



CAPITALIA
FINANSĒJUMS UZŅĒMUMIEM

SECOND BOND ISSUE TERMS

CAPITALIA | FINANCING TO BUSINESSES

Prepared in Riga, October 21, 2016

Issuer:	JSC Capitalia (further “Capitalia”), registration number in the Republic of Latvia: 40003933213
Securities:	Bonds
Type:	Secured bonds with pledge of all assets of the Issuer
Issue size:	EUR 500,000 (five hundred thousand euros)
Nominal value:	EUR 1,000 (one thousand euros)
Coupon rate:	Annual coupon 6% with coupon payments 4 times a year on the following dates: 25th of January, 25th of April, 25th of July and 25th of October
Maturity:	October 25, 2019

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1. EXPLANATION OF THE USED TERMS

Issuer	Joint stock company Capitalia, registration number 40003933213, legal address Brīvības 40-35, Riga, LV-1050
Terms of Issue	Document that specifies terms and conditions under which the Bond Issue is conducted
Issue	Issue of Bonds as described in this document
Bonds	Securities that Issuer is selling in accordance to these Terms of Issue
Nominal value	Nominal value of one Bond
LCD	JSC „Latvijas Centrālais depozitārijs”, registration number 40003242879, legal address Riga, Vaļņu iela 1, LV-1050.
ISIN	International Securities Identification Number, assigned to the Bonds by LCD in the capacity of a full member of the Association of National Numbering Agencies
Coupon	Interest rate payment on Bonds
Laws and regulations	Legal enactments of the Republic of Latvia, Rules issued by LCD
Bond holder	A natural person or legal entity who has purchased the Bonds and has it in ownership
Investor	A natural or legal entity willing to purchase the Bonds according to the procedure set forth in the Terms of the Issue

2. RESPONSIBLE PERSONS

2.1. DECLARATION OF THE RESPONSIBLE PERSON

I am responsible for the information provided in the Terms of Issue and hereby represent that I have taken due care so that the information provided in the Terms of Issue, to my best knowledge, conforms to the facts and it does not overlook any data that might affect the meaning of the information provided therein.

Juris Grišins, board member _____

2.2. AUDITORS

AS Capitalia auditors for annual individual and consolidated statements of year 2014 and 2015 are:

SIA Potapoviča un Andersone, License Nr. 99
Registration number: 40003612562
Address: Ūdens iela 12-45, Riga, LV-1007
Sworn auditor: Kristīne Potapoviča

Daughter company's UAB Capitalia Finance auditors for annual statements of year 2015 are:

UAB Tezaurus Auditas, License Nr. 001211
Registration number: 122740926
Address: Jasinskio g. 4-17, Vilnius, LT01112
Sworn auditor: Aiste Perminaitė

3. INFORMATION ABOUT THE SECURITIES OFFER

3.1 REASON FOR THE ISSUE

The aim of the Bonds issue is to refinance current short term liabilities of the Issuer as well as facilitate expansion of operations in all of the geographies of operations, particularly in Latvia. Placement of registered Bond emission allows to improve financial and liquidity planning of Capitalia, as well as ensures easier promotion for investment among the target investor audience, at the same time ensuring higher transparency, liquidity and standardization of terms for investors.

3.2. PRINCIPAL INFORMATION

Issuer will issue bearer Bonds. Any person that hold the Bonds in their securities account are entitled to quarterly Coupon payment and Nominal value payment at the end of the maturity of the financial instrument. Issuer will issue the total of 500 (five hundred) Bonds with nominal value of each Bond at EUR 1,000 (one thousand euros) and total value of the Issue of EUR 500,000 (five hundred thousand euros). In accordance to relevant Latvian legislation, purchase of the Bonds will be offered to limited number of up to 150 (one hundred and fifty) potential investors. ISIN code for the Bonds issue will be assigned at the time of registry of the Bond issue with LCD. This Issue will not be public and hence Bonds will not be listed on any stock exchange.

3.3. RELEVANT LEGISLATION

Bonds will be issued in compliance with the laws and regulations effective in the Republic of Latvia, among which most important are Commercial Law, Financial Instruments Market Law, Civil Law and Rules issued by LCD. All disputes with regards to Bond emission shall be settled in the courts of the Republic of Latvia in accordance to such relevant terms and procedures. Issuer has prepared Terms of the Issue in English, which shall be deemed as the principal language of this document.

3.4. FORM OF THE SECURITIES

Issued Bonds are secured bearer bonds, and will be issued in dematerialized form. Issue will be registered in LCD that will ensure the registry of the Bonds following the Issue.

3.5. CURRENCY OF THE BONDS

Currency of the Bonds is euros.

