MOGO JOINT STOCK COMPANY

(UNIFIED REGISTRATION NUMBER 50103541751)

ANNUAL REPORT

For the period ended 31 December 2017

(6th financial year)

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EU,

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Riga, 2018

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General information

Name of the company	mogo
Legal status of the company	JOINT STOCK COMPANY
Unified registration number, place and date of registration	50103541751 Riga, 3 May 2012
Registered office	Skanstes street 50, Riga, LV-1013, Latvia
Major shareholders	From 01.07.2014 to 02.11.2016: Mogo Finance S.A. (100%) 6, rue Guillaume Schneider L-2522, Luxembourg From 03.11.2016: Mogo Finance S.A. (98%) 6, rue Guillaume Schneider L-2522, Luxembourg
Board Members	Aleksandrs Čerņagins, Chairman of the Board from 17 July 2015 till 14 March 2017 Aleksandrs Čerņagins, Member of the Board from 15 March 2017 Edgars Egle, Chairman of the Board from 15 March 2017
Council Members	Ramona Miglāne, from 5 August 2014 Uldis Judinskis, from 5 August 2014 Ieva Judinska-Bandeniece, from 5 August 2014 Mārtiņš Bandenieks, from 24 October 2014
Financial year	1 January - 31 December 2017
Previous financial year	1 January - 31 December 2016
Auditors	Ernst & Young Baltic SIA Commercial licence No. 17 Muitas street 1A, Riga, Latvia, LV-1010 Certified auditor in charge Diāna Krišjāne Certificate No. 124

Management report

27 April, 2018

General information

JSC mogo (hereinafter – the Company) is a market leading leaseback and finance lease solutions Company measured by management by comparing the number of leased items. The Company provides quick and convenient services for both individuals and legal entities in Latvia offering vehicle finance lease transactions for amounts up to 10 000 euro and leaseback transactions for amounts up to 10 000 euro with duration up to six years. Funding is being offered online through the Company's branded website and mobile homepage and onsite at customer service centers, as well as at the sales centres of car dealerships.

Company's main goal is to offer its customers easily available, quickly executable, convenient and transparent leaseback and finance lease solutions. In order to achieve this the Company offers to its customers various solutions adjusted to theirs needs, as well as highest quality service and accessibility. The Company directly operates with a wide network of car dealerships, where the customers can buy a vehicle by obtaining funding from the Company.

Mission, vision and values

Mission

The Company's mission is to offer accessible and affordable leasing services to clients who need quick and simple way of getting financing or would like to purchase a vehicle.

Vision

The Company's vision is to be the market leading, customer friendly and accessible leaseback and finance lease solutions Company in Latvia.

Values

▪ Quick assistance without unnecessary formalities - the Company will provide the required funding within a couple of hours.
▪ Open communication and adaptation – the core value of the Company is an open communication and an adaptive approach to each and every customer, which results in a mutually beneficial outcome in every situation.
▪ Long term relationship – the Company values and creates mutually beneficial long term relationship with all its customers, it welcomes feedback and suggestions for improvement.

Operations and Financial Results

In 2017 the Company managed to make significant step forward in terms of growth and profitability in a highly competitive environment.

Turnover amounted to EUR 13,9 million (34% increase, compared to 2016), EBITDA reached EUR 7,4 million (32% increase, compared to 2016) and net profit was EUR 3,6 million (38,5% increase, compared to 2016).

At the end of 31 December 2017 gross value of the lease portfolio reached 33,3 million euro (23% increase, compared to 31 December 2016).
Improvement in these financial results was driven mainly by extensive improvements of our customer service and partner account management processes, which allowed us to serve current customers more efficiently, as well as revised product offering that allowed us to open up new market segment previously not served by the Company.

The results of 2017, in the opinion of the management, have once again proven that customers continue to positively evaluate Company's services and their benefits. During the year the Company moved to a proprietary scoring system as well as optimized the debt collection process by selling part of the unsecured loans to a professional debt collection firm. As a result the Company's net profit increase has been very robust.

In 2017 the Company has continued its operations in order to support its mission – to offer accessible leasing services in a quick and simple way. The Company continued to invest significant resources in the development of information system solutions in order to improve its operational activities by automating current processes in the nearest future, at the same time increasing customers satisfaction with the provided service.

2017 was successful in terms of cooperation with the car dealerships. The network of car dealerships has significantly contributed to the growth of the vehicle finance lease volume. For the establishment of more integrated cooperation with the partners in the field of vehicle trade, the Company offers various partnership solutions and individual approach to effective processing of client applications, as well as provides various marketing materials and conducts joint marketing campaigns.

The Company continued the execution of various marketing activities on TV, radio and internet advertisements and outdoor advertisements thus helping to promote the brand and to strengthen the Company's positions in terms of brand recognition in the leaseback and finance lease solutions sector.

In 2017, the Company also launched a new product - consumer loans. One of the main goals of the upcoming years will be to promote the new product and increase the market share for this product. Considering the high competitiveness of this market segment, the Company sees this as challange, but also an opportunity to even further grow bussiness in domestic market.

The Company will also continue to invest in the research and development of IT solutions to increase its competitivness in the market.

Management report (continued)

Other information

The risk management function within the Company is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

Financial risks
The main financial risks arising from the Company's financial instruments are liquidity risk, and credit risk.

The Company in future could be affected also by foreign currency risk and interest rate risk if transactions involving other foreign currencies are performed or financing with variable interest rates is attracted.

Operational risk
The Company's operational risks are managed by successful risk underwriting procedures in the loan issuance process as well as efficient debt collection procedures.

Legal risk
Legal risks are mainly derived from regulatory changes which Company successful manages with the help of in-house legal department and external legal advisors hat closely follow latest developments in regulatory and legal environment developments as well as involvement in Alternative Financial Services Association of Latvia.

Foreign currency risk
The Company's financial assets and liabilities are not exposed to foreign currency risk. All transactions are concluded in euros.

Interest rate risk
The Company is not exposed to interest rate risk because all of its liabilities are interest bearing borrowings with a fixed interest rate.

Liquidity risk

The Company manages its liquidity risk by arranging an adequate amount of committed credit facilities with related parties and by issuing bonds. Also the Company controls it's liquidity by managing the amount of funding it attracts through per-to-peer platforms, which provides management greater flexibility to manage the level of borrowings and available cash balances.

Credit risk

The Company is exposed to credit risk through its finance lease receivables, as well as cash and cash equivalents. The Company is also exposed to credit risk through its loan receivable to parent company.
The key areas of credit risk policy cover lease granting process (including solvency check of the lessee), monitoring methods, as well as decision making principles.

The Company operates by applying a clear set of finance lease granting criteria. This criteria includes assessing the credit history of customer, means of lease repayment and understanding the lease object. The Company takes into consideration both quantitative and qualitative factors when assessing the creditworthiness of the customer. Based on this analysis, the Company sets the credit limit for each and every customer.

When the lease agreement has been signed, the Company monitors the lease object and customer's solvency. The Company has developed lease monitoring process so that it helps to quickly spot any possible non-compliance with the provisions of the agreement. The receivable balances are monitored on an ongoing basis to ensure that the Company's exposure to bad debts is minimized, and, where appropriate, provisions are being made.

The Company does not have a significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

JSC mogo statement regarding the corporate governance in 2017 is prepared according with the requirements of the Financial Instruments Market Law part 3 of article 56.2 and is available to the public electronically on the Company's web page www.mogofinance.com.

The share capital of the Company is EUR 5 000 000 and consists of 5 000 000 shares. The par value of each share is EUR 1. All the shares are fully paid.
There were no changes in amount of shares in reporting year.

Signed on behalf of the Company on 27 April, 2018 by:

Aleksandrs Čerņagins	Edgars Egle
Member of the Board	Chairman of the Board

Statement of Management Responsibility

27 April, 2018

JSC „mogo" management is responsible for preparation of the financial statements.

Management of the Company declares that in accordance with the information in their possession, financial statements have been prepared in accordance with accounting transaction documentation and with the International Financial Reporting Standards as adopet by EU and give a true and fair view of the Company's assets, liabilities, financial position as at 31 December 2017, results of operations and cash flows for the year ended 31 December 2017.

Management of the Company confirms that an appropriate and consistent accounting policies and management estimates are used. Management of the Company confirms that the financial statements are prepared using prudence principle as well as the going concern assumption. Management of the Company confirms its responsibility for maintaining proper accounting records, as well as monitoring, control and safeguarding of the Company's assets.

The Company's management is responsible for detection and prevention of the error, inaccuracy and / or fraud. The Company's management is responsible for the Company's activities to be carried out in compliance with the legislation of the Republic of Latvia.
The management report includes a fair view of the development of the Company's business and results of operation.

Signed on behalf of the Company on 27 April, 2018 by:

Aleksandrs Čerņagins	Edgars Egle
Member of the Board	Chairman of the Board

Financial statements

Statement of Comprehensive income

	Notes	2017 EUR	2016 (restated)* EUR
Interest and similar income	**4**	13 855 304	10 314 919
Interest expense and similar expenses	**5**	(2 936 374)	(2 182 661)
Net interest income		**10 918 930**	**8 132 258**
Impairment	**6**	(246 785)	2 001 845
Loss arising from cession of financial lease receivables	**7**	(2 136 575)	(2 880 795)
Selling expense	**8**	(506 089)	(510 262)
Administrative expense	**9**	(3 749 613)	(3 660 498)
Other operating income	**10**	56 446	36 765
Other operating expense	**11**	(117 330)	(70 260)
Other interest receivable and similar income		510	1 222
Interest payable and similar expense		(925)	-
Profit before tax		**4 218 569**	**3 050 275**
Corporate income tax	**12**	(577 857)	(109 976)
Deferred corporate income tax	**12**	(88 668)	(331 710)
Net profit for the period		**3 552 044**	**2 608 589**
Other comprehensive income		**-**	**-**
Total comprehensive income for the period		**3 552 044**	**2 608 589**

* Information regarding the reclassifications and corrections made in the financial statements is disclosed in Note 2.

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

Signed on behalf of the Company on 27 April, 2018 by:

Aleksandrs Čerņagins Member of the Board	Edgars Egle Chairman of the Board	Māris Kreics Finance Director

Statement of Financial Position

ASSETS

NON-CURRENT ASSETS		Notes	31.12.2017. EUR	31.12.2016. (restated)* EUR	01.01.2016. (restated)* EUR
Intangible assets					
Concessions, patents, licences and similar rights			11 867	11 680	8 416
Other intangible assets			1 161 124	1 008 381	643 762
Advance payments for intangible assets			-	-	32 891
	TOTAL	**14**	**1 172 991**	**1 020 061**	**685 069**
Property, plant and equipment					
Leasehold improvements			12 602	-	2 309
Other fixtures and fittings, tools and equipment			112 637	177 638	220 122
Advance payments for assets			19 517	-	-
	TOTAL	**15**	**144 756**	**177 638**	**222 431**
Non-current financial assets					
Investment in associates			26	20	-
Finance lease receivables		**16**	22 811 494	18 109 477	16 403 109
Loans and advances to customers		**17**	639 988	-	-
Loans to related companies		**32**	17 865 000	120 000	-
Deferred tax		**12**	-	88 668	420 378
	TOTAL		**41 316 508**	**18 318 165**	**16 823 487**
	TOTAL NON-CURRENT ASSETS		**42 634 255**	**19 515 864**	**17 730 987**
CURRENT ASSETS					
Inventories					
Finished goods and goods for resale		**18**	339 491	17 948	-
	TOTAL		**339 491**	**17 948**	**-**
Receivables					
Finance lease receivables		**16**	7 870 273	6 880 619	7 293 284
Loans and advances to customers		**17**	503 235	-	-
Loans to non related parties			16 065	2 056	2 977
Receivables from related companies		**32**	200 751	1 718	83 172
Non-current assets held for sale		**19**	387 623	301 075	270 488
Prepaid expense			361 280	120 239	74 038
Other receivables		**20**	1 311 895	408 318	434 700
Accrued revenue			38 183	534	3 155
	TOTAL		**10 689 305**	**7 714 559**	**8 161 814**
Cash and cash equivalents		**21**	671 871	147 024	399 884
	TOTAL CURRENT ASSETS		**11 700 667**	**7 879 531**	**8 561 698**
TOTAL ASSETS			**54 334 922**	**27 395 395**	**26 292 685**

* Information regarding the reclassifications and corrections made in the financial statements is disclosed in Note 2.

