 8 February 2018 (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017).

**PROFI CREDIT BULGARIA EOOD**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2017**

All amounts are in thousand Bulgarian Levs, except otherwise stated

**2. Basis for preparation of the financial statements and accounting principles (continued)**

**(a) Changes in IFRS (continued)**

***Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective***

At the date of authorisation of these financial statements, the following new standards issued by IASB and adopted by the EU are not yet effective at the end of the reporting period:

- **IFRS 9 "Financial Instruments"** - adopted by the EU on November 22, 2016 (effective for annual periods beginning on or after January 1, 2018),
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on September 22, 2016 (effective for annual periods beginning on or after January 1, 2018),
- **IFRS 16 "Leases"** – adopted by the EU on October 31, 2017 (effective for annual periods beginning on or after January 1, 2019),
- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on November 3, 2017 (effective for annual periods beginning on or after January 1, 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on October 31, 2017 (effective for annual periods beginning on or after January 1, 2018),
- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 8 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018).

***New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU***

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretations, which were not endorsed for use in EU as of date of publication of financial statements:

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after January 1, 2021),
- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after January 1, 2018),
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after January 1, 2019),

**PROFI CREDIT BULGARIA EOOD**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2017**

All amounts are in thousand Bulgarian Levs, except otherwise stated

**2. Basis for preparation of the financial statements and accounting principles (continued)**

**(a) Changes in IFRS (continued)**

***New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU (continued)***

- **Amendments to 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 and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after January 1, 2019),
- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after January 1, 2018),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after January 1, 2019),
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after January 1, 2018),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after January 1, 2019).

The Company anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Company in the period of initial application.

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Company's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements, if applied as at the balance sheet date.

## PROFI CREDIT BULGARIA EOOD

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2017

All amounts are in thousand Bulgarian Levs, except otherwise stated

#### 2. Basis for preparation of the financial statements and accounting principles (continued)

##### (a) *Changes in IFRS (continued)*

- **IFRS 9 "Financial Instruments"** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018). During 2017, the Company started the IFRS 9 implementation project, engaging external consultants. For the classification and measurement stream, the Company considered definitions of the business models and other requirements of the IFRS 9 based on determined gaps and identified activities for bridging the gaps. For the impairment stream, the Company developed the methodology for calculating expected credit loss and modelling the risk parameters and considered the incorporation of necessary parameters for forward looking expectations.

On the adoption the major financial assets (Loans and advances to customers) and financial liabilities were classified as measured at amortized costs.

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets and liabilities as at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Loans to customers	110 606	110 606	39 796	28 921
Other advances to customers	7 871	7 871	5 979	5 979
<b>Gross loans and advances to customers</b>	<b>118 477</b>	<b>118 477</b>	<b>45 775</b>	<b>34 900</b>
Provisions for loans to customers	(70 810)	(81 685)	--	--
Provisions for other advances to customers	(1 892)	(1 892)	--	--
<b>Total loans and advances to customers (net)</b>	<b>45 775</b>	<b>34 900</b>	<b>45 775</b>	<b>34 900</b>

On initial recognition the Loans and advances to customers are measured at amortised cost:

- the assets (Loans and advances to customers) are held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed:

- low individual significance of the majority product (small individual amount) in portfolio;
- although the impairment is calculated for the each particular loan the basic parameters has to be estimated based on the modelling of historical data;
- with respect to the main target group Company makes an assessment of the sensitivity of the business performance to the macroeconomic indicators.

## PROFI CREDIT BULGARIA EOOD

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2017

All amounts are in thousand Bulgarian Levs, except otherwise stated

#### 2. Basis for preparation of the financial statements and accounting principles (continued)

##### (a) *Changes in IFRS (continued)*

Quantitative impacts was identified for the period ending 31 December 2017. The methodology of calculating expected credit losses and risk parameters arising from them is being implemented into the respective policy of the Company.

- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

With regard of the main business activity of Company, i.e. financial services provider, the Company is aware of limited significance of IFRS 15 Revenue from Contracts with Customers.

Mentioned standard applies to all contracts with customers except for: leases within the scope of IAS 17 Leases; financial instruments and other contractual rights or obligations within the scope of IFRS 9 Financial Instruments and others.

In Profireal Group's group project scope regarding the evaluation and impact of IFRS 15, Company assessed the main aspects, such as:

- Application of five-step recognition model;
- The Impact of new guidance where pricing mechanisms include variable amounts;
- Whether particular costs relating to obtaining a contracts must be capitalised;
- The extent to which distinct goods or services are supplied, which should be accounted for separately;
- When upfront fees should be recognised as revenue; and
- The appropriate accounting policies for credit card loyalty schemes."

The Company does not expect the adoption of IFRS 15 to have a material effect over the financial performance because the main incomes are part of the effective interest rate under IFRS 9 and are out of the scope of IFRS 15.

- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),

Company assessed the impact of the adoption of the respective standard with following result:

- No change with former finance leasing of assets (car fleet)
- Measurement and recognition of right-of-use assets (former operating leasing). The proposed measurement and recognition of mentioned asset would be a sum of future lease payments + related cost i.e. neutral impact to equity

The Company is in a process of evaluation of the quantitative impact on assets and liabilities from initial adoption of IFRS 16.



**PROFI CREDIT BULGARIA EOOD**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**All amounts are in thousand Bulgarian Levs, except otherwise stated**

**2. Basis for preparation of the financial statements and accounting principles (continued)**

**(b) *Functional and presentation currency***

The Company keeps its accounting in the national currency of the Republic of Bulgaria the Bulgarian Lev. These financial statements have been prepared in thousand BGN, which is the functional currency used in the Company, except when otherwise stated. The exchange rate of the EUR to the BGN is fixed by law and is EUR 1 to BGN 1.95583.

**(c) *Recognition of income and expenses***

Income and expenses for interest are recognized in the statement of comprehensive income for all interest-bearing assets and liabilities using the effective interest method and on accrual basis.

**PROFI CREDIT BULGARIA EOOD**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**All amounts are in thousand Bulgarian Levs, except otherwise stated**

**2. Basis for preparation of the financial statements and accounting principles (continued)**

**(c) *Recognition of income and expenses (continued)***

The effective interest rate is that rate, which precisely discounts the expected future cash flows during the expected life of the financial asset or liability up to the carrying amount of the financial asset or liability. The effective interest rate is determined at the initial recognition and is revised only when the repayment schedule of the loan is renegotiated.