3.6. AVAILABLE COLLATERAL

Bonds hold a collateral on all of the Issuer's present and future assets (inter alia, active loan portfolio). The pledge on assets is registered in Latvian Enterprise register in accordance to its regulations. Collateral is held on the name of the independent collateral agent –Loze & Partneri Attorneys at Law (part of international law firm network Advoc) - in accordance to collateral agent agreement signed between the Issuer and Loze & Partneri Attorneys at Law (agreement number LV-A-20-2016). In accordance to the abovementioned agreement, in the name of Bondholders collateral agent will have the rights to sell or liquidate pledged assets of the Issuer in order to fulfill the obligations towards the Bondholders. All Bondholders and Investors can familiarize with the terms and conditions of this agreement by request to the Issuer. Maximum claim amount under the conditions of the above mentioned collateral agreement will be limited to EUR 1,000,000 (one million euros).

3.7. TERMS OF COUPON PAYMENTS

The annual Coupon rate of the Bonds is set at fixed 6% (six percent) until full redemption of the Bonds. Coupon payments will be transferred four times a year on the following dates: January 25, April 25, July 25, and October 25. Coupon payments will be made for the period of the previous three calendar months. Coupon calculation

date is 5th working day before the Coupon payment date. First Coupon payment will be done on January 25, 2017.

As the Bonds will be entered on the books of LCD, the payment procedure in respect of the Coupon from Bonds will be regulated by LCD rules No.8 "On Payment of Dividends, Coupons, Principal and Other Cash Proceeds". The Issuer, after having withheld the taxes according to the provisions of laws and regulations, will transfer the amount to be paid as interest proceeds to the LCD cash account within the time frame stipulated by the LCD rules. LCD shall transfer the amount to be paid as Coupon to the custodians on the Coupon payment date according to the number of Bonds on the correspondent accounts as of the end by the record date. Where the Coupon payment date falls on a weekend or on a public holiday, the Coupon will be disbursed on the next business day after the holiday. No interest will be calculated and paid for said weekends or public holidays. The Coupon (interest income) payments for each Bond will be calculated as follows:

$CPN = F * C / 4$, where

CPN – Amount of Coupon payment;

F – Nominal value of Bonds;

C – Annual Coupon rate.

3.9. REDEMPTION OF THE BONDS

The Bonds will be redeemed at the maturity date on October 25, 2019 at Nominal value. If the Bond maturity date will fall on the weekend or public holiday, the Nominal value of the Bond will be disbursed on the next business day after the holiday.

As the Bonds will be entered on the books of LCD, the procedure in respect of redemption of the Bonds and payment of the Nominal value will be regulated by LCD rules No.8 "On Payment of Dividends, Coupons, Principal and Other Cash Proceeds". LCD, after having transferred the moneys to the LCD participant, will promptly cancel the Bonds in its financial instruments accounting system.

3.10. EARLY RETIREMENT OF THE BONDS

The Issuer shall have rights for early retirement of the Bonds (*call option*) at the term of each Coupon payment for the amount that is equal to 100% (hundred percent) of the Nominal value of the Bond. The Issuer can retire any Bonds that it has purchased through the secondary market. If the Issuer has made decision to retire all or part of the Bonds before the maturity date, the Issuer shall notify the Bondholders at least 10 working days in advance through LCD.

The Issuer will ensure secondary market of the Bonds by offering to purchase the Bonds from the Bondholders if such purchase would not harm the liquidity management measures of the Issuer or interests of other creditors of Capitalia. In cases of such repurchases a 5% (five percent) discount should be applied to the purchase price from the Nominal value of the Bonds.

3.11. CALCULATION OF ACCRUED INTEREST

Interest rate (accrued Coupon payments) on the Bonds will start to calculate from October 25, 2016. For the purpose of interest calculation on the Bonds a 30/360 accounting principle will be applied. Accrued Coupon payments for the dates between the payment dates of the Coupons will be calculated in accordance to the following formula:

$AI = F * C / 360 * D$, where

AI – Accrued Coupon;

F – Nominal value of the Bond;

C – Annual Coupon rate;

D – Number of days from the time of the start of the accrual of the interest rate, using 30/360 day convention.

