

Flex Funding A/S

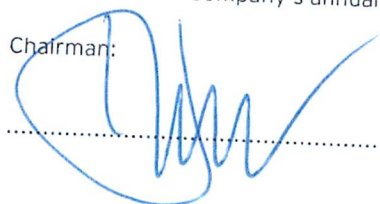
Strandvejen 100, opgang 3, 2. sal, 2900 Hellerup

CVR no. 25 61 99 78

Annual report 2017

Approved at the Company's annual general meeting on 23/5 2018

Chairman:



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Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Flex Funding A/S for the financial year 1 January - 31 December 2017.

The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2017 and of the results of the Company's operations for the financial year 1 January - 31 December 2017.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

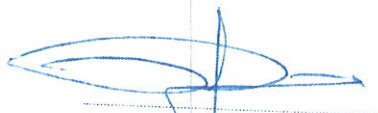
We recommend that the annual report be approved at the annual general meeting.

Hellerup, 27 March 2018
Executive Board:



Henrik Vad
CEO

Board of Directors:



René Jørgen Spogard
Chairman



Christian Lundgaard



Hans-Henrik Horsted
Eriksen



Henrik Vad



Martin Nymark Hansen

Independent auditor's report

To the shareholders of Flex Funding A/S

Opinion

We have audited the financial statements of Flex Funding A/S for the financial year 1 January - 31 December 2017, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2017 and of the results of the Company's operations for the financial year 1 January - 31 December 2017 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark 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 the financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

Independent auditor's report

- ▶ 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 in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

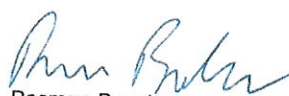
In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 27 March 2018
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no: 30 70 02 28


Anders Duedahl-Olesen
State Authorised Public Accountant
MNE no.: mne24732


Rasmus Berntsen
State Authorised Public Accountant
MNE no.: mne35461

Management's review

Company details

| | |
|----------------------------|---|
| Name | Flex Funding A/S |
| Address, Postal code, City | Strandvejen 100, opgang 3, 2. sal, 2900 Hellerup |
| CVR no. | 25 61 99 78 |
| Established | 5 December 2013 |
| Registered office | Gentofte |
| Financial year | 1 January - 31 December |
| Website | www.flexfunding.com |
| E-mail | info@flexfunding.com |
| Telephone | +45 70 60 52 00 |
| Board of Directors | René Jørgen Spogard, Chairman Hans-Henrik Horsted Eriksen Martin Nymark Hansen Christian Lundgaard Henrik Vad |
| Executive Board | Henrik Vad, CEO |
| Auditors | Ernst & Young Godkendt Revisionspartnerselskab Osvold Helmuths Vej 4, P.O. Box 250, 2000 Frederiksberg, Denmark |

Management's review

Annual Report 2017

Executive summary

Flex Funding is an online marketplace for financing and investment. Investors can get an attractive return on their investments by lending money directly to creditworthy Danish and Faroese companies, associations, self-governing institutions, etc. Flex Funding is the only operator in Denmark and among a few in Europe who have obtained the Danish FSA's unlimited authorization as a payment institution to provide crowdlending in accordance to the EU Payment Services Directive.

The European online alternative finance market grew by 41 per cent to 7.7 billion euros in 2016, according to the 3rd annual European Alternative Finance Industry Benchmarking Report by the Cambridge Centre for Alternative Finance. The report entitled "Expanding Horizons" indicates that online alternative finance showed growth in new areas across Europe. In Denmark the total addressable market is estimated at DKK 441bn (total loan amount to Businesses as of July 2016).

Companies often choose Flex Funding as a supplement to their banks because they can get a quick response and the loan approved within a reasonable time at competitive rates and fees. At the same time, the borrowers can rely on the terms, as the interest rates are fixed throughout the period. For example, Flex Funding does not require annual renegotiation of the terms.

With the record low interest rates on savings and bonds, there has been a great demand to seek alternative investment opportunities. As the financial crisis and the tightening of regulatory requirements have made it both more expensive and more difficult for banks to lend money, Flex Funding's concept allows private individuals and companies to participate in providing loans directly to creditworthy companies. At the end of 2017 lenders who have invested in all arranged loans, have achieved an annual return of gross 8.57 % and net 7.57 % (after the lenders fee to Flex Funding).

In 2017 the company realized a loss of DKK 11,6 mio., which was as expected.

With a strong plan to growth Flex Funding received capital injections from new and existing investors of DKK 15 million in 2017. The capital will be used to boost Flex Funding's lending in Denmark and to provide tailored versions of the platform to other financial companies in Denmark and abroad. For this reason, the team has been strengthened with highly qualified individuals in management, sales and marketing.

Flex Funding A/S

Flex Funding A/S was founded on December 5, 2013 with the purpose of developing and offering a crowdlending platform in Denmark and across Europe.

Business plan

Flex Funding is an online marketplace for financing and investment. Investors can get an attractive return on their investments by lending money directly to creditworthy Danish companies, associations, self-governing institutions, etc. who in turn can access flexible financing with ease and speed. Flex Funding carries out the anti-money laundering procedures, credit assessments and manages the comprehensive process for loan origination, contracts, collateral management, payments etc. with automation.

Flex Funding's main product is the proprietary online crowdlending platform. It is developed by Flex Funding, offered to their own customers and used as a tailored solution for financial institutions and white label partners.

The global financial industry benefits from:

- ▶ A partner program where financial institutions and partners can use Flex Funding's IT-platform, configured to their own needs and visual design.
- ▶ A pan-European platform with access to a license from the Danish Financial Supervisory Authority covering the entire EU/EEA.

Unique platform

The crowdlending platform is an open end-to-end solution for corporate loans, and it is ready for more products, currencies, languages and collaborators.

Management's review

Unlimited permission from the Danish Financial Supervisory Authority

Flex Funding is the only operator in Denmark and among a few in Europe who has obtained the Danish FSA's unlimited authorization as a payment institution to provide crowdlending in accordance to the EU Payment Services Directive.

This implies

- ▶ the management is "Fit & Proper"
- ▶ the highest minimum capital requirement
- ▶ managing operational and security risks, including a safe and secure IT system
- ▶ ring-fencing of customer funds deposits on Flex Funding's accounts
- ▶ compliance
- ▶ reporting, etc.

the license allows Flex Funding A/S a cross-border access to provide its services within the EU/EEA without any restrictions on revenue.

Securing customer deposits

At the same time, the Danish FSA's authorization implies that customers' deposits are secured 100%, in case Flex Funding goes bankrupt. The Danish FSA requires that a payment institution establish a special guarantee cover account in the bank. The purpose of setting up a guarantee cover account in the bank is to secure customer funds against creditor prosecution, in case Flex Funding goes bankrupt. In addition, the Guarantee Fund (in Danish Garantiformuen) insures deposits in an account in a bank up to an amount equivalent to EUR 100,000 (approximately 750,000 DKK) in the event that Flex Funding's bank goes bankrupt. Deposits on accounts in Flex Funding are covered the same way as other deposits in the banks, which means that coverage is granted up to EUR 100,000 per depositor, in the event that Flex Funding's bank goes bankrupt. "Depositor" means the person to whom the deposit belongs, and the limitation will therefore apply per customer.

Offices

Flex Funding's teams are located in Hellerup and Aarhus, Denmark, at different locations in Poland with the subsidiary Flex Funding Poland Sp. Z.o.o. in Lublin, and in London, England.

Flex Funding Poland Sp. z.o.o.

The crowdlending platform is owned entirely by the subsidiary Flex Funding Poland Sp. z.o.o. in Lublin, Poland, and offers its license to other financial companies at home and abroad.