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

Signed on behalf of the Company on 27 April, 2018 by:

Aleksandrs Čerņagins	Edgars Egle	Māris Kreics
Member of the Board	Chairman of the Board	Finance Director

Statement of Financial Position

EQUITY AND LIABILITIES

	Notes	31.12.2017.	31.12.2016. (restated)*	01.01.2016. (restated)*
EQUITY		**EUR**	**EUR**	**EUR**
Share capital	**22**	5 000 000	5 000 000	5 000 000
Currency revaluation reserve		1	1	1
Retained earnings/ (accumulated loss)				
brought forward		1 315 055	296 466	(181 190)
for the period		3 552 044	2 608 589	1 002 656
TOTAL EQUITY		**9 867 100**	**7 905 056**	**5 821 467**
PROVISIONS FOR LIABILITIES AND CHARGES				
Other provisions	**23**	357 169	121 806	-
TOTAL PROVISIONS FOR LIABILITIES AND CHARGES		**357 169**	**121 806**	**-**
LIABILITIES				
Non-current liabilities				
Liabilities for issued debt securities	**24**	26 563 303	17 920 905	15 182 824
Funding attracted through peer-to-peer platforms	**25**	12 724 915	-	-
Loans from credit institutions and other parties	**26**	-	-	500 000
TOTAL		**39 288 218**	**17 920 905**	**15 682 824**
Current liabilities				
Loans from credit institutions and other parties	**26**	-	703 707	3 555 962
Trade payables		181 397	79 902	103 787
Funding attracted through peer-to-peer platforms	**25**	3 430 181	-	187 864
Prepayments received from customers	**28**	293 806	222 875	198 369
Payables to related companies	**32**	3 872	-	369 744
Corporate income tax payable	**12**	365 786	-	-
Taxes payable	**29**	64 404	68 958	73 243
Other liabilities	**30**	7 713	96 942	106 351
Accrued liabilities	**31**	475 276	275 244	193 074
TOTAL		**4 822 435**	**1 447 628**	**4 788 394**
TOTAL LIABILITIES		**44 110 653**	**19 368 533**	**20 471 218**
TOTAL EQUITY AND LIABILITIES		**54 334 922**	**27 395 395**	**26 292 685**

* Information regarding the reclassifications and corrections made in the financial statements is disclosed in Note 2.

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

Signed on behalf of the Company on 27 April, 2018 by:

Aleksandrs Čerņagins	Edgars Egle	Māris Kreics
Member of the Board	Chairman of the Board	Finance Director

Statement of Cash Flows

	Notes	2017	2016 (restated)*
Cash flows to/from operating activities		**EUR**	**EUR**
Profit before tax		4 218 569	3 050 275
Adjustments for:			
Amortisation and depreciation	**14, 15**	410 703	395 264
Interest expense		2 466 268	2 504 903
Loss on disposal of property, plant and equipment		1 476	38 166
(Decrease)/ Increase of impairment	**6**	231 588	(2 001 845)
Bonds acquisition expenses written off		(373 031)	(16 389)
Operating profit before working capital changes		**6 470 960**	**4 030 922**
(Increase)/ decrease in inventories		(321 543)	(17 948)
(Increase)/ decrease in receivables		(8 582 514)	681 264
Increase in payables		517 910	108 830
Cash generated to/from operations		**(1 915 187)**	**4 803 068**
Corporate income tax paid		(163 490)	(397 647)
Net cash flows to/from operating activities		**(2 078 677)**	**4 405 421**
Cash flows to/from investing activities			
Purchase of property, plant and equipment	**14, 15**	(532 227)	(723 630)
Investments in subsidiaries		(6)	(20)
Loans issued	**32**	(17 865 000)	(120 000)
Loan repayments received		120 000	921
Interest received		483 999	-
Net cash flows to/from investing activities		**(17 793 234)**	**(842 729)**
Cash flows to/from financing activities			
Proceeds from borrowings	**25, 26, 27**	16 156 804	5 220 000
Repayment of borrowings	**25, 26, 27**	(715 500)	(8 752 166)
Securities issued	**24, 27**	9 210 000	2 579 000
Interest paid	**25, 26, 27**	(2 664 546)	(2 337 386)
Dividends paid		(1 590 000)	(525 000)
Net cash flows to/from financing activities		**20 396 758**	**(3 815 552)**
Change in cash		**524 847**	**(252 860)**
Cash at the beginning of the year		147 024	399 884
Cash at the end of the year	**21**	**671 871**	**147 024**

* Information regarding the reclassifications and corrections made in the financial statements is disclosed in Note 2.

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

Signed on behalf of the Company on 27 April, 2018 by:

Aleksandrs Čerņagins	Edgars Egle	Māris Kreics
Member of the Board	Chairman of the Board	Finance Director

Statement of Changes in Equity

	Share capital EUR	Currency revaluation reserve EUR	Retained earnings EUR	Total EUR
Balance as at 01.01.2016.	**5 000 000**	**1**	**821 466**	**5 821 467**
Net profit for the period	-	-	2 608 589	2 608 589
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	-	2 608 589	2 608 589
Dividends paid (see Note 22)	-	-	(525 000)	(525 000)
Balance as at 31.12.2016.	**5 000 000**	**1**	**2 905 055**	**7 905 056**
Balance as at 01.01.2017.	**5 000 000**	**1**	**2 905 055**	**7 905 056**
Net profit for the period	-	-	3 552 044	3 552 044
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	-	3 552 044	3 552 044
Dividends paid (see Note 22)	-	-	(1 590 000)	(1 590 000)
Balance as at 31.12.2017.	**5 000 000**	**1**	**4 867 099**	**9 867 100**

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

Signed on behalf of the Company on 27 April, 2018 by:

Aleksandrs Čerņagins	Edgars Egle	Māris Kreics
Member of the Board	Chairman of the Board	Finance Director

Notes to the Financial Statements

1. Corporate information

JSC mogo (hereinafter – the Company) was registered with the Republic of Latvia Enterprise Register on 3 May 2012. The registered office of the Company is at Skanstes street 50, Riga, LV-1013, Riga, Latvia. The Company's shareholders are Mogo Finance S.A. (registered in Luxembourg), which acquired 100% equity of the Company from 1 July 2014 to 2 November 2016 and 98% equity of the Company from 3 November 2016.

The core business activity of the Company comprises of providing finance lease services, leaseback services and consumption loans.
These financial statements have been approved for issue by the Board on 27 April, 2018.
The Company's shareholders have the power to amend the financial statements after the issue.

2. Summary of significant accounting policies

a) Basis of preparation

The Company's annual financial statements and its financial result are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the annual financial statements. The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the current and next financial period. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events. Accounting policies and management's judgements for certain items are especially critical for the Company's results and financial situation due to their materiality. Future events occur which cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.
These annual financial statements for the year ended 31 December 2017 are prepared in accordance with International Financial Reporting Standards as adopted in the European Union.

The financial statements are prepared on a historical cost basis. The Company's functional and presentation currency is euro (EUR). The financial statements cover the period from 1 January 2017 till 31 December 2017. Accounting policies and methods are consistent with those applied in the previous years, except as described below.

Management of the Company does not use segmented information for decision making and analysing. All operations of the Company are generated in the one geographical segment - Latvia. Information is not analysed in any other segment type.

b) Restatement for errors in comparative indicators

Upon review of the entity's accounting policies and data analysis it was identified that Company has incorrectly calculated impairment for previous years. Prior period comparatives were restated to account for the correction of identified error. After obtaining alternative legal advice related to tax overpayment recognition which was performed in 2016 Company has made an additional accrual for potential liabilities arising from finance years 2014 to 2017, as a result, expense amounts incresed in several positions of Statement of Comprehensive Income. Other minor adjustments were made to further improve readability of these financial statements.

Reclassification and correction made in financial statements:

Statement of Comprehensive income	**Annual report 2016 31.12.2016. before restatement**	**Correction**	**Annual report 2017 31.12.2016. restated**
Changes to improve readability of financial statements			
Interest and similar income	10 412 789	(97 870)	10 314 919
Interest expense and similar expenses	(2 151 704)	(30 957)	(2 182 661)
Changes due to recalculation of impairment			
Impairment	(886 854)	7 904	(878 950)
Changes due to recognizing additional provision			
Selling expense	(501 656)	(8 606)	(510 262)
Administrative expense	(3 442 176)	(218 322)	(3 660 498)
Other operating income	18 045	18 720	36 765
Other operating expense	(4 396)	(65 864)	(70 260)
Corporate income tax	(151 247)	41 271	(109 976)
Deferred corporate income tax	(330 524)	(1 186)	(331 710)
	TOTAL:	**(354 910)**	
Statement of financial positiont - Assets			
Changes due to recalculation of impairment			
Finance Lease Receivables (non-current)	18 131 400	(21 923)	18 109 477
Deferred tax	79 004	9 664	88 668
Finance Lease Receivables (current)	6 795 700	84 919	6 880 619
Changes due to recognizing additional provision			
Other receivables	775 563	(367 245)	408 318
	TOTAL:	**(294 585)**	
Statement of financial position - Equity and Liabilities			
Retained earnings brought forward	357 947	(61 481)	296 466
Retained earnings for the period	2 963 499	(354 910)	2 608 589
Changes due to recognizing additional provision			
Provisions	-	121 806	121 806
	TOTAL:	**(294 585)**	

2. Summary of significant accounting policies (continued)

Also adjustments to reporting years before 2016 were done as a result of corrections made to impairment expenses.

	Annual report 2016		**Annual report 2017**
	31.12.2015.		**01.01.2016.**
Statement of Comprehensive income	**before restatement**	**Correction**	**restated**
Impairment	(2 319 015)	(72 331)	(2 391 346)
Deferred corporate income tax	241 704	10 850	252 554
	TOTAL:	**(61 481)**	
Statement of financial position - Assets			
Deferred tax	409 528	10 850	420 378
Finance Lease Receivables (current)	7 293 285	(72 331)	7 220 954
	TOTAL:	**(61 481)**	
Statement of financial position - Equity and Liabilities			
Retained earnings for the period	1 002 657	(61 481)	941 176
	TOTAL:	**(61 481)**	

c) Changes in accounting policy and disclosures

• IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)
The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment.

There was no effect on Company's accounting policies from change in this standard.

• IAS 7: Disclosure Initiative (Amendments)
The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes.

Additional information has been presented in the Notes 24, 25 and 26.

• The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle, which is a collection of amendments to IFRSs. The following annual improvement has not yet been endorsed by the EU. This improvement has an effect on the Company's financial statements.
- IFRS 12 Disclosure of Interests in Other Entities: The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.
Additional information has been presented in the Notes 24, 25 and 26.

d) Standards issued but not yet effective and not early adopted

• IFRS 9 Financial Instruments (effective for financial years beginning on or after 1 January 2018)

Introduction

In July 2014, the IASB issued IFRS 9 Financial Instruments, the standard that will replace IAS 39 for annual periods on or after 1 January 2018, with early adoption permitted.

Classification and measurement

From a classification and measurement perspective, the new standard requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI) and amortised cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the Statement of profit or loss.

The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

Classification and measurement requirements of IFRS 9 other than those related to impairment and calculation of expected credit losses do not have impact on the Company`s financial statement. Based on assessment performed in the Company, finance lease receivables, loans and advances to customers and loans to related companies that are classified as loans and receivables under IAS 39 will be measured at amortised cost under IFRS 9.

