**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, 2018

*Unofficial translation of the original in Bulgarian*

# ANNUAL REPORT ON THE ACTIVITIES

# FOR 2018

# 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.

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 15 000 000 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 2018 the sales network of the Company includes 427 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 9 full-time employees located in the Headquarter. The filed collection is performed by collection network including 116 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$^{st}$ of December 2018 the total manpower of the Company includes 197 (2017: 201) full-time employees and 543 (2017: 571) external collaborators.

## REVIEW OF FINANCIAL RESULTS

In 2018 the Company has provided 19,372 loans to clients (2017: 18,359) in net amount of BGN 32,433 thousand (2017: BGN 28,663 thousand). For the financial year PROFI CREDIT Bulgaria realized net profit at amount of BGN 3,816 thousand (2017: BGN loss 7,279 thousand).

The raise in the net profit for 2018 was influenced by limited growth in revenues (interest and additional services revenues) and significant growth in other operating income. In 2018 the Company sold a portfolio of loans with over 360 days of delay. Sale receivables revenues are stated in Other operating income in the Statement of comprehensive income and are at amount of BGN 4,596 thousand.

Operating Profit for the period is at the amount BGN 3,824 thousand (2017: Loss BGN 7,318 thousand).

### Net interest income

Net interest income dropped with 6.52 % to BGN 7,880 thousand (2017: BGN 8,430 thousand).

Interest expenses for the reporting year amount to BGN 4,633 thousand (2017: BGN 7,996 thousand). They dropped with BGN 2,649 or 36.38% compared to the previous period. In 2018 the capital of the Company was increased, performed by monetary contribution, with BGN 15,000 thousand. The share capital of the Company is increased with BGN 972 thousand as 389 new shares issued, with a nominal value at the amount of BGN 2,500 each. All Company's shares were acquired by PROFIREAL GROUP S.E. The new shares were 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 was BGN 14,028 thousand and were accounted to cover accumulated losses. Received monetary contribution repaid debts to creditor which resulted in a reduction in interest costs in 2018 compared to 2017.

In relation to IFRS 9 *Financial instruments* and the applied model of classification and measurement of financial assets, as opposed to an incurred credit loss model under IAS 39, the Company does not recognize interest incomes on terminated loans or loans with more than 90 days delay. This was the key factor for interest revenues drop to BGN 12,513 thousand (2017: BGN 15,712 thousand).

### Impairment losses

Impairment losses for the year amount to BGN 9,295 thousand (2017: BGN 14,047 thousand). The 31.19% impairment loss as percentage of revenue is in line with our targets (2017: 51.2%).

The Company applies IFRS 9 initially as at 01.01.2018. The effect of the applied model for expected credit losses under IFRS 9, as opposed to the model of credit losses incurred under IAS 39, applied until 31.12.2017, is recognized in the equity of the Company.

The Company reports stable level of credit risk. Reduction in impairment losses is a result of a change in the credit loss model and, in particular, non-recognition of interest income on terminated loans or loans with more than 90 days delay.

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 decrease with 11.87% to BGN 2,799 thousand (2017: BGN 3,176 thousand). The key components of net fees and commission costs are the following:

- Court charges and bailiff charges amounting to BGN 988 thousand and decrease by BGN 103 thousand according to previous reporting period (2017: BGN 885 thousand). The decrease in cost is caused by legal changes in force from 30.10.2017, which amends the process of notifying the debtor and introduces a legal representative;
- Sales commissions' costs that are not included into effective interest rate calculation at amount of BGN 613 thousand for 2018 (2017: BGN 692 thousand).
- Commissions' costs paid to external collectors, which in 2018 amounted to BGN 873 thousand (2017: 885 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 is due to higher amount of loans served by the external collectors, as well as to expanding the functions of the external collector 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 2018 this cost amounted to BGN 2,230 thousand compared to BGN 2,294 thousand in 2017;
- Revenues from credit advisor commissions' write-offs, which in 2018 amounted to BGN 2,433 thousand compared to BGN 2,024 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 9,244 BGN thousand (2017: BGN 9,600 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 170 thousand or 3.04% - from BGN 5,601 thousand in 2017 to 5,431 thousand in 2018.

*Other administrative expenses*

Other administrative expenses decrease by BGN 163 thousand or 4.35% compared to previous reporting period - from BGN 3,746 thousand in 2017 to BGN 3,583 thousand in 2018. 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 decreased by BGN 23 thousand - from BGN 253 thousand in 2017 to BGN 230 thousand in 2018.

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 15.43% to BGN 13,521 thousand (2017: BGN 11,714 thousand). Major reason for significant growth is the strong increase in value-added services revenues to BGN 15,581 thousand (2017: 13,234 thousand) as a result of sales growth.

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 3,761 thousand compared to BGN 639 thousand in 2017. Key components of net operating expenses during 2018 are:

- Hired services from related parties amounting to BGN 690 thousand (2017: BGN 663 thousand);
- Costs for fees and taxes (road tax, waste disposal fee, other fees) in the amount of BGN 194 thousand (2017: BGN 30 thousand);
- Costs caused by positive exchange rates differences in the amount of BGN 2 thousand (2017: BGN 5 thousand);
- Other incomes are realized from received amounts from sale of customer debts (ceding), the amount is BGN 4,647 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, 2018 the assets amounted to BGN 30,515 thousand. The decrease the previous year is 39.12% (2017: BGN 50,124 thousand).

The statement of financial position structure is not changed significantly compared to prior year. At the end of 2018, the biggest share of assets belongs to loans to customers, which constitute 87.3% of total assets (2017: 91.3%), followed by tangible assets – 2.3% (2017: 4.1%), etc.

**LIABILITIES**

As of December 31, 2018 liabilities amounted to BGN 25,937 thousand. The decrease compared to prior reporting period is estimated at 46.63% (2017: BGN 48,602 thousand).

At the end of 2018 other received loans amounted to BGN 24,004 thousand (2017: BGN 46,175 thousand), representing 92.54% of total liabilities compared to 95.0% at the end of 2017. 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, 2018 the Company reported positive equity amounting to BGN 4,578 thousand (compared with negative in 2017: BGN 1,522 thousand).

In 2018 the share capital of PROFI CREDIT BULGARIA EOOD is BGN 15,000,000.

## 3. SIGNIFICANT EVENTS OCCURRED AFTER THE REPORTING PERIOD

As at the date of the financial statements there are changes in the management of the Company:

(a) • Ondrej Lockhenz has resigned as Managing director and in his place Jaroslav Krzysztof Chulak was appointed. The change was registered on March 22, 2019 in the Commercial Register at the Registry Agency;

(b) • Irina Haralampieva Georgieva has resigned as a Managing director and in her place Tsvetelina Georgieva Staneva was appointed. The change was registered on 24 April 2019 in the Commercial Register at the Registry Agency.