Memberships

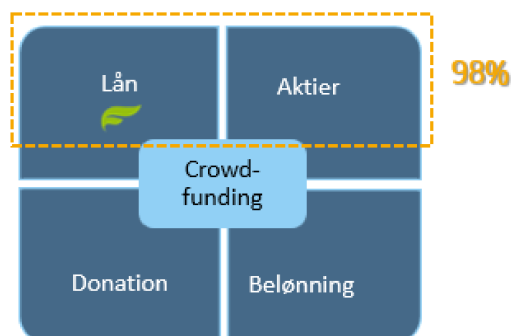
Flex Funding is a member of the following organizations:

- ▶ Member of Danish Chamber of Commerce (Dansk Erhverv)
- ▶ Co-founder and member of Danish Fintech Association (DAFINA)
- ▶ Member of Danish Crowdfunding Association (Dansk Crowdfunding Forening)
- ▶ Member of Danish Entrepreneur Association (Dansk Iværksætterforening)

Future financing

The financial sector has begun to feel the shift in the sharing economy and the effect of networking. The technology advances combined with an increasingly social consumer, opens the access to money and financial services beyond the traditional financial institutions. With the Millennium Generation as the main change driver and new solutions for crowdfunding, payments and robo-advisory, disruptors are taking an increasing market share away from the banks' existing distribution channels.

Management's review

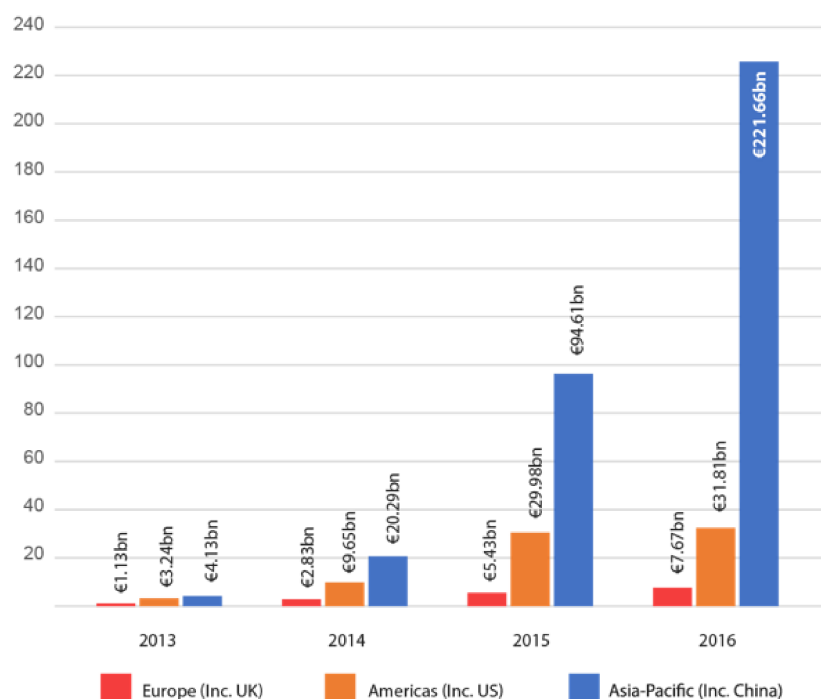


Crowdfunding is experiencing extreme growth at a global level. The financial crisis has helped create and shape the gap. The market for crowdfunding is primarily comprised of equity and crowdlending. Crowdfunding democratizes the capital procurement and measures the interest in advance, which is an effective way to identify which projects the investors find appealing. Providing transparency between the company and the crowd, businesses have the opportunity to share their unique story to the investors concerned, share their financials, aspirations and goals. This helps companies market to a more diverse investor who in turn backs projects that otherwise may not be financed.

The global and regional development for online alternative funding 2013-2015 (€ EUR)

Whilst Europe is the smaller region in relation to America and the Asia-Pacific, it is remarkable that Europe's annual growth has been much stronger and has grown 85 % annually between 2013 and 2016. This is especially relevant when Great Britain is excluded from the inventory.

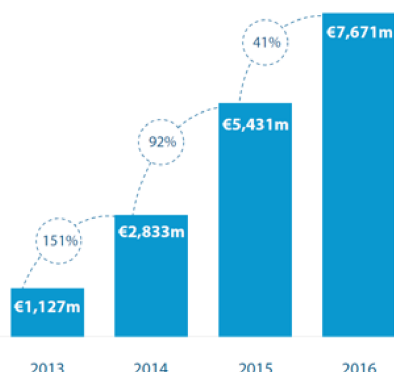
Regional Market Volume for online alternative funding 2013-2015 (€ EUR)



Source: The 3rd European Alternative Finance Industry Benchmarking Report, University of Cambridge

Management's review

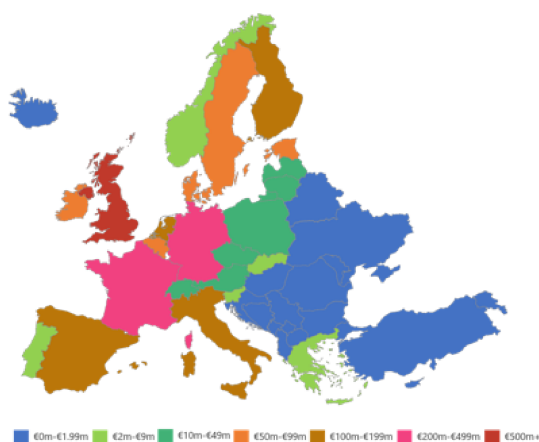
Market volume for Online Alternative Funding in Europa 2013-2016 in EUR (incl. Great Britain)



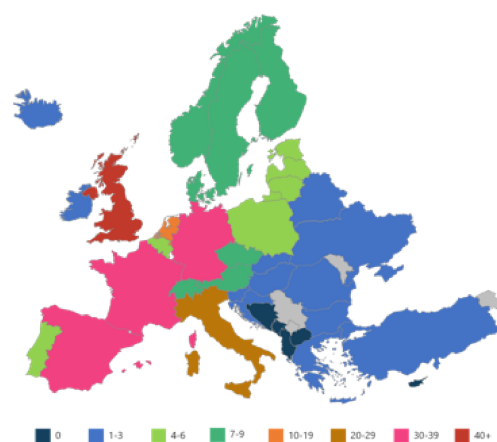
Number of platforms in Europe 2015 and the total volume in EUR

Great Britain accounted for 73 % of the alternative funding market in Europe in 2016 but the annual growth rate has reduced each year since 2013. The rest of Europe continues to grow rapidly, primarily due to the rapid development of alternative financial markets in the smaller countries in Europe. While France, Germany and the Netherlands are relatively well-established markets in Europe, the alternative financial markets in the Nordic countries, the Iberian Peninsula and the Baltic countries are all good examples of rapid regional growth in the EU.