2. Summary of significant accounting policies (continued)

Impairment of financial assets

IFRS 9 will also fundamentally change the credit loss recognition methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach. The Company will be required to recognize an allowance for expected losses for all loans and other debt financial assets not held at FVPL. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset. Loss allowances based on lifetime expected credit losses will be calculated also for purchased or originated credit-impaired assets (POCI) regardless of the changes in credit risk during the lifetime of an instrument. The Company has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

The assets to test for impairment will be divided into three groups depending on the stage of credit deterioration. Stage 1 includes assets where there has been no significant increase in credit risk or which are classified as low risk (rating categorised as "Investment grade" or higher), stage 2 includes assets where there has been a significant increase in credit risk and stage 3 includes defaulted assets. Significant assets in stage 3 are tested for impairment on an individual basis, while for insignificant assets a collective assessment is performed. In stage 1, the allowances should equal the 12 month expected credit loss. In stage 2 and 3, the allowances should equal the lifetime expected credit losses.

* Integration of the IFRS 9 impairment methodology into business processes is not finalized in the Company. Also, development of some parts (mostly related to internal documentation or those which were evaluated as not having material impact was postponed and is intended to be finalized during the year 2018). None of the mentioned activities relate to IFRS 9 impact calculation. Validation of the model will be done in 2018. In general, IFRS 9 impairment model will result in earlier recognition of credit losses for the respective items and will increase the amount of loss allowances recognised for these items. Moreover, it is expected that the impairment calculations under IFRS 9 will be more volatile and pro-cyclical than under IAS 39, mainly due to the significant subjectivity applied in the forward looking scenarios. IFRS 9 impairment requirements are applied retrospectively, with transition impact recognized in retained earnings. Based on assessment performed to date, the transition impact (net of tax) on the opening balance of the Company's retained earnings at 1 January 2018 is estimated to fall within the range of around EUR 500 000.

The results of the assessment presented above are preliminary and based on the facts and circumstances as at 01 January 2018. Due to the possibility of changes in assumptions and estimations, the actual impact of adopting IFRS 9 on 1 January 2018 may be subject to change.

• IFRS 15 Revenue from Contracts with Customers
The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. Management has assessed that effect from implementation of this standard will not be significant since Company has very limited amount of transactions within scope of this Standard.

• IFRS 15: Revenue from Contracts with Customers (Clarifications)
The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. Management has assessed that effect from implementation of this standard will not be significant since Company has very limited amount of transactions within scope of this Standard.

• IFRS 16: Leases
The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. Management has assessed that significant change in accounting policies of the Company will be necessary to comply with requirements of this standard.

• Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. Management has assessed that there will be no effect on the Company accounting policies due to this standard.

• IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)
The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Management has assessed that there will be no effect on the Company accounting policies due to this standard.

2. Summary of significant accounting policies (continued)

• IAS 40: Transfers to Investment Property (Amendments)
The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Management has assessed that there will be no effect on the Company accounting policies due to this standard.

• IFRS 9: Prepayment features with negative compensation (Amendment)
The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. Management has assessed that there will be no effect on the Company accounting policies due to this standard.

• IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)
The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. These Amendments have not yet been endorsed by the EU. Management has assessed that there will be no effect on the Company accounting policies due to this standard.

• IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)
The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These Amendments have not yet been endorsed by the EU. Management has assessed that there will be no effect on the Company accounting policies due to this standard.

• IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration
The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Management has assessed that there will be no effect on the Company accounting policies due to this standard.

• Conceptual Framework in IFRS standards
The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. It's objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

• The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. Management has assessed that there will be no effect on the Company accounting policies due to this standard.

- IFRS 1 First-time Adoption of International Financial Reporting Standards: This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
- IAS 28 Investments in Associates and Joint Ventures: The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

• IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments
The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This Interpretation has not yet been endorsed by the EU. Management has assessed that there will be no effect on the Company accounting policies due to this

2. Summary of significant accounting policies (continued)

• The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU. Management has assessed that there will be no effect on the Company accounting policies due to this standard.

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 Income Taxes: The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
- IAS 23 Borrowing Costs: The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

e) Significant accounting policies

Internally generated intangible assets

Internally generated intangible assets primarily include the development costs of Company's information management systems. These costs are capitalized only if they satisfy the criteria as defined by IAS38 and described below.

Internal and external development costs on management information systems arising from the development phase are capitalized. Significant maintenance and improvement costs are added to the initial cost of assets if they specifically meet the capitalization criteria.

Internally generated intangible assets cost value is increased by Company's information technology costs - salaries and social security contribution capitalization. Asset useful life is reassessed by management at each year end and amortization periods adapted accordingly.

Internally generated intangible assets are amortized over their useful lives.

According to IAS38, development costs shall be capitalized if, and only if, the Company can meet all of the following criteria:
• the project is clearly identified and the related costs are itemized and reliably monitored;
• the technical and industrial feasibility of completing the project is demonstrated;
• there is a clear intention to complete the project and to use or sell the intangible asset arising from it;
• the Company has the ability to use or sell the intangible asset arising from the project;
• the Company can demonstrate how the intangible asset will generate probable future economic benefits;
• the Company has adequate technical, financial and other resources to complete the project and to use or sell the intangible asset.

When these conditions are not satisfied, development costs generated by the Company are recognized as an expense when incurred.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is completed and the asset is available for use.

Additional information is included in Notes 3 and 14.

Other intangible assets

Intangible non-current assets are stated at cost and amortized over their estimated useful lives on a straight-line basis. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Losses from impairment are recognized where the carrying value of intangible non-current assets exceeds their recoverable amount.

Other intangible assets mainly consists of acquired computer software products.
Amortization is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Concessions, patents, licences and similar rights	- over 1 year;
Other intangible assets	- over 2, 3 and

Property, plant and equipment

Equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Computers	- over 3 years;
Furniture	- over 5 years;
Vehicles	- over 5 years;
Leasehold improvements	- over 4 years;
Other equipment	- over 2 years;

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The carrying values of equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of equipment is the higher of an asset's net selling price and its value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the Statement of profit or loss in the impairment caption.

An item of equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Statement of profit or loss in the year the item is derecognized.

2. Summary of significant accounting policies (continued)

Financial assets

Initial recognition and measurement

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' account. The Company recognises due to customer balances when funds reach the Company.

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention when acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

Subsequent measurement

Subsequent measurement is performed according to effective interest rate method. The effective interest rate (EIR) is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate a shorter period, to the net carrying amount of the financial asset or financial liability. The amortised cost of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted amortised cost is calculated based on the original or latest re-estimated EIR and the change in is recorded as 'Interest and similar income' for financial assets and 'Interest and similar expense' for financial liabilities.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the asset have expired. Company also derecognises the assets if it has both transferred the asset, and the transfer qualifies for derecognition.

The Company has transferred the asset if, and only if, either:
- The Company has transferred its contractual rights to receive cash flows from the asset
or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement

Pass-through arrangements are transactions when Company retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- Company has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances by the entity with the right of full recovery of the amount lent plus accrued interest at market rates
- Company cannot sell or pledge the original asset other than as security to the eventual recipients for the obligation to pay them cash flows
- Company has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Company is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments is passed to the eventual recipients.

A transfer only qualifies for derecognition if either:
- The Company has transferred substantially all the risks and rewards of the asset, or
- The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Investment in associates

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Company's investments in its associate are accounted for using the equity method.
Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Company's share of net assets of the associate since the acquisition date.
The financial statements of the associates are prepared for the same reporting period as the Company.
After application of the equity method, the Company determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss in the statement of profit or loss.
Upon loss of significant influence over the associate, the Company measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or

2. Summary of significant accounting policies (continued)

Finance lease – Company as lessor

Company is engaged in financial lease and sale and leaseback transactions. A sale and leaseback transaction involves the purchase of an asset by the Company and the leasing back of the same asset to the same customer. In order to assess whether the leaseback is under a finance lease, the Company applies the same qualitative indicators of a lease being classified as a finance lease:
• the lease transfers ownership of the asset to the lessee by the end of the lease term;
• the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than fair value at the date the option becomes exercisable that, at the inception of the lease, it is reasonably certain that the option will be exercised;
• the lease term is for the major part of the economic life of the asset, even if title is not transferred;
• at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset;
• the lease assets are of a specialized nature such that only the lessee can use them without major modifications being made.

A lease is classified as a finance lease at the inception of the lease if it transfers substantially all the risks and rewards incidental to ownership. The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As of this date:
• a lease is classified as a finance lease; and
• the amounts to be recognized at the commencement of the lease term are determined.
The commencement of the lease is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (i.e. the recognition of the assets, liabilities, income or expenses resulting from the lease, as appropriate).

Upon commencement of finance lease, the Company records the net investment in leases, which consists of the sum of the minimum lease term payments, and gross investment in lease less the unearned finance lease income. The difference between the gross investment and its present value is recorded as unearned finance lease income. Finance lease income consists of the amortization of unearned finance lease income. Finance lease income is recognized based on a pattern reflecting a constant periodic rate of return on the net investment in respect of the finance lease. Initial direct costs, such as client commissions and commissions paid by the Company to car dealers, are included in the initial measurement of the lease receivables.
If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the lease term.

Prepayments received from customers are presented in financial statements separately as part of liabilities due to uncertainty of how they will be utilized.
Prepayments received from customers are recorded in statement of financial position upon receipt and settled against respective client's finance lease receivables agreement at the moment of issuing next monthly invoice according to the agreement schedule (Note 28).

Operating lease – Company as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included in administrative expenses.

Loans and advances to customers

Loans and advances to customers are recognized at present value of minimum loan payments receivable at the statement of financial position date. Difference between gross and net loan receivables is unearned finance income and impairment allowance. Income from loans and advances to customers is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the loans.
Advances received from customers are presented in financial statements separately as part of liabilities due to uncertainty of how they will be utilized (Note 28).

Renegotiated finance lease receivables and loans and advances to customers
Where possible, the Company seeks to restructure financial lease receivables and loans and advances to customers rather than to take possession of the collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Typically, the renegotiation has been caused by the borrower's financial difficulty and results in reviewing cash flows using conditions which are favorable for the borrower. In these case the loan is not derecognized, but a new effective interest rate is determined based on the cash flows until maturity according to the terms of the contract.
Once the terms have been renegotiated, the finance lease receivables and loans and advances to customers is no longer considered past due within the scope of collective impairment assessment (Note 3).

Inventories

Inventories are valued at the lower of cost and net realisable value.
Net realizable value represents the estimated selling price for inventories in the ordinary course of business less estimated costs necessary to make the sale.
Inventories contain only vehicles which are purchased for the sole purpose of selling them to customers.
Value of inventories is measured on a stock item by item basis. Write-off of each individual stock item is performed on sale of respective individual stock item.

Non-current assets held for sale

Non-current assets held for sale are repossessed collaterals. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Repossessed collateral is recognized in statement of financial position at moment of termination of finance lease contract. It is disposed from statement of financial position upon sale. Profit of sale of repossessed collateral is recognized in statement of profit or loss statement, but losses remain recognized as unsecured finance lease receivables in statement of financial position.

Cash and cash equivalents

Cash comprises cash at bank and on hand.

2. Summary of significant accounting policies (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.
The Company's financial liabilities include trade and other payables, loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

- Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.
Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.
Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.
Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

- Loans and borrowings

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.
Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.
This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Embedded derivatives

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

If an embedded derivative is separated from the respective host contract, all embedded derivatives of the respective host contract are separated and accounted as derivatives.

Vacation pay reserve

Vacation pay reserve is calculated by multiplying the average daily salary of an employee for the last six months with the number of unused vacation days as at the end of the financial reporting period.

Loans and borrowings

All loans, borrowings and funding attracted through peer-to-peer platforms are initially recognized at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.
After initial recognition, loans, borrowings and funding attracted through peer-to-peer platforms are subsequently measured at amortized cost using the effective interest rate method.
Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement.
Gains and losses are recognized in the Statement of profit or loss as interest income/ expense when the liabilities are derecognized through the amortization process.

