creditstar group

Consolidated Annual Report 2020

CREDITSTAR GROUP AS

Creditstar is an international consumer finance company. We use technology, automated processes, algorithms and data analysis to make our credit products easily available to hundreds of thousands of customers in 8 countries in Europe.

Table of Contents

General Information

Business name	**Creditstar Group AS**
Address	**Lõõtsa 5**
	11415 Tallinn
	Estonia
Registration code	**11728905**
Registration date	**05 October 2009**
Telephone	**+372 6 988 710**
Fax	**+372 6 531 508**
E-mail	**info@creditstar.com**
Web page	**www.creditstar.com**
Main activity	**EMTAK 64929 (Other lending activity, except for pawn shops)**
Beginning of fiscal year	**01. January 2020**
End of fiscal year	**31. December 2020**
Management Board	
Member of the Management Board	**Aaro Sosaar**
Members of the Supervisory Board	**Silva Sosaar**
	Alari Avamägi
	Kristjan Vahar

CONSOLIDATED MANAGEMENT REPORT

Structure of the Consolidation Group

The Creditstar Group consolidation group includes the following companies:

Creditstar Group AS	parent company	Registered in Estonia
Creditstar International OÜ	subsidiary	Registered in Estonia
Creditstar Estonia AS	subsidiary	Registered in Estonia
Monefit Estonia OÜ	subsidiary	Registered in Estonia
Monefit Card OÜ	subsidiary	Registered in Estonia
Creditstar Finland OY	subsidiary	Registered in Finland
Creditstar Sweden AB	subsidiary	Registered in Sweden
Creditstar Lithuania UAB	subsidiary	Registered in Lithuania
Creditstar Poland Sp. z o.o.	subsidiary	Registered in Poland
Creditstar UK Ltd.	subsidiary	Registered in UK
Creditstar Spain S.L.	subsidiary	Registered in Spain
Creditstar Czech s.r.o.	subsidiary	Registered in Czech Republic
Creditstar Denmark ApS	subsidiary	Registered in Denmark

Members of the Management Board and Supervisory Board of Creditstar Group AS

Member of the Management Board: Aaro Sosaar

Members of the Supervisory Board: Silva Sosaar, Alari Avamägi and Kristjan Vahar.

Shareholders of Creditstar Group AS, as of 31 December 2020

SA Financial Investments OÜ, registry code 12718041, owner of 100% of the share capital.

Our skilled professional team of 140 people of more than 30 nationalities is central to successfully executing our growth strategy.

Business Overview

Creditstar Group is a pioneering consumer finance company providing flexible personal loans and complementary financial services to private persons.

Creditstar Group provides consumer credit between 50 and 10 000 Euros to qualifying customers, with repayment terms between five days to six years (or longer in case of revolving credit).

Loan applications can be made through the company's websites, customers' mobile phones and selected trading partners.

We have developed a sophisticated risk analysis and loan approval application process that enables us to make responsible loan decisions quickly, efficiently, and with ease of use for our customers.

In Estonia, Creditstar offers services under Creditstar Estonia and Monefit, one of Estonia's most innovative credit companies. We have transformed the Estonian credit market by providing customers with a faster, more convenient and flexible service than banks.

In 2020, Creditstar rendered its services in Estonia, Finland, Sweden, Poland, UK, Czech Republic, Spain and Denmark.

The Group aims to become a considerable international financial services provider. Creditstar has proven its ability to run an efficient business. We strive to leverage our experience in Estonia to provide good quality financial services in attractive markets.

Latest Milestones and Developments...

monefit | Split

Creditstar Group's wholly-owned subsidiary Monefit Estonia launched a new service called 'Split' in 2020 which allows customers to purchase products immediately but pay at a later date or split the cost over time. The 'Buy Now Pay Slow' payment flexibility gives shoppers more control over how and when they pay. The launch of 'Buy Now Pay Slow' elevates the shopping experience by giving Monefit users flexibility and freedom while making purchases online or in-store. The product is also available post-purchase.

Monefit fills a gap in the market, offering a financing solution for purchases where customers do not prefer point- of-sale or hire-purchase financing, or financing is otherwise unavailable. An example is cross-border e-commerce, where customers make online purchases from a foreign website.

European Business Awards®

European Business Awards

Creditstar Group has won the National Winner Award for Estonia for Customer and Market Engagement in the 2019 European Business Awards. This is the third European Business Awards for Creditstar, having won the Growth Strategy of the Year Award in 2016/17 and International Expansion in 2017/18.

Latest Milestones and Developments...

DECEMBER 2020

Creditstar's successful bond issuance

Creditstar issues new bonds to investors. The bonds are issued with 18-month and 30-month maturities, respectively, with 13% and 13.5% annual interest rates. We are glad to complete another round of bond issues, given the timing of the maturing bonds and circumstances with the second wave of the COVID-19 virus.

NOVEMBER 2020

Creditstar signs new collateral agent

Creditstar signs PricewaterhouseCoopers Legal as the new collateral agent for Creditstar International's Bond Issue Program.

OCTOBER 2020

Creditstar launches Monefit Split in Estonia

Monefit Estonia launches a new service that allows customers to purchase products immediately but pay at a later date or split the cost over time. The 'Buy Now Pay Slow' payment flexibility gives shoppers more control over how and when they pay.

SEPTEMBER 2020

Monefit Estonia becomes a member of the Estonian E-Commerce Association

E-commerce is on the rise, and the COVID-19 pandemic significantly impacted the way people shop. Creditstar purchase-financing products put us in an excellent position to take advantage of this global growth trend.

The Estonian Human Rights Centre grants Creditstar the official Diverse Workplace label

We are recognised for diversity and inclusion, embracing an action plan that is strategically ingrained into our organisational culture.

JUNE 2020

Creditstar's successful bond issuance

Creditstar successfully issues and sells bonds in the total amount of EUR 18,33 million. The bonds are issued with maturities of 12 months and 18 months.

MAY 2020

Creditstar Group updates its corporate visual identity

Along with the outstanding results and recently achieved business milestones, we feel that the timing is fitting to present the updated corporate visual identity of the Group.

MARCH 2020

Creditstar's response to coronavirus (COVID-19)

In addition to the severe implications for people's health and healthcare services, COVID-19 significantly impacts businesses and the economy. Creditstar takes rapid measures to prepare and is ready to respond and emerge stronger from the crisis.

FEBRUARY 2020

Creditstar achieves the 1 million user accounts milestone across its platforms

We surpass the 1 million user accounts milestone across all our markets. We are incredibly proud of this important milestone and that we are building financial services that so many customers like to use.

European Business Awards®

Creditstar Group was selected as one of 10 Ruban d'Honneur recipients for the ELITE Award for Growth Strategy of the Year in the 2016/17 European Business Awards.

More than 33 000 businesses from 34 countries participated in the competition and Creditstar Group was among only 110 finalists announced. The panel of independent judges praised Creditstar for its strong growth and core values of innovation, ethics, and success.

EUROPEAN INNOVATOR NOMINEE EUROPEAN FINTECH AWARDS 2017

Being among the most promising FinTech companies of Europe, Creditstar Group was nominated for the European Fintech Awards 2017 and its European FinTech Top 100 list.

The European FinTech Awards is the place where innovative and disruptive FinTech companies are presented and awarded. The Top 100 list is generated by combining public voting and expert assessment.

Our Products

Revolving credit

Credit account

Works on the principle of revolving credit.

- Extra credit amount can be applied for within a certain limit at any time.
- The period of your monthly instalments can be renewed as one's credit balance revolves.
- Can be repaid in equal monthly instalments.
- Payments can be postponed for up to 30 days.
- Quick and easy user experience from all devices.

Credit line

Works on the principle of revolving credit.

- Extra credit amount can be applied for within a certain limit at any time.
- The credit line is an open-ended credit solution with no set duration.
- Repayments can be made according to minimum monthly instalments.
- Payments can be postponed for up to 30 days.
- Quick and easy user experience from all devices.

Instalment loan

Take advantage of good opportunities or deal with unexpected events, lend up to 10 000 € with periods of up to six years or longer.