The way of representation of the Company is preserved, namely: always two managers together.

## 4. FUTURE DEVELOPMENT OF THE COMPANY

The Company set the following main objectives for 2019:

⇒ 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;

⇒ Upgrade 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. PROFI 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, 2018 comprise cash and cash equivalents amounting to BGN 704 thousand (2017: BGN 2,077 thousand) and loans granted to customers amounting to BGN 26,640 thousand (2017: BGN 45,775 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, PROFI 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**

PROFI 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 PROFI CREDIT Bulgaria is not very sensitive to interest rate fluctuations.

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## 8. REMUNERATIONS RECEIVED BY MANAGEMENT DURING THE YEAR

| | 2018 | 2017 |
|---|---|---|
| Number of members | 4 | 4 |
| Remunerations accrued | 314 | 283 |
| Others (social security and health insurance, etc.) | 18 | 18 |
| **Total (in BGN thousand)** | **332** | **301** |

## 9. PARTICIPATION OF MANAGING DIRECTORS IN OTHER COMPANIES

| Name | Company in the management and control bodies of which the persons participate |
|---|---|
| Ondrej Lokvenc | - |
| Jaroslaw Jan Checinski | PROFI CREDIT Czech, a.s.<br>PROFI CREDIT Polska S.A.<br>MCC PROFIREAL, LLC. |
| Svetoslav Nikolov | Profidebt Bulgaria EOOD |
| Irina Georgieva | Izdatelska Kashta Oktopod OOD |

J. Checinski

**Svetoslav Nikolov**
Managing Director

**Jaroslaw Jan Checinski**
Managing Director

Date: June 12, 2019

**INDEPENDENT AUDITOR'S REPORT AND**
**ANNUAL FINANCIAL STATEMENTS**
**DECEMBER 31, 2018**

Deloitte.

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*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, 2018, 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, 2018, 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 Board of Directors of the Company (Management) is 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.

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, together with the required under ISA, in accordance with 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 OOD

Deloitte Audit OOD

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 033
ДЕЛОЙТ ОДИТ ООД

Momchil Chergansky
Proxy of the Statutory Manager Desislava Dinkova
Registered Auditor

103, Al. Stambolijski Blvd
1303 Sofia, Bulgaria

June 12, 2019

**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, 2018

| | Notes | 2018 | 2017 |
|---|---|---|---|
| Interest income | | 12 513 | 15 712 |
| Interest expenses | | (4 633) | (7 282) |
| **Net interest income** | 4 | **7 880** | **8 430** |
| Impairment losses | 5 | (9 295) | (14 047) |
| **Net interest income after impairment losses** | | **(1 415)** | **(5 617)** |
| Net fees and commissions costs | 6 | (2 799) | (3 176) |
| General and administrative expenses | 7 | (9 244) | (9 600) |
| Net additional service income | 8 | 13 521 | 11 714 |
| Other operating income / expenses, net | 9 | 3 761 | (639) |
| **Profit (loss) before taxes** | | **3 824** | **(7 318)** |
| Income taxes | 10 | (8) | 39 |
| **Net profit (loss) for the period** | | **3 816** | **(7 279)** |
| Other components of comprehensive income | | -- | -- |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | **3 816** | **(7 279)** |

**These financial statements are approved by the Managing Directors of the Company on 12.06.2019**

J. Checinska

**Svetoslav Nikolov**
Managing Director

**Jaroslaw Jan Checinski**
Managing Director

**Biliana Todorova**
Preparer

*The original financial statements were signed by Momchil Cherganski, Registered Auditor and proxy of Desislava Dinkova, manager of Deloitte Audit OOD on June 12 2019.*

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

All amounts are in thousand Bulgarian Levs, except otherwise stated

## STATEMENT OF FINANCIAL POSITION
## AS OF DECEMBER 31, 2018

| | Notes | 2018 | 2017 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 11 | 704 | 2 077 |
| Loans to customers | 12 | 26 640 | 45 775 |
| Other receivables | 13 | 1 158 | 1 081 |
| Inventories | 14 | 5 | 6 |
| Deferred tax assets | 10 | 73 | 81 |
| Property, plant and equipment | 15 | 590 | 591 |
| Intangible assets | 16 | 1 345 | 513 |
| **Total assets** | | **30 515** | **50 124** |
| **Liabilities and equity** | | | |
| **Liabilities** | | | |
| Liabilities on finance lease | 17 | 262 | 289 |
| Other loans received | 18 | 24 004 | 46 175 |
| Other liabilities | 19,20 | 1 671 | 2 138 |
| **Total liabilities** | | **25 937** | **48 602** |
| **Equity** | | | |
| Share capital | 21 | 15 000 | 14 028 |
| Share premium | | 805 | 802 |
| Retained earnings (accumulated loss) | | (11 227) | (13 308) |
| **Total equity** | 22 | **4 578** | **1 522** |
| **Total liabilities and equity** | | **30 515** | **50 124** |

**These financial statements are approved by the Managing Directors of the Company on 12.06.2019**

J. Checinski

| **Svetoslav Nikolov**<br>Managing Director | **Jaroslaw Jan Checinski**<br>Managing Director | **Biliana Todorova**<br>Preparer |
|---|---|---|

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PROFI CREDIT BULGARIA EOOD

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

## CASH FLOW STATEMENT
## FOR THE PERIOD JANUARY 1 - DECEMBER 31, 2018

| | 2018 | 2017 |
|---|---|---|
| **Net profit (loss)** | 3 816 | (7 279) |
| **Adjustments for non-monetary items** | | |
| Impairment losses | 9 295 | 14 047 |
| Change in deferred taxes | (8) | 39 |
| Depreciation/amortization of assets | 230 | 253 |
| Increase of provisions | (43) | (36) |
| Effect of change in foreign exchange rates | 5 | 8 |
| Interest expense | 4 633 | 7 281 |
| Profit (loss) from debt sale | (4 596) | -- |
| **Changes in operating assets and liabilities** | | |
| Increase of investments in loans to customers | (10 946) | (11 424) |
| Net decrease/(increase) in other assets | (310) | (175) |
| Net (decrease)/increase in other liabilities | (421) | (109) |
| Loan interests paid | (5 515) | (6 258) |
| **Net cash flow used in operating activities** | (3 860) | (3 652) |
| | | |
| **Cash flows from investing activities** | | |
| Acquisition of fixed assets | (1 060) | (598) |
| **Net cash flow used in investing activities** | (1 060) | (598) |
| | | |
| **Cash flow from financial activities** | | |
| Nett increase of share capital | 973 | - |
| Finance lease | (27) | (29) |
| Nominal value of issued shares | 14 028 | - |
| Debt sale | 9 848 | - |
| Non-bank loans received/(paid) | (21 275) | 6 199 |
| **Net cash flows from financing activities** | 3 547 | 6 170 |
| **Net change in cash and cash equivalents** | (1 373) | 1 920 |
| **Cash and cash equivalents in the beginning of the period** | 2 077 | 157 |
| **Cash and cash equivalents at the end of the period (Note 11)** | 704 | 2 077 |