2. Summary of significant accounting policies (continued)

Transactions with peer-to-peer platforms

Background

The Company, as a loan originator, has signed cooperation agreement with operator of a peer-to-peer (P2P) investment internet-based platform (Mintos Marketplace AS, hereinafter Mintos). Cooperation agreement and the related assignment agreements are in force until parties agree to terminate. Purpose of the cooperation agreement for the Company is to attract funding through the P2P platform.

P2P platform makes possible for individual and corporate investors to obtain rights a fully proportionate interest cash flows and the principal cash flows from debt instruments (finance lease receivables or loans and advances to customers) issued by the Company in exchange for an upfront payment. These rights are established through assignment agreements between investors and Mintos, who is acting as an agent on behalf of the Company. Assignment agreements are of two types:

1) Agreements with recourse rights which require the Company to guarantee full repayment of invested funds by the investor in case of default of Company's customer (buy back guarantee);
2) Agreements without recourse rights which do not require the Company to guarantee repayment of invested funds by the investor in case of default of the customer (no buy back guarantee).

The Company retains the legal title to its debt instruments (including payment collection), but transfers a part of equitable title and interest to investors through Mintos.

Mintos receivables and payables

Mintos is acting as an agent in transferring cash flows between the Company and investors. Receivable for attracted funding from investors through P2P platform corresponds to the due payments from Mintos.
Receivable is arising from assignments made through P2P platform where the related investment is not yet transferred to the Company (Note 20).

Mintos commissions and service fees incurred by the Company are disclosed in Note 5 as Expenses related to attracting funding.

Funding attracted through peer-to-peer platform

Liabilities arising from assignments with or without recourse rights are initially recognized at cost, being the fair value of the consideration received from investors net of issue costs associated with the loan.
Liabilities to investors are recognized in statement of financial position caption Funding attracted through peer-to-peer platform (Note 25) and are treated as loans received.

After initial recognition Funding attracted through peer-to-peer platform is subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in the statement of profit or loss as interest income/ expense when the liabilities are derecognized.

Company has to repay to the investor the proportionate share of the attracted funding for each debt instrument according to the conditions of the respective individual agreement with Company's client, which can be up to 72 months.

Assignments with recourse rights (buy back guarantee)

Assignments with recourse rights provide for direct recourse to the Company, thus do not meet the requirements to be classified as pass-through arrangement in accordance with IAS 39.
Therefore, the Company's respective debt instruments do not qualify to be considered for partial derecognition and interest expense paid to investors is shown in gross amount under Interest and similar expenses (Note 5).

Assignments without recourse rights (no buy back guarantee)

Assignments without recourse rights are arrangements that transfer to investors substantially all the risks and rewards of ownership equal to a fully proportionate share of the cash flows to be received from Company's debt instruments. Therefore such arrangements are classified as pass-through arrangements in accordance with IAS As such, a fully proportionate share, equal to investor's claim in relation to the related debt instrument, is derecognized.
The derecognized part is accounted as an off-balance sheet item (Note 25) and interest income is recognized to the extent of being the residual interest. Residual interest is the difference between the interest earned on the respective debt instrument by the Company and the respective share of interest earned by the investor.

Accruals and deferrals

Accruals and deferrals are recorded to recognise revenues and costs as they are earned or incurred.

Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

2. Summary of significant accounting policies (continued)

Share-based payments

Equity-settled transactions
The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognized in employee benefits expense, together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognized is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

Income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

Interest and similar income and expense
For all financial instruments measured at amortized cost interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.
Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Income from debt collection activities and earned penalties
Income from debt collection activities and earned penalties is recognized in Company's profit or loss statement at the moment of received cash from the customer.

Expenses related to attracting funding
Expenses related to attracting funding consists of administration fee for using peer-to-peer platform. Expenses are charged monthly and recognised in Comapny's profit or loss statement when they occur.

Cession income

Gross income from sale of doubtful financial lease receivables are not presented separately in these financial statements. Gains or losses arising on cession deals are recognised in the statement of profit or loss at transaction date as the difference between the proceeds received and the carrying amount of lease receivables.

Income taxes

Income taxes include current and deferred taxes. Current corporate income tax is applied at the statutory rate of 15%.

Legal entities will not be required to pay income tax on earned profits starting from 1 January 2018 in accordance with amendments made to the Corporate Income Tax Law of the Republic of Latvia. Corporate income tax will be paid on distributed profits and deemed profit distributions. Consequently, current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits. Starting from 1 January 2018, both distributed profits and deemed profit distributions will be subject to the tax rate of 20 per cent of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognized in the statement of profit or loss as expense in the reporting period when respective dividends are declared, while, as regards other deemed profit items, at the time when expense is incurred in the reporting year.

Deferred tax assets and liabilities

Deferred corporate income tax arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements was calculated using the liability method. Deferred corporate income tax assets and liabilities were determined on the basis of the tax rates that were expected to apply when the timing differences reverse.

Deferred tax assets and liabilities are not recognized for the year 2017 in accordance with amendments to the legislation of the Republic of Latvia, which entered into force on 1 January 2018. Accordingly, deferred tax assets which were calculated and recognized in previous reporting periods have been reversed through the current statement of profit or loss, in the financial statements for the year ended 31 December 2017; according to the International Accounting Standard, changes in the tax legislation must be presented in financial statements in the period when they are adopted.

Related parties

The parties are considered related when one party has a possibility to control the other one or has significant influence over the other party in making financial and operating decisions. Related parties of the Company are shareholders who could control or who have significant influence over the Company in accepting operating business decisions, key management personnel of the Company including members of Supervisory body – Audit committee and close family members of any above-mentioned persons, as well as entities over which those persons have a control or significant influence, including subsidiaries and asscociates.

2. Summary of significant accounting policies (continued)

Dividend distribution

Dividend distribution to the Shareholder of the Company is recognised as a liability in the Company's Financial Statements in the period in which the dividends are approved by the Company's Shareholder.

Subsequent events

Post-period-end events that provide additional information about the Company's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post-period-end events that are not adjusting events are disclosed in the Notes when material.

3. Significant accounting judgments, estimates and assumptions

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses, and disclosure of contingencies. The significant areas of estimation used in the preparation of the financial statements relate to capitalization of development costs, depreciation and amortization, fair value measurement of repossessed collaterals, and impairment evaluation. Although these estimates are based on the management's best knowledge of current events and actions, the actual results may ultimately differ from those estimates.
In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the financial statements:

Impairment allowance for financial lease receivables

In assessing the need for collective loss allowances, Company considers factors such as probability of default (PD) and loss given default (LGD). In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience. The significant assumptions used in determining collective impairment losses for the finance lease receivables portfolio include:

<u>Probability of default (PD)</u>
- Company calculates probability of default ratios using historic portfolio movement matrixes for the last 12 months. The last 12 months portfolio movement matrixes are considered sufficient for PD calculation as they represent the most recent portfolio composition that represents consistency in the lease issuance pattern.
- The movement matrix for the portfolio is calculated each month where the movement between previously described portfolio groups from month to month is shown.
- From the 12 month historical movement the default probability is calculated by estimating the movement for next 6 months. As a result a probability of default rate is derived for each of the portfolio groups respectively. 6 months probability of default is the assumed average default recognition period from the triggering event till the moment when the loan defaults.

<u>Loss given default (LGD)</u>
- Company closely follows recoveries from delinquent finance lease receivables and revises LGD rates every month for portfolios based on actual recoveries received.
- The sample used for LGD calculation consists of all the finance lease receivables that have been terminated historically except for the receivables that have been renewed after termination. If a loan is terminated again after a renewal then it goes back into the sample.
- Estimated LGD rate is used for all portfolio groups except for unsecured group. For unsecured group the value estimate from independent third party cession offers is applied.

Other significant assumption used in the determination of collective impairment losses related to renegotiation. Once the terms have been renegotiated, the relevant agreement is no longer considered past due within the scope of collective impairment assessment. Management continually reviews renegotiated agreements to ensure that all criteria are met and that future payments are likely to occur. The relevant agreements' continue to be subject to collective impairment assessment, calculated using the financial lease receivables' original or current effective interest rate.

Impairment allowance for assets held for sale

In assessing the need for collective loss allowances for assets held for sale, Company considers factors such as:
1) actual loss from sale during the period between reporting year end and signing these financial statements;
2) in cases where assets held for sale are still in possession of the Comapny at the moment of signing these financial statements, the Company calculates the required allowance based on historical actual average loss from previous year.

Recoverability of loans to related companies

The Company issues loans to its parent company and other related parties which use these loans to fund their own activities or further issue loans to other related parties. The Company and its parent company has assessed the recoverability of intercomapny loans and have concluded that there are no indications requiring the recognition of impairment for these receivables.

Recoverability of deferred tax asset

The Company assesses the extent of taxable profits during the period of utilization of tax losses.
At each reporting date, the Company's management analyses the recoverability of deferred tax and reduces the deferred tax asset if it is no longer probable that during the period of utilization of tax losses future taxable profits will be available against which unused tax losses can be utilize (Note 12).

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of provisions to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

3. Significant accounting judgments, estimates and assumptions (continued)

Capitalization of development costs

For capitalization of expenses in process of developing Company's enterprise resource planning (ERP) system management uses certain assumptions. For capitalizing salary expenses of involved IT personnel, it is assumed that personnel involved in development dedicate up to 80% of their time on developing new functionality. Therefore up to 80% of salary expenses of involved personnel are capitalized under Other intangible assets while remaining 20% are recognized as salary expenses in Statement of Comprehensive Income.
Expenses from amortization of capialized development costs are included in statement of profit or loss caption "Administrative expense".

Separation of embedded derivatives from the host contract

Company has certain call and put option agreements that can accelerate repayment of the issued bonds. These options arise out of bond (host contract) prospectus and individual agreements with certain bondholders and meet the definition of an embedded derivative in accordance with IAS 39.
Call option included in the bond prospectus gives Company the right, but not the obligation to carry out early redemption, either in full or partially, of the issued bonds with a 1% premium. Call and put options included in the agreements signed with certain bondholders give the Company and bondholder the respective right of buying back or selling the bonds at exercise price equal to the amortized cost of the respective bond notes.
Company's management has evaluated that the embedded derivatives are not contractually separable, not contractually transferrable independently and has the same counterparty. Each option's exercise price is approximately equal on each exercise date to the amortized cost of bond, therefore these embedded derivatives are not separated from the host contract.

Fair value of employee share options

Company's employee has entered a share option agreement with Company's parent company. Under the agreement respective employee obtains right to acquire certain Company's parent company's shares under several graded vesting scenarios. The respective option would be classified as an equity-settled share-based payment transaction in Company's financial statements in accordance with IFRS 2. Even if the Company is not a party to this agreement with the respective employee, it nevertheless would have to record a cost for this transaction.

Company's management has estimated that fair value of the option, due to the specifics of the share option agreement, would not be materially different than zero. In estimating fair value for the share option the most appropriate valuation model would depend on the terms and conditions of the grant. Management has considered that the particular features mentioned in the agreement, such as buy-back options, dividend policy of the parent company and related pledges effectively indicate of a fair value not materially different than zero.

4. Interest and similar income

	2017 EUR	2016 (restated)* EUR
Interest income on financial assets measured at amortised cost:		
Interest income from finance lease receivables**	12 339 744	9 747 609
Interest income from loans and advances to customers	80 668	-
Interest income from intercompany loans	484 613	22 566
Total interest income on financial assets measured at amortised cost	**12 905 025**	**9 770 175**
Income from debt collection activities	556 389	281 823
Income from penalties received	393 890	262 921
TOTAL:	**13 855 304**	**10 314 919**

* Information regarding the reclassifications and corrections made in the financial statements is disclosed in Note 2.