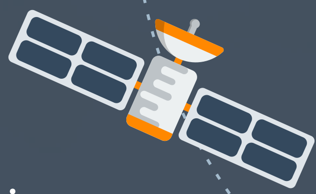
- Repay in equal monthly instalments.
- Postpone payments for up to 30 days.
- Quick and easy user experience from all devices.

Inc. 5000 EUROPE

Inc.5000 has recognised Creditstar Group as one of the fastest-growing companies in Europe in 2018. Creditstar Group is one of the few financial services companies in Estonia to have made the list, and is among the top 150 financial services companies in Europe.

For 37 years, Inc. has evaluated hundreds of thousands of companies worldwide, and Creditstar is honoured to join the exclusive club of Microsoft, Oracle, Facebook, Dyson and dozens of other prominent recent alumni.

We are working hard to make private financial services available to everyone. Our aim is to provide a high level of customer service and financial services that respond to our customers' needs.



Creditstar's mission is to improve people's lives by using technology to provide seamless financial services.

Creditstar's vision is to be recognised as a trusted international leader in digital financial services.

Strategic targets

The company's strategy is to move from a strong local market leader in Estonia to an international financial services provider. The company has proven its ability to run an efficient business. Our aim is to leverage on the experience gained in Estonia to provide financial services of **top-quality** in selected countries.

Our goal is to expand to a stronger and more profitable business by applying similar marketing, technological and debt managing techniques that have proved to be successful in Estonia. Going forward we are committed to our customers, offering them financial services of good quality that are fast, reliable and simple.

Innovative and efficient

With a distinctive innovation, Creditstar intends to offer its customers the chance to have access to easy-to-use financial services with good quality at all times. Innovation and efficiency are the pillars of our strategy, the aim of which is to operate effectively and efficiently everywhere.

Freedom to operate everywhere

Our strategy prescribes constant international operations. Thanks to the convergence and development of international technology, data, communications and financial services, geographical location no longer puts constraints on our business. Using our technology, we are able to rationalise our processes and costs by better controlling our budgets and diversifying workflow across countries.

Core values

Our vision and mission are supported by the following core values: **customer focus, growth, professionalism, innovation** and **effective efficiency**. All the above-mentioned make Creditstar a responsible, friendly, success-driven, and dynamic organization. Whilst being dedicated to our core values, we can provide our customers with the best quality services that are also easy to use. This is exactly what allows us to build a client base of satisfied and loyal customers. Also – whilst consistently following our core values in everything we do, then this ensures us with a stable and professional team. In addition, we are an attractive Employer to other potential talents looking for new challenges.

Customer focus

We provide products and services that are relevant to our customers to establish long-term customer relationships. Whether externally or internally, we interact in a manner that entails integrity, professionalism, and efficient communication.

Growth

We grow organically via geographical expansion, adding new products to the portfolio, and by focusing on scalable solutions. We are also committed to constantly developing ourselves as people and professionals alike.

Professio-nalism

We continuously develop our qualities, skills and competence. We have a clear operations model and take responsibility for our actions. We are a responsible lender, communicating openly and transparently with our customers. We work as a team.

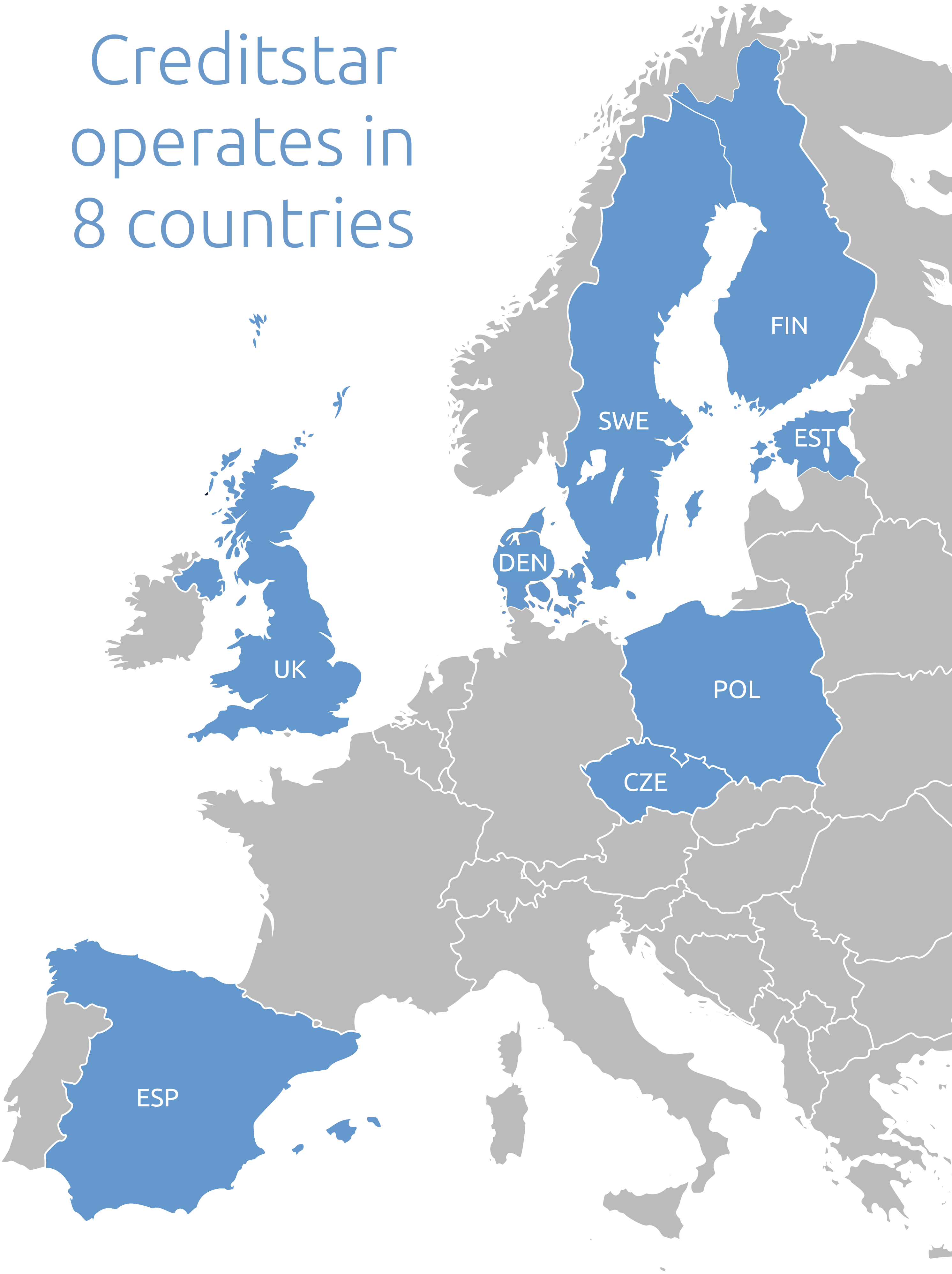
Innovation

We are always looking for ways to improve and embrace creativity. We innovate by encouraging new ideas, supporting trial and error, and focusing on the application of better solutions that meet new and existing needs of our customers.

Effective efficiency

Besides doing the right things, we are also all about doing these things right. Meaning: fast, simply, transparently, and with the best usage of all the dedicated resources whilst achieving the highest possible level of the desired result.

Creditstar operates in 8 countries



Our response to COVID-19

This section provides an overview of Creditstar's response to COVID-19. Throughout the year, our team monitored the situation closely and took measures to ensure that the health of our people and our business was well maintained and risk scenarios considered. Creditstar was able to respond quickly to the crisis and thrive as a result.

Our people

Due to the online nature of our business, our people are not exposed to the risk of infection spreading via face-to-face customer contact. We relocated our staff to home offices and offered remote working flexibility to all business functions to prevent people from getting infected. Ensuring the well-being of our highly professional team is of utmost importance to keep the business running smoothly.
We're lucky to be an online business, and while we're working remotely, the company is running as normal.

How we are helping our customers and managing the existing portfolio

We at Creditstar understand that these can be challenging times for our clients. We provided our customers with solutions such as discounts on extensions and restructured and better-suited repayment schedules. We did all of these initiatives to strengthen our client relationships and help our clients through these difficult times.