The calculation of the effective interest rate includes payable fees, transaction costs, as well as the discounts and premiums, which are an integral part of the effective interest rate. The transaction costs are the marginal costs directly related to the acquisition, emission or sale of the financial asset or liability.

Non-interest bearing incomes and expenses are recognized in the statement of comprehensive income on accrual basis.

**(d) *Additional services income and expenses***

The Company recognizes additional services income and expenses arising from consumer loans that provide the client option of: priority review and payment of consumer credit; postponing up to four instalments from the initial payment schedule; changing payment date from the initial payment schedule; reducing the instalments size from the initial payment schedule.

Incomes from additional services are recognized in the comprehensive income statement proportionally over the entire term of each loan. In the case of early repayment, the entire remaining amount of remuneration "priority consideration and repayment of consumer credit" is recognized as revenue at the date of early repayment. Additional services expenses are recognized when a circumstance which entitles the client to postpone or reduce instalments occurs.

The additional services premium formed covers the risk of partial or full incapability of client for repayment of matured instalment/s of loan.

**(e) *Property, plant and equipment and intangible assets***

Property, plant and equipment and intangible assets are reported at historic cost decreased by the accumulated depreciation/amortization and impairment losses. Depreciation/amortization is charged by systematically applying the straight-line method over the expected useful life of the assets.

The value threshold for recognizing property, plant and equipment and intangible assets is BGN 500. All acquired assets of value lower than the value threshold are recognized as expense in the statement of comprehensive income.

The expected useful life of the assets as of December 31, 2017 and 2016 is as follows:

## **PROFI CREDIT BULGARIA EOOD**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2017**

All amounts are in thousand Bulgarian Levs, except otherwise stated

#### **2. Basis for preparation of the financial statements and accounting principles (continued)**

##### **(e) Property, plant and equipment and intangible assets (continued)**

<b>Assets</b>	<b>Period</b>
Office equipment and furniture	60 months
Computers	60 months
Mobile telephones	24 months
Vehicles	60 months
Software	60 months
Other tangible assets	60 months
Intangible assets	60 months

##### **(f) Inventories**

Inventories are measured upon acquisition at cost, including the purchase costs and for processing, as well as the other costs incurred in relation to their delivery to the current place and condition. The method of the weighted average cost on a periodic monthly basis is applied when they are written off.

##### **(g) Impairment of nonfinancial assets**

As of each date of preparation of the statement of the financial position the Company reviews the carrying amount of the assets and determines whether there are indications for recognition of impairment losses. Impairment losses are determined as the difference between the recoverable amount of the assets and its carrying value. When it is not possible to determine the recoverable amount of a separate asset the recoverable amount of a group of assets generating cash flows to which this asset belongs is determined. Intangible assets with an indefinite useful life and those assets which are not available for sale are annually tested for impairment, no matter whether there is an indication for the asset's impairment. The test includes comparison between the carrying amount and the recoverable amount of the asset.

The recoverable amount is the higher of the fair value less the cost of sales of the assets or the cash generating unit and their amount in use. When determining the amount in use the calculated future cash flows are discounted to their current value by applying a suitable effective interest rate, which reflects the current market levels in relation to the value of the cash in time and the risks which are specific for the asset.

If the recoverable amount of the asset (or group of assets generating cash flows) is lower than the carrying amount then the latter is reduced to the recoverable amount of the asset. The determined impairment loss is recognized immediately as an expense in the statement of comprehensive income.

## **PROFI CREDIT BULGARIA EOOD**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2017**

All amounts are in thousand Bulgarian Levs, except otherwise stated

#### **2. Basis for preparation of the financial statements and accounting principles (continued)**

##### **(g) Impairment of nonfinancial assets (continued)**

The Company reviews as of each date of preparation of the statement of financial position whether there are indications that the impairment losses of an asset, recognized in previous years, no longer exist or whether they are reduced. If such indications exist the Company measures the recoverable amount of the respective asset.

The increased as a result of recovering the impairment loss carrying amount of an asset should not exceed the carrying amount as it would be (after deduction of depreciation/amortization), if in previous years impairment losses have not been recognized for the respective asset. Recovering the impairment losses of an asset should be recognized immediately in the statement of comprehensive income.

##### **(h) Provisions**

Provisions are recognized only if:

- The Company has a current right or a constructive liability, arising from past events, the settlement of which is expected to result in an outflow of resources of the Company.
- The amount of the liability can be estimated reliably.

In compliance with the requirements of IAS 19 provisions are allocated for payments to the staff, which are based on an analysis of the unused paid leave and the average costs for salaries, including social and health insurance of the employees.

##### **(i) Transactions in foreign currency**

Transactions in foreign currency are recorded initially by applying the central exchange rate of the Bulgarian National Bank (BNB) to the amount in foreign currency as of the date of the transaction. Profits and losses, arising from such transactions and from translation of cash assets and liabilities denominated in foreign currencies are reported in the statement of comprehensive income.

On December 31, 2017 the cash assets and liabilities, denominated in foreign currency are revalued in BGN according to the BNB central closing exchange rate published by the Bulgarian National bank on December 29, 2017 where: BGN 1.95583 = EUR 1 (fixed rate according to the Currency Board Agreement) and BGN 7.65941 = 100 CZK.

##### **(j) Taxation**

In compliance with the Bulgarian legislation the Company is subject to taxation with a corporate income tax of 10 %.

The corporate income tax for the year includes the current income tax and the changes in the deferred taxes.

The current income tax is calculated on the basis of the annual taxable profit by using a tax rate that is effective as of the date of the statement of financial position.

## **PROFI CREDIT BULGARIA EOOD**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2017**

All amounts are in thousand Bulgarian Levs, except otherwise stated

#### **2. Basis for preparation of the financial statements and accounting principles (continued)**

##### **(j) Taxation (continued)**

Deferred taxes are calculated for all temporary differences between the accounting and tax amounts of the assets and liabilities, multiplied by the tax rate effective for the next reporting period.

Deferred tax assets are recognized to the extent that future taxable profit is probable, against which they can be utilized.

##### **(k) Financial Instruments**

Financial assets and liabilities are recognized when the Company becomes a party to a financial instrument contract. Financial assets are initially recognized on the settlement date - the date on which funds are disbursed to clients. Financial assets are written off from the comprehensive income statement of the Company, when the rights for receiving cash have expired or have transferred substantially all risks and rewards of the asset ownership.

##### **Loans to customers**

Loans granted to customers are non-derivative financial assets with fixed payments, which are not offered on the active market. All loans are recognized when the money is lent to the borrower.