3.12. CALCULATION OF THE BOND'S PRICE

If Bond is not sold at Nominal value, the calculation of the Bond's price should be done in accordance to the following formula. The calculated price is "dirty price", meaning, that it takes into account unpaid but accrued regular Coupon payment.

$$P = \left[\sum_{k=1}^N \frac{100 \times \frac{c}{f}}{\left(1 + \frac{r}{f}\right)^{\left(k-1 + \frac{a}{b}\right)}} \right] + \left[\frac{FV}{\left(1 + \frac{r}{f}\right)^{\left(N-1 + \frac{a}{b}\right)}} \right] - \left[100 \times \frac{c}{f} \times \frac{b-a}{b} \right], \text{ where}$$

P – Price of the Bond;

FV – Nominal value of the Bond;

r – Annual return (*yield*);

f – Number of Coupon payments per year;

c – Annual Coupon rate;

N – Number of remaining Coupon payments;

a – Number of days from the settlement day until the next date of Coupon payment;

b – Number of days between the Coupon payments.

3.14. DECISIONS OF THE ISSUER ON THE ISSUE OF THE BONDS

The decision to issue the Bonds was made by the Issuer's shareholders' decision number 4-2016 on 14th of October, 2016. Based on this decision, board of the Issuer made a decision on 21st of October, 2016 (decision number 1-2016) to confirm the Terms of the Issue and start placement of the Bonds.

3.16. ISSUE OF THE BONDS

3.16.1. Size of the issue

Total issue size of the Bonds is EUR 500,000 (five hundred thousand euro).

3.16.2. Subscription to the Bonds

Subscription to the Bonds offered by the Issuer will take place from 1st of November, 2016 to 30st of November, 2016. Investment in the Bonds will be offered only to selected list of investors that should not exceed 150 entities. Subscription to the Bonds will be done by sending electronic notice to email address juris.grisins@capitaliafinance.com or written notice to the legal address of the Issuer. Such notice should include the legal requisites of the Investor, number of the securities account, contact information, number of the Bonds to be purchased as well as settlement date. Settlement date can be no later than 5 working days from the date of the submitted notice. Following reception of the notice, Issuer will contact the Investor to confirm the submitted information and agree on the final price of the Bond and corresponding settlement amount. Issuer has rights to deny any Investor rights to purchase the Bonds without providing any reason. Bond purchase notices from the Investors will be executed in the order of their reception, until total issue of the Bonds is subscribed to. Issuer has the right to subscribe to and hold its own Bonds without any limitations. All costs in relation to the subscription of the Bonds are covered by each individual Investor.

3.16.3. Price of the Bonds

The Issuer will price the Bonds depending on the situation in the financial markets, Investors' interest in the security and well other relevant factors.

3.16.4. Terms of settlement

On the date of settlement Investor should transfer the money for the purchase of the Bonds to the Issuer's account in Nordea Bank AB Latvia branch LV10NDEA0000084701354. After reception of the full amount of the money for the purchase of the subscribed Bonds, the Issuer will submit order to LCD to transfer Bonds to the Investor's account, as indicated in the submission notice.

If the transferred purchase price is sent to the Issuer later than the settlement date or in smaller amount than the agreed settlement amount, the Issuer will return such transferred money to the Investor no later than in 5 (five) working days.

3.16.5. Depository of the Bonds

The Bonds will be entered on the books of LCD and accounted in the LCD financial instruments accounting system according to the LCD Rules. The Investor will be free to choose a custodian with whom to open the financial instruments account and keep the Bonds.

4. SPECIAL CONDITIONS

4.1. DISCLOSURE OF INFORMATION

Disclosure of information with regards to the specific details of this Terms of Issue will be conducted with each Investor directly. As long as the Issuer will have publicly issued securities other information with regards to the Issuer will be published through Nasdaq Riga stock exchange as well as other channels are required by the relevant rules and regulations. Otherwise, the Issuer shall provide quarterly financial statements and other relevant notices directly to the Bondholders, based on the latest contact information as provided by the LCD at the time of the last prepared list of the Bondholders.

4.2. LATE INTEREST

If the Issuer is late to pay Coupon or Nominal value to any or all Bondholders, for the days from the contractual payment date to the actual payment date a late daily interest in the amount of 0.05% (zero point zero five percent) is to be paid on the late payment amount. Late interest rate is to be calculated only on condition if the Issuer is late on the contractual payment with regards to this Bonds issue for a term longer than 5 (five) working days.

4.3. COVENANTS

From the date of the Issue of the Bonds to the full redemption of the Bonds, the Issuer shall meet the following covenants:

- Any transactions with related parties shall be conducted at market prices and identified in the quarterly reports of the Issuer, as published through Nasdaq Riga stock exchange;
- Not acquire or otherwise get possession of shares in any businesses that are not related to the principal operations of the Issuer, as defined in the statutes of the Issuer;
- Do not sell, rent or otherwise provide available trademarks registered by the Issuer and/or its daughter companies;
- Ensure that equity capital is no less than 10% (ten percent) of the total assets of the Issuer;
- Not start liquidation of the Issuer or reduce its statutory share capital.