- We increased flexibility in debt management processes.
- We expanded repayment extensions possibilities for cases where it was needed.
- We enhanced communication with our clients to provide them comprehensive support and education regarding repayment options and debt restructuring opportunities.
- We reduced fees and simplified concluding agreements.
- We offered free grace periods to frontline healthcare workers who were responding to coronavirus.

Valuable experience from the 2008 financial crisis and resilient business model

Creditstar is in an advantageous position, compared to many other companies, as we have the experience of dealing with our loan portfolio and clients during the time of crisis, as we successfully came through the financial crisis of 2008. Our experience has shown that being proactive with clients and offering good flexibility results in a win-win situation for our business in terms of loan portfolio quality and customers paying their loan payments on time.

Client repayments and non-performing loans (NPLs)

As at any time, we closely monitor our client repayments. We did not see significant decreases in planned incoming funds. We set aside an additional 1.5 million Euros in 2020 of loan impairment charges to cover the possible negative impact of the COVID-19 effects on our loan portfolios.

Our service and new changes in acceptance controls

We have an underwriting strategy that mitigates possible adverse effects from the crisis to unemployment rates. We use IT, underwriting and scoring systems to navigate the changing environment and minimise the number of active customers who face financial difficulties.

How we are doing underwriting and what we have changed

- Emphasis on returning clients and retention.
- We started asking for additional information from clients regarding their solvency and current household financial situation.
- High attention on the business sector of applicant's employer and regular monitoring of impacts in any business sector or employment area.
- We focus on applicants with sustainable employment and verified regular income.
- We avoided sectors most affected by the crisis, such as tourism, accommodation, food service, entertainment/ recreation, and aviation. We are constantly monitoring and making relevant adjustments to the business sectors we are limiting.
- We increase loan issuance to applicants whose probability of default is lower due to the fact that their income originates from companies and industries that remain strong in the changing macroeconomic environment—for example, e-commerce, human health and information, communication and IT sectors. We are constantly monitoring business sectors to increase exposure and making relevant adjustments.
- Data-driven loan decisions and more conservative thresholds.
- We keep focusing on acceptance control for cases of increased short-term demand for our service. Our affordability and creditworthiness checks take into account the latest economic circumstances.

Government stimulus measures

We are monitoring our target countries' governments, which have revealed a range of stimulus policies and measures in response to the growing threat presented to the economies by COVID-19. These stimulus measures, which are likely to be expanded in the near future, aim to assist both consumers and businesses in coping with the effects of quarantine measures on the economy.

Opportunity to emerge strongly from the crisis

At Creditstar, we are confident that the business model is resilient and well managed throughout these unsettling times. As we advance, we believe we can emerge stronger from the crisis and take advantage of the growth opportunities.

Chief Executive's review

GOOD RESULTS FOR 2020 DESPITE THE TURBULENCE OF COVID-19

Aaro Sosaar
CEO

Despite the turbulence of 2020, we've remained focused on growth, growing our portfolio and revenues. We increased our net loan portfolio by 28% to 144 million euros and revenue by 12% to 35.7 million euros compared to 2019.

Due to the online nature of our business, the company has been running as normal throughout the year. Client repayments and non-performing loans have remained within expected levels. Most operating markets have remained resilient, and the overall portfolio quality of the Group has performed to expectations. We are continuing to see strong demand for our products.

I am glad to see that the business model is resilient and has been well managed throughout these times.

In the first quarter of 2020, Creditstar Group celebrated an important milestone - we surpassed the 1 million user accounts milestone across all our markets. We are incredibly proud of this important milestone and thank each and every one of our highly talented team for their contribution towards the building of the financial services so many customers like to use and for making Creditstar Group the leading consumer finance company.

In 2020, Creditstar Group continued to see strong results from our credit line product operating under the brand Monefit. Monefit is similar to a credit card but without the actual card. Lenders are granted a credit line (currently up to 10 000 euros), which can be used at any time.

creditstar group

In the second half of 2020, we expanded our Monefit offering by introducing a new service called 'Split', which allows customers to purchase products immediately but pay at a later date or split the cost over time. This flexibility gives shoppers more control over how and when they pay. The launch of 'Buy Now Pay Slow' elevates the shopping experience by giving Monefit users flexibility and freedom while making purchases online or in-store. The product is also available post-purchase.

E-commerce is on the rise, and the COVID-19 pandemic has impacted the way people shop significantly. Monefit Split and other Creditstar purchase-financing products in development put us in an excellent position to take advantage of this global growth trend. In September, Monefit Estonia also became a member of the Estonian E-Commerce Association.

In 2020 Creditstar was granted the official Diverse Workplace label by the Estonian Human Rights Centre. We have been recognised for having a strong diversity and inclusion strategy, embracing an action plan ingrained into our organisational culture.

Furthermore, Creditstar was successful in raising capital in 2020. In the beginning of June and December, Creditstar issued new bonds to investors. We are glad to have successfully completed these rounds of bond issues, given the timing of the maturing bonds and circumstances with the COVID-19 virus. The proceeds were used to redeem maturing bonds and to finance loan portfolio growth across multiple markets.

The abovementioned are only some of the highlights amongst many other successes achieved in 2020.

In 2021, we continue to see strong growth opportunities in our markets. We expect to continue growing credit volumes, and lending remains focused on higher-quality customers.

We plan to further expand our product offerings in the current markets by focusing on increasing our credit line products and providing solutions for purchases financing.

I am confident that the challenges faced and the developments made during the year 2020 position Creditstar Group as a business to grow substantially in the future. I believe we are emerging stronger from the crisis, taking advantage of the growth opportunities.

Aaro Sosaar
Chief Executive Officer

We have state of the art in-house technology.

16

Main economic indicators and ratios

(In thousands euros)

Balance sheet indicators	31.12.2020	31.12.2019
Total assets	159 954	123 130
Gross loan portfolio	180 125	140 593
Impairments to portfolio	-35 362	-28 186
Notes issued	56 962	49 692
Other borrowings	68 696	44 937
Equity	30 632	24 391

Income statement indicators	01.01.2020-31.12.2020	01.01.2019-31.12.2019
Interest income	35 808	31 659
Interest expense	-13 939	-9 967
Net interest income	21 869	21 692
Personnel expenses	-4 578	-3 401
Operating expenses	-8 648	-8 410
Loan impairment charges and write-offs	-7 648	-6 252
Depreciation of fixed assets	-592	-874
Profit for the year	5 497	5 345

Financial ratios	31.12.2020	31.12.2019
Return on equity (ROE)	17,95%	21,91%
Profit margin (PM)	15,35%	16,88%
Asset utilization (AU)	22,39%	25,71%
Equity multiplier (EM)	5.22	5.05

Explanation of financial ratios:

- Return on equity (ROE) – net income expressed as a percentage of owner's equity
- Profit margin (PM) – ratio of profitability against total revenue
- Asset utilization (AU) – ratio of total revenue against overall assets
- Equity multiplier (EM) – overall assets ratio against equity

We have a proven product strategy that meets our customers' needs.

We have over 1 000 000 registered customer accounts.