** Interest income contains earned interest on portfolio derecognized from Company's assets (see Note 25). Gross and net earned interest are as follows:

	2017 EUR	2016 EUR
Gross interest income	12 470 444	9 785 363
Interest derecognized due to derecognition of portfolio from Company's assets	(130 700)	(37 754)
TOTAL NET INTEREST:	**12 339 744**	**9 747 609**

5. Interest expense and similar expenses

	2017 EUR	2016 (restated)* EUR
Interest expenses on financial liabilities measured at amortised cost:		
Interest expense on issued bonds	1 977 176	1 810 523
Interest expenses for loans from P2P platform investors	490 462	-
Interest expenses for loans from banks	238 667	358 416
Total interest income on financial assets measured at amortised cost	**2 706 305**	**2 168 939**
Expenses related to attracting funding (see Note 25)	230 069	13 722
TOTAL:	**2 936 374**	**2 182 661**

* Information regarding the reclassifications and corrections made in the financial statements is disclosed in Note 2.

6. Impairment

	2017	2016 (restated)*
	EUR	EUR
Change in impairment (see Notes 16 and 17)**	231 588	(1 848 320)
Written off other debts/ (recovered written off debts)	15 197	(153 525)
TOTAL:	**246 785**	**(2 001 845)**

* Information regarding the reclassifications and corrections made in the financial statements is disclosed in Note 2.

** - In 2016 Company started actively selling bad debt portfolio, which resulted in reversal of historically accumulated impairment and recognition of write-off expenses. In 2017 Company continued to sell bad debt portfolio, thus additional expenses due to increase in impairment were minimal.

7. Loss arising from cession of financial lease receivables

	2017	2016
	EUR	EUR
Loss arising from cession of financial lease receivables	2 136 575	2 880 795
TOTAL:	**2 136 575**	**2 880 795**

During 2017 Company performed cessions to non related parties and also to its related company in Estonia. Transactions were performed applying arm length principal, therefore Company did not incur any extraordinary expenses.

8. Selling expense

	2017	2016 (restated)*
	EUR	EUR
Marketing expenses	456 208	466 472
Other selling expenses	49 881	43 790
TOTAL:	**506 089**	**510 262**

* Information regarding the reclassifications and corrections made in the financial statements is disclosed in Note 2.

9. Administrative expense

	2017	2016 (restated)*
	EUR	EUR
Salaries	1 683 262	1 592 892
Amortization and depreciation	410 540	385 929
Social security contributions	389 007	361 266
Office and branches' maintenance expenses	369 024	437 330
IT services	162 717	210 037
Donations	159 000	182 000
Credit database expenses	121 433	114 647
Professional services**	112 453	102 561
Bank commissions	85 320	58 077
Other non business related expenses	51 773	16 648
Other personnel expenses	48 653	48 042
Business trip expenses	42 403	16 873
Communication expenses	28 465	31 671
Post and courrier expenses	8 141	9 487
Low value equipment expenses	7 301	9 129
Transportation expenses	6 964	11 958
Other administration expenses	63 157	71 951
TOTAL:	**3 749 613**	**3 660 498**

* Information regarding the reclassifications and corrections made in the financial statements is disclosed in Note 2.

** Expenses for professional services include audit expenses for statutory financial statements in amount of 62 700 EUR (2016: 28 200 EUR).

10. Other operating income

	2017	2016
	EUR	EUR
Gain on debt collection activities - repossessed car sale	10 293	18 721
Income from services provided to related companies	-	2 175
Insurance income	-	730
Other income	46 153	15 139
TOTAL:	**56 446**	**36 765**

11. Other operating expense

	2017 EUR	2016 EUR
Change in provisions for possible penalties (Note 23)	92 093	66 550
Loss on disposal of fixed assets	-	3 493
Other operating expenses	25 237	217
TOTAL:	**117 330**	**70 260**

12. Corporate income tax

	2017 EUR	2016 (restated)* EUR
Current corporate income tax charge for the reporting year	577 857	109 976
Deferred corporate income tax due to changes in temporary differences	21 637	331 710
Reversal of deferred tax	67 031	-
Corporate income tax charged to the statement of comprehensive income:	**666 525**	**441 686**

* Information regarding the reclassifications and corrections made in the financial statements is disclosed in Note 2.

Deferred corporate income tax:

	Statement of financial position		**Statement of profit or loss**	
	31.12.2017. EUR	31.12.2016. (restated)* EUR	2017 EUR	2016 (restated)* EUR
Deferred corporate income tax liability				
Accelerated depreciation for tax purposes	153 086	130 753	22 333	41 217
Gross deferred corporate income tax liabilities	**153 086**	**130 753**	**22 333**	**41 217**
Deferred corporate income tax asset				
Unused vacation accruals	-	-	-	12 781
Impairment	(220 117)	(219 421)	(696)	277 248
Other	-	-	-	464
Gross deferred corporate income tax assets	**(220 117)**	**(219 421)**	**(696)**	**290 493**
Net deferred corporate income tax assets prior to the reversal of deferred tax	**(67 031)**	**(88 668)**	**21 637**	**331 710**
Reversal of deferred tax**:				
In the statement of profit or loss	67 031	-	67 031	-
Net deferred corporate income tax assets	-	(88 668)		
Net deferred corporate income tax expense/ (benefit)			88 668	331 710

* Information regarding the reclassifications and corrections made in the financial statements is disclosed in Note 2.

** In 2017, deferred tax assets have been reversed in the statement of profit or loss, pursuant to amendments made to the tax legislation of the Republic of Latvia, which entered into force on 1 January 2018.

Actual corporate income tax charge for the reporting year, if compared with theoretical calculations:

	2017 EUR	2016 (restated)* EUR
Profit before tax	**4 218 569**	**3 050 274**
Tax at the applicable tax rate of 15%	**632 785**	**457 541**
Permanent differences:		
With business not related expenses	39 263	34 381
Other	62 596	(22 742)
Tax rebate on donations	(135 150)	(27 494)
Actual corporate income tax for the reporting year:	**599 494**	**441 686**
Reversal of deferred tax	67 031	**-**
Corporate income tax charged to the statement of profit or loss:	**666 525**	**441 686**
Effective income tax rate	15.80%	14.48%

* Information regarding the reclassifications and corrections made in the financial statements is disclosed in Note 2.

	31.12.2017. EUR	31.12.2016. EUR
Corporate income tax advance/(liabilities)	(365 786)	356 086
TOTAL:	**(365 786)**	**356 086**

13. Staff costs and number of employees

		2017 EUR	2016 EUR
Salaries		1 683 262	1 592 892
Social security contribution expenses		389 007	361 266
Other personnel expenses		48 653	48 042
	TOTAL:	**2 120 922**	**2 002 200**

Key management personnel compensation

		2017 EUR	2016 EUR
Board and Council Members			
Remuneration		142 065	72 893
Social security contribution expenses		33 513	17 196
	TOTAL:	**175 578**	**90 089**

		2017	2016
Average number of employees during the reporting year		73	77
	TOTAL:	**73**	**77**

The total staff costs are included in the following statement of profit or loss captions:

		2017 EUR	2016 EUR
Administrative expense		2 120 922	2 002 200
	TOTAL:	**2 120 922**	**2 002 200**

14. Intangible assets

	Concessions, patents, licences and similar rights EUR	Other intangible assets* EUR	Advance payments for intangible assets EUR	**TOTAL** EUR
As at 01.01.2016.				
Cost	14 225	779 085	32 891	**826 201**
Accumulated amortization and impairment	(5 809)	(135 323)	-	**(141 132)**
Carrying amount	**8 416**	**643 762**	**32 891**	**685 069**
2016				
Additions	20 716	602 912	-	**623 628**
Disposals	-	(3 509)	-	**(3 509)**
Depreciation of disposed assets	-	2 057	-	**2 057**
Amortization charge	(17 452)	(269 732)	-	**(287 184)**
Reclassification	-	32 891	(32 891)	**-**
As at 31.12.2016.				
Cost	34 941	1 378 488	-	**1 413 429**
Accumulated amortization and impairment	(23 261)	(370 107)	-	**(393 368)**
Carrying amount	**11 680**	**1 008 381**	**-**	**1 020 061**
As at 01.01.2017.				
Cost	34 941	1 411 379	-	**1 446 320**
Accumulated amortization and impairment	(23 261)	(402 998)	-	**(426 259)**
Carrying amount	**1 020 061**	**1 008 381**	**-**	**1 020 061**
2017				
Additions	16 997	450 335	-	**467 332**
Amortization charge	(16 810)	(297 592)	-	**(314 402)**
As at 31.12.2017.				
Cost	51 938	1 861 714	-	**1 913 652**
Accumulated amortization and impairment	(40 071)	(700 590)	-	**(740 661)**
Carrying amount	**11 867**	**1 161 124**	**-**	**1 172 991**

* Other intangible assets mainly consist of Company's developed ERP system. Carrying amount of ERP system at reporting year end was 896 thousand EUR. Expected amortization period is 5 years with year 2020 end date.
Amortization costs are included in Note - "Administrative expense".

15. Property, plant and equipment

	Other fixtures and fittings, tools and equipment	Leashold improvements	Advance payments for tangible assets	**TOTAL**
	EUR	EUR	EUR	EUR
As at 01.01.2016.				
Cost	356 270	6 925	-	**363 195**
Accumulated depreciation and impairment	(136 148)	(4 616)	-	**(140 764)**
Carrying amount	**220 122**	**2 309**	**-**	**222 431**
2016				
Additions	100 002	-	-	**100 002**
Cost of disposals	(59 460)	(6 925)	-	**(66 385)**
Accumulated depreciation of disposals	22 747	6 924	-	**29 671**
Depreciation charge	(105 773)	(2 308)	-	**(108 081)**
As at 31.12.2016.				
Cost	396 812	-	-	**396 812**
Accumulated depreciation and impairment	(219 174)	-	-	**(219 174)**
Carrying amount	**177 638**	**-**	**-**	**177 638**
As at 01.01.2017.				
Cost	396 812	-	-	**396 812**
Accumulated depreciation and impairment	(219 174)	-	-	**(219 174)**
Carrying amount	**177 638**	**-**	**-**	**177 638**
2017				
Additions	31 821	13 558	19 517	**64 896**
Cost of disposals	(13 414)	-	-	**(13 414)**
Accumulated depreciation of disposals	11 938	-	-	**11 938**
Depreciation charge	(95 346)	(956)	-	**(96 302)**
As at 31.12.2017.				
Cost	415 219	13 558	19 517	**448 294**
Accumulated depreciation and impairment	(302 582)	(956)	-	**(303 538)**
Carrying amount	**112 637**	**12 602**	**19 517**	**144 756**

Depreciation costs are included in Note - "Administrative expense".

16. Finance Lease Receivables

	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
			(restated)*	(restated)*
	EUR	EUR	EUR	EUR
Finance lease receivables	31.12.2017.	31.12.2017.	31.12.2016.	31.12.2016.
Up to one year	19 814 943	8 639 672	17 431 536	8 026 362
Between one and five years	43 076 480	22 940 746	33 694 087	17 305 263
More than 5 years	2 100 737	1 760 722	2 137 871	1 777 502
TOTAL, GROSS:	**64 992 160**	**33 341 140**	**53 263 494**	**27 109 127**

	31.12.2017.	31.12.2016.
		(restated)*
Unearned finance income	EUR	EUR
Up to one year	11 175 271	9 405 174
Between one and five years	20 135 734	16 388 824
More than 5 years	340 015	360 369
TOTAL, GROSS:	**31 651 020**	**26 154 367**

	31.12.2017.	31.12.2016.
		(restated)*
Finance lease receivables	EUR	EUR
Non-current finance lease receivables	24 701 468	19 082 765
Current finance lease receivables	8 639 672	8 026 362
TOTAL, GROSS:	**33 341 140**	**27 109 127**

* Information regarding the reclassifications and corrections made in the financial statements is disclosed in Note 2.