In addition to the above mentioned covenants, the Issuer is tied by the covenants and regulations that relate to the bond issue with ISIN number LV0000801488. Prospectus of the mention bond issue is available from Nasdaq Riga webpage: http://www.nasdaqbaltic.com/market/?pg=issuer_documents&file=194. In case if the Issuer fails to meet such abovementioned covenants, Bondholders have the right to request the Issuer immediate payback of the Nominal value of the Bonds as well as accrued Coupon.

Permission for exceptions to the above stated covenants is to be organized in accordance to stipulations described in the section 4.4. of these Terms of Issue. For the purposes of this document, “related party” shall mean any natural or legal entity which is in relation to the Issuer (a) shareholder, (b) board or council member, (c) employee, (d) spouse of any of the persons listed in points (a)-(c).

4.4. EXCEPTIONS FROM COVENANTS

The Issuer has the right to request Bondholders for exceptions to the covenants stipulated above, as well as to request changes in these Terms of the Issue. To request such amendments or exceptions, the Issuer shall send to each Bondholder through LCD a notice indicating at least the following information:

- Description of the proposed amendments or exceptions;
- Provided reasoning for such changes;
- Date, when list of the Bondholders will be fixed to vote on the issue;
- Term during which Bondholders can reject or accept the proposed changes;

- Details on the procedure for submitting such rejection or acceptance;
- Contact details of the Issuer.

Term during which Bondholders can make decision on approving or rejecting the proposed amendments or exceptions cannot be shorter than 14 (fourteen) days from the date when the notice on request for such changes has been sent to a Bondholder. The proposed amendments or exceptions will be approved if owners of at least of 51% of the Bonds have approved such resolution. Bonds that are owned by the Issuer or related parties cannot participate in the voting.

Proposed amendments or exceptions come into force in the following working day since their approval in accordance to the procedure as described above. The Issuer shall inform LCD on any ammendments as agreed by the vote of the Bondholders.

5. ADDITIONAL INFORMATION

5.1. ADVISORS RELATED TO THE ISSUE

None.

5.2. INDEPENDENT VALIDATION OF THE INFORMATION

Information disclosed in these Terms of Issue has not been validated by independent auditors.

5.3. CREDIT RATINGS

Issuer and this Issue have not received credit ratings.

6. TAX TREATMENT

The information provided in this section about the taxes payable concerning investment in the Bonds should not be treated as tax advice and the Issuer will take no responsibility for the decisions or conclusions derived by Investors on the basis of this information. The information provided in this section about the taxes payable concerning investment in the Bonds is not complete and outlines only the most essential provisions. Therefore, prior to making a decision on investing in the Bonds, the Investor should study in detail the taxation-related laws and regulations of the Republic of Latvia, or, in case the Investor happens to be a non-resident, also the taxation laws of the country of domicile.

The information provided in the Terms of Issue as to the taxation of Interest Income and income from alienation of the Bonds is based on generally accepted effective laws and regulations on the Terms of Issue preparation date. Tax rates and the procedure for settlement of tax payments may change after the preparation date of these Terms of Issue. The Issuer encourages the Investors to follow the amendments in the taxation-related laws and regulations concerning the Bonds that are effective in the Republic of Latvia and their own country.

According to the laws and regulations of the Republic of Latvia concerning taxation, a natural person is considered to be a resident in the Republic of Latvia, if:

- the registered place of residence of such person is the Republic of Latvia, or
- such person stays in the Republic of Latvia for 183 days or longer during any 12 month period beginning or ending in a tax year, or
- such person is a Latvian citizen, who is employed in a foreign country by the government of the Republic of Latvia.

Where a natural person does not match the above criteria, it is considered to be a non-resident.

According to the laws and regulations of the Republic of Latvia concerning taxation, a legal entity shall be considered a resident if it was established and registered or if it should have been established and registered in accordance with the laws of the Republic of Latvia. Any other legal entities are considered to be non-residents. If the non-resident is a resident in a country with which the Republic of Latvia has entered into an international convention for the avoidance of double taxation, the tax relief stipulated by the convention shall be taken into account.

The following table shall serve as guidance on the relevant tax rates on the Coupon payments of the Bonds:

Entity	Tax rate	Withholding of the tax
Resident, natural person	10%	The tax is withheld by the payer
Resident, legal entity	0%	Tax is paid by the receiver of the income
Non-resident, natural person	10%	The tax is withheld by the payer
Non-resident, legal entity	0%	Where a non-resident (with an exception of legal entities registered in any of the low tax or tax-free countries or areas listed in the Cabinet of Ministers Regulations) is paid interest proceeds from securities that are in public circulation in the European Union and European Economic Area, the tax rate shall be 0%.