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

(In thousands euros)

	01.01.2020-31.12.2020	01.01.2019-31.12.2019	Note
Interest income	35 808	31 659	2
Interest expense	-13 939	-9 967	2
Net interest income	**21 869**	**21 692**	
Loan impairment and write-off charges	-5 448	-6 252	2
Other operating income	3 970	2 492	3
Operating expenses	-8 648	-8 410	3
Wages and salaries	-4 578	-3 401	
Depreciation of material and immaterial assets	-592	-874	6
Currency exchange costs	-62	-39	
Operating profit	**6 511**	**5 208**	
Corporate income tax	104	-127	1
Net profit for the year	**6 615**	**5 082**	
Currency re-evaluation effects	-1 118	263	
Total comprehensive income	**5 497**	**5 345**	

CONSOLIDATED BALANCE SHEET

(In thousands euros)

Assets	31.12.2020	31.12.2019	Note
Cash	1 533	1 765	
Short-term loans to customers	22 437	15 888	4
Other receivables and prepayments	3 948	2 923	5
Total current assets	**27 918**	**20 576**	
Long-term loans to customers	122 326	96 519	4
Tangible fixed assets	252	-	
Intangible fixed assets	9 458	6 035	6
Total non-current assets	**132 036**	**102 554**	
Total assets	**159 954**	**123 130**	

Liabilities and equity			
Short-term borrowings	101 600	69 456	7
Payables and prepayments	2 667	2 614	8
Total current liabilities	**104 267**	**72 070**	
Long-term borrowings	25 055	26 669	7
Total long-term liabilities	**25 055**	**26 669**	
Total liabilities	**129 322**	**98 739**	

Equity			
Issued capital	21 000	21 000	9
Other reserves	1 806	606	
Mandatory reserve	325	325	
Retained earnings	7 501	2 460	9
Total equity	**30 632**	**24 391**	
Total liabilities and equity	**159 954**	**123 130**	

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
03. 12. 2021
Signature / allkiri ....
KPMG, Tallinn

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In thousands euros)

	Issued capital	Retained earnings	Legal reserve	Other reserves	Total
As at 31 December 2018	9 765	**7 115**	**325**	**2 000**	**19 208**
Profit for the period	-	5 345	-	-	5 345
Increase of issued capital	11 235	-9 973	-		1 262
Increase of voluntary reserves	-	-	-	-1394	-1 394
Other changes	-	-27	-	-	-27
As at 31 December 2019	**21 000**	**2 460**	**325**	**606**	**24 391**
Payment of dividends	-	-813	-	-	-813
Profit for the period	-	5 497	-	-	5 497
Increase of voluntary reserves	-	-	-	1 200	1 200
Other changes	-	357	-	-	357
As at 31 December 2020	**21 000**	**7 501**	**325**	**1 806**	**30 632**

Equity is owned 100% by shareholders of the Group.

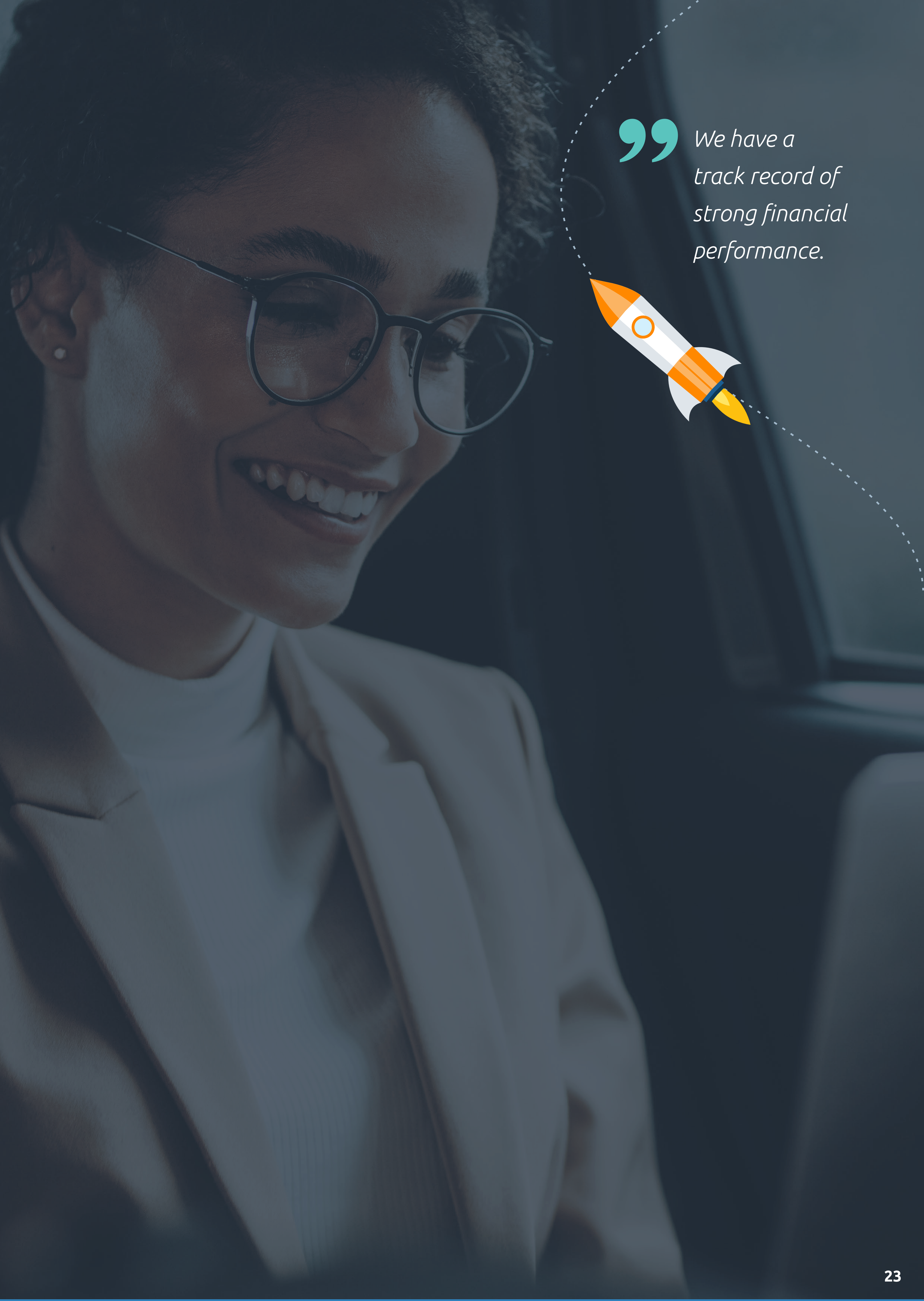
Additional information about changes in equity is presented in Note 1 and 9.

CONSOLIDATED CASH FLOW STATEMENT

(In thousands euros)

Operating activities	01.01.2020-31.12.2020	01.01.2019-31.12.2019	Note
Comprehensive profit for the year	6 616	5 082	
Adjustment to net profit			
thereof depreciation of assets	592	874	6
thereof interest income	-35 808	-31 659	
thereof interest expenses	13 939	9 967	2
thereof re-evaluation of immaterial assets	-3 634	-2 421	6
thereof loan impairment allowances	7 176	5 730	2
Change in operating assets			
thereof loans to customers	-34 336	-31 051	4
thereof other receivables and prepayments	-1 025	-437	5
Interest received	30 612	27 663	
Change in operating liabilities	53	748	8
Net cash flow from operating activities	**-15 815**	**-15 504**	

Financing activities			
Proceeds from notes issued and other borrowed funds	27 979	20 192	
Repayment of notes issued and other borrowed funds	-18 016	-8 492	
Other financing	21 066	13 582	
Interest paid	-14 438	-9 056	
Dividends paid incl. CIT	-813	0	
Total cash flow from financing activities	**15 778**	**16 226**	
Total cash flow	**-37**	**722**	
Cash and cash equivalents in the beginning	**1 765**	**939**	
Change in cash and cash equivalents	-37	722	
FX impact	-195	104	
Cash and cash equivalents at closing	**1 533**	**1 765**	



We have a track record of strong financial performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Accounting policies and procedures used for preparation of the financial statements

General information

The consolidated financial statements of Creditstar Group AS (hereinafter also the Parent Company) and its subsidiaries have been prepared in accordance with Estonian Financial Reporting Standard - a set of financial reporting requirements based on internationally recognized accounting and reporting principles. The financial statements have been prepared in thousands of euros, unless otherwise indicated.

Main changes in 2019 balances:

INCOME STATEMENT	Previous report	Current report	Difference
Interest income	31 905	31 659	-246
Other income	1 402	2 492	1 090
Operating expenses	-7 172	-8 410	-1 238
Depreciation of assets	-483	-874	-391

BALANCE SHEET	Previous report	Current report	Difference
Other receivables and prepayments	4 254	2 923	-1 331
Intangible fixed assets	5 336	6 035	699
Short-term borrowings	71 838	69 456	-2 382
Long-term borrowings	24 269	26 669	2 400

Interest income – Correction to accrued interest revenues due to updated system reports

Other income – Re-evaluation of immaterial assets was initially presented as capitalization of operating expenses

Operating expenses – Re-evaluation of immaterial assets was initially presented as capitalization of operating expenses

Depreciation of assets – Depreciation to subsidiaries purchase value was implemented

Other receivables and prepayments – Capitalization of operating expenses was initially presented here but in current report it was replaced with re-evaluation and information was presented in intangible fixed assets group

Intangible fixed assets – See explanation to “Other receivables and prepayments” and “Depreciation of assets”

Short-term borrowings – Part of long-term liability was initially presented as short-term liability

Long-term borrowings – Part of long-term liability was initially presented as short-term liability

The Group comprises the following subsidiaries of Creditstar Group AS (the Parent Company):

Creditstar International OÜ

Creditstar Estonia AS

Monefit Estonia OÜ

Monefit Card OÜ

Creditstar Finland OY

Creditstar Sweden AB

Creditstar Lithuania UAB

Creditstar Poland Sp. z o.o.