The Geographical Distribution of Platforms (2015)

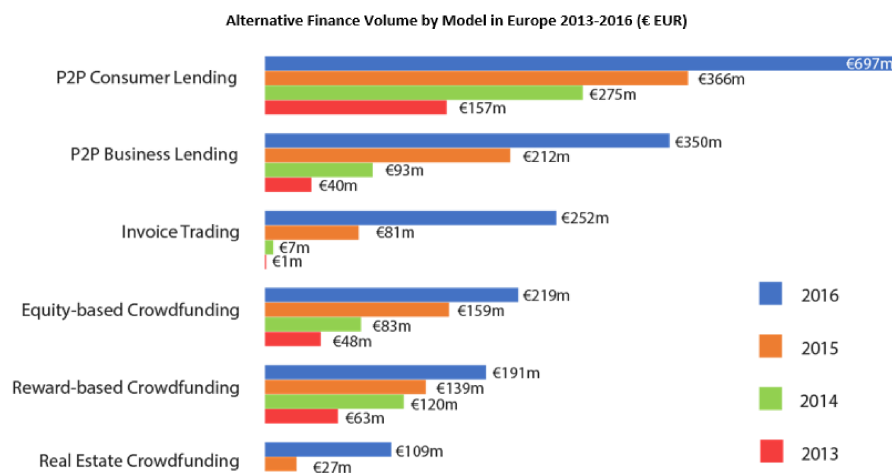


Comparative Market Volumes of Alternative Finance Transactions in the EU (2016)



Source: The 3rd European Alternative Finance Industry Benchmarking Report, University of Cambridge

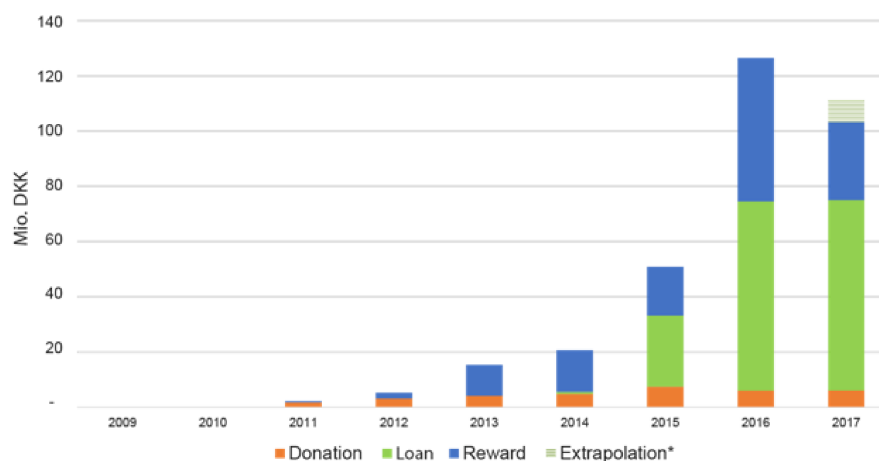
Management's review



Source: The 3rd European Alternative Finance Industry Benchmarking Report, University of Cambridge

The Danish market for Crowdfunding

The Danish Growth Fund (Vækstfonden) and Danish Crowdfunding Association have in the recent years calculated the activity in the Danish crowdfunding market. The purpose of the analysis is to chart how much capital Danish companies and individuals have raised through crowdfunding. The focus here is on the Danish platforms and projects that have raised capital on either Kickstarter or Indiegogo. The analysis shows that crowdfunding in Denmark has taken a slight decline in 2017 compared to 2016, but Danish companies and individuals have still managed to raise more than DKK 100 million through crowdfunding.

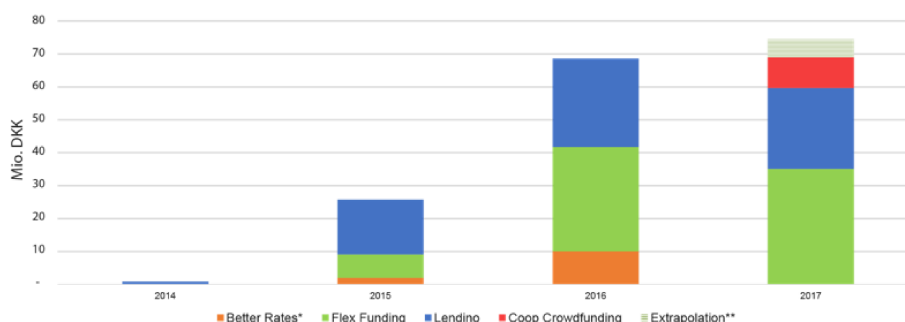


*~ Data for the various platforms were collected in October / November 2017, why the extrapolation covers the activity for the remainder of the year assuming the same activity level

Source: The Danish crowdfunding market 2017 published by Vækstfonden and Dansk Crowdfunding Forening

From the DKK 100 million, more than DKK 70 million has been raised through crowdlending, with DKK 35.0 million in loans, or 50% were funded on Flex Funding's platform.

Management's review



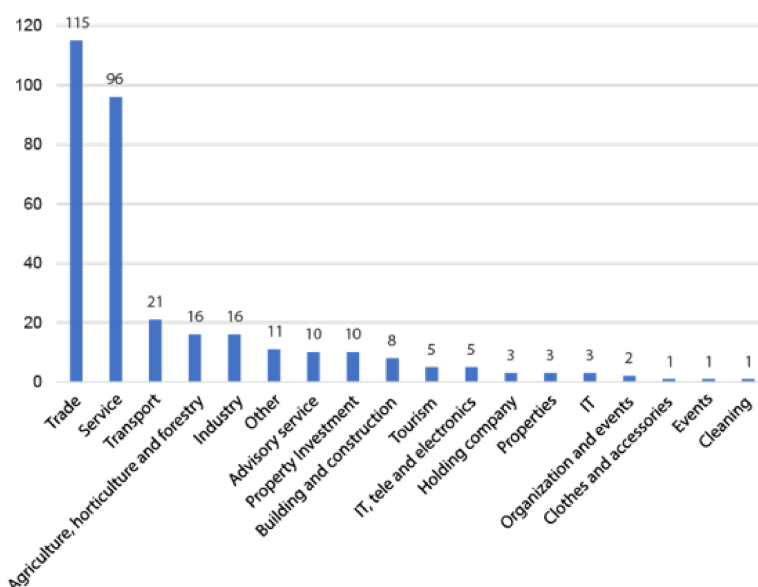
* ~ Data from Better Rates stems from an article in the Danish newspaper Børsen "Investors pull crowdlending strongly" ~ 24.10.2016.

** ~ Data for the various platforms were collected in October / November 2017, why the extrapolation covers the activity for the remainder of the year assuming the same activity level

Source: The Danish crowdfunding market 2017 published by Vækstfonden and Dansk Crowdfunding Forening

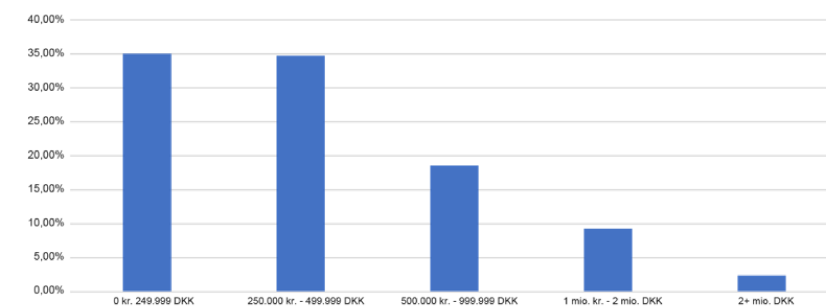
Funding through crowdlending has mostly been given to companies in the trade and service industries.

Number of loans broken by industry, 2014 – 2017



Source: The Danish crowdfunding market 2017 published by Vækstfonden and Dansk Crowdfunding Forening

70 % of all loans have been less than half a million DKK. However, Flex Funding is characterized by having larger loans. The average per loan in Flex Funding is almost DKK 1 million. The loan sizes typically range between DKK 200,000 and DKK 1.5 million.



Source: The Danish crowdfunding market 2017 published by Vækstfonden and Dansk Crowdfunding Forening

Management's review

Risks of the crowdlending platforms

In "The 3rd European Alternative Finance Industry Benchmarking Report" from University of Cambridge, the European platforms across the funding models have been asked about the risks of the platforms. Two main types of risks are commonly perceived as the main concern:

- ▶ Collapse of one or more well-known platforms due to malfunction
- ▶ Fraud involving one or more high-profiled campaigns/offers/loans.

These concerns are shared by Flex Funding, who participated in the survey too. The concerns are relevant for a young industry seeking public legitimacy under close supervision of the supervisory authorities and in an environment where the journalistic coverage often focuses on mistakes rather than successes.