Loans to customers are initially recognized at fair value adjusted by transaction costs. After initial recognition loans are estimated at their amortized cost determined by effective interest rate and decreased with the accumulated impairment.

The effective interest rate is used for recognition of interest income for the period.

##### **Impairment of loans**

Impairment losses are recognized to the recoverable amount of the asset or group of assets with similar characteristics. The recoverable amount is determined on the basis of the expected future cash flows of the instrument which are discounted as of the date of the statement of financial position by using the effective interest rate of the loan. The impairment losses of the loans are recognized in cases when objective evidences exist that the Company may not be able to collect all due amounts on the loan. The amount of the loss is determined as a difference between the carrying and the recoverable amount as of the date of the statement of financial position. When the amount of the impairment significantly decreases as a result of subsequent events the losses are reduced and the result is recognized as income from the reintegration of impairment.

The Company determines the amount of the allowances for impairment on an individual basis for all significant loans and receivables. Loans and receivables which are not individually significant and bear similar loan risk characteristics for which objective indications of impairment exist are impaired on a collective basis, which is based on an analysis.

**PROFI CREDIT BULGARIA EOOD**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**All amounts are in thousand Bulgarian Levs, except otherwise stated**

**2. Basis for preparation of the financial statements and accounting principles (continued)**

**(k) Financial Instruments (continued)**

***Cash and cash equivalents***

For cash flow statement purposes, cash and cash equivalents include cash on hand, cash in transfer, at bank accounts and other financial assets, the amount of which may be reliably determined and which may be turned into cash immediately.

***Derivative financial Instruments***

Derivative financial instruments which the Company uses include foreign currency forward agreements. They are initially reported in the statement of financial position at fair value and are subsequently revalued at fair value. All derivatives are reported as financial assets when they are favourable for the Company and as financial liabilities when they are adverse for the Company. The fair values are measured depending on the changes in the exchange rates. As of December 31, 2016 and 2015 have no forward agreements.

***Bank and other loans***

At initial recognition bank and other loans are measured at cost of acquisition, which includes the fair value of the received loans adjusted with the costs for performing the transaction with the financial liability, which includes bank fees and commissions for granting the loan, agents' commissions, taxes and others. Subsequently the received loans are measured at their amortized cost.

***Payables to suppliers***

At initial recognition the payables to suppliers are recognized at the fair value of the received payment adjusted by the costs of the transaction.

***Fair value measurement***

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique.

The Company has no financial assets and liabilities at fair value in comprehensive income statement.

***(l) Significant accounting assumptions and accounting estimates when applying the accounting policies***

The preparation of financial statements requires management to make estimates and assumptions that affect the carrying amounts of assets and liabilities as of the date of the financial statements, and the amount of income and expenses during the reporting period, and to disclose contingent assets and liabilities. Although these accounting estimates and the related assumptions are based on the best estimate of the current events by the management, the actual results could differ from the forecast estimates.

**PROFI CREDIT BULGARIA EOOD**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**All amounts are in thousand Bulgarian Levs, except otherwise stated**

**2. Basis for preparation of the financial statements and accounting principles (continued)**

**(I) Significant accounting assumptions and accounting estimates when applying the accounting policies (continued)**

The following estimates and assumptions of the management regarding the future events carry significant risk for the cost of the assets and the liabilities during the next financial year:

*Determination of impairment loss of loans*

To determine whether the receivables on loans to customers are impaired, the management of the Company makes a reasonable estimate of the expected cash flows from the respective loans. The estimate is based on a professional estimate for the quality of the loan portfolio and on individual significant receivables on loans. Upon determination of the amount of impairment the management uses the gained historical experience regarding the collectability of the overdue instalments and instalments collected at maturity. Upon determination of the impairment losses on collective base, the management considers each repayment instalment as a separate receivable, the management considers each repayment instalment as a separate receivable, based on the fact that a great part of the irregular clients are turned back to the initially contracted repayment schedule of the loan. Due to that reason, in case of delay of a repayment instalment the management does not consider the whole contracted amount of the loan as impaired.

*Recognition of income from other receivables on loans to customers that are legally prosecuted*

Other receivables on loans to customers that are legally prosecuted are: legal late interest, accrued penalties to clients for breach of contractual terms, court expenses, arbitration fees, fees for bailiffs, fees for debt restructuring agreements, etc.

Other receivables on loans to customers that are legally prosecuted are recognized on the basis of the expected cash flows of the respective instrument, discounted to the net present value by the effective interest rate of the respective loan. The expected cash flows are determined by the management of the Company based on the historic analysis of the collectability of each type of receivable.

**3. Going concern**

These financial statements have been prepared on a going concern principle. As of the date of the preparation of the financial statements management has made an estimate of the ability of the Company to continue its activities as a going concern, taking into consideration the whole available information regarding the foreseeable future, which is at least, but not limited to twelve months from the statement of financial position.

**PROFI CREDIT BULGARIA EOOD****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2017**

All amounts are in thousand Bulgarian Levs, except otherwise stated

**4. Net interest income**

	2017	2016
<b>Interest income</b>		
Interest on customer loans	15 712	18 953
	<b>15 712</b>	<b>18 953</b>
<b>Interest expenses</b>		
Loans	(7 271)	(7 983)
Financial leasing	(11)	(13)
	<b>(7 282)</b>	<b>(7 996)</b>
<b>Net interest income</b>	<b>8 430</b>	<b>10 957</b>

**5. Impairment losses**

	2017	2016
Impairment losses as of January 1 <sup>st</sup>	58 656	42 456
Net increase of the impairment losses	14 047	16 200
<b>Total impairment losses for credit risk as of December 31</b>	<b>72 702</b>	<b>58 656</b>

**6. Net fees and commissions cost**

	2017	2016
Bank fees	(48)	(38)
Guarantee expenses for received loans	(396)	(505)
Court expenses, arbitrary charges and bailiff fees	(885)	(1 109)
Commissions costs on collection of receivables	(885)	(952)
Commissions costs on sales of loans not included in effective interest rate calculation	(692)	(527)
Income from write off for sales commissions	(270)	410
<b>Net fees and commissions cost</b>	<b>(3 176)</b>	<b>(2 721)</b>

Expenses for guarantees represent the amount of remuneration due to related parties for guarantees granted on bank and other loans of the Company.



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**6. Net fees and commissions cost (continued)**

Expenses for commissions on sales of loans represent that part of the commissions (including social and health insurance) of the loan intermediaries for contracting loans, that are not included in the calculation of the effective interest rate on the loans, such as social and health insurance, which are on account of the Company, as well as the additional bonuses paid to sales intermediaries. The standard commissions of the loan intermediaries are included in the calculation of the effective interest rate for each loan and the interest income from loans is reduced by the amount of the commission.