Creditstar UK Ltd.

Creditstar Spain S.L.

Creditstar Czech s.r.o.

Creditstar Denmark ApS

Creditstar International OÜ is a company registered in Estonia. The main objective of the company is management of investments. Creditstar International OÜ was founded by the parent company in November 2010.

Creditstar Estonia AS is a company registered in Estonia. The main objective of Creditstar Estonia AS is financing of private persons in Estonia. The business plan and procedures of the company comply with the Group policy and company reports are presented as consolidated line-by-line. Creditstar Estonia AS has been a part of the Group since July 2010.

Monefit Estonia OÜ is a company registered in Estonia. The main objective of Monefit Estonia OÜ is financing of private persons in Estonia. The business plan and procedures of the company comply with the Group policy and company reports are presented as consolidated line-by-line. Monefit Estonia OÜ has been a part of the Group since April 2013.

Monefit Card OÜ is a company registered in Estonia. The business plan and procedures of the company comply with the Group policy and company reports are presented as consolidated line-by-line. Monefit Card OÜ has been a part of the Group since April 2016. The company is not engaged in active economic activities.

Creditstar Finland OY is a company registered in Finland. The main objective of Creditstar Finland OY is financing of private persons in Finland. The business plan and procedures of the company comply with the Group policy and company reports are presented as consolidated line-by-line. Creditstar Finland OY has been a part of the Group since July 2010.

Creditstar Sweden AB is a company registered in Sweden. The main objective of Creditstar Sweden AB is financing of private persons in Sweden. The business plan and procedures of the company comply with the Group policy and company reports are presented as consolidated line-by-line. Creditstar Sweden AB was founded by the parent company in March 2011.

Creditstar Lithuania UAB is a company registered in Lithuania. The main objective of Creditstar Lithuania UAB is financing of private persons in Lithuania. The business plan and procedures of the company comply with the Group policy and company reports are presented as consolidated line-by-line. Creditstar Lithuania UAB has been a part of the Group since February 2012.

Creditstar Poland Sp. z o.o. is a company registered in Poland. The main objective of Creditstar Poland is financing of private persons in Poland. The business plan and procedures of the company comply with the Group policy and company reports are presented as consolidated line-by-line. Creditstar Poland has been a part of the Group since January 2015.

Creditstar UK Ltd. is a company registered in UK. The main objective of Creditstar UK is financing of private persons in UK. The business plan and procedures of the company comply with the Group policy and company reports are presented as consolidated line-by-line. Creditstar UK has been a part of the Group since January 2015.

Creditstar Spain S.L. is a company registered in Spain. The main objective of Creditstar Spain is financing of private persons in Spain. The business plan and procedures of the company comply with the Group policy and company reports are presented as consolidated line-by-line. Creditstar Spain has been a part of the Group since December 2015.

Creditstar Czech s.r.o. is a company registered in Czech Republic. The main objective of Creditstar Czech is financing of private persons in Czech Republic. The business plan and procedures of the company comply with the Group policy and company reports are presented as consolidated line-by-line. Creditstar Czech has been a part of the Group since December 2015.

Creditstar Denmark ApS is a company registered in Denmark. The main objective of Creditstar Denmark is financing of private persons in Denmark. The business plan and procedures of the company comply with the Group policy and company reports are presented as consolidated line-by-line. Creditstar Czech has been a part of the Group since December 2018.

Consolidation

The consolidated financial statements comprise the financial indicators of the Group, consolidated on a line-by-line basis. Subsidiaries are consolidated from the date on which significant influence is transferred to the Group and cease to be consolidated from the date on which the significant influence is transferred out of the Group.

A subsidiary is a company controlled by the Parent Company. Control means the ability to determine the subsidiary's financial and operating principles either by a shareholding, under a contract or through other means.

Additional information about subsidiaries is presented in Note 10.

In accordance with the Estonian Accounting Act and EFS, the financial statements of the parent company of the consolidation group are disclosed in the notes to the annual report. The parent company's financial statements have been prepared per the same principles that have been applied in the preparation of the consolidated annual accounts.

The accounting principles of all companies in the Group are consistent with the accounting policies of the Group. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Any receivables, liabilities, income, expenses, cash flow and unrealised profit and loss arising from transactions between the Parent Company and its subsidiaries have been fully eliminated in the consolidated financial statements.

Accounting for investments in subsidiaries in the Parent Company's unconsolidated balance sheet

In the Parent Company's unconsolidated balance sheet, investments in subsidiaries have been accounted for on a historical cost basis. This means that the investment is initially recognised at acquisition cost, consisting of the fair value of the payable amount, adjusted thereafter by the impairment losses arising from the decrease in the value of the investment. The possible impairment of carrying values of investments will be reviewed when certain events or changes in circumstances indicate that the recoverable amount of the assets may have fallen below their carrying values.

The Group determines at each balance sheet date whether there is any objective evidence that the investment in the subsidiary is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount (higher of the two: value in use and fair value less costs to sell) of the subsidiary and its carrying value and recognises the amount in the income statement.

Dividends paid by the subsidiary are recorded when the Parent Company's right to receive the dividends (as financial income) is established, except for the portion of dividends payable at the expense of available shareholders' equity generated by the subsidiary before the Group acquires the company. The respective portion of the dividends is recorded as a reduction of the investment.

A. Revenue recognition

Revenue is measured at the fair value of the consideration received or to be received. If payment is made in a period longer than the average, revenue is recognised at the present value of the consideration to be received. The interest received for the use of the company's funds are recognised as revenue on accrual basis during the contract period when it is probable that the economic benefits associated with the transaction will be received and its amount can be reliably measured.

Interest income

For all financial instruments measured at adjusted acquisition cost, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Other revenue

Revenue from sales of services is recorded upon rendering the service.

Dividends

Dividend revenue is recognised when the Group's right to receive the payment is established.

B. Cash and cash equivalents

For the purposes of the cash flow statement, cash equivalents are short-term (with a maturity up to 3 months from the date of acquisition) highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in market value, incl. cash in hand, current accounts at the bank, term deposits with a maturity of three months or less and money market fund units.

C. Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are initially recognised, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, transaction costs directly attributable to acquisition. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below. The Group only has loans and receivables and no other type of financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at adjusted acquisition cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flow of the financial asset or a group of financial assets that can be reliably estimated. Evidence of impairment is based on delinquency in interest or principal payments or other relevant factors.

The write-down of financial assets related to operating activities is charged to expenses in the income statement. The write-down of financial assets measured at acquisition cost will not be subject to later reversal.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced using an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset.

Loans with the associated allowance are written off when there is no realistic prospect of future recovery and all collaterals have been realised or transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

<u>De-recognition of financial assets and liabilities</u>

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised:

- where the rights to receive cash flow from the asset have expired
- the Group has transferred its rights to receive cash flow from the asset
- The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flow from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

D. Foreign currency transactions

The functional currency of the Parent Company is the euro, which is also the presentation currency for the Group's consolidated and the Parent Company's unconsolidated financial statements. All other currencies are considered to be foreign currencies. All foreign currency transactions are recorded on the basis of the foreign currency exchange rates of the European Central Bank officially valid on the transaction date.

E. Tangible assets

Tangible assets are recorded at acquisition cost, consisting of the purchase price and expenditures directly related to the acquisition. Following initial recognition, an item of tangible assets is carried in the balance sheet at its acquisition cost, less accumulated depreciation and any accumulated impairment losses. The cost limit when tangible asset is recorded is a minimum of 1,000 euros.