**These financial statements are approved by the Managing Directors of the Company on 12.06.2019**

| Svetoslav Nikolov | Jaroslaw Jan Checinski | Biliana Todorova |
|---|---|---|
| Managing Director | Managing Director | Preparer |

*The original financial statements were signed by Momchil Cherganski, Registered Auditor and proxy of Desislava Dinkova, manager of Deloitte Audit OOD on ...June 12 2019.*

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



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## STATEMENT OF CHANGES IN EQUITY
## FOR THE PERIOD JANUARY 1 - DECEMBER 31, 2018

| | Share capital | Share premium | Retained earnings/ (accumulated loss) | Total |
|---|---|---|---|---|
| **January 1, 2017** | **4 250** | **800** | **(6 029)** | **(979)** |
| Dividends payment | -- | -- | -- | -- |
| Loss for the period | -- | -- | (7 279) | (7 279) |
| Other changes | 9 778 | 2 | -- | 9 780 |
| **December 31, 2017** | **14 028** | **802** | **(13 308)** | **1 522** |
| | | | | |
| **Expected credit loss on financial assets (IFRS 9)** | **--** | **--** | **(15 999)** | **(15 999)** |
| | | | | |
| **January 1, 2018** | **14 028** | **802** | **(29 307)** | **(14 777)** |
| Issued shares | 972 | -- | 14 028 | 15 000 |
| Profit for the period | -- | -- | 3 816 | 3 816 |
| Other changes | -- | 3 | 236 | 239 |
| **December 31, 2018** | **15 000** | **805** | **(11 227)** | **4 578** |

**These financial statements are approved by the Managing Directors of the Company on 12.06.2019**

| | | |
|---|---|---|
| **Svetoslav Nikolov**<br>Managing Director | J. Checinski<br>**Jaroslaw Jan Checinski**<br>Managing Director | **Biliana Todorova**<br>Preparer |

*The original financial statements were signed by Momchil Cherganski, Registered Auditor and proxy of Desislava Dinkova, manager of Deloitte Audit OOD on June 12, 2019.*

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

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.

***The share capital is BGN 15 000 000.***

***Structure of property***

The owner of the Company as of December 31, 2018 and 2017 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, 2018 are:***

Ondrej Lokvenc

Jaroslaw Jan Checinski

Svetoslav Nikolaev Nikolov

Irina Haralampieva Georgieva

**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 2018 in the Commercial Register at the Registry Agency was registered changing of circumstances in basic capital of the Company by increasing it to 15 000 000. The facts are published on April, 28-th 2018.
- On 2018 in the Commercial Register at the Registry Agency was registered changing of circumstances in the management of the Company by appointing of Jaroslaw Jan Checinski as Managing Director and deletion of David Chour. 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 and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **IFRS 9 Financial Instruments** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- **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),
- **Amendments to IFRS 2 Share-based Payment** - Classification and Measurement of Share-based Payment Transactions – adopted by the EU on 26 February 2018 (effective for annual periods beginning on or after 1 January 2018),

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

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

***Initial application of new amendments to the existing standards effective for the current reporting period (continued)***

- **Amendments to IFRS 4 Insurance Contracts** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 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 31 October 2017 (effective for annual periods beginning on or after 1 January 2018).
- **Amendments to IAS 40 Investment Property** - Transfers of Investment Property – adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 1 and IAS 28 due to 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 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- **IFRIC 22 Foreign Currency Transactions and Advance Consideration** – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

**New and amended IFRS Standards that are effective for the current year**

**Impact of initial application of IFRS 9 *Financial Instruments***

In the current year, the Company has applied IFRS 9 *Financial Instruments* (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives.

Additionally, the Company adopted consequential amendments to IFRS 9 *Financial Instruments: Disclosures* that were applied to the disclosures for 2018 and to the comparative period.

IFRS 9 introduced new requirements for:

1) The classification and measurement of financial assets and financial liabilities,
2) Impairment of financial assets, and
3) General hedge accounting.

Details of these new requirements as well as their impact on the Company's financial statements are described below.

The Company has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

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

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

*(a) Classification and measurement of financial assets*

The date of initial application (i.e. the date on which the Company has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Company has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognized as at 1 January 2018.

All recognized financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- All other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Despite the afore-going, the Company may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Company may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and
- the Company may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Company has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognized, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognized, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment.
See (b) below.

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

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

The directors of the Company reviewed and assessed the Company's existing financial assets as at 1 January
2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Company's financial assets as regards their classification and measurement:

•• the Company's investments in redeemable notes were classified as available-for-sale financial assets under IAS 39 *Financial Instruments: Recognition and Measurement*. The notes have been reclassified as financial assets at amortised cost because they are held within a business model whose objective is to collect the contractual cash flows and they have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding;

The main analysis includes "Loans to customers" under IAS 39 which have been measured at amortized cost continue to be measured at amortized cost under IFRS 9 as they are held within a business model for collecting contractual cash flows and these cash flows consist of principals and interests on the outstanding amount of the principal.

For classification and recognition, the Company takes into account the definitions for business models and other requirements under IFRS 9 based on the established gaps and identified activities to overcome them. The assessment of the business models is based on the management's intention upon granting loans to customers, and namely receiving of certain cash flows at exact defined date repaying principal and interest. A single business model is defined – granting a loan to a customer with defined repayment schedule with fixed interest rate and expected annuity payments on the contractual maturity dates when exactly defined principal and interest payments are expected. The presentation under this business model is at amortized cost in the statement of financial position of the Company according the IFRS 9.

*(b) Impairment of financial assets*

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the Company to recognize a loss allowance for expected credit losses on:
(1) Debt investments measured subsequently at amortised cost or at FVTOCI;
(2) Lease receivables;
(3) Trade receivables and contract assets; and
(4) Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

In particular, IFRS 9 requires the Company to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset.

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

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

However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit‑impaired financial asset), the Company is required to measure the loss allowance for that financial instrument at an amount equal to 12‑months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

The consequential amendments to IFRS 7 have also resulted in more extensive disclosures about the Company's exposure to credit risk in the financial statements (see note 23.2 for details).

*(c) Classification and measurement of financial liabilities*

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognized.

Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

The application of IFRS 9 had no impact on the classification and measurement of the financial liabilities of the Company.

*(d) General hedge accounting*

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Company's risk management activities have also been introduced.