Expenses for commissions on collection of receivables comprise the gross amount of commissions accrued (incl. social security and health insurance) to external collectors' payable upon collection of overdue loans.

Income from commissions for granted loans consists of written off liabilities for commissions of loan intermediaries, which were initially included in effective interest rate calculation. Liabilities to loan intermediaries are written off when: the loan agreement is legally terminated; early repayment of the loan by customer; the sales agent does not meet the criteria for getting of that part of sales commission which is linked to collected instalments; the instalment has been collected by external collection agent; others.

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**7. General and administrative expenses**

**(a) Structure of general and administrative expenses:**

	2017	2016
<i>Staff costs</i>		
Employee benefits	4 597	4 066
Social security and health insurance costs	664	613
Other staff costs and remuneration of the managing directors	340	317
<b>Total</b>	<b>5 601</b>	<b>4 996</b>
<i>Other administrative costs</i>		
Advertising and marketing	1 218	1 257
Rent	687	674
Other administrative costs	458	447
Travel allowance	40	112
Telecommunications and mail services	250	236
Office consumables and cleaning	219	228
Energy	212	220
Consulting services	454	106
Verification of data	124	141
Office equipment and furniture	35	44
Security	49	49
<b>Total</b>	<b>3 746</b>	<b>3 514</b>
<i>Depreciation/amortization of assets</i>		
Depreciation of property, plant and equipment (note 15)	242	209
Amortization of intangible assets (note 16)	11	8
<b>Total</b>	<b>253</b>	<b>217</b>
<b>Total general and administrative costs</b>	<b>9 600</b>	<b>8 727</b>

In 2017 the Company recognised expenses related to the audit of the annual statutory financial statements at the amount of BGN 64 thousand (2016: BGN 55 thousand).

## PROFI CREDIT BULGARIA EOOD

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2017

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#### 7. General and administrative expenses (continued)

##### (b) *Remuneration and salaries paid to the managing directors of the Company.*

	2017	2016
Short-term income (Including social security)	301	227
<b>Total</b>	<b>301</b>	<b>227</b>

The income paid to the managing directors is included in item (a) above as other staff costs and remuneration of the managing directors, amounting to BGN 42 thousand (2016: BGN 39 thousand) and as employee benefits, amounting to BGN 259 thousand (2016: BGN 188 thousand) (note 25).

##### (c) *Average number of employees:*

	2017	2016
Managing directors	4	4
Employees	197	200
<b>Total</b>	<b>201</b>	<b>204</b>

The number of employees as of December 31, 2017 is 202 (2016: 217).

#### 8. Net additional services income

	2017	2016
Additional services income	13 234	11 871
Additional services costs	(1 520)	(1 124)
<b>Net additional services income</b>	<b>11 714</b>	<b>10 747</b>

Additional services income includes the following services provided to the Company loan customers:

- An opportunity for the customer to receive high-priority consideration and decision of the loan request and repayment of the loan
- An option for the customer to postpone up to four loan instalments
- An option for the customer to reduce the size of loan instalments up to four loan instalments
- An option for the customer to change maturity date
- An opportunity for the customer to receive additional loan amount after simplified application procedure

These services are offered as a package of additional services to the loans and they are not mandatory from perspective of the loan agreement conclusion. Additional services in package provide the customers opportunity for instalments reducing or/and postponement, in case a specific circumstance occurs – a job redundancy, unpaid leave, income reducing, etc. On the other hand abovementioned option provides the opportunity for the customer to receive high-priority consideration and decision of the loan application and additional loan amount after simplified application procedure.

Additional services cost is the price of the services used by the customers during the reported period.

The increase of additional services income and expenses resulted mainly from the expansion of range of provided options for instalments postponement (Introducing a free postponement on a larger number of monthly instalments, a free reducing the amount of the instalment and/ or changing of Instalment date) and recognition under equal other conditions higher revenues and expenditures for that reason.

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**9. Other operating expenses, net**

	2017	2016
Services rendered by related parties	(602)	(642)
Tax expenses and tax charges (road tax, garbage fee, etc.)	(30)	(30)
FX gains/ losses, net	(5)	(9)
Other expenses	(61)	(16)
Other income	59	67
<b>Total</b>	<b>(639)</b>	<b>(630)</b>

Services from related parties are mainly for provided consulting services from the management of PROFIREAL GROUP and paid license fees for usage of "PROFI CREDIT" trade mark.

**10. Income tax****(a) Tax expenses**

	2017	2016
Current tax expenses	--	--
Deferred tax assets changes	39	12
<b>Income/(expense) tax for the year</b>	<b>39</b>	<b>12</b>

Current income tax for 2016 is not charged as a result of the deduction of tax loss from previous years.

Reconciliation of income / (expense) tax to tax at the applicable tax rate is as follows:

	2017	2016
Income before taxation	(7 318)	(6 574)
Income tax at tax rate of 10%	--	--
Tax deductible expenses	(20)	(8)
Deduction of tax loss from previous years	--	--
Effect from recognition/(write-off) of deferred tax asset for tax loss deduction	--	--
Other effects	59	20
<b>Income/(expense) tax for the year</b>	<b>39</b>	<b>12</b>

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**10. Income tax (continued)**

**(b) Deferred taxes**

	2017		2016	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Deferred taxes at the beginning of the year	65	23	45	15
Changes in the deferred taxes	59	20	20	8
<b>Deferred taxes at the end of the year</b>	<b>124</b>	<b>43</b>	<b>65</b>	<b>23</b>

Deferred tax assets and liabilities arise in relation to the following positions:

	2017		2016	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Accelerated tax amortization	--	43	--	23
Accrued liabilities and provisions	124	--	65	--
<b>Deferred taxes at the end of the year</b>	<b>124</b>	<b>43</b>	<b>65</b>	<b>23</b>

In compliance with the requirements of IAS 12 "Income taxes", the deferred tax assets and liabilities are measured according to the tax rates, which are enacted in the period when the asset will be realized or the liability will be settled, i.e. the tax rate used to calculate the deferred taxes is the tax rate that will be applicable in 2017, which is 10% (2016: 10%).