Depreciation of tangible assets is calculated on a straight-line basis. Depreciation rates are determined for each item of tangible assets individually, depending on its useful life. The following annual depreciation rates apply for tangible assets groups:

Computers and IT equipment	33.33%
Office furnishings	20 - 35%
Office equipment	10 - 35%

Tangible assets are derecognised upon transfer of the asset, or if the Group can expect no financial benefits from use or disposal of the asset. Any profits and losses arising from de-recognition of tangible assets are charged to “Other operating revenue” or “Other operating charges” in the income statement of the period when the tangible assets were derecognised.

F. Intangible assets

Intangible assets group 1 is measured on fair value, based on evaluation done by third party.

Intangible assets groups 2 and 3 are measured on initial recognition at acquisition cost. Following initial recognition, intangible assets are carried in the balance sheet at its acquisition cost less any accumulated depreciation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The cost limit when intangible asset is recorded is a minimum of 1,000 euros.

G. Financial liabilities

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder. Such instruments include amounts of other borrowings and debt securities issued. Financial liabilities are initially recognised at their fair value less transaction costs directly attributable to acquisition. After initial recognition, financial liabilities are subsequently measured at their adjusted acquisition cost by using the effective interest rate method. Financial liability is classified as short-term liability if the maturity of liability is within upcoming 12 months from balance sheet date. Gains and losses are in profit or loss when the liabilities are derecognised as well as through the depreciation process. The Group only has financial liabilities recorded at adjusted acquisition cost.

H. Corporate income tax

<u>The Parent Company and subsidiaries registered in Estonia</u>

Pursuant to the Income Tax Act, Estonian companies are not subjected to pay income tax on the profit, but all dividends paid by the company are subject to income tax. Since income tax is paid on dividends rather than corporate profit, there are no differences between the tax bases and carrying values of assets and liabilities that may give rise to deferred income tax assets and liabilities.

The Group's potential tax liability related to the distribution of its retained earnings as dividends is not recorded in the balance sheet. The maximum amount of potential income tax liability has been disclosed in Note 9.

Income tax from payment of dividends is recognised as an expense in the income statement at the moment of declaring the dividends.

Subsidiaries registered abroad

In accordance with income tax acts, the company's net profit, adjusted by temporary and permanent differences stipulated in the income tax act, are subject to income tax in Finland, Sweden, Lithuania, Poland, UK, Spain, Czech Republic and Denmark.

Income tax to be paid is reported under current liabilities and deferred tax liabilities are under non-current liabilities. Deferred Income Tax assets are reported under current assets.

Deferred Income Tax assets addition in 2020 was 104 thousand euros, Income tax to be paid was 0 euros.

I. Mandatory reserve

Pursuant to the Commercial Code of the Republic of Estonia and the articles of association of the Parent Company, at least 5% of the net profit attributable to the shareholders of the Parent Company must be transferred to the mandatory legal reserve each financial year, until the legal reserve amounts to at least 10% of the share capital. The mandatory legal reserve cannot be paid out as dividends, but it can be used for covering losses, if the losses cannot be covered from the available shareholder's equity. Mandatory legal reserve can also be used for increasing the share capital of the company.

J. Events after the balance sheet date

Material circumstances that have an effect on the valuation of assets and liabilities and became evident between the balance sheet date and the date of preparing the financial statements, but are related to transactions that took place in the reporting period or earlier periods, are recorded in the financial statements. Subsequent events that have not been taken into consideration when valuing the assets and liabilities but have a material effect on the result of the next financial year are disclosed in the financial statements (Note no. 13).

K. Related parties

A related party is a person or entity connected with the group to the extent that transactions between them do not necessarily take place on market terms. A person or a close relative of that person is a related party if that person:

(a) is a member of the group's management;

(b) has control or significant influence over the group (for example, through an interest in shares). An entity is a related party if one or more of the following conditions apply:

(a) the entity and the group are under common control;

(b) one entity is an entity controlled by a third party, and the other entity is under significant influence of that third party;

(c) the entity has control or significant influence over the group;

(d) the entity is under the control or significant influence of the group;

(e) entities over which a member of the group's management (or their close relative) has significant control or significant influence;

(f) entities controlled by persons (or their close relatives) who have control or significant influence over the group.

Note 2. Interest income and expense & loan impairment charges

Per annum, in thousands euros)

Interest income by geographical area:	**01.01.2020-31.12.2020**	**01.01.2019-31.12.2019**
Estonia	25 484	20 938
Finland	2 818	1 736
Sweden	485	479
Poland	3 577	4 078
Spain	2 597	3 160
Czech	771	858
UK	29	274
Denmark	47	131
Other	-	5
Total	**35 808**	**31 659**

Interest expense by type:	**01.01.2020-31.12.2020**	**01.01.2019-31.12.2019**
Notes issued	-6 071	-4 886
Loans and other financial instruments	-3 500	-3 148
Factoring	-506	-551
P2P	-3 863	-1 382
Total	**-13 939**	**-9 967**

Loan impairment charges and amounts written off:	01.01.2020-31.12.2020	01.01.2019-31.12.2019
Loan impairment allowance	-7 176	- 5 730
Amounts written off from balance sheet	-472	-522
Re-evaluation of purchased portfolios	2 200	0
Total	**-5 448**	**-6 252**

Note 3. Operating expenses and other income

(In thousands euros)

Other income	01.01.2020-31.12.2020	01.01.2019-31.12.2019
Re-evaluation of intangible assets (see Note 6)	3 634	2 421
Other irregular income	336	71
Total	**3 970**	**2 492**

Operating expenses	01.01.2020-31.12.2020	01.01.2019-31.12.2019
Bond related costs	-1 289	-1 001
Other funding related service fees	-936	-459
3-rd party databases / ID costs	-1 171	-1 367
Collection costs	-210	-269
Customer service costs	-289	-286
Payment processing costs	-245	-214
Marketing costs	-2 243	-2 695
IT costs	-459	-300
Legal & management costs	-827	-667
Office costs	-405	-407
Personnel related costs	-303	-318
Other administrative costs	-270	-426
Total	**-8 648**	**-8 410**

Note 4. Loans to customers

(In thousands euros)

	31.12.2020	31.12.2019
Loans to customers [1]	180 125	140 594
Loan impairment allowance	-35 362	-28 186
Total	**144 763**	**112 408**

	31.12.2020	31.12.2019
Loans to customers with maturity up to 1-12 months	22 473	15 888
Loans to customers with maturity from 13-54 months	122 326	96 519
Total	**144 763**	**112 407**

[1] All loans to customers are unsecured loans to private individuals with amounts ranging from 40 to 10 000 euros. Loans are issued with a repayment date varying from 5 days to 54 months. Receivables with a significant breach of repayment terms are handled by collection agency. All loans to customers are considered to have similar risk characteristics. The balance sheet also includes receivables claimed based on court rulings in favour of the Group and are being collected mainly by court bailiffs. The Group has recognised additional receivables in its balance sheet and revenues that had been previously accounted for off-balance sheet but were claimed based on court rulings in favour of the Group. These additional receivables comprise mainly of accrued interest on loans to customers that were in breach of their loan contracts. According to the court rulings the Group is entitled to these receivables.

