JSC Mogo
(UNIFIED REGISTRATION NUMBER LV50103541751)

CONSOLIDATED ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

INCLUDING CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH INTERNATIONAL
FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EU

TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

Riga, 2019

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General information

Name of the Parent Company	Mogo
Legal status of the Parent Company	JSC
Unified registration number, place and date of registration	50103541751, Latvia, 03.05.2012
Registered office	Skanstes street 50, Riga, Latvia

Shareholders

	31.12.2018.
HUB1 JSC	98%
Tobago capital LTD	2%
TOTAL	**100%**
*Mogo Finance S.A. (Luxembourg) till 27.03.2019.	98%

Board Members

Juris Pārups - Chairman of the Board from 25.09.2018

Krišjānis Znotiņš - Member of the Board from 14.03.2019

Edgars Egle - Chairman of the Board from 15.03.2017 till 25.09.2018

Aleksandrs Čerņagins - Member of the Board from 17.07.2015 till 15.06.2018

Council Members

Modestas Sudnius, from 25.05.2018

Dārta Keršule, from 05.09.2018

Kārlis Bērziņš, from 25.05.2018

Māris Kreics, from 03.07.2018 till 05.09.2018

Juris Pārups, from 25.05.2018 till 03.07.2018

Ramona Miglāne, from 05.08.2014 till 05.09.2018

Uldis Judinskis, from 05.08.2014 till 05.09.2018

Ieva Judinska-Bandeniece, from 05.08.2014 till 05.09.2018

Mārtiņš Bandenieks, from 05.08.2014 till 05.09.2018

Subsidiaries

Loango JSC, Latvia (100%)

Renti JSC, Latvia (100%)

Financial year

1 January - 31 December 2018

Previous financial year

1 January - 31 December 2017

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

31 May 2019

The Directors of the Group present the report on the consolidated financial statements for the year ended 31 December 2018. All the figures are presented in EUR (euro).

General information

JSC mogo (hereinafter – the Parent Company) and its subsidiaries (together - The Group) is a leading company in Latvian leaseback and finance lease solutions (for car purchases) in terms of number of leased items. The Group provides quick and convenient services for both private individuals and legal entities offering vehicle finance lease transactions up to EUR 15 000 and leaseback transactions up to EUR 10 000 with maturity of up to seven years. The Group also offers consumer loans up to EUR 3000 with maturity up to four years and long-term car lease services. Funding is 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.

In October, 2018 the Group established a subsidiary Renti JSC. Starting November, 2018, the subsidiary is offering vehicle rent services to its customers. Until end of reporting period Renti JSC has successfully acquired its first clients.

In June, 2018 the Group established a subsidiary Loango JSC, the subsidiary has not started the commercial activities yet.

The market of leaseback and finance lease solutions (for car purchases) has increased in year 2018 if compared to 2017. The increase is mainly driven by used vehicle sales increase. The Group maintained its leader position in the growing market.

The Group obeys local laws relating to environmental protection.

Mission, vision and values

Mission

Mission of the Group is to offer accessible and affordable leasing and loan services to clients who need quick and simple way of obtaining financing or would like to purchase a vehicle.

Vision

Vision of the Group is to become the market leading leaseback and finance lease solutions organization, highly rated for customer friendliness and accessibility.

Values

- Quick assistance without unnecessary formalities - the Group will provide the required funding within a couple of hours.
- Open communication and adaptation – the core value of the Group 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 Group values and creates mutually beneficial long term relationship with all its customers, it welcomes feedback and suggestions for improvement.

Operations and Financial Results

Interest and similar income of The Group reached 18,8 million euro (46% increase, compared to 2017), and net profit of the Group amounted to 2,8 million euro.

At the end of 31 December 2018 gross value of the lease portfolio reached 39,4 million euro (22% increase, compared to 31 December 2017).

The financial results were mainly driven by improvements in our customer service and partner account management processes enabling to serve our customers more efficiently and the revised product offering which provided a possibility of entering a new market segment.

The slight decrease in the profit against the previous year is due to the continuous expansion of the Mogo Group's foreign operations.

The management is of the opinion that results for the year 2018 have once again proved that customers continue to appreciate the Group's services and their benefits. During the year, the Group actively worked on improving the customer service, regularly revised the customer scoring system as well as optimized all its processes.

In 2018, the Group continued its operations in order to accomplish its mission – to offer accessible leasing services in a quick and simple way. The Group continued to invest significant resources in the development of information system solutions in order to improve its operational activities by automating the current processes in the nearest future, at the same time increasing customer satisfaction with the provided service.

The year 2018 was successful regarding the cooperation with 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 Group offers various partnership solutions and an individual approach to effective handling of client applications, as well as provides various marketing materials and conducts joint marketing campaigns.