Tax losses at the disposal for deduction, recognized and unrecognized tax assets on them as of 31 December 2017 are as follows:

Tax losses arising in	Tax loss	Unrecognized deferred tax assets	Recognized deferred tax assets	Expires in
2017	6 979	698	--	2022
<b>TOTAL</b>	<b>6 979</b>	<b>698</b>	<b>--</b>	

Tax losses at the disposal for deduction, recognized and unrecognized tax assets on them as of 31 December 2016 are as follows:

Tax losses arising in	Tax loss	Unrecognized deferred tax assets	Recognized deferred tax assets	Expires in
2016	6 270	627	--	2021
<b>TOTAL</b>	<b>6 270</b>	<b>627</b>	<b>--</b>	

**PROFI CREDIT BULGARIA EOOD****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
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**11. Cash and cash equivalents**

	<b>2017</b>	<b>2016</b>
Cash at bank accounts	<b>2 073</b>	<b>152</b>
Cash on hand	<b>4</b>	<b>5</b>
<b>Total</b>	<b>2 077</b>	<b>157</b>

**12. Loans to customers****(a) Total receivables on granted loans to customers, net**

	<b>2017</b>	<b>2016</b>
Receivables on loans to customers, stated at amortized cost	<b>110 606</b>	<b>99 533</b>
Other receivables from customers stated at amortized cost	<b>7 871</b>	<b>7 520</b>
<b>Gross receivables on loans to customers</b>	<b>118 477</b>	<b>107 053</b>
Allowances for impairment loss on loans to customers stated at amortized cost	<b>(70 810)</b>	<b>(57 533)</b>
Allowances for impairment loss on other receivables from customers stated at amortized cost	<b>(1 892)</b>	<b>(1 123)</b>
<b>Total receivables on loans to customers, net</b>	<b>45 775</b>	<b>48 397</b>

The carrying amount of receivables on loans to customers, used as a collateral on the received loans as of December 31, 2017 amounts to BGN 45 775 thousand (2016: BGN 48 397 thousand).

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
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**12. Loans to customers (continued)**

**(b) Maturity structure of receivables on loans to customers allocated according to the instalments due under the payment schedule**

Receivables of the Company as of December 31, 2017 include the following categories:

	Gross amount of the portfolio	Collateral	Net amount of the portfolio	Impairment losses	Carrying amount	Impairment losses (%)
Receivable /instalments/ on regular loans	32 110	—	32 110	(1 071)	31 039	3.34%
Overdue receivables /instalments/ on loans	78 496	—	78 496	(69 739)	8 757	88.84%
Other overdue receivables on loans	7 871	—	7 871	(1 892)	5 979	24.04%
<b>Total</b>	<b>118 477</b>		<b>118 477</b>	<b>(72 702)</b>	<b>45 775</b>	<b>61.36%</b>

Receivables of the Company as of December 31, 2016 include the following categories:

	Gross amount of the portfolio	Collateral	Net amount of the portfolio	Impairment losses	Carrying amount	Impairment losses (%)
Receivable /instalments/ on regular loans	35 422	--	35 422	1 118	34 304	3.16%
Overdue receivables /instalments/ on loans	64 111	--	64 111	56 415	7 696	87.99%
Other overdue receivables on loans	7 520	—	7 520	1 123	6 397	14.93%
<b>Total</b>	<b>107 053</b>		<b>107 053</b>	<b>58 656</b>	<b>48 397</b>	<b>54.79%</b>

**PROFI CREDIT BULGARIA EOOD**

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**12. Loans to customers (continued)**

**(c) Allocation of receivables on loans classified by total amount of loan to a customer**

The receivables as of December 31, 2017 include the following categories:

	Gross amount of the portfolio	Impairment losses	Carrying amount	(%)
Non-overdue loans to customers	16 009	661	15 348	33.53%
Loans to customers with delay between 1 and 60 days	7 974	567	7 407	16.18%
Loans to customers with delay over 60 days	86 623	69 582	17 041	37.23%
Receivables from customers related to penalties and other court receivables with delay over 60 days	7 871	1 892	5 979	13.06%
<b>Total receivables on loans to customers</b>	<b>118 477</b>	<b>72 702</b>	<b>45 775</b>	<b>100.00%</b>

The receivables as of December 31, 2016 include the following categories:

	Gross amount of the portfolio	Impairment losses	Carrying amount	(%)
Non-overdue loans to customers	17 300	661	16 639	34.37%
Loans to customers with delay between 1 and 60 days	7 770	580	7 190	14.86%
Loans to customers with delay over 60 days	74 463	56 292	18 171	37.55%
Receivables from customers related to penalties and other court receivables with delay over 60 days	7 520	1 123	6 397	13.22%
<b>Total receivables on loans to customers</b>	<b>107 053</b>	<b>58 656</b>	<b>48 397</b>	<b>100.00%</b>

**(d) Granted loans by types of customers, net**

	2017	2016
Individuals	45 741	48 360
Business loans	34	37
<b>Total</b>	<b>45 775</b>	<b>48 397</b>

**(e) Geographical concentration of loans to customers**

The Company grants loans only to customers with a permanent address in Bulgaria.



## PROFI CREDIT BULGARIA EOOD

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2017

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#### 12. Loans to customers (continued)

*(f) Age structure of loans to customers (excluding receivables from penalties to customers and other court receivables) stated at amortized cost and allocated by maturity of down payments, gross amount before impairment*

	Without delay	Past due from 1 to 90 days	Past due from 91 to 180 days	Past due from 181 to 360 days	Past due more than 360 days
Loans as of 31.12.2017	32 110	4 168	3 938	8 288	62 102
Loans as of 31.12.2016	35 422	4 972	4 596	8 411	46 132

The Company performs an ageing analysis and classification of receivables from customers based on a monitoring of the individual repayment instalments. The table above does not include receivables from customers related to penalties, late interest, other court receivables, etc.