The Flex Funding concept

All companies applying for a loan undergo comprehensive credit review, overseen by Flex Funding's experienced credit team. Only the companies that can comply with a thorough credit check are accepted for funding on Flex Funding's marketplace. Exceptionally, newly established companies are authorized if they have satisfactory security(ies) as collateral. Flex Funding divides the approved companies into risk categories - from normal to very low, which help lenders to select the companies they want to lend to. At the same time, the system determines an interest rate based on the market rate of an average bank when individual credit risk, funding costs, loan capital requirements, operational risk, etc. are assessed. Following this, the companies' loan requests are placed on Flex Funding's marketplace.



On Flex Funding's marketplace, lenders can choose the companies they want to lend to and indicate how much. The interest rate is fixed throughout the loan period. The loan duration can vary from 6 months up to 10 years. The loan is repayable with monthly payments to the lenders' accounts at Flex Funding. The loan is fully filled when the number of bids received matches the loan amount requested. The bids are accepted on a "first come first served" principle. If there are not enough bids made on a loan, the auction will automatically expire after 14 days, the loan request is cancelled and the cash is released back to the lenders' accounts at Flex Funding.

In practice, a lender will often give loans of small amounts to a wide range of businesses to spread their risk. All the way down to DKK 200 per business. There are often hundreds of different lenders behind each business loan. This makes the risk of loss very small.

Flex Funding prepares the necessary loan documents and manages the monthly repayment and interest paid to each lender. Flex Funding's service includes lender account management and access to the reporting tools.

Companies pay an establishment fee per loan and lenders pay a service fee.

There are a number of areas which make Flex Funding's platform unique:

Management's review

- ▶ Flex Funding has the FSA's unlimited license to provide crowdlending. This results in greater security of the customers' deposits in Flex Funding and higher capital requirements.
- ▶ Flex Funding offers investors a secondary market where investors have the opportunity to sell their loan shares and provide new investors quick access to build a diversified loan portfolio.
- ▶ Flex Funding is the only platform offering investors a MiFID investor test, meaning that investors can individually share their experience, understand the risks involved, build a risk profile and receive a recommended portfolio composition.

Flex Funding's marketplace is open to other partners, which supports collaboration, growth and choice for investors.

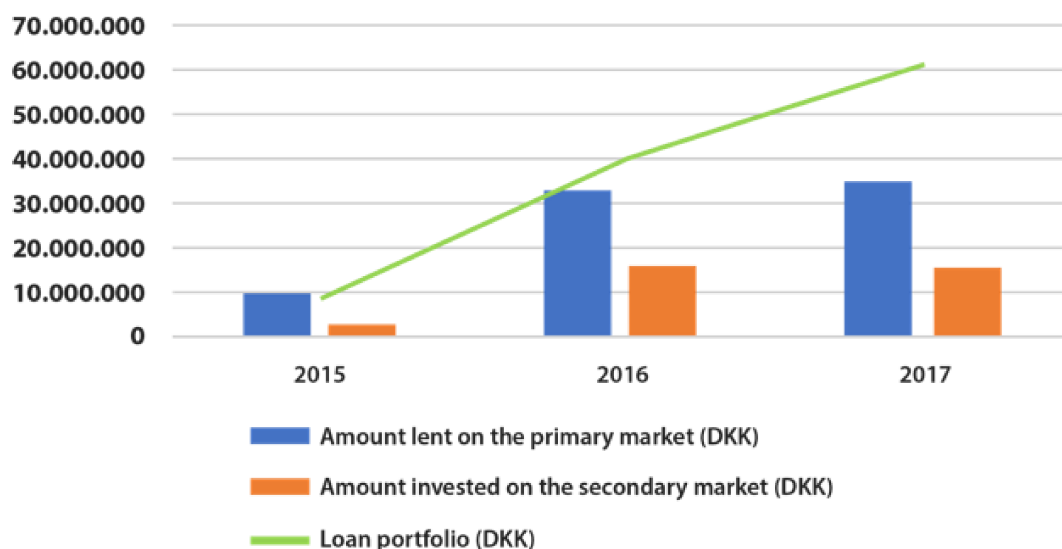
2017

Provision of loans

Until recently, it was not possible for Flex Funding to provide loans to sole proprietor businesses, but only to incorporated entities, as it requires a different digital credit rating model for these businesses compared to companies which report their financial statements to the Danish Commerce and Industry Agency (in Danish Erhvervsstyrelsen). From the summer of 2017 Flex Funding solved the issue and began providing loans to sole proprietor businesses too.

Flex Funding's credit policy is incredibly conservative. This allows us to build a strong credit history and optimize the credit rating models. This approach will inevitably attract many non-creditworthy applicants, the rejection rate is still disproportionately high. 71% of the loan applications were rejected.

Amount lent and loan portfolio

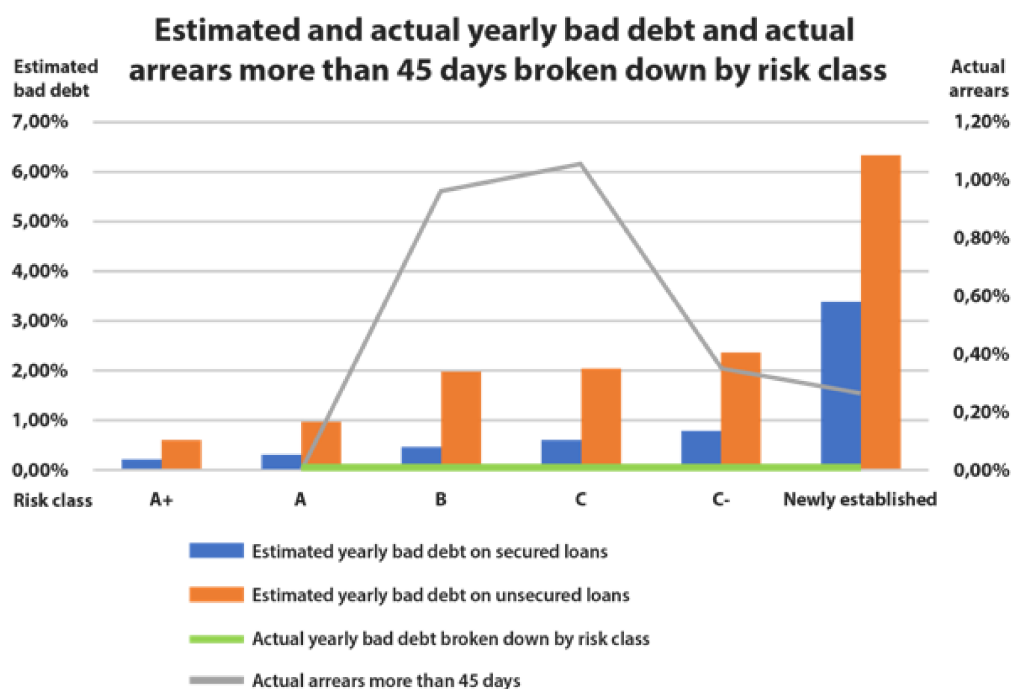


Companies often choose Flex Funding as a supplement to their banks because they can get a quick response and the loan approved within a reasonable time at competitive rates and fees. At the same time, the borrowers can rely on the terms, as the interest rates are fixed throughout the period. For example, Flex Funding does not require annual renegotiation of the terms.

Defaults

As with all other investments, there is a correlation between expected risk and expected return, which means there is a correlation between a company's creditworthiness and the interest rate on the loan. The lower a credit rating a company has, the higher an interest rate the company pays, as the risk of default increases. Flex Funding's credit policy implies that this risk is reduced as far as possible by securing loans with collaterals and guarantees. Flex Funding estimates and monitors the credit losses on the arranged loans by risk class, specified on secured and unsecured loans, see below:

Management's review



Flex Funding continuously publishes all loans, where the borrower has defaulted and the repayment and interest is overdue for more than 90 days. Normally, a defaulted loan has been terminated and transferred to legal debt collection for the purpose of forced realization of collaterals, or the borrower has been declared bankrupt by other creditors and Flex Funding is awaiting the bankruptcy curator's statement regarding the bankruptcy and possible dividends. Regardless of whether the borrower is in debt collection or bankruptcy proceedings, many months will often pass before final closure. During this period, a loan is included as arrears. Once the collection or bankruptcy proceedings have been completed, the final loss will be recorded.