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

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

In accordance with IFRS 9's transition provisions for hedge accounting, the Company has applied the IFRS 9 hedge accounting requirements prospectively from the date of initial application on 1 January 2018. The Company's qualifying hedging relationships in place as at 1 January 2018 also qualify for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. No rebalancing of any of the hedging relationships was necessary on 1 January 2018. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements. The Company has also not designated any hedging relationships under IFRS 9 that would not have met the qualifying hedge accounting criteria under IAS 39.

IFRS 9 requires hedging gains and losses to be recognized as an adjustment to the initial carrying amount of non‑financial hedged items (basis adjustment). In addition, transfers from the hedging reserve to the initial carrying amount of the hedged item are not reclassification adjustments under IAS 1 *Presentation of Financial Statements* and hence they do not affect other comprehensive income. Hedging gains and losses subject to basis adjustments are categorized as amounts that will not be subsequently reclassified to profit or loss in other comprehensive income.

This is consistent with the Company's practice prior to the adoption of IFRS 9.

Consistent with prior periods, when a forward contract is used in a cash flow hedge or fair value hedge relationship, the Company has designated the change in fair value of the entire forward contract, i.e. including the forward element, as the hedging instrument.

When the option contracts are used to hedge the forecast transactions, the Company designates only the intrinsic value of the options as the hedging instrument. Under IAS 39 the changes in the fair value of time value of option (i.e. non‑designated component) were recognized immediately in profit or loss. Under IFRS 9, the changes in the time value of the options that relate to the hedged item ('aligned time value') are recognized in other comprehensive income and accumulated in the cost of hedging reserve within equity. The amounts accumulated in equity are either reclassified to profit or loss when the hedged item affects profit or loss or removed directly from equity and included in the carrying amount of non‑financial item. IFRS 9 requires that the accounting for non‑designated time value of option should be applied retrospectively. This only applies to hedging relationships that existed at 1 January 2018 or were designated thereafter.

The application of the IFRS 9 hedge accounting requirements has had no impact on the results and financial position of the Company for the current and/or prior years.

### *(e) Disclosures in relation to the initial application of IFRS 9*

There were no financial assets or financial liabilities which the Company had previously designated as at FVTPL under IAS 39 that were subject to reclassification or which the Company has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the Company has elected to designate as at FVTPL at the date of initial application of IFRS 9.

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)*

**Impact of application of IFRS 15 *Revenue from Contracts with Customers***

In the current year, the Company has applied IFRS 15 *Revenue from Contracts with Customers* (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5‐step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios.
Details of the new requirements as well as their impact on the Company's financial statement are described below.

The Company has applied IFRS 15 in accordance with the fully retrospective transitional approach without using the practical expedients for completed contracts in IFRS 15:C5(a), and (b), or for modified contracts in IFRS 15:C5(c) but using the expedient in IFRS 15:C5(d) allowing both non‐disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognize that amount as revenue for all reporting periods presented before the date of initial application, i.e. 1 January 2018.

IFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position. The Company has adopted the terminology used in IFRS 15 to describe such balances.

The Company's accounting policies for its revenue streams are disclosed in detail in note 4,6,8 and 9 below. Apart from providing more extensive disclosures for the Company's revenue transactions, the application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Company. The amount for each financial statement line item affected by the application of IFRS 15 is illustrated below.

| | | 2018 | | 2017 | |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Interest income | IFRS 9 | 12 513 | 36 % | 15 712 | 45 % |
| Fees and commissions income | IFRS 15 | 2 433 | 7 % | 2 024 | 6 % |
| Income from additional services | IFRS 15 | 15 581 | 44 % | 13 234 | 38 % |
| Other operational income | IFRS 15 | 4 647 | 13 % | 59 | 0 % |
| **Total incomes** | | 35 174 | | 31 029 | |

In the current year, the Company has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

The adoption of these amendments to the existing standards has not led to any material changes in the Company's financial statements.

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

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

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

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:

- **IFRS 16 Leases** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 9 Financial Instruments** - Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 Uncertainty over Income Tax Treatments** – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

**IFRS 16 'Leases'**

General impact of application of IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 becomes effective for accounting periods beginning on or after 1 January 2019 and will supersede the current lease guidance including IAS 17 'Leases' and related interpretations: IFRIC 4 'Determining Whether an Arrangement Contains a Lease', SIC 15 'Operating Leases – Incentives' and SIC 27 'Evaluating the Substance of Transactions in the Legal Form of a Lease'.

The purpose of the new standard is to ease the comparability of the financial statements, presenting both financial and operating leases in the statement of financial position of the lessees, and providing corresponding information to the users of the financial statements about the risks associated with the agreements. In contrast to a lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

The date of initial application of IFRS 16 for the Company will be 1 January 2019.

The Company has chosen the **modified retrospective application** (cumulative catch-up approach) of IFRS 16 in accordance with IFRS 16:C5(b). Consequently, the Company will not restate its comparative figures but will recognize the cumulative effect of adopting IFRS 16 as an adjustment to equity (retained earnings/ uncovered losses) at the date of the initial application.

Impact of the new definition of a lease

IFRS 16 provides a new definition of a lease. However, the Company will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019

The essential element differentiating the definition of a lease under IAS 17 and under IFRS 16 is the concept of control. Pursuant to IFRS 16, an agreement is a lease or contains a lease if it transfers the rights to control the use of an identified asset for a given period in exchange for compensation. Control is considered to exist if the customer has:

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

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

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Company will apply the new definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019.

In preparation for the first time application of IFRS 16, the Company has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Company.

Impact on lessee accounting

The new standard discontinues the differentiation between operating and finance leases in the lessee's books, and requires to recognize a right-of-use asset and lease liability regarding all of the lease agreements except for short-term leases and low asset value leases which are subject to exemptions.

On initial application of IFRS 16, for leases previously classified as operating leases (except as noted below), the Company will recognize right of use assets and lease liabilities in the statement of financial position. The paragraphs below explain the measurement methods that will be applied to those leases.

On initial application of IFRS 16, for each lease separately, the lease liability will be initially measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. Additionally, the Company decided to use following practical expedients in respect of the measurement of these lease liabilities:

- apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

Upon initial application of IFRS 16, a qualifying asset is initially measured at its carrying amount as if IFRS 16 had been applied from the opening date but discounted at the lessee's differential interest rate at the date of initial application.

Additionally, when initially measuring the right-of-use assets, the Company:

- Will rely on its assessment of whether leases are onerous applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review of the right-of-use asset n a date of initial application. As a consequence, the right-of-use asset recognized at the date of initial application will be adjusted by the amount of any provision for onerous leases recognized in the statement of financial position immediately before the date of initial application.
- Will exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.

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

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

Subsequently, the Company will:

(a) Recognize depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss;

(b) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the cash flow statement.