7. INFORMATION ON THE ISSUER

7.1. GENERAL INFORMATION

Capitalia is the leading and most established non-banking lender to businesses in the Baltic States. With operations in Estonia, Latvia and Lithuania, Capitalia has financed over 1000 companies providing funding of over EUR 17,000,000 to small and medium sized businesses in the region. The Issuer seeks to consolidate its position as the prime non-banking lender to SMEs in the Baltic States, particularly by growing its loan portfolio in Estonian and Lithuanian markets, as well as developing new financing solutions to its target customers. The following section describes general legal and operating information on the Issuer, including the history and key events.

7.1.1. Name of the Issuer

Name of the Issuer is joint stock company “Capitalia”.

7.1.2. Registration information

Issuer was established on June 21, 2007 and its registration number in the Enterprise register of the Republic of Latvia is 40003933213. Issuer has legal address in Brīvības 40-35, Riga, LV-1050, Latvia. Issuer’s telephone number is +371 28800880 and email info@capitalia.lv and investor relations website www.capitaliafinance.com.

7.1.3. History of the Issuer

The history and recent events of the Issuer is the following:

2007	Capitalia is founded to conduct direct investments in companies in Latvia
2009	Company starts to offer corporate finance advisory services to small and medium sized businesses
2010	The company starts issuing short term business loans. Through an associated company Capitalia Kredīti short term loans of up to EUR 25,000 are offered to business in Latvia. Investments are financed through an open-ended fund structure
2011	Capitalia Kredīti starts provision of loans in Lithuania
2012	Corporate finance advisory business is split to a separate company Capitalia Korporatīvās Finances, managed by Pāvels Šnejersons
2012	Capitalia is selected by European Investment Fund to receive JASMINE technical assistance that is designed to increase the quality of internal processes of microfinance institutions (MFIs) active in the European Union
2013	Capitalia acquires merchant business lending company POScredit and proceeds to implement the financing solution in Lithuania and from 2016 in Estonia
2013	All lending activities are concentrated through JSC Capitalia that is merged with POScredit, daughter company in Lithuania is established
2014	Share capital of Capitalia is increased to EUR 226,490
2014	Through partnership with governmental institution Altum, Capitalia starts offering to SMEs microloans with interest rate subsidies. In total over 80 companies are financed as a result of this cooperation
2014	First bond placement of Capitalia is organized with bonds of total value EUR 1,000,000 placed through NASDAQ Riga stock exchange
2015	Capitalia starts partnership with marketplace platform Mintos.com through which SME loans issued by Capitalia are offered for sale to retail and institutional investors

2015	Further bond placement of EUR 750,000 is issued through NASDAQ Riga stock exchange
2015	New financing product – invoice purchasing - is launched
2016	Daughter company in Estonia is established and lending operations in the Estonian market started from a regional office in Tallinn
2016	New financing product – credit line - is launched
2016	Share capital of Capitalia is increased to EUR 500,000

7.2. DESCRIPTION OF OPERATIONS

The principal business of Capitalia is lending to small and medium sized businesses in Latvia, Lithuania and Estonia. Issuer has two daughter companies – UAB Capitalia Finance (Lithuania) and OU Capitalia Finance (Estonia). Company has 3 offices – in Riga, Vilnius and Tallinn. As of date of preparation of these Terms of Issue, Capitalia employs 10 employees, of which 3 are based in Lithuania and 1 in Estonia.

Capitalia offers to the clients the following range of financing products:

- **Loan.** Amortizing loans from EUR 1,000 to EUR 100,000 for term of 1 to 60 months. Loans are the main product offered by the Issuer with share of 67% from the total portfolio. Average historic issued loan amount is EUR 10,000 with the average loan term of 12 months;
- **POS credit.** Factoring product with the loan amount from EUR 1,000 to EUR 100,000 and term of up to 12 months. POS credit is a unique automated loan repayment solution developed together with commercial bank Citadele. The product is suited for companies that offer accept payments with debit or credit cards. POS credit has 12% share of the total loan portfolio of the Issuer;
- **Invoice purchasing.** Factoring solution with the maximum credit limit of EUR 200,000 has proved to be attractive both to SMEs as well as larger client segment. Invoice purchasing is offered to clients since fall of 2015 and its share in the overall loan portfolio of the Issuer has been rapidly growing, constituting 20% as of preparation of these Terms of Issue.
- **Credit line.** A new product introduced in spring of 2016 with the maximum loan limit of EUR 25,000 and maximum term of credit line for 1 year. Current share in the loan portfolio of the Issuer is 1%.