Two of the companies to whom Flex Funding provided loans in 2015 have subsequently gone bankrupt. However, both loans were fully covered with the guarantees, which meant that the lenders were repaid all outstanding debt, including interest.

Five of the companies to whom Flex Funding provided loans in 2016 have either gone bankrupt or the loan has been terminated and transferred to debt collection due to a default on payments. The claims are expected to be partially covered by forced realization of collaterals etc. The final loss on the 5 loans is estimated to be approximately DKK 1 million corresponding to 50 % of the outstanding debt and approximately 39 % of the total principal.

| Actual arrears more than 45 days. Year of loan origination: | 2015 | 2016 | 2017 |
|--|-----------|-----------|------|
| Loans originated | 1.870.000 | 2.600.000 | 0 |
| Loans outstanding | 832.751 | 2.038.727 | 0 |
| Expected recoveries | 100% | 50% | 0% |
| Actual recoveries | 100% | 13% | 0% |
| Expected bad debt | 0 | 1.019.364 | 0 |
| Actual bad debt | 0 | 0 | 0 |

Based on an analysis of the 5 above-mentioned loans, Flex Funding corrected the credit policy in 2016. In addition to the 5 mentioned loans, no further arrears have been recorded as of 31 December 2017.

As of now, the investors have achieved a higher return on their investments in loans than estimated by Flex Funding, as losses have been lower than expected.

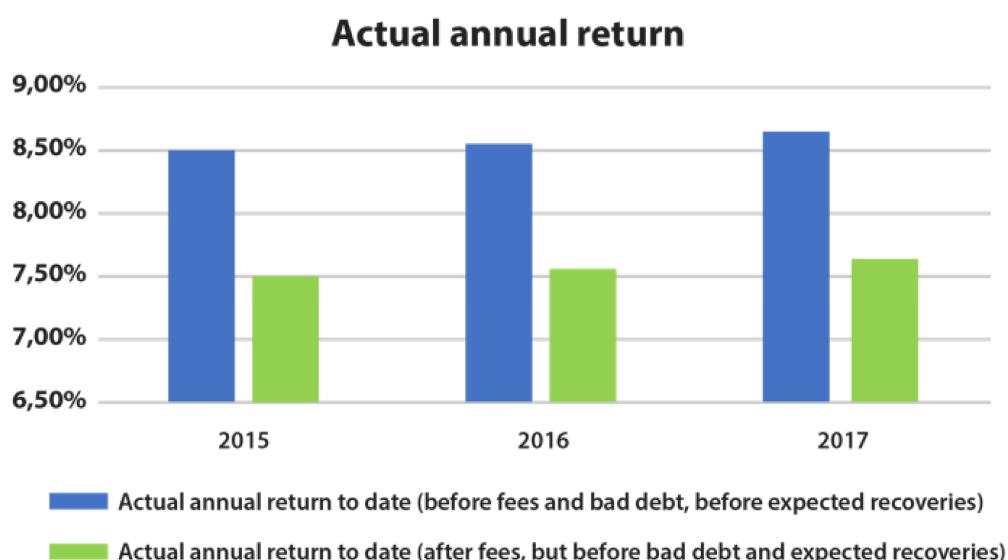
Management's review

All approved loan requests are transferred to Flex Funding's marketplace with information about the borrower and lenders are given the opportunity to self-assess the borrower and the required loan. The platform also allows the lenders to submit questions to the borrower. Hereby, Flex Funding and the individual investor can both make the credit assessment of the loan requests.

Lenders

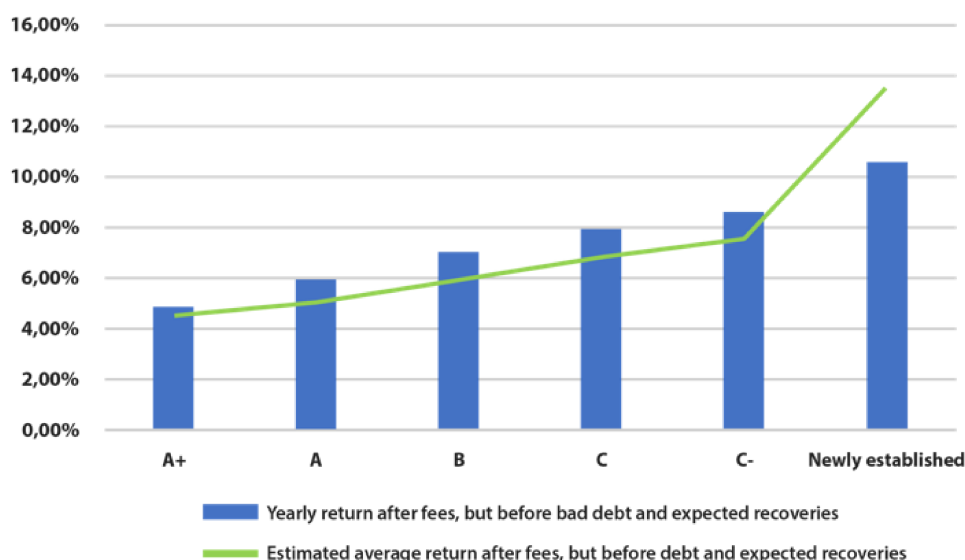
With the record low interest rates on savings and bonds, there has been a great demand to seek alternative investment opportunities. As the financial crisis and the tightening of regulatory requirements have made it both more expensive and more difficult for banks to lend money, Flex Funding's concept allows private individuals and companies to participate in providing loans directly to creditworthy companies. The lenders are characterized by being wealthy with the desire to achieve an attractive return as an alternative to bonds and shares. By the end of 2017, Flex Funding had 6,774 users compared to 4,944 at the end of 2016. This corresponds to an increase of over 150 new users per month, which is excellent given that the concept is still new in Denmark and the marketing budget has been very limited.

At the end of 2017 lenders who have invested in all arranged loans, have achieved an annual return of gross 8.57 % and net 7.57 % (after the lenders fee to Flex Funding). The return is calculated using the interest rate, which corresponds to the average interest rates of the loans, so the individual return can be both higher and lower. The return is competitive in relation to investments in Danish Bonds and shares.



Management's review

Actual return 2017 broken down by risk classes



Even though investment in companies entails a credit risk, none of the investors have realized a loss on their cumulative investments through Flex Funding, refer to the section on credit losses and arrears above.

In July 2017, Flex Funding's primary marketplace changed to a fixed rate auction, up until then Flex Funding had arranged loans using a recommended interest rate spread, in other words a "Dutch auction", where each lender would indicate the interest rate they would like to achieve. This was simplified to a fixed interest rate and using the "first come first served" principle. The change was driven by feedback from the investors and companies.

The benefits for borrowers using a fixed rate auction:

- ▶ Loans are funded faster and there is less uncertainty as to whether the loan is financed or not.
- ▶ The borrower knows in advance what the interest rate will be. Uncertainty about the final interest can hold back good companies from applying for loans.
- ▶ Companies get a fair interest rate. There have been examples where companies have refused the interest rate after the Dutch auction closed because it has been too high. This is a waste of time for both the borrowers and the lenders.

The benefits of Flex Funding lenders using fixed rate auction:

- ▶ Bids are filled straight away using a fairer approach of first come, first served.
- ▶ No need to spend time assessing what is a fair interest rate for the company.
- ▶ There is no longer a 14 day wait as previously, for the loan to be closed and bids to be accepted.
- ▶ The new principle will promote faster auctions in the marketplace and facilitate more loans.