#### 13. Other receivables

	2017	2016
Deposits on contracts for leased offices	76	73
Prepaid advances to suppliers and employees	128	153
Receivables from cash collection companies	775	429
Other receivables	102	292
<b>Total</b>	<b>1 081</b>	<b>947</b>

#### 14. Inventories

As of the date of the statement of financial position the Company has marketing and advertising materials at stock amounting to BGN 6 thousand (2016: BGN 3 thousand). The Company has not recognized costs for the impairment of the inventories.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
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**15. Property, plant and equipment**

	<b>Cars</b>	<b>Computers</b>	<b>Office equipment</b>	<b>Other tangible assets</b>	<b>Cost of acquisition</b>	<b>Total</b>
<b>Cost</b>						
Balance as at 1/1/2016	661	591	140	130	118	1 640
Additions	155	85	1	23	34	298
Disposals	—	(2)	(1)	(3)	--	(6)
Balance as at 31/12/2016	816	674	140	150	152	1 932
<b>Accumulated depreciation</b>						
Balance as at 1/1/2016	(380)	(402)	(139)	(76)	--	997
Depreciation for the year	(115)	(76)	—	(18)	--	(209)
Of the disposals		3	1	3	--	7
Balance as at 31/12/2016	(495)	(475)	(138)	(91)	--	(1 199)
<b>Net book value as at 1/1/2016</b>	<b>281</b>	<b>189</b>	<b>1</b>	<b>54</b>	<b>118</b>	<b>643</b>
<b>Net book value as at 31/12/2016</b>	<b>321</b>	<b>199</b>	<b>2</b>	<b>59</b>	<b>152</b>	<b>733</b>
<b>Cost</b>						
Balance as at 1/1/2017	816	674	140	150	152	1 932
Additions	47	81	—	9	11	148
Disposals	103	86	1	2	45	237
Balance as at 31/12/2017	760	669	139	157	118	1 843
<b>Accumulated depreciation</b>						
Balance as at 1/1/2017	495	475	138	91	--	1 199
Depreciation for the year	135	87	1	19	--	242
Of the disposals	103	83	1	2	--	189
Balance as at 31/12/2017	527	479	138	108	--	1 252
<b>Net book value as at 1/1/2017</b>	<b>321</b>	<b>199</b>	<b>2</b>	<b>59</b>	<b>152</b>	<b>733</b>
<b>Net book value as at 31/12/2017</b>	<b>233</b>	<b>190</b>	<b>1</b>	<b>49</b>	<b>118</b>	<b>591</b>

The Company has not recognized costs for impairment of property, plant and equipment.

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**16. Intangible assets**

	Software	Others	Cost of acquisition	Total
<b>Cost</b>				
Balance as at 1/1/2016	101	30	—	131
Additions	13	16	—	29
Disposals	(8)	—	—	(8)
Balance as at 31/12/2016	106	46	—	152
<b>Accumulated amortization</b>				
Balance as at 1/1/2016	(91)	(29)	—	(120)
Amortization for the year	(6)	(2)	—	(8)
Of the disposals	2	—	—	2
Balance as at 31/12/2016	(95)	(31)	—	(126)
<b>Net book value as at 1/1/2016</b>	<b>10</b>	<b>1</b>	<b>—</b>	<b>11</b>
<b>Net book value as at 31/12/2016</b>	<b>11</b>	<b>15</b>	<b>—</b>	<b>26</b>
<b>Cost</b>				
Balance as at 1/1/2017	106	46	—	152
Additions	16	6	476	498
Disposals	—	29	—	29
Balance as at 31/12/2017	122	23	476	621
<b>Accumulated amortization</b>				
Balance as at 1/1/2017	95	31	—	126
Amortization for the year	7	4	—	11
Of the disposals	—	29	—	29
Balance as at 31/12/2017	102	6	—	108
<b>Net book value as at 1/1/2017</b>	<b>11</b>	<b>15</b>	<b>—</b>	<b>26</b>
<b>Net book value as at 31/12/2017</b>	<b>20</b>	<b>17</b>	<b>476</b>	<b>513</b>

The Company has not recognized costs for impairment of intangible assets.

**17. Liabilities on finance lease**

Liabilities on finance lease	Minimum lease instalment		Current value of minimum lease instalments	
	2017	2016	2017	2016
Up to 1 year	141	127	133	117
Between 1 and 5 years	164	211	156	201
<b>Total</b>	<b>305</b>	<b>338</b>	<b>289</b>	<b>318</b>
Deferred finance expenses	16	20	—	—
Current value of the liabilities of financial lease	289	318	289	318
Due up to 1 year	133	117	133	117
Due over 1 year	156	201	156	201

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**18. Other loans received**

In 2017 and 2016 the Company has received the following non-bank loans:

As of 31.12.2017	Currency	Balance in thousand currency units	Balance in BGN thousand	Interest rate	Amount payable up to 1 year in BGN thousand	Amount payable up to 5 years in BGN thousand	Collateral
							Pledge on receivables from customers, pledge on company shares and promissory note.
Creditor 1	EUR	18 118	35 436	15.00 %	1 123	34 313	Guarantee issued by Parent company
Creditor 2	EUR	5 491	10 739	6.32%	10 739	–	–
<b>Total</b>			<b>46 175</b>		<b>11 862</b>	<b>34 313</b>	

As of 31.12.2016	Currency	Balance in thousand currency units	Balance in BGN thousand	Interest rate	Amount payable up to 1 year in BGN thousand	Amount payable up to 5 years in BGN thousand	Collateral
							Pledge on receivables from customers, pledge on company shares and promissory note.
Creditor 1	EUR	19 894	38 909	15.0%	326	38 583	Guarantee issued by Parent company
Creditor 2	EUR	5 021	9 820	15.0%	41	9 779	–
<b>Total</b>			<b>48 729</b>		<b>367</b>	<b>48 362</b>	

**19. Other liabilities**

	2017	2016
Suppliers	568	766
Staff	949	755
Current liabilities for cash commissions of hired staff (loan experts, collectors, team managers)	318	306
Other	--	28
Social and health insurance	160	162
Tax liabilities	54	68
Guarantee liabilities	63	90
<b>Total</b>	<b>2 112</b>	<b>2 175</b>

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**20. Provisions**

	Provision for additional services claims	Other provisions	Total
Balance as of January 1, 2016	3	--	3
Accrued provision	1 227	--	1 227
Utilized provision	(1 168)	--	(1 168)
Balance as of December 31, 2016	62	--	62
Balance as of January 1, 2017	62	--	62
Accrued provision	1 520	--	1 520
Utilized provision	(1 556)	--	(1 556)
Balance as of December 31, 2017	26	--	26

The Company accrues provisions in case of claim from client on loans with free postponement of instalment option. The Company realizes net income from additional services (see note 8) when the paid liabilities on provisions do not exceed the net income from additional services.

**21. Share capital**

The share capital as of December 31, 2017 is at the amount of BGN 4 250 thousand (2016: BGN 4 250 thousand) and is allocated as follows:

	As of 31.12.2017	%	As of 31.12.2016	%
Profireal Group S.E., the Netherlands	14 028	100%	4 250	100%
	14 028	100%	4 250	100%

**22. Equity**

As of December 31, 2017 the Company reports negative equity at the amount of BGN 1 522 thousand (negative equity in 2016: BGN 979 thousand).