Analysis by credit quality of loans outstanding is as follows:

	Corporate 31.12.2017	**Individuals 31.12.2017**	**TOTAL 31.12.2017**	**Corporate 31.12.2016**	**Individuals 31.12.2016**	**TOTAL 31.12.2016**
	EUR	EUR	EUR	EUR	EUR	EUR
Loans collectively determined to be impaired (gross)						
Not overdue	656 029	23 671 813	**24 327 842**	795 787	20 327 471	**21 123 258**
Less than 30 days overdue	156 971	5 629 575	**5 786 546**	70 721	3 585 465	**3 656 186**
31 to 60 days overdue	12 601	1 066 102	**1 078 703**	9 549	373 987	**383 536**
Terminated agreements	6 326	1 044 802	**1 051 128**	27 605	1 066 526	**1 094 132**
TOTAL, GROSS:	**831 927**	**31 412 292**	**32 244 219**	**903 663**	**25 353 449**	**26 257 112**

The Company does not have a portfolio of loans which would be 'Neither past due nor impaired' or 'Past due but not impaired'.

Movement in impairment allowance	**Impairment allowance***
Impairment allowance as at 01 January 2016	3 311 126
Charged in period	521 131
Reversal	(2 369 450)
Impairment allowance as at 31 December 2016	1 462 807
Impairment allowance as at 01 January 2017	1 462 807
Charged in period	878 681
Reversal	(927 853)
Impairment allowance as at 31 December 2017	1 413 635

A significant reversal of impairment has been performed in both financial years due to sale of bad performing loan portfolio to third party buyers.

16. Finance Lease Receivables (continued)

Finance lease receivables, net	Non-Current 31.12.2017. EUR	Current 31.12.2017. EUR	Non-Current 31.12.2016. (restated)* EUR	Current 31.12.2016. (restated)* EUR
Finance lease receivables, gross	24 701 468	7 542 751	19 082 765	7 174 347
Accrued interest	-	1 096 921		852 015
Fees paid and received upon loan disbursment	(954 328)	(291 410)	(476 922)	(179 303)
Impairment allowance	(935 646)	(477 989)	(496 366)	(966 440)
TOTAL:	**22 811 494**	**7 870 273**	**18 109 477**	**6 880 619**

* Information regarding the reclassifications and corrections made in the financial statements is disclosed in Note 2.

The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest rate contracted is approximately 47% in 2017 and 48% in 2016. All leases are denominated in euros. The average term of finance lease entered into is 59 months in 2017 and 49 months in 2016.

During year 2017 Company started placing lease agreement receivables on peer-to-peer lending platform based in Latvia. Agreements were offered with buy back guarantee, which means that all risks of such agreements remain with the Company and in case of client default the Company has the liability to repay the whole remaining principal and accrued interest to P2P investor. By using the same platform Company also offered loans without buy back guarantee, which means that all risks related to client default were transferred to P2P investor. Portions of agreements purchased by investors therefore are considered as financial assets eligible for derecognition from Company statement of financial position.

Total gross portfolio derecognised from Company financial assets were:	31.12.2017.	31.12.2016.
Non-current	EUR	EUR
Finance lease receivable	460 341	737 666
TOTAL:	**460 341**	**737 666**
Current	EUR	EUR
Finance lease receivable	161 010	310 268
TOTAL:	**161 010**	**310 268**
TOTAL GROSS PORTFOLIO DERECOGNIZED FROM COMPANY FINANCIAL ASSETS:	**621 351**	**1 047 934**

As at end of reporting year only 1,8% of all gross portfolio was purchased by P2P investors without buyback guarantee (3,7% in 2016).

Associated liabilities for the portfolio derecognised from Company financial assets were:	31.12.2017.	31.12.2016.
Non-current	EUR	EUR
Associated liabilities	460 341	737 666
TOTAL:	**460 341**	**737 666**
Current	EUR	EUR
Associated liabilities	161 010	310 268
TOTAL:	**161 010**	**310 268**

17. Loans and advances to customers

Loans and advances to customers	Minimum loan payments EUR 31.12.2017.	Present value of minimum loan payments EUR 31.12.2017.	Minimum loan payments EUR 31.12.2016.	Present value of minimum loan payments EUR 31.12.2016.
Up to one year	1 138 370	535 250	-	-
Between one and five years	1 136 736	680 495	-	-
More than 5 years	-	-	-	-
TOTAL, GROSS:	**2 275 106**	**1 215 745**	**-**	**-**

Unearned finance income	31.12.2017. EUR	31.12.2016. EUR
Up to one year	603 120	-
Between one and five years	456 241	-
More than 5 years	-	-
TOTAL, GROSS:	**1 059 361**	**-**

Loans and advances to customers	31.12.2017. EUR	31.12.2016. EUR
Non-current loan receivables	680 495	-
Current loan receivables	535 250	-
TOTAL, GROSS:	**1 215 745**	**-**

17. Loans and advances to customers (continued)

Analysis by credit quality of loans outstanding is as follows:

	Corporate 31.12.2017 EUR	Individuals 31.12.2017 EUR	TOTAL 31.12.2017 EUR	Corporate 31.12.2016 EUR	Individuals 31.12.2016 EUR	TOTAL 31.12.2016 EUR
Loans collectively determined to be impaired (gross)						
Not overdue	-	1 031 230	**1 031 230**	-	-	**-**
Less than 30 days overdue	-	123 346	**123 346**	-	-	**-**
31 to 60 days overdue	-	21 775	**21 775**	-	-	**-**
Terminated agreements	-	1 378	**1 378**	-	-	**-**
TOTAL, GROSS:	**-**	**1 177 729**	**1 177 729**	**-**	**-**	**-**

The Company does not have a portfolio of loans which would be 'Neither past due nor impaired' or 'Past due but not impaired'.

Movement in impairment allowance	**Impairment allowance**
Impairment allowance as at 01 January 2017	-
Charged in period	53 812
Reversal	-
Impairment allowance as at 31 December 2017	53 812

Loans and advances to customers, net	**Non-Current** 31.12.2017. EUR	**Current** 31.12.2017. EUR	**Non-Current** 31.12.2016. EUR	**Current** 31.12.2016. EUR
Loans and advances to customers	680 495	497 234	-	-
Accrued interest	-	38 016	-	-
Fees paid and received upon loan disbursment	(10 811)	(7 899)	-	-
Impairment allowance	(29 696)	(24 116)	-	-
TOTAL:	**639 988**	**503 235**	**-**	**-**

The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest rate contracted is approximately 90% in 2017. All leases are denominated in euros. The average term of finance lease entered into is 28 months in 2017.

18. Finished goods and goods for resale

	31.12.2017. EUR	31.12.2016. EUR
Cars for sale	334 433	10 195
Fixed assets for sale	5 058	7 753
TOTAL:	**339 491**	**17 948**

During the financial year of 2017, the Company actively started to build the stock of vehicles for the sole purpose of selling them in local market, therefore amount of stock balance has significantly increased compared to previous year.

This non-financial asset is not impaired as of 31.12.2017 (31.12.2016: 0 EUR).

19. Non-current assets held for sale

Other assets held for sale, net	31.12.2017. EUR	31.12.2016. EUR
Repossessed collateral	614 571	438 897
Impairment allowance	(226 948)	(137 822)
TOTAL:	**387 623**	**301 075**

Changes in other assets held for sale

	01.01.2017.	Increase during the year	31.12.2017.
Repossessed collateral	438 897	175 674	614 571
TOTAL, GROSS:	**438 897**	**175 674**	**614 571**

The Company does not have the right to sell or repledge the collateral in the absence of default by the owner. Only after the default of the customer, the Company has the right to repossess the collateral and sell it to third party.

20. Other receivables

	31.12.2017. EUR	31.12.2016. (restated)* EUR
Receivable for attracted funding through P2P platform (Note 25).	1 155 378	4 958
Overpaid VAT	399 510	408 516
Impairment allowance for overpaid VAT	(399 510)	(408 516)
Net overpaid VAT**	-	-
Advances for services	40 097	4 201
Claims for debt collection commissions	29 764	12 141
Advances to employees	515	709
Overpaid personal income tax	261	-
Overpaid corporate income tax	-	356 086
Other debtors	85 880	30 223
TOTAL:	**1 311 895**	**408 318**

* Information regarding the reclassifications and corrections made in the financial statements is disclosed in Note 2.

All receivables are expected to be paid within the following year, except VAT overpayment where uncertainty of date of settlement is unclear due to ongoing litigation process. Further information provided in Note 37.

** During financial year 2016, the Company adjusted its VAT returns for the periods from 2014 to 2016 and recognized additional input VAT.

This resulted in full settlement of payable VAT and recognition of VAT overpayment. Considering the uncertainty disclosed in Note 37, the Company has decided to recognize the impairment provision in full amount for VAT receivable in the statement of financial position and additional provisions in amount of VAT payable settled by VAT return adjustment and related penalties (see Note 23).

21. Cash and cash equivalents

	31.12.2017. EUR	31.12.2016. EUR
Cash at bank	617 982	122 557
Cash on hand	53 889	24 467
TOTAL:	**671 871**	**147 024**

This financial asset is not impaired as of 31.12.2017 (31.12.2016: 0 EUR).

22. Share capital

The share capital of the Company is EUR 5 000 000 and consists of 5 000 000 shares. The par value of each share is EUR 1. All the shares are fully paid.
The Company has paid out dividends in reporting year in amount of 1 590 000 EUR (2016: 525 000 EUR). Dividends per share were 0.32 EUR (2016: 0.11 EUR).
The Company plans to pay out dividends for 2017 profit in amount of 2 million EUR (0.40 EUR per share).

23. Other provisions

	31.12.2017.	31.12.2016.
Provision for possible tax liabilities*	199 279	55 942
Provision for possible penalties**	157 890	65 864
TOTAL:	**357 169**	**121 806**

Provisions for possible VAT liabilities and related penalties are calculated based on rates applied by tax body of Republic of Latvia and discounted with rate of 1.64% for estimated litigation process period of 6 years.
* Change in provision for possible VAT liabilities is recognized proportionally in those expense accounts, where the related VAT input is claimed (see also Note 2 b).
** Change in provisions for possible penalties is recognized in Other operating expense (Note 11).
See Notes 20 and 37 for more information.

24. Liabilities for issued debt securities

	Interest rate per annum (%)	*Maturity*	31.12.2017. EUR	31.12.2016. EUR
Bonds nominal value	10	31.03.2021	20 000 000	20 000 000
Bonds available for sale			-	(2 310 000)
Additional bond interest accural			121 321	318 841
Bonds acquisition costs			(329 226)	(87 936)
TOTAL:			**19 792 095**	**17 920 905**

On 17 March 2014 the Company registered with the Latvian Central Depository a bond facility through which it can raise up to EUR 20 million. The Company has raised a total of EUR 20 000 000 as at 31 December 2016 (17 690 000 EUR at 31 December 2016). Remaining part Company has purchased and holds itself. This bond issue is unsecured. The notes are issued at par, have a maturity of seven years and carry a fixed coupon of 10% per annum, paid monthly in arrears. The note type on 11 November 2014 was changed to "publicly issued notes" and were listed on the regulated market of NASDAQ OMX Baltic.

24. Liabilities for issued debt securities (continued)

	Interest rate per annum (%)	*Maturity*	31.12.2017. EUR	31.12.2016. EUR
Bonds nominal value	10	31.03.2021	6 900 000	-
Additional bond interest accural			2 949	-
Bonds acquisition costs			(131 741)	-
		TOTAL:	**6 771 208**	**-**

On 1 December 2017 the Company registered with the Latvian Central Depository a bond facility through which it can raise up to EUR 10 million. The Company has raised a total of EUR 6 900 000 as at 31 December 2017. This bond issue is unsecured. The notes are issued at par, have a maturity of three years four months and carry a fixed coupon of 10% per annum, paid monthly in arrears. Bonds are listed on the regulated market of NASDAQ OMX Baltic and are "private issued notes".