The new auction method introduced a "frozen period". This is the period from when Flex Funding transfers a new loan to the marketplace and when it opens for bidding. This "frozen period" ensures that the lenders have time to make their own assessment of the loan and ask questions to the borrower without the risk of the loan being fully subscribed in the meantime. The frozen period is normally 48 hours from the new loan being transferred to the marketplace until it opens for bids.

Partnerships

Flex Funding has two different distribution channels, one being direct sales through Flex Funding's own platform and the other being sales through partners in Denmark and abroad. Flex Funding offers solutions tailored to the individual partner's needs.

Management's review

Flex Funding entered into the first partner agreement with Suðuroyar Sparikassi in the Faroe Islands in 2017. Suðuroyar Sparikassi uses Flex Funding's platform with Flex Funding's financial license and trademark. With the cooperation, Suðuroyar Sparikassi can expand its market share for business loans significantly in the Faroe Islands. In addition, they will be able to maintain deposits and attract new deposit customers while offering private Faroese and professional investors a whole new attractive product with loans directly to companies. Suðuroyar Sparikassi wants to offer corporate customers a combination loan, where Sparikassi finances up to 25 % of the loan, while the remaining is offered through the Flex Funding platform for crowdlending. Suðuroyar Sparikassi opened for the platform in spring 2017.

Financial review

The income statement for 2017 shows a loss of DKK 11,551,639 against a loss of DKK 8,001,916 last year, and the balance sheet at 31 December 2017 shows equity of DKK 9,834,364. Management considers the Company's financial performance in the year as expected.

Organization

From 1 January 2018, Flex Funding had 16 full-time employees and 9 part-time employees (primarily students). At the turn of the year, Flex Funding has strengthened the organization management by a number of new appointments:

CCO & Partner Torben Bruun

Torben Bruun brings 30+ years of professional experience in the financial industry to his new role as CCO & Partner in Flex Funding from 1 January 2018. Torben will also be stand-in for the CEO Henrik Vad. Torben is responsible for the Danish market, which includes sales and marketing, credit and front- and back-office. Torben has had senior positions within sales to institutional clients, Private Banking, Foreign Exchange, Portfolio Management, etc. Torben successfully established the US brand Morningstar in Denmark as co-founder and majority owner of Morningstar Denmark A/S during the period 2001 - 2011. Torben holds a bachelor in Economics and an ACI Diploma.

CTO Mikkel Scheike

Mikkel Scheike adds several years of experience in IT. Most recently, Mikkel has been Head of IT Projects in Saxo.com, the largest book distributor in Denmark, where he has had the overall responsibility for all IT projects. Prior to this position, Mikkel was a technical project manager at Saxo.com. Mikkel brings experience from other companies as a freelance project manager and IT consultant. Mikkel has an M.Sc. in IT from the University of Copenhagen.

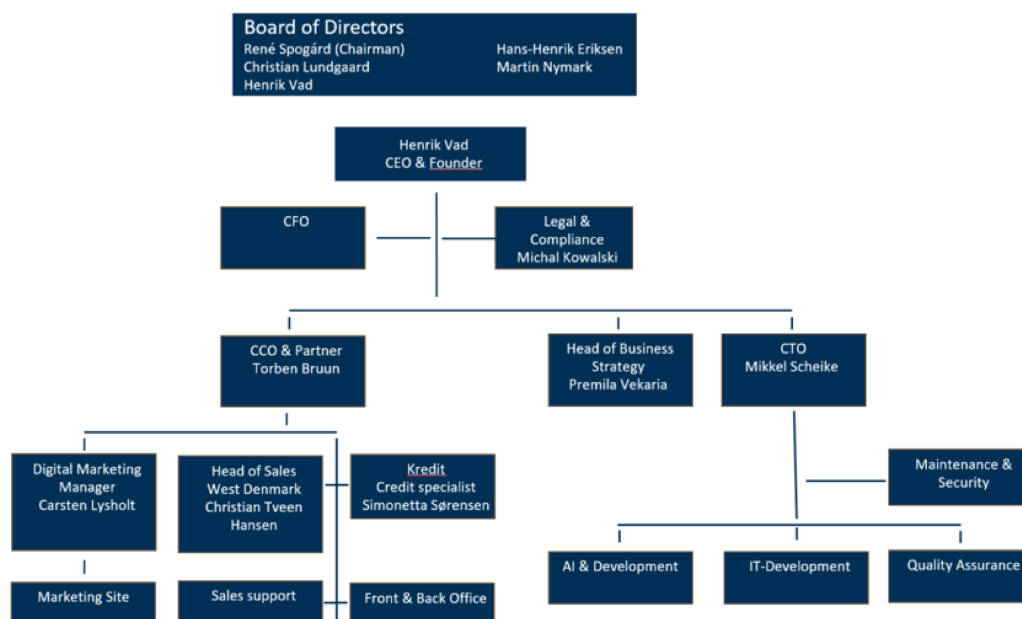
Digital Marketing Manager Carsten Lysholt

Carsten Lysholt is a Digital Marketing Specialist and entrepreneur with extensive experience in his field from both an IT Business & Marketing Bureau and several positions in large companies such as Nycomed (Head of E-Marketing & Business Applications), Chr. Hansen, Novo Nordisk and Nokia. Carsten Lysholt has an M.Sc. in Communication, Multi Media and UX Design from Aalborg University.

Regional Director and Sales Manager Christian Tveen Hansen

Christian Tveen Hansen has extensive experience in implementing new concepts, products and tools in the financial industry on both the B2C and the B2B market from positions in Private Banking, Investment and Pension. Christian has 16 years of professional experience from the banking sector, focusing on sales from Saxo Private Bank, Vestjysk Bank and Jyske Bank. Christian Tveen Hansen holds an M.Sc. in economics from Aarhus University.

Management's review



IT

Flex Funding's administrative and accounting practices, in critical areas, including business procedures and internal control procedures have been reviewed internally and by the external auditor, to assess whether they are planned and are working satisfactorily and whether the Flex Funding's overall system security, data security and operational security are working satisfactorily. System security, data security and operational security comprise:

- ▶ System security: The result of the policies, rules and business procedures that ensure reliable IT solutions and that systems are documented, approved, tested and protected against unauthorised changes.
- ▶ Data security: The result of the policies, rules and business procedures that ensure reliable and confidential registration, preservation, protection and application of data and that changes, deletion, access to or use of data have been approved and documented.
- ▶ Operational security: The result of the policies, rules and business procedures that ensure reliable data handling and handling of errors and omissions in order to ensure that systems and data are accessible to the extent required.
- ▶ System security, data security and operational security comprise non-IT based controls (application controls) in the user systems. Such controls are therefore not included.

A plan for growth and new investors

With a strong plan to growth Flex Funding received capital injections from new and existing investors of DKK 15 million in 2017. Among others The Bagger-Sørensen family participated in the capital injection as a new major investor through their holding company Bagger-Sørensen & Co. A/S. The Bagger-Sørensen family has started and operated many successful businesses and activities since 1915 and they are very familiar with the funding needs of smaller companies. Therefore, it was incredibly natural for Bagger-Sørensen & Co. A/S to support the small businesses market by investing in a platform like Flex Funding's.

Management's review



The latest capital injection will be used to boost Flex Funding's lending in Denmark and to provide tailored versions of the platform to other financial companies in Denmark and abroad. For this reason, the team has been strengthened with highly qualified individuals in management, sales and marketing.

Significant events after the presentation of the Annual Report 2017

As mentioned in the 2016 annual report, Management had in 2017 initiated a process of establishing a holding structure. It was decided to postpone the implementation to simultaneously investigate the legal issues and tax issues by transferring the intellectual property rights of Flex Funding Poland Sp. Z.o.o. to Flex Funding A/S in Denmark. This is expected to be completed in the first half of 2018, so a holding structure can be implemented.