## PROFI CREDIT BULGARIA EOOD

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2017

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#### 23. Financial instruments and risk management

##### 23.1 Categories of financial instruments

	2017	2016
Financial assets		
Cash and cash equivalents	2 077	157
Loans to customers	45 775	48 397
Other receivables	775	429
<b>Total financial assets</b>	<b>48 627</b>	<b>48 983</b>
	2017	2016
Financial liabilities		
Liabilities on finance lease	289	318
Other loans received	46 175	48 729
Other liabilities	989	1 155
<b>Total financial liabilities</b>	<b>47 453</b>	<b>50 202</b>

The carrying amount of financial assets in the financial statements, net of impairment, represents the maximum exposure of the Company to credit risk.

The fair value of financial instruments of the Company approximates their carrying value as financial assets are short-term nature. Financial liabilities are also short-term nature, except for borrowing. Borrowings are interest bearing fixed interest rate that is approximately equal to the market rate for similar Instruments with similar risk characteristics. The Company has no financial instruments that are measured at fair value in the statement of financial position.

##### 23.2 Risk management

The Company's business is exposed to various financial risks. Taking financial and operating risks inevitably accompanies a Company's financial activity.

The Company has adopted and implemented rules and procedures for risk management and control for assessment management and control of the extent of risk, to which it is exposed. The risk management and control rules and procedures are approved by the managing directors.

The risk policy and risk management and control rules set the criteria and limits for various types of risks such as strategic risk, credit risk, liquidity risk, interest rate risk, currency risk, investment risk and counterparty credit risk. The risk policy's main goal is to set clearly defined parameters for Company's operations so that the maximum potential negative effect of the risks over the Company's financial results could be mitigated. Adherence to risk management rules and procedures is followed regularly, depending on the level of risk and its potential impact on the Company's activities.

## PROFI CREDIT BULGARIA EOOD

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2017

All amounts are in thousand Bulgarian Levs, except otherwise stated

#### 23. Financial Instruments and risk management (continued)

##### 23.2 Risk management (continued)

Any deviation from the adopted internal standards is reported to Company's management and the respective measures are taken. In addition, the Company evaluates annually the adequacy of the adopted risk management policies, based on an analysis of economic trends and the environment, in which Small and Medium-sized Enterprises in Bulgaria operate as well as an analysis of certain business sectors such as the construction and tourist ones.

##### a) Credit risk

Credit risk is related to the possibility that the counterparties may not settle their obligations under financial instruments, which may cause financial loss to the Company.

Credit risk is the main risk for the Company's activity. Therefore the Company carefully follows and manages its credit risk exposure. Rules of Company's credit activity and lending procedures are developed by the Finance Department, Risk Management Unit and approved by the managing directors.

Credit risk relates mainly to customer loans. The amount of receivables from customers are presented in the statement of financial position net, less impairment loss, which is calculated based on past experience of the Group and the Company, as well as under the influence of current economic conditions, affecting customers' solvency.

##### Collection of receivables

The Company has developed its own network of employees (collection coordinators), as well as hired staff (loan experts and collectors) for collection of its receivables.

##### Securitization

Credit risk is diversified between significant numbers of clients all over the country. Part of the loan contracts are guaranteed by third parties - guarantors.

##### b) Liquidity risk

Liquidity risk is the risk of lack of cash for coverage of due liabilities or for repayment of customer loans, which could arise from disparities in the Company's cash flows.

The table below represents analysis of the non-discounted financial liabilities classified by maturity structure according to residual term of maturity.

Financial liabilities as of 31.12.2017	At disposal up to 7 days	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years
Liabilities on finance lease	--	29	128	132	--
Other loans received	--	23 671	3 755	23 930	68 758
Other liabilities	--	989	--	--	--
<b>Total</b>		<b>24 689</b>	<b>3 883</b>	<b>24 062</b>	<b>68 758</b>

**PROFI CREDIT BULGARIA EOOD**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2017**

All amounts are in thousand Bulgarian Levs, except otherwise stated

**23. Financial Instruments and risk management (continued)**

**23.2 Risk management (continued)**

**b) Liquidity risk (continued)**

<b>Financial liabilities as of 31.12.2016</b>	<b>At disposal up to 7 days</b>	<b>Up to 3 months</b>	<b>From 3 months to 1 year</b>	<b>From 1 year to 5 years</b>	<b>Over 5 years</b>
Liabilities on finance lease	--	29	88	201	--
Other loans received	--	2 403	5 393	75 019	--
Other liabilities	--	1 155	--	--	--
<b>Total</b>	<b>--</b>	<b>3 587</b>	<b>5 481</b>	<b>75 220</b>	<b>--</b>

**c) Currency risk**

Currency risk arises with respect to changes in the value of the financial instruments, due to significant changes on the exchange rate markets. The difference in the levels of financial instruments, and assets and liabilities, denominated in foreign currency, respectively, shows the extent to which an instrument is exposed to currency risk. Information of the Company's exposure by currencies as of the end of 2017 and 2016 is presented in the table below:

<b>Currency risk as of 31.12.2017</b>	<b>BGN</b>	<b>EUR</b>	<b>CZK</b>	<b>Total BGN</b>
<b>Assets</b>				
Cash and cash equivalents	1 652	425	--	2 077
Customer loans	45 775	--	--	45 775
Other receivables	775	--	--	775
<b>Total assets as of 31.12.2017</b>	<b>48 202</b>	<b>425</b>	<b>--</b>	<b>48 627</b>
<b>Liabilities</b>				
Liabilities on finance lease	--	289	--	289
Other loans received	--	45 175	--	46 175
Other liabilities	811	84	94	989
<b>Total liabilities as of 31.12.2017</b>	<b>811</b>	<b>46 548</b>	<b>94</b>	<b>47 453</b>
<b>Currency risk as of 31.12.2017</b>	<b>47 391</b>	<b>(46 123)</b>	<b>(94)</b>	<b>1 174</b>



**PROFI CREDIT BULGARIA EOOD****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2017**

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**23. Financial Instruments and risk management (continued)****23.2 Risk Management (continued)****c) Currency risk (continued)**

Currency risk as of 31.12.2016	BGN	EUR	CZK	Total BGN
<b>Assets</b>				
Cash and cash equivalents	153	4	—	157
Customer loans	48 397	--	--	48 397
Other receivables	429	--	--	429
<b>Total assets as of 31.12.2016</b>	<b>48 979</b>	<b>4</b>	<b>--</b>	<b>48 983</b>
<b>Liabilities</b>				
Liabilities on finance lease	--	318	--	318
Other loans received	--	48 729	--	48 729
Other liabilities	976	113	66	1 155
<b>Total liabilities as of 31.12.2016</b>	<b>976</b>	<b>49 160</b>	<b>66</b>	<b>50 202</b>
<b>Currency risk as of 31.12.2016</b>	<b>47 003</b>	<b>(49 156)</b>	<b>(66)</b>	<b>(1 219)</b>

The Company operates mainly in EUR and BGN. Customer loans are extended only in BGN.