Changes in liabilities

	01.01.2017.	Cash flows	Other	31.12.2017.
Bonds nominal value	20 000 000	6 900 000	-	26 900 000
Bonds available for sale	(2 310 000)	2 310 000	-	-
Additional bond interest accural	318 841	(2 416 688)	2 222 117	124 270
Bonds acquisition costs	(87 936)	(417 358)	44 327	(460 967)
TOTAL:	**17 920 905**	**17 920 905**	**2 266 444**	**26 563 303**

25. Funding attracted through peer-to-peer platforms

Non-current	*Interest rate per annum (%)*	*Maturity*	31.12.2017. EUR	31.12.2016. EUR
Loan from non related party - P2P Investors	8-14	29.12.2023.	12 724 915	-
		TOTAL:	**12 724 915**	**-**

Current	*Interest rate per annum (%)*	*Maturity*	31.12.2017. EUR	31.12.2016. EUR
Loan from non related party - P2P Investors	8-14	29.12.2023.	3 342 203	-
Accrued interest for loans from non related parties			87 978	-
		TOTAL:	**3 430 181**	**-**

Attracted funding from P2P platform is transferred to Company's bank account once per week. Total receivables for attracted funding not yet received from P2P platform as at statement of financial position dates were:

		31.12.2017. EUR	31.12.2016. EUR
Receivable from attracted funding through P2P platform (Note 20)		1 155 378	4 958
	TOTAL:	**1 155 378**	**4 958**

Total accruals for services for attracted funding through P2P platform as at statement of financial position dates were:

		31.12.2017. EUR	31.12.2016. EUR
Accrued for expenses from attracted funding through peer-to-peer platform (Note 31)		70 654	2 240
	TOTAL:	**70 654**	**2 240**

25. Funding attracted through peer-to-peer platforms (continued)

Changes in liabilities

	01.01.2017.	Cash flows	Other	31.12.2017.
Loan from non related party - P2P Investors	-	16 067 118	-	16 067 118
Accrued interest for loans from non related parties	-	(402 484)	490 462	87 978
TOTAL:	**-**	**-**	**490 462**	**16 155 096**

See additional information in Note 16.

26. Loans from credit institutions and other parties

Current	*Interest rate per annum (%)*	*Maturity*	31.12.2017. EUR	31.12.2016. EUR
Loan from bank	6,5 to 9 + 6m EURIBOR	30.06.2017.	-	700 000
Accrued interest for loan from bank			-	3 707
		TOTAL:	**-**	**703 707**

Changes in liabilities

	01.01.2017.	Cash flows	Other	31.12.2017.
Loan from bank	700 000	(700 000)	-	-
Accrued interest for loan from bank	3 707	(247 858)	244 151	-
TOTAL:	**703 707**	**703 707**	**244 151**	**-**

27. Changes in liabilities arising from financing activities

Changes in liabilities

	01.01.2017.	Cash flows	Other	31.12.2017.
Bonds nominal value	20 000 000	6 900 000	-	26 900 000
Bonds available for sale	(2 310 000)	2 310 000	-	-
Additional bond interest accural	318 841	(2 416 688)	2 222 117	124 270
Bonds acquisition costs	(87 936)	(417 358)	44 327	(460 967)
Loan from non related party - P2P Investors	-	16 067 118	-	16 067 118
Accrued interest for loans from non related parties	-	(402 484)	490 462	87 978
Loan from bank	700 000	(700 000)	-	-
Accrued interest for loan from bank	3 707	(247 858)	244 151	-
TOTAL:	**18 624 612**	**703 707**	**3 001 057**	**42 718 399**

28. Prepayments received from customers

	31.12.2017. EUR	31.12.2016. EUR
Advances received from current customers*	272 268	198 244
Overpayments from historical customers	21 538	24 631
TOTAL:	**293 806**	**222 875**

* - Advances received from customers are recorded in statement of financial position and settled against finance lease receivables at the moment of issuing next monthly invoice according to agreement schedule.

29. Taxes payable

	31.12.2017. EUR	31.12.2016. EUR
Social security contributions	64 401	49 172
Risk duty	3	25
Personal income tax	-	19 761
TOTAL:	**64 404**	**68 958**

30. Other liabilities

	31.12.2017. EUR	31.12.2016. EUR
Liabalities against employees for salaries	3 267	93 421
Others liabilities	4 446	3 521
TOTAL:	**7 713**	**96 942**

31. Accrued liabilities

	31.12.2017. EUR	31.12.2016. EUR
Accruals for bonuses	177 291	126 139
Accrued unused vacation	128 440	96 350
Accrued expenses from attracted funding through peer-to-peer platform (Note 25)	70 654	2 240
Other accrued liabilities for received services	98 891	50 515
TOTAL:	**475 276**	**275 244**

32. Related party disclosures

As from 1 July 2014 the Company is controlled by Mogo Finance S.A. (registered in Luxembourg) which owns 98% equity and is the direct controlling and ultimate controlling party.

The income and expense items with related parties were as follows:

	Parent company 31.12.2017. EUR	Other related parties 31.12.2017. EUR	Parent company 31.12.2016. EUR	Other related parties 31.12.2016. EUR
Interest income	319 572	165 041	-	484 613
Dividend expense	(1 558 200)	-	(514 500)	-
Bonds coupon expenses	-	-	(25 917)	-
Other operating income	666	227 962	378	72 937
Expenses from ceased agreements to related companies*		(835 103)		
Other operating expenses	-	-	-	(8 082)

* - During 2017 Company performed cession to its related company in Estonia. Transaction was perform applying arm length principal, therefore Company did not incur any extraordinary expenses.

32. Related party disclosures (continued)

Receivables from related companies

Non-current	Interest rate per annum (%)	Maturity	31.12.2017. EUR	31.12.2016. EUR
Loan receivable from parent company**	12	27.04.2023	17 865 000	120 000
		TOTAL:	**17 865 000**	**120 000**

Current	31.12.2017. EUR	31.12.2016. EUR
Receivables from related companies	200 751	1 718
TOTAL:	**200 751**	**1 718**
TOTAL RECEIVABLES:	**18 065 751**	**121 718**

** - In 2017 the Company has signed the loan agreement with its parent company. Loan agreement allows both parties to agree on flexible loan payout and loan repayment arrangement with maximum loan amount of 30 million EUR.

Ultimate loan repayment date is set to 27.04.2023 while full repayment of loan is possible prematurely by decision of parent company.

All receivables from related parties have been tested for recoverability and concluded that no impairment for receivables as at end of reporting year is necessary.

Payables to related companies

	31.12.2017. EUR	31.12.2016. EUR
Other payables to related companies	3 872	-
TOTAL:	**3 872**	**-**

33. Commitments

Commitments under operating leases

The Company as a lessee has entered into property lease agreements. As at 31 December 2017 and 31 December 2016, the future minimum lease payments under non-cancellable operating leases were as follows:

	31.12.2017. EUR	31.12.2016. EUR
Less than one year	215 328	157 549
Between one and five years	718 388	623 749
More than five years	416 723	622 267
TOTAL:	**1 350 439**	**1 403 565**

In 2017 the Company signed a service agreement with tax advisory company. Agreement conditions assume partial remuneration for these services based on success fee principle. Estimated maximal amount payable for these services is assumed 70 000 EUR.

34. Financial risk management

The risk management function within the Company is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

Financial risks
The main financial risks arising from the Company's financial instruments are foreign currency risk, interest rate risk, liquidity risk, and credit risk.

Foreign currency risk
The Company's financial assets and liabilities are not exposed to foreign currency risk. All transactions are concluded in euros.

Interest rate risk
The Company is not exposed to interest rate risk because all of its liabilities are interest bearing borrowings with a fixed interest rate.

Liquidity risk
The Company manages its liquidity risk by arranging an adequate amount of committed credit facilities with related parties and by issuing bonds.
The Company is subject to certain covenants relating to its attracted funding throguh P2P platform. Company is regularly monitoring respective indicators and ensures that covenants are sattisfied.
Based on management assessment The Company was in compliance with covenants at 31 December 2017 and 31 December 2016.

The table below presents the cash flows payable by the Company and to the Company under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flow. Cash flow payable for borrowings includes estimated interest payments assuming principal is paid in full at maturity date.

34. Financial risk management (continued)

		Contractual cash flows				
	Carrying value	On demand	Up to 1 year	1-5 years	More than 5 years	Total
As at 31.12.2017.	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Assets						
Cash in bank	671 871	671 871	-	-	-	**671 871**
Loans and advances to customers	1 143 223	-	1 138 370	1 136 736	-	**2 275 106**
Loans to non related parties	16 065	-	16 415	-	-	**16 415**
Loans to related companies	17 865 000	-	2 143 800	17 865 000	-	**20 008 800**
Receivables from related companies	200 751	-	200 751	-	-	**200 751**
Finance lease receivables	30 681 767	-	19 814 943	43 076 480	2 100 737	**64 992 160**
Total undiscounted financial assets	50 578 677	671 871	23 314 279	62 078 216	2 100 737	**88 165 103**
Liabilities						
Borrowings	(16 155 096)	-	(3 430 181)	(12 724 915)	-	**(16 155 096)**
Bonds	(26 563 303)	-	(3 124 089)	(36 968 744)	-	**(40 092 833)**
Current liabilities	(1 018 755)	-	(1 234 083)	(718 388)	(416 723)	**(2 369 194)**
Total undiscounted financial liabilities	(43 737 154)	-	(7 788 353)	(50 412 047)	(416 723)	**(58 617 123)**
Net undiscounted financial assets / (liabilities)	6 841 523	671 871	15 525 926	11 666 169	1 684 015	**29 547 980**

		Contractual cash flows				
	Carrying value	On demand	Up to 1 year	1-5 years	More than 5 years	Total
As at 31.12.2016.	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Assets						
Cash in bank	147 024	147 024	-	-	-	**147 024**
Finance lease receivables	24 927 100	-	17 304 115	33 694 087	2 137 871	**53 136 072**
Total undiscounted financial assets	25 074 124	147 024	17 304 115	33 694 087	2 137 871	**53 283 096**
Liabilities						
Borrowings	(703 707)	-	(703 707)	-	-	**(703 707)**
Bonds	(17 920 905)	-	(1 751 448)	(21 300 999)	-	**(23 052 447)**
Current liabilities	(646 979)	-	(804 528)	(623 749)	(622 267)	**(2 050 544)**
Total undiscounted financial liabilities	(19 271 591)	-	(3 259 683)	(21 924 748)	(622 267)	**(25 806 699)**
Net undiscounted financial assets / (liabilities)	5 802 533	147 024	14 044 432	11 769 339	1 515 603	**27 476 398**

Credit risk

The Company is exposed to credit risk through its finance lease receivables, as well as cash and cash equivalents. The Company is also exposed to credit risk through its loan receivable to parent company.
The key areas of credit risk policy cover lease granting process (including solvability check of the lease), monitoring methods, as well as decision making principles.

The Company operates by applying a clear set of finance lease granting criteria. This criteria includes assessing the credit history of customer, means of lease repayment and understanding the lease object. The Company takes into consideration both quantitative and qualitative factors when assessing the creditworthiness of the customer. Based on this analysis, the Company sets the credit limit for each and every customer.

When the lease agreement has been signed, the Company monitors the lease object and customer's solvency. The Company has developed lease monitoring process so that it helps to quickly spot any possible non-compliance with the provisions of the agreement. The receivable balances are monitored on an ongoing basis to ensure that the Company's exposure to bad debts is minimized, and, where appropriate, provisions are being made.

The Company does not have a significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

Capital risk management

The Company manages its capital to ensure that it will be able to continue as going concern. The Company fulfills externally imposed capital requirements. In order to maintain or adjust the capital structure, the Company may attract new credit facilities or increase its share capital.
See Note 36 for further details.

35. Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.
The principal or the most advantageous market must be accessible by the Company and the Parent company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Instruments within Level 1 include highly liquid assets and standard derivative financial instruments traded on the stock exchange.

Fair value for such financial instruments as Financial assets at fair value through profit and loss is mainly determined based on publicly available quoted prices (bid price, obtainable from Bloomberg system).