Depending on the loan product and risk assessment of the company, the applied interest rates to the clients can vary starting from 15% to 50% annually. Capitalia provides financing for companies that require additional fixed asset investments or working capital. Loans are not issued for companies in financial difficulties. Loan decision is based on proprietary scoring system while loan monitoring methodology that was developed based on consultations with various commercial bank and microlending institution specialists. Issuer has been awarded technical assistance from European Investment Fund support programme for development of European microlending institutions. Through such consultations the operating procedures of Capitalia had been audited and reworked to reflect the best practice standards in Europe.

Principal collateral for loans that are up to EUR 10,000 is personal warranty of the business owner, while for larger loans assets, vehicle or real estate pledge is required. About 80% of the issued loans are without collateral. Clients typically start amortization payments with the first month from reception of the loan.

Financing to companies is issued based on the following general terms:

- Loan term does not exceed 60 months;
- Amount of loans provided to one company is limited to 5% of the total assets of the Issuer;
- Amount of loans issued to companies representing one industry sector (according to NACE general classification) is limited to 30% of the total assets of the Issuer;

- Loan evaluation is based on accounting data, bank account details and accurate investigation of relevant materials according to Capitalia methodology and guidelines;
- Loans are issued to companies with at least 3 months operation history and EUR 50,000 annual turnover.

In situations of overdue payments, Capitalia undertakes additional monitoring procedures to evaluate credit risks and the state of the collateral. When possible, Capitalia resolves any disputes with problematic clients through mutual negotiations and seeks for an acceptable solution for both parties either through sale of collateral or restructuring of liabilities. Clients that are not responsive to negotiations, in cases of fraud or continually delayed payments (delay exceeds 60 days) Capitalia hands over cases to selected outsourced debt collection agencies who operate in accordance to strict code of ethics standards set by the Issuer.

Client acquisitions are done via direct marketing channels, as well as affiliate and cooperation partners. Capitalia has concluded partnerships with a number of commercial banks, business incubators, consulting companies, accounting service providers and other institutions. Issuer also seeks sponsorship and participation in key seminars and events targeted at small and medium sized businesses in the region.

Loan portfolio and client database is managed by proprietary IT software developed in-house and owned by Capitalia. Accounting software is licensed with separate licenses in all of the Baltic States. In addition to “Capitalia”, the following brand names and domains are owned and used by the Issuer: poscredit.lv, pardodrekinu.lv (Latvia), poscredit.lt, parduoksaskaita.lt (Lithuania), poscredit.ee, muuaarve.ee (Estonia) and poscredit.eu (Europe). Logo and brand name of the company and key products are registered trademarks or under registration in the relevant geographical markets.

7.3. COMPETITION AND THE MARKET

Market opportunity for operations of the Issuer opened following the global financial crisis in 2007-2008, after which commercial banks substantially tightened new loan issues to businesses, in particular to SMEs. Although economic growth in the Baltic States resumed in 2010, financing availability for businesses was scarce. This has created a market niche for non-bank financial institutions, and Capitalia is pioneer of non-bank lending to businesses in the Baltic States. The Issuer forecasts that with the emergence of financial technology companies and increasing coherence of banking and non-banking industries, the demand for the products provided by the Issuer will steadily continue to grow along with historic growth rates. Capitalia estimates that the total market capacity for business non-bank lending in the Baltic States is up to EUR 50 million, significantly above the current portfolio level of the Company, providing ample opportunities for further growth.

The key competitors of the Issuer are commercial banks, for example, Citadele and Swedbank, commercial unions (particularly in Lithuania), non-bank lenders (for example, Debifo, Altfino) and peer-to-peer lending sites (for example, Investly). Although commercial banks can serve as direct competitors to the Issuer, often wise, loans are provided to businesses together with the financing from the commercial banks. None of the competing non-bank lenders have international operations or lending experience of over 1 year.

The main competitive advantages of Capitalia are:

- **Tailored operating procedures.** Our operating procedures are specifically designed for evaluation of credit risk of small and medium sized companies, especially focusing on the effectiveness and speed of the loan application analysis procedure. As a result Capitalia is able to offer faster loan decisions and better react on the emerging needs of the customers;
- **Unique scoring model.** The loan scoring model of Capitalia is designed based on unifying the best practices in mezzanine/venture debt and commercial bank financing. The scoring model is semi-automated and considers over 100 unique characteristics of the applicant. Scoring results are approved and controlled by final decision from the credit committees;

- **Unique products.** Capitalia is regional pioneer in developing and launching new financial products to SMEs. Capitalia is the only provider of revenue based (merchant loan) loans with automatic repayment schedules in the Baltic States. We are the only non-bank lender in the region that is able to provide a number of financing instruments to suit the specific needs of the clients;
- **International operations.** Active operations in 3 countries allows Capitalia to shift and focus resources to the markets with the most favorable competitive environment and best opportunities for growth;
- **Established history and reputation.** Operating since 2010, Capitalia is the best known non-banking lender to businesses in the Baltic States. Company's dedication to high quality of client service has ensured that more than 60% of the clients return for additional financing, while 94% would recommend us to other SMEs.