The Group proceeded with various marketing activities through TV, radio and internet commercials and outdoor advertisements which helped to promote the brand visibility and strengthen the Group's positions in terms of the brand recognition.

The Group and its subsidaries intends to develop and improve product offering by The Group to become more known in the market and attract new customers. The Group will continue to invest in IT development to improve its competitiveness.

Other information

The risk management activities within the Group are 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 risks), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits followed by ensuring that the exposure to risks remains within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures in order to minimize operational and legal risks.

Management report (continued)

Financial risks

The main financial risks arising from the Group's financial instruments are liquidity risk, and credit risk.
In the future, the Group could also be exposed to foreign currency risk and interest rate risk if transactions in foreign currencies are performed or financing with variable interest rates is attracted.

Operational risks

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

Legal risks

Legal risk mainly arises due to regulatory changes and is managed successfully with the support of the in-house legal department and external legal advisors who closely follow the latest developments in the regulatory and legal environment. In this sense, the fact that the Group is a member of the Alternative Financial Services Association of Latvia is also helpful.

Foreign currency risk

The Group's financial assets and liabilities are not exposed to foreign currency risk. All transactions are performed in the euro.

Interest rate risk

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

Liquidity risk

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

Credit risks

The Group is exposed to credit risk through its finance lease receivables and loans and advances to customers, as well as cash and cash equivalents.
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 Group 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 Group takes into consideration both quantitative and qualitative factors when assessing the creditworthiness of the customer. Based on this analysis, the Group sets the credit limit for each and every customer.

When the lease agreement has been signed, the Group monitors the lease object and customer's solvency. The Group 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 Group's exposure to bad debts is minimized, and, where appropriate, provisions are being made.

The Group does not have a significant credit risk exposure to any single counterparty, but has risk to group of counterparties having similar characteristics.
See Notes 20 and 21 for more information.

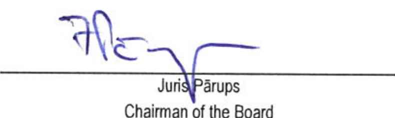
The Group statement regarding the corporate governance in 2018 is prepared according with the requirements of the Financial Instruments Market Law part 3 of article 56.2 and is available to the public electronically on the Nasdaq Baltic webpage www.nasdaqbaltic.com.

The share capital of the Parent 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.

More information is disclosed in Note 39.

Signed on behalf of the Group on 31 May 2019 by:



Juris Pārups
Chairman of the Board

Krišjānis Znotiņš
Member of the Board

Statement of Management Responsibility

31 May 2019

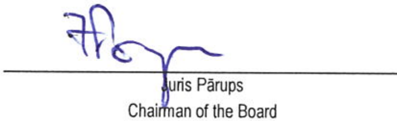
The Group management is responsible for preparation of the financial statements.

Management of the Group 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 adopted by EU and give a true and fair view of the Company's assets, liabilities, financial position as at 31 December 2018, results of operations and cash flows for the year ended 31 December 2018.

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

The Group's management is responsible for detection and prevention of the error, inaccuracy and / or fraud. The Group's management is responsible for the Group'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 Group's business and results of operation.

Signed on behalf of the Group on 31 May 2019 by:



Juris Pārups
Chairman of the Board

Krišjānis Znotiņš
Member of the Board

Consolidated Financial Statements

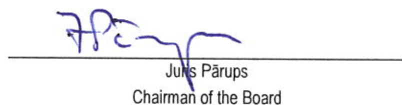
Consolidated Statement of Comprehensive Income

		2018	2017 (restated)*
		EUR	EUR
Interest revenue calculated using the effective interest method	4	18 795 287	12 905 534
Interest expense calculated using the effective interest method	5	(6 128 990)	(2 706 305)
Net interest income		**12 666 297**	**10 199 229**
Fee and commission income	6	1 039 962	950 280
Impairment expense	7	(5 251 123)	(2 160 751)
Net gain/(loss) from de-recognition of financial assets measured at amortised cost	8	(53 919)	(222 609)
Expenses related to peer-to-peer platforms services	9	(299 104)	(230 069)
Revenue from leases	10	110 375	-
Revenue from car sales	11	470 695	-
Expenses from car sales	11	(470 695)	-
Selling expense	12	(652 430)	(506 089)
Administrative expense	13	(4 751 758)	(3 749 613)
Other operating income	14	206 570	56 446
Other operating expense	15	(181 072)	(117 330)
Net operating expenses		**(9 832 499)**	**(5 979 735)**
Net foreign exchange result		(3 740)	(925)
Profit before tax		**2 830 058**	**4 218 569**
Corporate income tax	16	-	(577 857)
Deferred corporate income tax	16	-	(88 668)
Net profit for the period		**2 830 058**	**3 552 044**
Other comprehensive income for the year		-	-
Total comprehensive income for the year		**2 830 058**	**3 552 044**

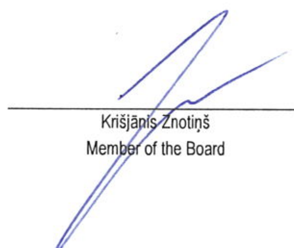
* Information regarding the reclassifications made in the financial statements is disclosed in Note 2.