Instruments within Level 2 include assets, for which no active market exists, such as over the counter derivative financial instruments that are traded outside the stock exchange, bonds, as well as balances on demand with the Bank of Latvia, balances due from banks and other financial liabilities. Bonds fair value is observable in NASDAQ OMX Baltic public information. Fair value of bank loans is based on effective interest rate which represents current market rate to similar companies. The management recognizes that cash and cash equivalents' fair value is the same as their carrying value therefore the risk of fair value change is insignificant.

Instruments within Level 3 include available for sale financial assets, loans and receivables.

Fair value of finance lease and loan receivables is equal to the carrying value, which is present value of minimum lease and loan payments discounted using effective agreement interest rate and adjusted for impairment allowance.

Fair value of current and non-current borrowings is based on cash flows discounted using effective agreement interest rate which represents current market rate. Company's management believes that interest rates applicable to loan portfolio and borrowings are in line with current market interest rates for companies similar to AS mogo.

The management recognizes that if a fair value of such assets/liabilities would be assessed as an amount at which an asset could be exchanged or liability settled on an arm’s length basis with knowledgeable third parties, the fair values obtained of the respective assets and liabilities would not be materially different.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Company’s statement of financial position at their fair value:

Assets	**Carrying value 31.12.2017. EUR**	**Fair value 31.12.2017. EUR**	**Carrying value 31.12.2016. EUR**	**Fair value 31.12.2016. EUR**
Finance lease receivables non-current	22 811 494	22 811 494	18 109 477	18 109 477
Loans to related companies	17 865 000	17 865 000	120 000	120 000
Loans and advances to customers non-current	639 988	639 988	-	-
Finance lease receivables current	7 870 273	7 870 273	6 880 619	6 880 619
Loans and advances to customers current	503 235	503 235	-	-
Loans to non related parties	16 065	16 065	2 056	2 056
Receivables from related companies	200 751	200 751	1 718	1 718
Other receivables	1 311 895	1 311 895	408 318	408 318
Cash and cash equivalents	671 871	671 871	147 024	147 024
Total assets	**51 890 572**	**51 890 572**	**25 669 212**	**25 669 212**
Liabilities				
Liabilities for issued bonds	26 563 303	26 563 303	17 920 905	17 920 905
Loans from non related parties non-current	12 724 915	12 724 915	-	-
Payables to related companies	3 872	3 872	-	-
Loans from non related parties current	3 430 181	3 430 181	-	-
Loans from credit institutions	-	-	703 707	703 707
Trade payables	181 397	181 397	79 902	79 902
Other liabilities	7 713	7 713	96 942	96 942
Accrued liabilities	475 276	475 276	275 244	275 244
Total liabilities	**43 386 657**	**43 386 657**	**19 076 700**	**19 076 700**

35. Fair value of financial assets and liabilities (continued)

The table below specified analysis by fair value categories as at 31 December 2017 (based on their carrying amounts):

	Level 1 31.12.2017. EUR	Level 2 31.12.2017. EUR	Level 3 31.12.2017. EUR	Level 1 31.12.2016. EUR	Level 2 31.12.2016. EUR	Level 3 31.12.2016. EUR
Assets for which fair value is disclosed						
Finance lease receivables non-current	-	-	22 811 494	-	-	18 109 477
Loans to related companies	-	-	17 865 000	-	-	120 000
Loans and advances to customers non-current	-	-	639 988	-	-	-
Finance lease receivables current	-	-	7 870 273	-	-	6 880 619
Loans and advances to customers current	-	-	503 235	-	-	-
Loans to non related parties	-	-	16 065	-	-	2 056
Receivables from related companies	-	-	200 751	-	-	1 718
Other receivables	-	-	1 311 895	-	-	408 318
Cash and cash equivalents	-	671 871	-	-	147 024	-
Total assets for which fair value is disclosed	**-**	**671 871**	**51 218 701**	**-**	**147 024**	**25 522 188**
Liabilities for which fair value is disclosed						
Liabilities for issued bonds	-	26 563 303	-	-	17 920 905	-
Funding attracted through peer-to-peer platforms, non-current	-	12 724 915	-	-	-	-
Payables to related companies non-current	-	-	3 872	-	-	-
Funding attracted through peer-to-peer platforms, current	-	3 430 181		-	-	-
Loans from credit institutions	-	-	-	-	703 707	-
Trade payables	-	-	181 397	-	-	79 902
Other liabilities	-	-	7 713	-	-	96 942
Accrued liabilities	-	-	475 276	-	-	275 244
Total liabilities for which fair value is disclosed	**-**	**42 718 399**	**668 258**	**-**	**18 624 612**	**452 088**

36. Management of Capital

The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern. The Company considers total capital under management to be equity as shown in the statement of financial position.
The amount of capital that the Company managed as of 31.12.2017. was 9 867 100 EUR (2016: 7 905 056).
Management reviews its capital position on a regular basis to maintain sufficient funds in order to support the medium- and long-term strategic goals of the Company.

37. Legal claims

The Company operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent in its operations. As a result, the Company is involved in various litigation, arbitration and regulatory proceedings, in the ordinary course of its business. The Company has formal controls and policies for managing legal claims. At year end, the Company had several unresolved legal claims.
The only significant claim where Company is involved relates to a dispute with State Revenue Service of Latvia for reclaimable overpaid VAT.
The Company has contracted external advisors to support its position; nevertheless, given the uncertainty of outcome for this legal claim, the Company decided to apply conservative approach and recognize impairment allowance for VAT receivable and additional provision for possible VAT liabilities and related penalties, in total amount of 756 679 EUR as at 31.12.2017. (see Note 20 and 23).

38. Events after the reporting year

Since the last day of the reporting year several significant events took place:
1) The Company attracted additional funding by selling additional bonds in amount of 2 650 000 EUR;
2) The Company attracted additional funding through P2P platform in amount of 4 680 000 EUR;
3) The Company has provided additional funding to parent company in amount of 6 850 000 EUR under existing agreement;
4) Company is in process of restructuring administration and controlling function to further improve efficiency and control over operations in domestic market and abroad.

As of the last day of the reporting year until the date of signing these financial statements there have been no other events requiring adjustment of or disclosure in the financial statements or Notes thereto.

Aleksandrs Čerņagins	Edgars Egle	Māris Kreics
Member of the Board	Chairman of the Board	Finance Director

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of mogo AS

Opinion

We have audited the accompanying financial statements of mogo AS (the Company) set out on pages 7 to 38 of the accompanying Annual Report, which comprise the statement of financial position as at 31 December 2017 and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the independence requirements included in the Law on Audit Services of Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the Law on Audit Services of Republic of Latvia and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of the Company for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on 28 February 2017.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How we addressed the key audit matter
Impairment allowance for finance lease receivables As disclosed in Note 16, the carrying amount of finance lease receivables as at 31 December 2017 amounts to EUR 30 681 767 and the respective impairment allowance at this date – to EUR 1 413 635. Company's impairment provision policy for finance lease receivables is based on past-due status, as stated in Note 2. In accordance with the accounting policy, amount of impairment allowance for Company's finance lease receivables is collectively assessed. For the purpose of the collective assessment of impairment allowance, lease receivables are grouped on the basis of past-due status, which, in the judgement of the management, is the key credit risk characteristic of client's ability to settle the amounts due (Note 3). Historical experience, including probability of default and loss given default, is used to determine the amount of impairment allowance. Probability of default ratios are calculated by using historical portfolio movement matrixes for last 12 months, which are modelled over the estimated loss identification period of 6 months. Loss given default ratios are established based on all historical information regarding recoveries from those terminated agreements, where a subsequent renewal was not made. For unsecured lease receivables, where the respective collateral has been repossessed, loss given default ratios are based on third party cession offers received. Critical accounting estimates and judgments in relation to impairment allowance calculation are set out in Note 3. We identified this area as significant for the audit because calculation and recognition of allowances for finance lease receivable impairment is associated with significant estimation, as it requires the management to exercise judgement and apply complex and subjective assumptions both about the timing and about amounts of such impairment. Due to the above circumstances, we considered impairment allowance for finance lease receivables to be a key audit matter.	Our audit procedures included, among others, the following: • We assessed whether the Company's accounting policies in relation to the valuation of finance lease receivables are in compliance with IFRS requirements. • We obtained an understanding of financial lease impairment provisioning process and the methodology used by the management to determine the collective allowance. • We tested key controls over the leasing issuance, booking and monitoring and financial lease receivables impairment provisioning process. • We also assessed the underlying assumptions, as well as sufficiency and accuracy of the data used by management in calculation of impairment allowance for finance lease receivables. • For the impairment allowance calculation made as at 31 December 2017 we assessed probability of default and loss given default ratios used taking into account the portfolio movement matrixes and by corroborating the input data used to independent data and historical information of the Company. We also assessed the adequacy of the related disclosures contained in Notes 6 and Note 16, as well as the sufficiency of information regarding the significant judgements applied by the management in Note 3.
Interest income recognition Interest income from financial instruments measured at amortized cost is recognized at the effective interest rate (EIR), as disclosed in Note 2. During the financial year in the statement of profit or loss the Company recognized interest income from financial lease receivables and loans and advances to customers amounting to 12 404 712 EUR, as disclosed in Note 4.	Our audit procedures included, among others, the following: • We assessed whether the Company's accounting policies in relation to the interest income are in compliance with IFRS and reviewed Company`s calculation of effective interest rate.

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Key audit matter	How we addressed the key audit matter
The calculation of the EIR includes commissions paid or received between the Company and its customers, which are an integral part of the EIR. Correct interest income recognition is highly dependent on appropriate design of the interest income recognition process as well as functioning of controls over the process, especially operational effectiveness and correctness of IT related control environment. Accounting for all EIR components is inherently more complex in the finance services sector when compared to some other industries due to the large number of customers, various contractual terms with customers, as well as the amount of commissions included in the EIR calculation. Therefore, interest income recognition is considered to be relatively complex and requires, among other things, continual operating effectiveness of controls over the related processes. Due to the above circumstances, we considered interest income recognition to be a key audit matter.	• We gained understanding of the finance lease receivables and loans and advances to customers' issuance, accounting and income recognition process and tested key controls. • We tested IT general controls for the systems supporting these processes. • We tested a sample of agreements related to the issued finance lease receivables and loans and advances to customers. For the selected sample of agreements we recalculated accrued interest income, deferred commissions and principal outstanding at the financial year end by comparing the amounts recognized by the Company with the respective agreement terms and other supporting data. • We performed analytical review procedures by forming an expectation of interest income based on the key performance indicators, including taking into consideration the composition and size of financial lease receivables and loans and advances to customers' portfolios. We also compared the results of our analysis against the prior reporting period. We also assessed the adequacy of the related disclosures contained in Note 2 and Note 4.

Reporting on other information

Management is responsible for the other information. Other information consists of:

- the Management Report as set out on pages 4 to 5 of the accompanying Annual Report;
- the Statement on Management Responsibility, as set out on page 6 of the accompanying Annual Report and
- the Statement of Corporate Governance for the year 2017, set out in separate statement provided by mogo AS management and available on the mogo group website http://www.mogofinance.com section *Investor relations*,

but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia

We have other reporting responsibilities in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report and the Statement of Corporate Governance. These additional reporting responsibilities are beyond those required under the ISAs.

Our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

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Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- the Management Report has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in Article 56^2, paragraph three of the Financial Instruments Market Law.

In our opinion, the Statement of Corporate Governance includes the information required in Article 56^2 paragraph three of the Financial Instruments Market Law.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

We communicate with 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.

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We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Responsibilities and Confirmations Required by the Legislation of the Republic of Latvia and European Union when Providing Audit Services to Public Interest Entities

We were first appointed as auditors of the Company on 2 November 2017 by shareholders.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company;
- as stipulated in paragraph $37.^{6}$ of the Law on Audit Services of the Republic of Latvia, we have not provided to the Company the prohibited non-audit services (NASs) referred to in EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

The partner in charge of the audit resulting in this independent auditor's report is Diāna Krišjāne.

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Diāna Krišjāne
Chairperson of the Board
Latvian Certified Auditor
Certificate No. 124

Riga, 27 April 2018