Note 5. Other receivables and prepayments

(In thousands euros)

Other receivables:	31.12.2020	31.12.2019
Short term claims	1 554	1 243
Future periods costs	1 238	702
Various deposits	737	724
Prepayments	16	22
Tax related accruals	402	232
Total other receivables and prepayments	**3 948**	**2 923**

Note 6. Tangible and Intangible fixed assets

(Per annum, in thousands euros)

Intangible assets group 1 consists of brands, IT-platforms, customer base etc. presented in fair value
Intangible assets group 2 consists of subsidiary purchases, presented in acquisition cost
Intangible assets group 2 consists of development projects, presented in acquisition cost

	Tangible assets	Intangible assets group 1	Intangible assets group 2	Intangible assets group 3	Total
Net book value at 31 December 2018	**-**	**3 679**	**809**	**0**	**4 488**
Additions	-	2 421	0	0	2 421
Depreciation	-	-765	-109	0	-874
Net book value at 31 December 2019	**-**	**5 335**	**700**	**0**	**6 035**
Additions	252	3 634	0	377	4 263
Depreciation	-	-483	-109	0	-592
Other changes		4	0	0	4
Net book value at 31 December 2020	**252**	**8 490**	**591**	**377**	**9 710**

As at 31 December 2019	Tangible assets	Intangible assets group 1	Intangible assets group 2	Intangible assets group 3	Total
Acquisition cost / fair value	-	7 960	1 091	0	9 051
Accrued depreciation	-	-2 625	-391	0	-3 016
Balance	**-**	**5 335**	**700**	**0**	**6 035**

As at 31 December 2020	Tangible assets	Intangible assets group 1	Intangible assets group 2	Intangible assets group 3	Total
Acquisition cost / fair value	252	11 593	1 091	377	13 313
Accrued depreciation	-	-3 102	-501	0	-3 603
Balance	**252**	**8 491**	**590**	**377**	**9 710**

Note 7. Short-term and long-term borrowings

(In thousands euros)

	31.12.2020	31.12.2019
Short-term borrowings:		
Notes issued [1]	31 907	23 023
Borrowings [2]	68 696	44 937
Interest accrued on notes issued	596	488
Interest accrued on borrowings	401	1 008
Total short-term borrowings	**101 600**	**69 456**
Long-term borrowings:		
Notes issued [1]	25 055	26 669
Total long-term borrowings	**25 055**	**26 669**

[1] As of 31.12.2020 Creditstar consolidation group has issued Notes in the amount of 57,0 million Euros with a due dates between 2021 - 2023. The annual interest rate of the issued Notes is 7% up to 14%.

[2] Liability of other financial instruments of the Group at 31.12.2020 was 69,0 million Euros with annual interest rates from 10% up to 19%.

Total short-term liabilities of the Group amount to 104,3 million Euros and total short-term assets of the Group amount to 27,9 million Euros. Short-term borrowing includes private loan agreements with creditors, peer-to-peer marketplace financing and credit lines from a financial institution. The borrowings are recorder as short term due to contractual dates, in practice majority of these business and investor relationships are long-term in nature, have lasted for a long period of time and the contractual due dates are extended on an ongoing basis. The management does not foresee any changes in these business and investor relationships in the foreseeable future.

In 2021 Creditstar redeemed all maturing Notes in the total amount of 31,9 million euros and issued 4 new Notes maturing in 2022, 2023 and 2024.

Majority of automatically extending direct loans have been extended in 2021 and their maturity is in 2022.

P2P and other lending maturities match with loan claims maturities.

Based on the above, management does not expect any issues in the foreseeable future in meeting its liabilities presented as short-term in the balance sheet as at 31 December 2020.

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
03. 12. 2021
Signature / allkiri ....
KPMG, Tallinn

Note 8. Payables and prepayments

(In thousands euros)

	31.12.2020	31.12.2019
Accounts payable	894	1 609
Employee-related liabilities	768	782
Tax liabilities	1 005	223
Total	**2 667**	**2 614**

Note 9. Owner's equity

As of 31 December 2020, the Group's share capital was divided into 3 333 340 shares with a nominal value of 6.30 euros (all shares were of the same type).

Potential corporate income tax liability

As of 31 December 2020, the Group's retained earnings amounted to 7 501 thousand euros. The maximum possible corporate income tax liability related to the disbursement of the whole retained earnings balance as dividends is 1 500 thousand euros. Thus, the Group can pay dividends in the total amount of 6 001 thousand euros in net dividends. The maximum possible income tax liability has been calculated based on the assumption that the net dividends to be paid and the related total income tax expenses would not exceed the distributable profit as of 31 December 2020.

Note 10. Subsidiaries

Name of subsidiary	Country of registration	www/ Reg. code	Ownership %
Subsidiaries of CREDITSTAR GROUP AS:			
CREDITSTAR INTERNATIONAL OÜ	Estonia	www.creditstar.com	100%
CREDITSTAR SPAIN S.L.	Spain	www.creditstar.es	2,9%
Subsidiaries of CREDITSTAR INTERNATIONAL OÜ:			
CREDITSTAR ESTONIA AS	Estonia	www.creditstar.ee	100%
MONEFIT ESTONIA OÜ	Estonia	www.monefit.ee	100%
CREDITSTAR FINLAND OY	Finland	www.creditstar.fi	100%
CREDITSTAR SWEDEN AB	Sweden	www.creditstar.se	100%
CREDITSTAR LITHUANIA UAB	Lithuania	www.creditstar.lt	100%
MONEFIT CARD OÜ	Estonia	11953111	100%
CREDITSTAR POLAND SP. Z O.O.	Poland	www.creditstar.pl	100%
CREDITSTAR SPAIN S.L.	Spain	www.creditstar.es	97,1%
CREDITSTAR UK LTD.	UK	www.creditstar.co.uk	100%
CREDITSTAR CZECH S.R.O.	Czech Republic	www.creditstar.cz	100%
CREDITSTAR DENMARK ApS	Denmark	www.creditstar.dk	100%

Note 11. Related party disclosures

(In thousands euros)

For the purpose of these consolidated financial statements related parties comprise of:

a) Shareholders with significant influence over the Group and companies controlled by them

b) Management Board, their close relatives and companies controlled by them

Purchases from related parties:	01.01.2020-31.12.2020	01.01.2019-31.12.2019
Companies controlled by shareholders with significant influence over the Group	8 334	1 687

Sales to related parties:	01.01.2020-31.12.2020	01.01.2019-31.12.2019
Companies controlled by shareholders with significant influence over the Group	186	43

Amounts owed to related parties:	31.12.2020	31.12.2019
Companies controlled by shareholders with significant influence over the Group	10 575	1 857

Amounts owed by related parties:	31.12.2020	31.12.2019
Companies controlled by shareholders with significant influence over the Group	1 494	878

Management remunerations:	01.01.2020-31.12.2020	01.01.2019-31.12.2019
Members of the Management and Supervisory Board	174	135
Total:	174	135

Note 12. Financial risk management

Risk Identification

The Group follows the requirements and procedures in its activities and risk management developed by the Management Board and Supervisory Board of the Group according to the legislation of the Republic of Estonia, other instructions issued by regulatory authorities as well as good practice. The Risk Management System of the Group is centralised which ensures implementation of uniform risk management principles as well as fast and efficient response to market changes. The elaboration and development of risk management methodology principles is the responsibility of the Management Board of the company.

For risk identification the Group:

- ensures established modern risk sensitive methods for evaluating and managing all significant risks that makes it possible to find a balanced compromise between revenues and risks;
- considers the risk amount related to main business activities and their possible influence over the overall financial status of the whole Group;
- monitors the compliance of risk evaluation and management procedures with the changing conditions and inspects the necessity for changing them;
- ensures established procedures and limits for risk evaluation and management to develop and launch new products;
- monitors that the structure and the total amount of risks will not compromise the Group stability.

The main risks involved in the business activities of the Group are as follows:

- credit risk
- liquidity risk
- interest rate risk
- operational risk

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a loan contract and the Group will incur a loss as a result of that. The Group manages and controls credit risk by setting limits on the maximum exposures for individual counterparties. The credit risk is spread, as the Group has a large number of customers with relatively small single payments. Loans to customers range between 40 Euros and 5 000 Euros.

The Group optimises the capacity and structure of the loan portfolio based on risk-spreading. The limitations to the loan portfolio and term structure are monitored by the Group's management. All Group's loans to customers are involved in credit evaluation. The Group closely monitors its loan portfolio to provide early identification of possible changes in the creditworthiness of counterparties and regularly performs stress-tests and scenario analysis of credit risk to evaluate the quality of its loan portfolio and sensitiveness to changes in the overall economic conditions.

The Group's impairment methodology foresees impairments to all loan claims outstanding on the balance sheet date irrespective of whether the due date has been passed or not as of the balance sheet date.

Fair value of assets and liabilities

According to the Management Board, the carrying amount of the Group's financial assets and liabilities is a reasonable approximation of fair value. Fair value has been determined based on the discounted cash flow method.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The liquidity risk of Creditstar is influenced by the following factors:

- ensuring sustainable liquidity reserve for meeting short-term requirements of customers;
- access to capital markets;
- terms and quality of assets and liabilities.