No changes in accounting will be made in case of operating leases which as at 1 January 2019 will have the remaining lease period of 12 months or less, and leases of low-value assets (such as personal computers and office furniture). In those cases, the Company opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16.

As at 31 December 2018, the Company has non-cancellable operating lease commitments of BGN 129 thousand (please refer the Note below). These relate to following lease contracts: rent contracts for office space, whit the maturity more than 12 months.

A preliminary assessment indicates that BGN 129 thousand of these arrangements relate to leases other than short-term leases and leases of low-value assets, and hence the Company will recognize a right-of-use asset of BGN 131 thousand and a corresponding lease liability of BGN 129 thousand in respect of all these leases. The estimated impact on profit or loss in 2019 is to decrease Other expenses – Total administrative expense with BGN (95) thousand and increase of Amortization of right-of-use with BGN 85 thousand, and increase of Interest expense with BGN 4 thousand.

Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under IFRS 16 would be to reduce the cash generated by operating activities with BGN 10 thousand, and decrease of net cash flows used in financial activity with BGN 4 thousand.

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

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

The summary of the financial impact on adopting IFRS 16 is presented in the table below (related only to leases entered or modified before 1 January 2019):

| *In thousands of BGN* | 01/01/2019 | Year ended 31/12/2019 |
|---|---|---|
| Right-of-use asset | 131 | |
| Lease liability | 129 | |
| Expected impact on statement of comprehensive income: | | |
| - Increase of depreciation | | 85 |
| - Increase of interest expense | | 4 |
| - Decrease of other expenses | | (95) |
| Expected impact on statement of cash flows: | | |
| - Increase of net cash flow from operating activities | | 10 |
| - Decrease of net cash flows from financing activities | | (4) |

The initial application of IFRS 16 to the Company as of 1 January 2019 will have no material and expected impact on financial performance, banking arrangements, and other arrangements as they exist.

## 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***

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 interpretation, which were not endorsed for use in EU as at the date of publication of financial statements(the effective dates stated below is for IFRS in full):

- **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 1 January 2021),
- **Amendments to IFRS 3 Business Combinations** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period).
- **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 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors** - Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- **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 1 January 2019),
- **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 1 January 2019),
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

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 principle 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 reporting date.

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

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

The Company keeps its accounting in the 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.

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 maturated instalment/s of loan.

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*

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, 2018 and 2017 is as follows:

| Assets | Period |
|---|---|
| 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 it's carrying value. When it is not possible to determine the recoverable amount of a separate asset the recoverable amount of a Company 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.

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

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

If the recoverable amount of the asset (or Company 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.

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, 2018 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 31, 2018 where: BGN 1.95583 = EUR 1 (fixed rate according to the Currency Board Agreement) and BGN 7.60313 = 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.

## 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 Company 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.

## 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, 2018 and 2017 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.

## 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 excepted 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 cash (monetary) basis.

## 3. Going concern

These financial statements have been prepared on a going concern principle. As of the date of the preparation of the financial statement 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.

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

## 4. Net interest income

| | 2018 | 2017 |
|---|---|---|
| **Interest income** | | |
| Interest on customer loans | 12 513 | 15 712 |
| | **12 513** | **15 712** |
| **Interest expenses** | | |
| Loans | (4 624) | (7 271) |
| Financial leasing | (9) | (11) |
| | (4 633) | (7 282) |
| **Net interest income** | **7 880** | **8 430** |

## 5. Impairment losses on loans to customers

| | *In thousand BGN* |
|---|---|
| **Impairment losses on loans to customers as of 31 December 2017 (IAS 39)** | **70 810** |
| Write-off of other receivables from customers as of 1 January 2018 (IFRS 9) | 5 979 |
| Effect from recognition of expected credit losses (IFRS 9) | 10 020 |
| **Total effect from first time adoption of IFRS 9** | **15 999** |
| **Impairment losses on loans to customers as of 1 January 2018** | **80 830** |
| Net increase of the impairment losses for the period | 9 295 |
| Write-off of impairment of sold loan portfolio | (44 681) |
| **Impairment losses on loans to customers as of 31 December 2018 (IFRS 9)** | **45 444** |

## 6. Net fees and commissions cost

| | 2018 | 2017 |
|---|---|---|
| Bank fees | (48) | (48) |
| Guarantee expenses for received loans | (480) | (396) |
| Court expenses, arbitrary charges and bailiff fees | (988) | (885) |
| Commissions costs on collection of receivables | (873) | (885) |
| Commissions costs on sales of loans not included in effective interest rate calculation | (613) | (692) |
| Other income and expenses | 203 | (270) |
| **Net fees and commissions cost** | (2 799) | (3 176) |

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

## 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.

Other income and expenses include mainly write-off of receivables and 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, etc.

All amounts are in thousand Bulgarian Levs, except otherwise stated

## 7. General and administrative expenses

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

| | 2018 | 2017 |
|---|---|---|
| *Staff costs* | | |
| Employee benefits | 4 530 | 4 597 |
| Social security and health insurance costs | 681 | 664 |
| Other staff costs and remuneration of the managing directors | 220 | 340 |
| Total | **5 431** | **5 601** |
| *Other administrative costs* | | |
| Advertising and marketing | 1 178 | 1 218 |
| Rent | 708 | 687 |
| Other administrative costs | 610 | 458 |
| Travel allowance | 31 | 40 |
| Telecommunications and mail services | 257 | 250 |
| Office consumables and cleaning | 217 | 219 |
| Energy | 213 | 212 |
| Consulting services | 167 | 454 |
| Verification of data | 125 | 124 |
| Office equipment and furniture | 28 | 35 |
| Security | 49 | 49 |
| **Total** | **3 583** | **3 746** |
| *Depreciation/amortization of assets* | | |
| Depreciation of property, plant and equipment (note 15) | 219 | 242 |
| Amortization of intangible assets (note 16) | 11 | 11 |
| **Total** | **230** | **253** |
| **Total general and administrative costs** | **9 244** | **9 600** |

In 2018 the Company recognised expenses related to the audit of the annual statutory financial statements at the amount of BGN 56 thousand (2017: BGN 64 thousand).

All amounts are in thousand Bulgarian Levs, except otherwise stated

## 7. General and administrative expenses (continued)

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

| | 2018 | 2017 |
|---|---|---|
| Short-term income (including social security) | 332 | 301 |
| **Total** | **332** | **301** |

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 43 thousand (2017: BGN 42 thousand) and as employee benefits, amounting to BGN 289 thousand (2017: BGN 259 thousand) (note 25).

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

| | 2018 | 2017 |
|---|---|---|
| Managing directors | 4 | 4 |
| Employees | 193 | 197 |
| **Total** | **197** | **201** |

The number of employees as of December 31, 2018 is 197 (2017: 201).