The Danish Supervisory Authority has conducted an ordinary inspection in Flex Funding in March 2018. This is the first time the Danish FSA inspected a crowdlending provider.

In March 2018, Flex Funding will offer bullet loans with a fixed rate in addition to annuity loans.

In the second quarter of 2018, Flex Funding expects to launch the next version of the platform with a number of new enhancements. The main new changes include:

- ▶ New design and user experience, creating a platform becomes independent of the user's software, location, browser and hardware.
- ▶ NemID is replaced with a new digital signature, which can be used globally and independently of browsers.
- ▶ New credit box based on "machine learning" will provide an answer regarding the likelihood of getting a loan in seconds based on the borrower's CVR (Company ID) number, loan amount and desired loan period of the loan. The model is based on an analysis of 5 years' accounting history for approximately 165,000 Danish companies. The analysis uses 50 characteristics, which are likely to indicate the risk of bankruptcy within 1 to 2 years. In addition, the new payment law allows Flex Funding to upload account information from corporate bank accounts etc., which will further improve the quality of the credit rating.
- ▶ New back-office that can be used without depending on geography, handling multi-currency accounts and banking infrastructures.

Flex Funding has increased the share capital with 231,516 shares on an extraordinary general meeting 26 March 2018. The shares have been subscribed by current and new investors. The largest new investor is Ove K. Invest A/S, a wholly owned subsidiary of KRAKS Fond.

Financial statements 1 January - 31 December

Income statement

| Note | DKK | 2017 | 2016 |
|------|---|-------------|------------|
| | Gross margin | -7,624,706 | -1,805,730 |
| 2 | Staff costs | -3,314,839 | -5,070,902 |
| | Amortisation/depreciation and impairment of intangible assets and property, plant and equipment | -15,732 | -43,454 |
| | Profit/loss before net financials | -10,955,277 | -6,920,086 |
| | Income from investments in group enterprises | -526,316 | -1,422,404 |
| 3 | Financial income | 196,934 | 348,570 |
| 4 | Financial expenses | -266,980 | -7,996 |
| | Profit/loss for the year | -11,551,639 | -8,001,916 |
| | Recommended appropriation of profit/loss | | |
| | Retained earnings/accumulated loss | -11,551,639 | -8,001,916 |
| | | -11,551,639 | -8,001,916 |

Financial statements 1 January - 31 December

Balance sheet

| Note | DKK | 2017 | 2016 |
|------|--|------------|-----------|
| | ASSETS | | |
| | Fixed assets | | |
| | Property, plant and equipment | | |
| | Fixtures and fittings, other plant and equipment | 0 | 15,734 |
| | | 0 | 15,734 |
| 5 | Investments | | |
| | Investments in group enterprises | 781,074 | 1,235,874 |
| | Receivables from group enterprises | 9,451,766 | 2,347,512 |
| | Other securities and investments | 33,225 | 666,491 |
| | Deposits, investments | 150,835 | 148,528 |
| | | 10,416,900 | 4,398,405 |
| | Total fixed assets | 10,416,900 | 4,414,139 |
| | Non-fixed assets | | |
| 6 | Receivables | | |
| | Receivables from group enterprises | 0 | 4,631,971 |
| | Other receivables | 7,793 | 196,127 |
| | Prepayments | 199,753 | 249,430 |
| | | 207,546 | 5,077,528 |
| | Cash | 5,612,620 | 237,693 |
| | Total non-fixed assets | 5,820,166 | 5,315,221 |
| | TOTAL ASSETS | 16,237,066 | 9,729,360 |

Financial statements 1 January - 31 December

Balance sheet

| Note | DKK | 2017 | 2016 |
|------|--|-------------------|------------------|
| | EQUITY AND LIABILITIES | | |
| | Equity | | |
| | Share capital | 1,644,239 | 1,388,607 |
| | Share premium account | 0 | 0 |
| | Retained earnings | 8,190,125 | 7,116,837 |
| | Total equity | 9,834,364 | 8,505,444 |
| | Liabilities other than provisions | | |
| 8 | Non-current liabilities other than provisions | | |
| | Convertible debt instruments eligible for dividend | 4,493,496 | 0 |
| | | 4,493,496 | 0 |
| | Current liabilities other than provisions | | |
| | Other credit institutions | 31,631 | 13,763 |
| | Trade payables | 672,166 | 632,013 |
| | Other payables | 1,205,409 | 578,140 |
| | | 1,909,206 | 1,223,916 |
| | Total liabilities other than provisions | 6,402,702 | 1,223,916 |
| | TOTAL EQUITY AND LIABILITIES | 16,237,066 | 9,729,360 |

- 1 Accounting policies
- 9 Contractual obligations and contingencies, etc.
- 10 Contingent assets

Financial statements 1 January - 31 December

Statement of changes in equity

| DKK | Share capital | Share premium account | Retained earnings | Total |
|--|------------------|--------------------------|----------------------|------------------|
| Equity at 1 January 2017 | 1,388,607 | 0 | 7,116,837 | 8,505,444 |
| Capital increase | 387,878 | 12,112,096 | 0 | 12,499,974 |
| Capital reduction | -132,246 | 0 | 132,246 | 0 |
| Expenses, capital increase | 0 | 0 | -962,179 | -962,179 |
| Transfer through appropriation of loss | 0 | 0 | -11,551,639 | -11,551,639 |
| Transferred from share premium account | 0 | -12,112,096 | 12,112,096 | 0 |
| Adjustment of investments through foreign exchange adjustments | 0 | 0 | 71,517 | 71,517 |
| Adjustment of hedging instruments at fair value | 0 | 0 | -400,000 | -400,000 |
| Purchase of treasury shares | 0 | 0 | -512,603 | -512,603 |
| Sale of treasury shares | 0 | 0 | 2,183,850 | 2,183,850 |
| Equity at 31 December 2017 | 1,644,239 | 0 | 8,190,125 | 9,834,364 |

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Flex Funding A/S for 2017 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to reporting class B entities and elective choice of certain provisions applying to reporting class C entities.

In accordance with section 110(1) of the Danish Financial Statements Act, the Company has not prepared consolidated financial statements.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Reporting currency

The financial statements are presented in Danish kroner (DKK).

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rate at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the most recent financial statements is recognised in the income statement as financial income or financial expenses.

Foreign group entities

Foreign subsidiaries and associates are considered separate entities. Items in such entities' income statements are translated at an average exchange rate for the month, and balance sheet items are translated at closing rates. Foreign exchange differences arising on translation of the opening equity of foreign subsidiaries to closing rates and on translation of the income statements from average exchange rates to closing rates are taken directly to equity.

Leases

Leases that do not transfer substantially all the risks and rewards incident to the ownership to the Company are classified as operating leases. Payments relating to operating leases and any other rent agreements are recognised in the income statement over the term of the lease. The Company's aggregate liabilities relating to operating leases and other rent agreements are disclosed under "Contingent liabilities".

Income statement

Revenue

Revenue is measured at the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognised in revenue.

Gross margin

The items revenue, other operating income and external expenses and cost of sales have been aggregated into one item in the income statement called gross margin in accordance with section 32 of the Danish Financial Statements Act.

Other operating income

Other operating income comprise items of a secondary nature relative to the Company's core activities, including gains or losses on the sale of fixed assets.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Cost of sales

Cost of sales includes the cost of goods used in generating the year's revenue.

Other external expenses

Other external expenses include the year's expenses relating to the Company's core activities, including expenses relating to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Staff costs

Staff costs include wages and salaries, including compensated absence and pension to the Company's employees, as well as other social security contributions, etc. The item is net of refunds from public authorities.