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

Signed on behalf of the Group on 31 May 2019 by:



Juris Pārups
Chairman of the Board



Krišjānis Znotiņš
Member of the Board

Rita Kaktiņa
Chief accountant

Consolidated Statement of Financial Position

ASSETS

NON-CURRENT ASSETS		31.12.2018. EUR	31.12.2017. EUR
Intangible assets			
Licenses	17	3 096	11 867
Other intangible assets	17	21 042	1 161 124
Total intangible assets		**24 138**	**1 172 991**
Tangible assets			
Rental fleet	18	1 442 911	-
Right-of-use assets	18, 19	89 832	-
Property and equipment	18	72 249	112 637
Advance payments for assets	18	70 082	19 517
Leasehold improvements	18	10 376	12 602
Total tangible assets		**1 685 450**	**144 756**
Non-current financial assets and lease receivables			
Finance lease receivables	20	24 925 333	22 811 494
Loans and advances to customers	21	1 311 573	639 988
Loans to related parties	35	11 041 800	17 865 000
Other investments	36	26	26
Total non-current financial assets and lease receivables		**37 278 732**	**41 316 508**
TOTAL NON-CURRENT ASSETS		**38 988 320**	**42 634 255**
CURRENT ASSETS			
Inventories			
Finished goods and goods for resale	22	11 414	339 491
Total inventories		**11 414**	**339 491**
Receivables and other current assets			
Finance lease receivables	20	8 562 209	7 870 273
Loans and advances to customers	21	1 376 781	503 235
Trade receivables	25	2 416 557	200 751
Prepaid expense	24	223 813	361 280
Other receivables	26	183 075	1 311 895
Accrued revenue		516	38 183
Loans to non related parties		-	16 065
Cash and cash equivalents	27	743 195	671 871
Total receivables and other current assets		**13 506 146**	**10 973 553**
Assets held for sale	23	133 140	387 623
Total assets held for sale		**133 140**	**387 623**
TOTAL CURRENT ASSETS		**13 650 700**	**11 700 667**
TOTAL ASSETS		**52 639 020**	**54 334 922**

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

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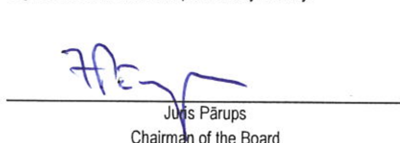
Juris Pārups
Chairman of the Board

Krišjānis Znotiņš
Member of the Board

Rita Kaktiņa
Chief accountant

Consolidated Statement of Financial Position

EQUITY AND LIABILITIES

		31.12.2018.	31.12.2017.
EQUITY		EUR	EUR
Share capital	28	5 000 000	5 000 000
Foreign currency translation reserve		1	1
Other reserves	38	(1 066 590)	-
Retained earnings			
brought forward		51 381	1 315 055
for the period		2 830 058	3 552 044
TOTAL EQUITY		**6 814 850**	**9 867 100**
LIABILITIES			
Non-current liabilities			
Liabilities for issued debt securities	30	18 658 246	26 563 303
Funding attracted through peer-to-peer platforms	30	9 160 189	12 724 915
Lease liabilities for right-of-use assets	19, 30	23 791	-
Total non-current liabilities		**27 842 226**	**39 288 218**
Provisions for financial guarantees	38	677 331	-
Other provisions	29	449 027	357 169
Total provisions for liabilities and charges and financial guarantees		**1 126 358**	**357 169**
Current liabilities			
Liabilities for issued debt securities	30	11 250 000	-
Funding attracted through peer-to-peer platforms	30	4 386 961	3 430 181
Provisions for financial guarantees	38	270 932	-
Lease liabilities for right-of-use assets	19, 30	66 776	-
Prepayments and other payments received from customers	31	68 959	293 806
Payables to related companies	35	48 180	3 872
Trade payables		98 958	181 397
Corporate income tax payable	16	91 489	365 786
Taxes payable	32	46 211	64 404
Other liabilities	33	212 354	7 713
Accrued liabilities	34	314 766	475 276
Total current liabilities		**16 855 586**	**4 822 435**
TOTAL LIABILITIES		**45 824 170**	**44 467 822**
TOTAL EQUITY AND LIABILITIES		**52 639 020**	**54 334 922**