## 8. Net additional services income

| | 2018 | 2017 |
|---|---|---|
| Additional services income | 15 581 | 13 234 |
| Additional services costs | (2 060) | (1 520) |
| **Net additional services income** | **13 521** | **11 714** |

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

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.

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 increased number of contracts with clients for additional services packages signed during the period as compared to prior year.

All amounts are in thousand Bulgarian Levs, except otherwise stated

## 9. Other operating expenses, net

| | 2018 | 2017 |
|---|---|---|
| Services rendered by related parties, incl. VAT | (690) | (604) |
| Tax expenses and tax charges (road tax, garbage fee, etc.) | (194) | (30) |
| FX losses, net | (2) | (5) |
| Other expenses | -- | (59) |
| Other income | 4 647 | 59 |
| **Total** | **3 761** | **(639)** |

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.

Other income includes receivables from sales (ceding) from customers amounting to BGN **4 596** thousand.

## 10. Income tax

### *(a) Tax expenses*

| | 2018 | 2017 |
|---|---|---|
| Current tax expenses | -- | -- |
| Deferred tax assets changes | (8) | 39 |
| **Income/(expense) tax for the year** | **(8)** | **39** |

Current income tax for 2018 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:

| | 2018 | 2017 |
|---|---|---|
| Profit/(Loss) before taxation | 3 824 | (7 318) |
| Income tax at tax rate of 10% | (382) | 732 |
| Tax non-deductible expenses | -- | (20) |
| Impact of deferred taxes not recognized | 382 | (673) |
| Recognized deferred tax | (8) | -- |
| Income/(expense) tax for the year | **(8)** | **39** |

All amounts are in thousand Bulgarian Levs, except otherwise stated

## 10. Income tax (continued)

### *(b) Deferred taxes*

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Deferred tax asset | Deferred tax liability | Deferred tax asset | Deferred tax liability |
| Deferred taxes at the beginning of the year | 124 | 43 | 65 | 23 |
| Changes in the deferred taxes | 8 | 16 | 59 | 20 |
| **Deferred taxes at the end of the year** | **132** | **59** | **124** | **43** |

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

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Deferred tax asset | Deferred tax liability | Deferred tax asset | Deferred tax liability |
| Accelerated tax amortization | -- | 59 | -- | 43 |
| Accrued liabilities and provisions | 132 | -- | 124 | -- |
| **Deferred taxes at the end of the year** | **132** | **59** | **124** | **43** |

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 2018, which is 10% (2017: 10%).

Tax losses at the disposal for deduction, recognized and unrecognized tax assets on them as of 31 December 2018 are as follows:

| Tax losses arising in | Tax loss | Unrecognized deferred tax assets | Recognized deferred tax assets | Expires in |
|---|---|---|---|---|
| 2016 | 2 025 | 202 | -- | 2021 |
| 2017 | 6 979 | 698 | -- | 2022 |
| TOTAL | **9 004** | **900** | -- | |

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

## 10. Income tax (continued)

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 |
|---|---|---|---|---|
| 2016 | 6 270 | 627 | - | 2021 |
| 2017 | 6 978 | 698 | - | 2022 |
| **TOTAL** | **13 248** | **1 325** | -- | |

## 11. Cash and cash equivalents

| | 2018 | 2017 |
|---|---|---|
| Cash at bank accounts | 699 | 2 073 |
| Cash on hand | 5 | 4 |
| **Total** | **704** | **2 077** |

## 12. Loans to customers

### *(a) Total receivables on granted loans to customers, net*

| | 2018 | 2017 |
|---|---|---|
| Receivables on loans to customers, stated at amortized cost | 72 085 | 110 606 |
| Other receivables from customers stated at amortized cost | - | 7 871 |
| **Gross receivables on loans to customers** | **72 085** | **118 477** |
| Allowances for impairment loss on loans to customers stated at amortized cost | (45 445) | (70 810) |
| Allowances for impairment loss on other receivables from customers stated at amortized cost | - | (1 892) |
| **Total receivables on loans to customers, net** | **26 640** | **45 775** |

The carrying amounts of receivables on loans to customers, used as a collateral on the received loans as of December 31, 2018 amounts to BGN 26 640 thousand (2017: BGN 45 775 thousand). Loans and advances to customers decreased due to the sale (assignment) of loans with a carrying amount of BGN 49,933 thousand and accumulated impairment of BGN 44,681 thousand at the date of sale.

As of 1 January 2018 other receivables from customers for the total of 5 979 thousand BGN have been written off in accordance with the new impairment model for loans to customers implemented by the Company with the first time adoption of IFRS 9.

All amounts are in thousand Bulgarian Levs, except otherwise stated

## 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, 2018 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 | 17 703 | -- | 17 703 | (2 681) | 15 022 | 15.14% |
| Overdue receivables /instalments/ on loans | 54 382 | -- | 54 382 | (42 764) | 11 618 | 78.64% |
| Other overdue receivables on loans | -- | -- | -- | -- | -- | -- |
| **Total** | **72 085** | | **72 085** | **(45 445)** | **26 640** | **63.04%** |

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% |
| **Total** | **118 477** | | **118 477** | **(72 702)** | **45 775** | **61.36%** |

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

## 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, 2018 include the following categories:

| | Gross amount of the portfolio | Impairment losses | Carrying amount | (%) |
|---|---|---|---|---|
| Non-overdue loans to customers | 17 703 | (2 681) | 15 022 | 56.39% |
| Loans to customers with delay between 1 and 60 days | 8 626 | (3 606) | 5 020 | 18.84% |
| Loans to customers with delay over 60 days | 45 756 | (39 158) | 6 598 | 24.77% |
| Receivables from customers related to penalties and other court receivables with delay over 60 days | -- | -- | -- | -- |
| **Total receivables on loans to customers** | **72 085** | **(45 445)** | **26 640** | **100.00%** |

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% |
| **Total receivables on loans to customers** | **118 477** | **72 702** | **45 775** | 100.00% |

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

| | 2018 | 2017 |
|---|---|---|
| Individuals | 26 606 | 45 747 |
| Business loans | 34 | 28 |
| **Total** | **26 640** | **45 775** |

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

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

All amounts are in thousand Bulgarian Levs, except otherwise stated

## 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 31.12.2018 | 15 658 | 9 793 | 4 139 | 6 997 | 35 498 |
| Loans as of 31.12.2017 | 32 110 | 4 168 | 3 938 | 8 288 | 62 102 |

The Company performs an ageing analysis and classification of receivables from customers based on an amortized balance (31.12.2017: 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

| | 2018 | 2017 |
|---|---|---|
| Deposits on contracts for leased offices | 78 | 76 |
| Prepaid advances to suppliers and employees | 281 | 128 |
| Receivables from cash collection companies | 639 | 775 |
| Other receivables | 160 | 102 |
| **Total** | **1 158** | **1 081** |

## 14. Inventories

As of the date of the statement of financial position the Company has marketing and advertising materials at stock amounting to BGN 5 thousand (2017: BGN 6 thousand). The Company has not recognized costs for the impairment of the inventories.