7.4. DEVELOPMENT PLANS

Capitalia aims to be the leading non-banking business lender in the Baltic States. Issuer is positioning to be a simpler and faster financing alternative for SMEs than commercial banks. To achieve this goal Capitalia has developed a pipeline of potential new products as well as other services to enable better and easier financing provision to the customers. In the future, Capitalia will consider expansion to new geographical markets.

7.5. EMPLOYEES

Capitalia team combines experience of commercial lending, mezzanine financing, investment banking, venture capital, restructuring and entrepreneurship. Each country has a regional loan manager that supervises local team of loan officers. Administrative, financial, marketing and other tasks are managed from the head office in Latvia. Legal, IT and debt collection are outsourced to a number of tested partners. Key investment, restructuring and other operating decisions are made by investment committee that consists of the following members:

Juris Grišins. Juris has international experience in investment banking and investment field working for leading corporate finance companies in Latvia, Estonia, Iceland and Sweden. Since 2006 Juris is actively involved in the venture capital sector by managing one of the largest venture capital funds in Latvia. Juris was board member of Latvian Venture Capital Association, Latvian Business Angels network (Latban) and founder of REA Mentorship Club. Education - Stockholm School of Economics in Riga (BSc), Warwick Business School (MBA).

Pāvels Šnejersons. Business management professional with more than 10 years of experience in various managerial positions. Was instrumental in successful development of the leading local commercial bank AB.LV since the foundation in 1995, where he also had the managing position of lending department. Education - Stockholm School of Economics in Riga (Executive MBA).

7.6. LEGAL STRUCTURE

Issuer has the following daughter companies:

Company	Reg. number	Ownership, %	Description of operations
Capitalia Finance, UAB (Lithuania)	302718931	100%	SME lending in Lithuania
Capitalia Finance, OU (Estonia)	12822836	100%	SME lending in Estonia

7.7. CORPORATE GOVERNANCE

The corporate governance of the Issuer is implemented through shareholders' meeting, council and board. Operational activities of Capitalia are managed by the board. Corporate governance principles are described in statutes, council regulation and other relevant documents of the Issuer. In designing the corporate governance

principles of the Issuer, relevant best practice guidelines from NASDAQ Riga stock exchange as well as other similar financial institutions has been used.

Once a year the Issuer published corporate governance report that is published through NASDAQ Riga as well as on corporate website www.capitaliafinance.com. The corporate governance report for the year 2015 is available through the following link: http://www.nasdaqbaltic.com/upload/reports/capi/2015_cg_en.pdf.

7.7.1. Council

Name, Surname	Position	Activities outside the council
Mārtiņš Krūtainis	Chairman of the council	CFO of technology startup company Sendit (Thailand), previously partner of investment bank Superia.
Andrejs Strods	Deputy to the chairman of the council	Manager and founder of software development company Blue Bridge Technologies.
Jānis Dubrovskis	Council member	Financial director of commercial bank Baltikums Bank.

7.7.2. Board

Name, Surname	Position	Performed functions
Juris Grišins	Chairman of the board	Ensures operating and administrative management of the Issuer.

7.7.3. Activities outside of Issuer

Council members hold ownership of shares in other companies, however, such investments have no business links to the operations of the Issuer. Board member of the Issuer has no ownership in any other companies that have active operations.

7.8. SHARE CAPITAL

The issued share capital of Capitalia is EUR 500,000 (five hundred thousand euros). Share capital is split in equal parts in ordinary shares (voting) and preference shares (non-voting). At the moment of preparation of these Terms of Issue, all shares are held by Latvian natural persons.

7.9. LEGAL PROCEEDINGS

Nor Issuer, nor its daughter companies are engaged in or, to our knowledge, has currently threatened against it, by any governmental, legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of these Terms of Issue, a significant effect on financial position or profitability of the Issuer.

7.10. AVAILABLE DOCUMENTATION

All Investors are able to obtain the following additional documents at the offices of Capitalia in Riga, Brīvības 40-35, LV-1050:

- Statutes, council regulation and other corporate governance documents;
- Agreement A-20-2016 signed with collateral agent Loze&Partneri Attorneys at Law.