The exchange rate EUR/BGN is fixed in compliance with an agreement between the Republic of Bulgaria and the International Monetary Fund, as well as in compliance with Bulgarian National Bank Act.

Interest rate risk is associated with the potential adverse effect on Company's net income and value of equity due to fluctuations in the interest rates. Extended and received loans bear fixed interest rate. In this respect, management believes that the activity of PROFIT CREDIT Bulgaria is not highly sensitive to fluctuations of the interest rates on the world financial markets.

The following table summarizes the effective interest rate for financial assets and the nominal interest rate for financial liabilities as of the end of the respective calendar year:

	2017	2016
<b>Assets</b>		
Customer loans	33.26%	36.74%
<b>Liabilities</b>		
Bank loans		
Other received loans	13.81%	15.00%
Liabilities on finance lease	4.58%	4.82%

The average effective interest rate on loans decrease mainly due to change in loan portfolio structure – increase of products' share with package of additional services. Recognitions under equal conditions of higher services income, which income is a result from the expansion of range of provided services for instalments postponement and reducing, towards lower interest income.

## PROFI CREDIT BULGARIA EOOD

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2017

All amounts are in thousand Bulgarian Levs, except otherwise stated

#### 23. Financial Instruments and risk management (continued)

##### 23.2 Risk Management (continued)

###### d) Price risk

The Company operates in a highly developed and competitive market for financial services, and therefore is influenced by price risk. Parts of the Company's competitors are banking and financial institutions with access to cheap financial resources which gives them an advantage in the pricing of competitive products.

##### 23.3 Capital management

Goals of the Company in capital management are to defend Company's ability to continue as a going concern entity by achieving maximum return for the owners and maintain an optimal capital structure.

The debt ratio as of December 31, 2017 and 2016 is as follows:

	2017	2016
Liabilities on finance lease	289	318
Other loans received	48 175	48 729
Decreased with: Cash and cash equivalents	(2 077)	(157)
Net liabilities	44 387	48 890
Equity	14 028	4 250
Total liabilities and equity	58 415	53 140
Debt ratio	76%	92%

#### 24. Provisions, contingent assets and contingent liabilities.

PROFI CREDIT Bulgaria provides credit guarantees comprising guarantees and indemnities of new creditor, in respect of other three subsidiaries. The aggregate payment obligations resulting from guarantee declaration are limited by the maximum amount of 12 000 TEUR (4 000 TEUR for each company). Guarantee agreement should become effective if one of the guaranteed parties defaults any repayment to loan contract.

##### Contingent liabilities

	2017	2016
Other guarantees and contingent liabilities	23 470	23 470

As of the date of these financial statements guaranteed parties have not experienced non-completion of a contract, nor has PROFIT CREDIT Bulgaria been called on for any loan repayment guarantee.

The credit guarantees are guaranteed by the sole owner of the Company by Indemnity agreement.

**PROFI CREDIT BULGARIA EOOD****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2017**

All amounts are in thousand Bulgarian Levs, except otherwise stated

**25. Related party transactions****(a) Receivables and payables**

The following balances between related parties are included in other receivables and other payables:

	Receivables		Payables	
	2017	2016	2017	2016
Profi Credit Czech a.s.	--	7	132	110
Profireal Group	--	--	65	9 905
Profi Funding B.V.	--	--	35 924	
Other related parties	--	--	--	1
<b>Total</b>	<b>--</b>	<b>7</b>	<b>36 121</b>	<b>10 016</b>

The payable to Profireal Group as of December 31, 2016 includes a payable for established guarantee on utilized loan to the amount of BGN 64 thousand (2016: BGN 83 thousand), payable for received consulting services amounting to BGN 1 thousand (2016: BGN 1 thousand), payable under assignment of receivables agreement (2016: BGN 9 780 thousand) and payable for fees and interests (2016: BGN 41 thousand).

The receivable from Profireal Group 2016: BGN 7 thousand represents a receivable from re-invoiced services referring to reimbursement of expenses.

The payable to Profi Credit Czech, a.s. as of December 31, 2016 includes: payable for received consulting services amounting to BGN 92 thousand (2015: BGN 68 thousand) and payable for use of trade mark amounting to BGN 40 thousand (2016: BGN 42 thousand).

**(b) Sales and purchases**

	Sales for the period		Purchases for the period	
	2017	2016	2017	2016
Profi Credit a.s. the Czech Republic	--	--	595	605
Profireal Group	--	--	--	--
Other related parties	--	--	7	37
<b>Total</b>	<b>--</b>	<b>--</b>	<b>602</b>	<b>642</b>

**(c) Interests and loan guarantees**

	Interest expense		Interest income	
	2017	2016	2017	2016
Profireal Group	845	546	--	--
Profi Funding B.V.	804	--	--	--
<b>Total</b>	<b>1 649</b>	<b>546</b>	<b>--</b>	<b>--</b>

## PROFI CREDIT BULGARIA EOOD

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2017

All amounts are in thousand Bulgarian Levs, except otherwise stated

Profireal Group SE is a guarantor under the loan agreement of the Company as disclosed in note. 18.

#### 25. Related party transactions (continued)

##### *(d) Accrued remuneration and salaries to management*

	2017	2016
Number of members	4	4
Remuneration accrued	283	211
Other (social security, health insurance, etc.)	18	16
<b>Total</b>	<b>301</b>	<b>227</b>

#### 26. Events after the reporting date

At the date of preparation of this annual report the Company is in the procedure of capital increase, which is expected to be completed till May 2018. The share capital of the Company is increasing with BGN 972 500 as 389 new shares will be issued, with a nominal value at the amount of BGN 2 500 each. All Company's shares be acquired by PROFIREAL GROUP S.E. The new shares are subscribed and acquired at an issue price of BGN 38 560.41 per share. The total value of agio (the difference between the issue and nominal value) for the new 389 company shares is BGN 14 027 500 and shall be accounted to cover accumulated losses. The capital increase is performed by monetary contribution. The capital increase will significantly reduce the Company's obligations, which will reduce future interest expenses and its dependence on external creditors.