All amounts are in thousand Bulgarian Levs, except otherwise stated

## 15. Property, plant and equipment

| | Cars | Computers | Office equipment | Other tangible assets | Cost of acquisition | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| 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 |
| **Accumulated depreciation** | | | | | | |
| 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 |
| **Net book value as at 1/1/2017** | **321** | **199** | **2** | **59** | **152** | **733** |
| **Net book value as at 31/12/2017** | **233** | **190** | **1** | **49** | **118** | **591** |
| **Cost** | | | | | | |
| Balance as at 1/1/2018 | 760 | 669 | 139 | 157 | 118 | 1 843 |
| Additions | -- | 208 | -- | 12 | -- | 220 |
| Disposals | (26) | (13) | -- | (6) | -- | (45) |
| Balance as at 31/12/2018 | 734 | 864 | 139 | 163 | 118 | 2 018 |
| **Accumulated depreciation** | | | | | | |
| Balance as at 1/1/2018 | (527) | (479) | (138) | (108) | -- | (1 252) |
| Depreciation for the year | (111) | (88) | -- | (20) | -- | (219) |
| Of the disposals | 26 | 11 | -- | 6 | -- | 43 |
| Balance as at 31/12/2018 | (612) | (556) | (138) | (122) | -- | (1 428) |
| **Net book value as at 1/1/2018** | **233** | **190** | **1** | **49** | **118** | **591** |
| **Net book value as at 31/12/2018** | **122** | **308** | 1 | **41** | **118** | **590** |

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

All amounts are in thousand Bulgarian Levs, except otherwise stated

## 16. Intangible assets

| | Software | Others | Cost of acquisition | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance as at 1/1/2016 | 106 | 46 | -- | 152 |
| Additions | 16 | 6 | 476 | 498 |
| Disposals | -- | 29 | -- | 29 |
| Balance as at 31/12/2016 | 122 | 23 | 476 | 621 |
| **Accumulated amortization** | | | | |
| Balance as at 1/1/2016 | 95 | 31 | -- | 126 |
| Amortization for the year | 7 | 4 | -- | 11 |
| Of the disposals | -- | 29 | -- | 29 |
| Balance as at 31/12/2016 | 102 | 6 | -- | 108 |
| **Net book value as at 1/1/2016** | 11 | 15 | -- | 26 |
| **Net book value as at 31/12/2016** | 20 | 17 | 476 | 513 |
| **Cost** | | | | |
| Balance as at 1/1/2018 | 122 | 23 | 476 | 621 |
| Additions | 14 | 6 | 823 | 842 |
| Disposals | -- | -- | -- | -- |
| Balance as at 31/12/2018 | 136 | 29 | 1 299 | 1 464 |
| **Accumulated amortization** | | | | |
| Balance as at 1/1/2018 | (102) | (6) | -- | (108) |
| Amortization for the year | (6) | (5) | -- | (11) |
| Of the disposals | -- | -- | -- | -- |
| Balance as at 31/12/2018 | (108) | (11) | - | (119) |
| **Net book value as at 1/1/2018** | 20 | 17 | 476 | 513 |
| **Net book value as at 31/12/2018** | 28 | 18 | 1 299 | 1 345 |

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** | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Up to 1 year | 104 | 141 | 96 | 133 |
| Between 1 and 5 years | 172 | 164 | 166 | 156 |
| **Total** | 276 | 305 | 262 | 289 |
| Deferred finance expenses | 14 | 16 | -- | -- |
| Current value of the liabilities of financial lease | 262 | 289 | 262 | 289 |
| Due up to 1 year | 96 | 133 | 96 | 133 |
| Due over 1 year | 166 | 156 | 166 | 156 |

## 18. Other loans received

In 2018 and 2017 the Company has received the following non-bank loans:

| As of 31.12.2018 | 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 |
|---|---|---|---|---|---|---|---|
| Creditor 1 | EUR | 7 694 | 15 048 | 13.77 % | 50 | 14 998 | Pledge on receivables from customers, pledge on company shares and promissory note. Guarantee issued by Parent company |
| **Creditor 2** | EUR | 4 579 | 8 956 | 6.5% | 8 956 | -- | |
| **Total** | | | **24 004** | | **9 006** | **14 998** | |

| 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 |
|---|---|---|---|---|---|---|---|
| Creditor 1 | EUR | 18 118 | 35 436 | 15.0% | 1 123 | 34 313 | Pledge on receivables from customers, pledge on company shares and promissory note. Guarantee issued by Parent company |
| **Creditor 2** | EUR | 5 491 | 10 739 | 6.32% | 10 739 | -- | -- |
| **Total** | | | **46 175** | | **11 862** | **34 313** | |

## 19. Other liabilities

| | 2018 | 2017 |
|---|---|---|
| Suppliers | 267 | 568 |
| Staff | 829 | 949 |
| Current liabilities for cash commissions of hired staff (loan experts, collectors, team managers) | 321 | 318 |
| Social and health insurance | 164 | 160 |
| Tax liabilities | 75 | 54 |
| Guarantee liabilities | 32 | 63 |
| Total | 1 688 | 2 112 |

All amounts are in thousand Bulgarian Levs, except otherwise stated

## 20. Provisions

| | Provision for additional services claims | Other provisions | Total |
|---|---|---|---|
| **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** |
| **Balance as of January 1, 2018** | **26** | -- | **26** |
| Accrued provision | 2 060 | -- | 2 060 |
| Utilized provision | (2 103) | -- | (2 103) |
| **Balance as of December 31, 2018** | **(17)** | -- | **(17)** |

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, 2018 is at the amount of BGN 15 000 thousand (2017: BGN 14 028 thousand) and is allocated as follows:

| | As of 31.12.2018 | % | As of 31.12.2017 | % |
|---|---|---|---|---|
| Profireal Group S.E., the Netherlands | 15 000 | 100% | 14 028 | 100% |
| | **15 000** | **100%** | **14 028** | **100%** |

## 22. Equity

As of December 31, 2018 the Company reports negative equity at the amount of BGN 4 578 thousand (negative equity in 2017: BGN 1 522 thousand).