7.11. OTHER INFORMATION

Lending activities of the Issuer are not regulated in Latvia and Lithuania. In Estonia, daughter company of the Issuer is a registered financing provider with permit no FFA000191. Public bond issue of Capitalia with ISIN number LV0000801488 is placed on NASDAQ Riga stock exchange and are supervised by Financial and Capital Markets commission in Latvia.

All disputes between the Bondholders and the Issuer shall be settled in the courts of the Republic of Latvia in accordance to the prevailing legislative acts. Terms of Issue are prepared in English and English version shall be considered as the base language of this document.

8. FINANCIAL INFORMATION

Accounting of the Issuer is performed in accordance with the international IFRS standards and in line with developed accounting procedure. The following table summarizes the key operating ratios of the Issuer:

	01.01.-30.09.2016	01.01.-31.12.2015
	EUR	EUR
Total assets	2 922 577	2 623 208
Loan portfolio	2 229 886	1 938 899
Equity and subordinated capital	625 507	405 999
Turnover	662 061	574 568
EBITDA	250 202	271 403
Net profit	-15 219	48 586

Following are the key annualized financial performance ratios of Capitalia:

	01.01.-30.09.2016
Asset growth	11.41%
Equity to assets	21.40%
Turnover growth	53.63%
Return on equity	-2.43%
Net profitability	-2.31%
Gross profitability	41.45%
Losses from doubtful debts	4.44%

Total loan portfolio managed by Capitalia, including loans that are managed by the company, but refinanced to investors of marketplace lending platform Mintos.com:

	01.01.-30.09.2016
	EUR
Latvia	2 296 010
Lithuania	1 417 432
Estonia	512 714
Total	4 226 157
<i>from which PAR60*</i>	<i>482 480</i>

* PAR 60 indicates the total remaining principal of loans that are late to pay regular payment for more than 60 days

8.1. BALANCE SHEET

The following tables summarize the consolidated balance sheet (asset) of the Issuer for the years 2015, as well as 9 month operating results of year 2016.

	30.09.2016	31.12.2015
	EUR	EUR
Assets		
Long term investments		
Intangible assets	84 688	48 865
Fixed assets	55 579	10 893
Participating interest in associated company	-	6 250
Receivables from affiliated companies	200 762	339 500
Loans and receivables	603 827	348 014
Loans to shareholders and management	-	43 520
Deferred tax assets	1 732	1 732
Total long-term investments:	946 588	798 774
Current assets		
Receivables from affiliated companies	-	2 500
Receivables from associated companies	-	51 278
Loans and receivables	1 626 059	1 590 885
Other debtors	24 562	33 985
Loans to shareholders and management	-	24 136
Unpaid share capital	123 510	-
Other securities and equity participation	25 691	87 691
Cash and bank	176 167	33 959
Total current assets:	1 975 989	1 824 434
Total assets	2 922 577	2 623 208

The following tables summarize the consolidated balance sheet (liabilities) of the Issuer for the years 2015, as well as 9 month operating results of year 2016.

	30.09.2016	31.12.2015
	EUR	EUR
Liabilities		
Shareholders' funds		
Share capital	500 000	226 490
Other reserves	-10 389	-10 389
Prior years' retained earnings	-43 293	-91 532
Current year's profit / (losses)	-15 219	48 587
Total shareholders' funds:	431 099	173 156
Creditors		
Long-term creditors		
Bonds issued	1 652 631	1 617 576
Other borrowings	57 022	167 577
Deferred income	47 707	64 883
Total long-term creditors:	1 757 360	1 850 036
Short-term creditors		
Bonds issued	36 140	36 140
Other borrowings	606 970	488 855
Accounts payable to affiliated companies	28 116	23 360
Trade creditors and accrued liabilities	10 081	10 073
Deferred income	52 811	41 588
Total short-term creditors:	734 118	600 016
<u>Total liabilities and shareholders' funds</u>	<u>2 922 577</u>	<u>2 623 208</u>

8.2. PROFIT AND LOSS STATEMENT

The following tables summarize the consolidated income statement of the Issuer for the years 2015, as well as 9 month operating results of year 2016.

	01.01.-30.09.2016	01.01.-31.12.2015
	EUR	EUR
Interest and similar income	662 061	574 568
Interest expense	-222 229	-211 639
Impairment (provision)	-69 514	-64 891
Selling expense	-95 880	-41 354
Administrative expense	-262 608	-195 986
Other operating income	5 041	12 087
Other operating expense	-32 089	-20 076
Other interest receivable and similar income	-	-
Other financial expenses	-1	-113
Profit/(loss) before Income Tax	-15 219	52 596
Corporate Income tax	-	-6 032
Deferred Income	-	2 022
<u>Net profit/(loss) for the period</u>	-15 219	48 586