Maintaining adequate structure of assets and liabilities as well as planning short- and long-term liquidity is the task of the Group's Management Board. The Group's Management Board has implemented a model considering the base of resources involved in investment resource planning. The main liquidity proportions as well as proportions of fixed-term assets and liabilities are fixed within the model frame.

Interest rate risk

Interest rate risk is the risk that fair value or future cash flow of a financial instrument will fluctuate because of changes in the market interest rate. As of 31 December 2020 the Group had no floating interest rate loans.

Operational risks

Operational risk reflects possible factors impairing normal business activities of the Group or causing damage in some other way – for instance, disturbances in information systems, shortcomings in rules of internal procedure, incompetence and mistakes of personnel, frauds, natural disasters. The Group has rules of internal procedure with the objective to minimise operational and other risks that might emerge due to interruptions or crisis. The rules of internal procedure state which actions are to be taken and by whom to normalise the work processes and how and by whom the work processes are to be restored if necessary.

Information technology risk is the risk impairing the Group activities that might occur due to technical failures and connection of local computer networks to the global network and increasing the possibility of confidential information being obtained by third unauthorised parties. The possible disturbances or interruptions in computer and communication systems are risks to be taken seriously. Upon ensuring the reliability and soundness of the information system it is of utmost importance that the supporting and backup systems developed considering the system interruptions as well as damage or permanent damage to software, hardware, files or documentation are regularly updated and periodically checked as well as access to the hardware and software of the system as well as information in the system is granted only to authorised persons.

Activity risk is the risk that emerges from incompetent rules of internal procedure. It is possible during the Group activity that deliberate or unintentional mistakes are made in calculations and reporting that disfigure the real financial status or outcome of the Group. For most effective avoidance of errors, rules of internal procedure are drawn up by the Group that adequately describe all of the Group operations.

Initiation, granting (deciding), fulfilment and monitoring of transactions as well as bookkeeping and registration is divided between different departments/employees. This ensures the possibility to conduct independent checking and limits the possibility of occurrence of deliberate or unintentional mistakes.

Personnel risk is the risk related to loyalty, competence and suitability of employees to perform their duties. To avoid possible damages, only persons with proper education and suitable experience are hired. The Group has laid down employment principles and training programmes, criteria for qualification assessment (incl. attestation system) and sustainability of management. Upon evaluation of personnel risk, the Management Board evaluates adequacy of personnel procedures and personnel management.

Legal risk arises from null and void transactions and wrong evaluation of circumstances bearing legal meaning. The Group's legal department participates in procedures bearing legal meaning, development of customer contracts for the Group's customers and in business relations as well as monitors their compliance with the law. Standard contracts have been developed to provide the Group's usual services. Terms and conditions of non-standard contracts are agreed with lawyers.

System security risk. The utilised security systems, rules and procedures ensure preservation of Group's assets and avoid access of unauthorised persons to the Group's assets, documentation and electronic communications systems.

Prevention of money laundering. The Group has laid down procedures for prevention of money laundering and terrorism and considers training of its employees on prevention of money laundering and terrorism to be of utmost importance.

Reporting. The Group has a reporting system for operational risks, loss events and incidents.

Note 13. Events After Balance Sheet Date

No events with significant events have taken place in 2021 that could affect 2020 financial report.

Note 14. Parent company’s separate income statement

(In thousands euros)

	01.01.2020-31.12.2020	01.01.2019 31.12.2019
Interest income	132	0
Salaries	-19	-7
Depreciation of intangible assets	-106	-380
FX costs	-3	1
Operating profit	**4**	**-386**
Profit for the year	**4**	**-386**

Note 15. Parent company's separate balance sheet

(In thousands euros)

Assets	31.12.2020	31.12.2019
Cash	1	-
Other receivables	469	1 171
Total current assets	**470**	**1 171**
Investments in subsidiaries	19 355	19 464
Total fixed assets	**19 355**	**19 464**
Total assets	**19 825**	**20 635**
Liabilities and Equity		
Payables and prepayments	20	21
Total current liabilities	**20**	**21**
Total liabilities	**20**	**21**
Equity		
Issued capital	21 000	21 000
Retained earnings	-1 195	-386
Total equity	**19 805**	**20 614**
Total liabilities and equity	**19 825**	**20 635**

Note 16. Parent company's separate changes in equity

(In thousands euros)

Assets	Issued capital	Retained earnings	Total
As at 31 December 2018	**9 765**	**879**	**10 644**
Increase of issued capital	11 235	-879	10 356
Profit for the period	0	-386	-386
As at 31 December 2019	**21 000**	**-386**	**20 614**
Balance sheet value of subsidiaries under the control or significant influence of parent	0	-2 500	-2 500
Value of subsidiaries under the control or significant influence of parent in equity method	0	6 277	6 277
Corrected non-consolidated equity at 31 December 2019	**21 000**	**3 391**	**24 391**
Payment of dividends	0	-813	-813
Profit for the period	0	4	4
As at 31 December 2020	**21 000**	**-1 195**	**19 805**
Balance sheet value of subsidiaries under the control or significant influence of parent	0	-2 500	-2 500
Value of subsidiaries under the control or significant influence of parent in equity method	0	13 327	13 327
Corrected non-consolidated equity at 31 December 2020	**21 000**	**9 632**	**30 632**

Note 17. Parent company's separate cash flow statement

(In thousands euros)

	01.01.2020-31.12.2020	01.01.2019-31.12.2019
Operating activities		
Profit for the year	4	-386
Adjustment to net profit		
thereof depreciation of fixed assets	106	380
thereof interest income	-132	0
Change in operating assets	1	
Change in operating liabilities	-1	16
Net cash flow from operating activities	**-22**	**10**
Investing activities		
Issued loans	-216	-1 223
Repayment of issued loans	1 052	1 213
Total cash flow from investing activities	**836**	**-10**
Financing activities		
Dividends paid incl. CIT	-813	0
Total cash flow from financing activities	**-813**	**0**
Total cash flow	**1**	**0**
Cash and cash equivalents in the beginning	0	0
Change in cash and cash equivalents	1	0
Cash and cash equivalents at closing	1	0

Our company and team are well aligned to continue attracting substantial growth in the future.

SIGNATURES TO THE ANNUAL REPORT 01.01.2020 - 31.12.2020

Management board of Creditstar Group AS has approved the Annual Report for 01.01.2020 - 31.12.2020 of Creditstar Group AS and proposes to the General Shareholder's Meeting to acknowledge it:

Management Board of Creditstar Group AS:

Member of the Management Board Aaro Sosaar

KPMG Baltics OÜ
Narva mnt 5
Tallinn 10117
Estonia

Telephone +372 6 268 700
Fax +372 6 268 777
Internet www.kpmg.ee

Independent Auditors' Report

(Translation of the Estonian original)

To the Shareholders of Creditstar Group AS

Qualified Opinion

We have audited the consolidated financial statements of Creditstar Group AS (the Group), which comprise the consolidated balance sheet as at 31 December 2020, the consolidated comprehensive income statement, the consolidated cash flow statement and the consolidated statement of changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Estonian financial reporting standard.

Basis for Qualified Opinion

The Group has recorded intangible assets at fair value as at 31 December 2020 amounting to 8 491 thousand EUR and 31 December 2019 amounting to 5 335 thousand EUR. Management has not stated these intangible assets at acquisition cost less accumulated amortization but has stated them solely at fair value based on external valuation report, which constitutes a departure from Estonian financial reporting standard. During the audit we were unable to determine the effect of departure from Estonian financial reporting standard on the consolidated financial statements.

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (Estonia) (including Independence Standards) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management report but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

As described in the *Basis for Qualified Opinion* section of our report management has not stated intangible assets at acquisition cost less accumulated amortization but has stated them solely at fair value based on external valuation report. We have determined that the other information is materially misstated for that reason.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 International Standards on Auditing (Estonia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

KPMG Baltics OÜ
Licence No 17

Eero Kaup

Certified Public Accountant, Licence No 459

Tallinn, 3 December 2021

creditstar group

www.creditstar.com