All amounts are in thousand Bulgarian Levs, except otherwise stated

## 23. Financial instruments and risk management

### 23.1 Categories of financial instruments

| | 2018 | 2017 |
|---|---|---|
| Financial assets | | |
| Cash and cash equivalents | 704 | 2 077 |
| Loans to customers | 26 640 | 45 775 |
| Other receivables | 639 | 775 |
| **Total financial assets** | **27 983** | **48 627** |

| | 2018 | 2017 |
|---|---|---|
| Financial liabilities | | |
| Liabilities on finance lease | 262 | 289 |
| Other loans received | 24 004 | 46 175 |
| Other liabilities | 620 | 949 |
| **Total financial liabilities** | **24 886** | **47 413** |

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.

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. Therefor 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.

The table below shows the movements in the gross value of the loans granted:

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Opening balance at 01.01.2018** | 17 844 | 6 885 | 85 877 | **101 606** |
| Transfer to stage 1 | (1 210) | 1 019 | 3 884 | **3 693** |
| Transfer to stage 2 | (1 697) | (435) | 3 683 | **1 551** |
| Transfer to stage 3 | 5 103 | 24 | 1 041 | **6 168** |
| Sale of loans | - | - | (49 933) | **(49 933)** |
| **Closing balance at 31.12.2018** | 20 040 | 7 493 | 44 552 | 72 085 |

The table below shows the movement of the write-down for impairment of loans:

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Opening balance at 01.01.2018** | 2 793 | 3 262 | 74 776 | 80 831 |
| Transfer to stage 1 | 2 679 | 518 | 3 284 | 6 481 |
| Transfer to stage 2 | (267) | (155) | 2 954 | 2 532 |
| Transfer to stage 3 | (1 860) | 194 | 1 948 | 282 |
| Sale of loans | - | - | (44 681) | (44 681) |
| **Closing balance at 31.12.2018** | 3 345 | 3 819 | 38 281 | 45 445 |

All amounts are in thousand Bulgarian Levs, except otherwise stated

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

### 23.2 Risk management (continued)

***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 31.12.2018 | 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 | -- | 24 | 72 | 166 | -- |
| Other loans received | -- | 10 730 | 5 375 | 8 473 | 33 543 |
| Other liabilities | -- | 922 | -- | -- | -- |
| Total | | 11 676 | 5 448 | 8 639 | 33 543 |

| 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 | -- | -- | -- |
| Total | | 24 689 | 3 883 | 24 062 | 68 758 |

All amounts are in thousand Bulgarian Levs, except otherwise stated

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

### 23.2 Risk management (continued)

#### *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 2018 and 2017 is presented in the table below:

| Currency risk as of 31.12.2018 | BGN | EUR | CZK | Total BGN |
|---|---|---|---|---|
| Assets | | | | |
| Cash and cash equivalents | 293 | 411 | -- | 704 |
| Customer loans | 26 640 | -- | -- | 26 640 |
| Other receivables | 639 | -- | -- | 639 |
| **Total assets as of 31.12.2018** | **27 572** | **411** | **--** | **27 983** |
| **Liabilities** | | | | |
| Liabilities on finance lease | -- | 262 | -- | 262 |
| Other loans received | -- | 24 004 | -- | 24 004 |
| Other liabilities | 835 | 42 | 45 | 922 |
| **Total liabilities as of 31.12.2018** | **835** | **24 308** | **45** | **25 188** |
| **Currency risk as of 31.12.2018** | **26 737** | **( 23 897)** | **(45)** | **2 795** |

All amounts are in thousand Bulgarian Levs, except otherwise stated

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

### 23.2 Risk Management (continued)

#### *c) Currency risk (continued)*

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

The Company operates mainly in EUR and BGN. Costumer 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.

#### *d) Interest rate risk*

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 PROFI 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:

| | 2018 | 2017 |
|---|---|---|
| **Assets** | | |
| Customer loans | 20.83% | 33.26% |
| **Liabilities** | | |
| Bank loans | -- | |
| Other received loans | 11.18% | 13.81% |
| Liabilities on finance lease | 4.05% | 4.58% |

All amounts are in thousand Bulgarian Levs, except otherwise stated

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

### 23.2 Risk Management (continued)

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 and debt sale. 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.

#### *e) 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, 2018 and 2017 is as follows:

| | 2018 | 2017 |
|---|---|---|
| Liabilities on finance lease | 262 | 289 |
| Other loans received | 24 004 | 46 175 |
| Decreased with: Cash and cash equivalents | (704) | (2 077) |
| **Net liabilities** | 23 562 | 44 387 |
| Equity | 15 000 | 14 028 |
| Total liabilities and equity | 38 562 | 58 415 |
| Debt ratio | 61% | 76% |

## 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*

| | 2018 | 2017 |
|---|---|---|
| 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 PROFI 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.

## 25. Related party transactions

### *(a) Receivables and payables*

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

| | Receivables | | Payables | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Profi Credit Czech a.s. | -- | -- | 78 | 132 |
| Profireal Group | -- | -- | 33 | 65 |
| **Total** | -- | -- | **111** | **197** |

The payable to Profi Credit Czech a.s. as of December 31, 2018 includes: payable for received consulting services amounting to BGN 46 thousand (2017: BGN 92 thousand) and payable for use of trade mark amounting to BGN 32 thousand (2017: BGN 40 thousand).

The payable to Profireal Group as at 31 December 2018 includes: an obligation for a guaranteed loan of BGN 32 thousand (BGN 2017: 64 thousand) and an obligation to receive consultancy services amounting to BGN 1 thousand (2017 : BGN 1 thousand).

All amounts are in thousand Bulgarian Levs, except otherwise stated

## 25. Related party transactions (continued)

### *(b) Sales and purchases*

| | Sales for the period | | Purchases for the period | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Profi Credit a.s. the Czech Republic | -- | -- | 655 | 595 |
| Other related parties | -- | -- | -- | 7 |
| **Total** | **--** | **--** | **655** | **602** |

### *(c) Interests and loan guarantees*

| | Interest expense | | Interest income | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Profireal Group | 480 | 845 | -- | -- |
| Profi Funding B.V. | 3 696 | 804 | -- | -- |
| **Total** | **4 176** | **1 649** | **--** | **--** |

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

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

| | 2018 | 2017 |
|---|---|---|
| Number of members | 4 | 4 |
| Remuneration accrued | 314 | 283 |
| Other (social security, health insurance, etc.) | 18 | 18 |
| **Total** | **332** | **301** |

## 26. Events after the reporting date

As at the date of the financial statements there are changes in the management of the Company:

• Ondrej Lokvenc has resigned as Managing director and in his place Jaroslaw Krzysztof Czulak was appointed. The change was registered on March 22, 2019 in the Commercial Register at the Registry Agency;

• Irina Haralampieva Georgieva has resigned as a Managing director and in her place Tsvetelina Georgieva Staneva was appointed. The change was registered on 24 April 2019 in the Commercial Register at the Registry Agency.

The way of representation of the Company is preserved, namely: always two managers together.