Amortisation

The item comprises amortisation of intangible assets.

The basis of depreciation, which is calculated as cost less any residual value, is depreciated on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

| | |
|--|---------|
| Fixtures and fittings, other plant and equipment | 3 years |
|--|---------|

The residual value is determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised. In case of changes in the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

Income from investments in subsidiaries

A proportionate share of the underlying entities' profit/loss after tax is recognised in the income statement according to the equity method. Shares of profit/loss after tax in subsidiaries are presented as separate line items in the income statement. Full elimination of intra-group gains/losses is made for equity investments in subsidiaries.

The item includes dividend received from subsidiaries.

Financial income and expenses

Financial income and expenses are recognised in the income statements at the amounts that concern the financial year. Net financials include interest income and expenses as well as allowances and surcharges under the advance-payment-of-tax scheme, etc.

Tax

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Balance sheet

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use.

Investments in subsidiaries

Equity investments in subsidiaries and associates are measured according to the equity method.

On initial recognition, equity investments in subsidiaries are measured at cost, i.e. plus transaction costs. The cost is allocated in accordance with the acquisition method; see the accounting policies regarding business combinations.

The cost is adjusted by shares of profit/loss after tax calculated in accordance with the Group's accounting policies less or plus unrealised intra-group gains/losses.

Identified increases in value and goodwill, if any, compared to the underlying entity's net asset value are amortised in accordance with the accounting policies for the assets and liabilities to which they can be attributed. Negative goodwill is recognised in the income statement.

Dividend received is deduced from the carrying amount.

Equity investments in subsidiaries measured at net asset value are subject to impairment test requirements if there is any indication of impairment.

Other securities and investments

Securities which the Company intends to hold to maturity are measured at amortised cost, using the effective interest rate method at the date of acquisition. Value adjustments are recognised in the income statement under "Net financials".

Securities and investments consisting of listed shares and bonds are measured at fair value (market price) at the balance sheet date. Investments not admitted to trading on an active market are measured at cost.

Impairment of fixed assets

The carrying amount of intangible assets, property, plant and equipment and investments in subsidiaries and associates is assessed for impairment on an annual basis.

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

Receivables

Receivables are measured at amortised cost.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

Receivables in respect of which there is no objective evidence of individual impairment are tested for objective evidence of impairment on a portfolio basis. The portfolios are primarily based on the debtors' domicile and credit ratings in line with the Company's risk management policy. The objective evidence applied to portfolios is determined based on historical loss experience.

Impairment losses are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Prepayments

Prepayments recognised under "Assets" comprise prepaid expenses regarding subsequent financial reporting years.

Securities and investments

Securities and investments are measured at fair value (market price) at the balance sheet date. Investments not admitted to trading on an active market are measured at cost.

Cash

Cash comprise cash and short term securities which are readily convertible into cash and subject only to minor risks of changes in value.

Equity

Treasury shares

Purchases and sales of treasury shares are taken directly to equity under "Retained earnings".

Reserve for net revaluation according to the equity method

The net revaluation reserve according to the equity method includes net revaluations of investments in subsidiaries and associates relative to cost. The reserve can be eliminated in case of losses, realisation of investments or a change in accounting estimates. The reserve cannot be recognised at a negative amount.

Liabilities

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. On subsequent recognition, financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan. Financial liabilities also include the capitalised residual lease liability in respect of finance leases.

Other liabilities are measured at net realisable value.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Convertible loans

Convertible loans are broken down into a liability element and an equity element based on the relevant instrument of debt. On initial recognition, the liability is recognised at the fair value of a similar liability without a conversion right. The remaining amount of the convertible loan is recognised as equity. On subsequent recognition, the liability is measured at amortised cost until converted or repaid. The equity element is not re measured after initial recognition.

| DKK | 2017 | 2016 |
|---------------------------------------|------------------|------------------|
| 2 Staff costs | | |
| Wages/salaries | 3,072,182 | 4,662,456 |
| Pensions | 165,370 | 179,328 |
| Other social security costs | 27,324 | 51,392 |
| Other staff costs | 49,963 | 177,726 |
| | <u>3,314,839</u> | <u>5,070,902</u> |
| Average number of full-time employees | <u>4</u> | <u>7</u> |
| 3 Financial income | | |
| Interest receivable, group entities | 188,726 | 72,252 |
| Other interest income | 8,208 | 264,377 |
| Exchange gain | 0 | 11,941 |
| | <u>196,934</u> | <u>348,570</u> |
| 4 Financial expenses | | |
| Other interest expenses | 104,618 | 7,996 |
| Exchange losses | 162,362 | 0 |
| | <u>266,980</u> | <u>7,996</u> |

Financial statements 1 January - 31 December

Notes to the financial statements

5 Investments

| DKK | Investments in group enterprises | Receivables from group enterprises | Other securities and investments | Deposits, investments | Total |
|--|--|--|-------------------------------------|--------------------------|------------|
| Cost at 1 January 2017 | 3,760,502 | 2,347,512 | 666,491 | 148,528 | 6,923,033 |
| Foreign exchange adjustments | 82,084 | 0 | 0 | 0 | 82,084 |
| Additions | 0 | 7,104,254 | 0 | 2,307 | 7,106,561 |
| Cost at 31 December 2017 | 3,842,586 | 9,451,766 | 666,491 | 150,835 | 14,111,678 |
| Value adjustments at 1 January 2017 | -2,524,628 | 0 | 0 | 0 | -2,524,628 |
| Foreign exchange adjustments | -10,570 | 0 | 0 | 0 | -10,570 |
| Profit/loss for the year | 473,686 | 0 | 0 | 0 | 473,686 |
| Impairment losses | -1,000,000 | 0 | -633,266 | 0 | -1,633,266 |
| Value adjustments at 31 December 2017 | -3,061,512 | 0 | -633,266 | 0 | -3,694,778 |
| Carrying amount at 31 December 2017 | 781,074 | 9,451,766 | 33,225 | 150,835 | 10,416,900 |

| Name | Legal form | Domicile | Interest |
|---------------------|------------|----------|----------|
| Subsidiaries | | | |
| Flex Funding Poland | Sp. Z.o.o | Polen | 100.00% |

6 Receivables

Out of the Company's total receivables, receivables from group enterprises totalling DKK 9,452 thousand fall due for payment, when the subsidiary's capital resources permit it.

7 Treasury shares

| | Number | Nominal value DKK | Share of capital | Purchase/ sales sum DKK |
|-----------------------------|----------|----------------------|------------------|-------------------------------|
| Purchased in the year | 205,041 | 205,041 | 13.81% | 512,603 |
| Sold in the year | -72,795 | -72,795 | -4.89% | 2,183,850 |
| Capital reduction | -132,246 | -132,246 | -8.92% | |
| Balance at 31 December 2017 | 0 | 0 | 0.00% | |

Treasury shares are acquired, among other reasons, to be sold to existing shareholders.

8 Non-current liabilities other than provisions

Of the long-term liabilities, DKK 0 falls due for payment after more than 5 years after the balance sheet date.

9 Contractual obligations and contingencies, etc.

Other contingent liabilities

The Company has entered into an agreement to cover loss on a single investor. The loss can amount to a maximum of DKK 750 thousand.

Financial statements 1 January - 31 December

Notes to the financial statements

Other financial obligations

Rent commitments comprise a rent commitment totalling DKK 448 thousand (2016: DKK 559 thousand) under a non-terminable rent agreement with a remaining term of 14 months.

The Company has entered into leasing contracts with associated companies with a remaining contract period of 12 months totalling DKK 4.267 thousand (2016: DKK 2.160 thousand).

10 Contingent assets

The Company has tax loss carry-forwards totalling DKK 4,599 thousand, which has not been recognised in the balance sheet due to the uncertainty as to application of the tax losses. The tax asset can be carried forward indefinitely.