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

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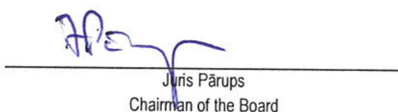
Juris Pārups
Chairman of the Board

Krišjānis Znotiņš
Member of the Board

Rita Kaktiņa
Chief accountant

Consolidated Statement of Changes in Equity

	Share capital EUR	Currency revaluation reserve EUR	Other Reserves EUR	Retained earnings EUR	Total EUR
Balance at 01.01.2017.	**5 000 000**	**1**	**-**	**2 905 055**	**7 905 056**
Profit for the reporting year	-	-	-	3 552 044	3 552 044
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	3 552 044	3 552 044
Dividends distribution (Note 28)	-	-	-	(1 590 000)	(1 590 000)
Balance at 31.12.2017.	**5 000 000**	**1**	**-**	**4 867 099**	**9 867 100**
Balance at 01.01.2018.	**5 000 000**	**1**	**-**	**4 867 099**	**9 867 100**
Effect of adoption of new accounting standards (Note 2)	-	-	-	(315 718)	(315 718)
Balance at 01.01.2018. (restated)	**5 000 000**	**1**	**-**	**4 551 381**	**9 551 382**
Profit for the reporting year	-	-	-	2 830 058	2 830 058
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	2 830 058	2 830 058
Issue of financial guarantees (Note 38)	-	-	(878 051)	-	(878 051)
Increase in the guarantee limit (Note 38)	-	-	(188 539)	-	(188 539)
Dividends distribution (Note 28)	-	-	-	(4 500 000)	(4 500 000)
Balance at 31.12.2018.	**5 000 000**	**1**	**(1 066 590)**	**2 881 439**	**6 814 850**

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

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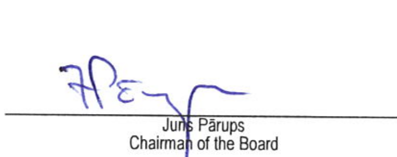

Juris Pārups
Chairman of the Board

Krišjānis Znotiņš
Member of the Board

Rita Kaktiņa
Chief accountant

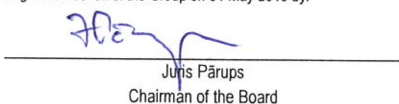
Consolidated Statement of Cash Flows

		2018	2017
			(restated)*
Cash flows to/from operating activities		EUR	EUR
Profit before tax from continuing operations		2 830 058	4 218 569
Adjustments for:			
Amortisation and depreciation	17, 18	534 841	410 703
Interest expense	5	6 128 990	2 706 305
Interest income	4	(18 795 287)	(12 905 534)
Disposals of property, equipment and intangible assets		94	1 476
Impairment expense	7	5 251 123	2 160 751
Financial guarantees	38	(948 263)	-
Operating profit before working capital changes		**(4 998 444)**	**(3 407 730)**
Decrease/ (increase) in inventories		328 077	(321 543)
Increase in finance lease receivables, loans and advances to customers, trade and other receivables		(9 241 286)	(10 511 677)
Increase in advances received and trade payables and guarantees		849 933	517 910
Cash generated to/from operations		**(13 061 720)**	**(13 723 040)**
Interest received		18 795 852	12 904 920
Interest paid		(5 410 769)	(3 277 614)
Corporate income tax paid		(329 383)	(163 490)
Net cash flows to/from operating activities		**(6 020)**	**(4 259 224)**
Cash flows to/from investing activities			
Purchase of property and equipment and other intangible assets	17, 18	(943 382)	(532 227)
Purchase of rental fleets	18	(1 449 682)	-
Other Investments		-	(6)
Loan repayments received from related parties		27 673 065	120 000
Loans to related parties		(25 312 000)	(17 865 000)
Net cash flows to/from investing activities		**(31 999)**	**(18 277 233)**
Cash flows to/from financing activities			
Proceeds from borrowings	30	69 091 535	39 867 156
Repayments for borrowings	30	(68 745 284)	(24 425 852)
Repayment of liabilities for right-of-use assets	30	(236 908)	-
Securities issued	30	-	9 210 000
Dividends paid		-	(1 590 000)
Net cash flows to/from financing activities		**109 343**	**23 061 304**
Change in cash		**71 324**	**524 847**
Cash at the beginning of the year		671 871	147 024
Cash at the end of the year	27	**743 195**	**671 871**

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

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

Signed on behalf of the Group on 31 May 2019 by:



Juris Pārups
Chairman of the Board

Krišjānis Znotiņš
Member of the Board

Rita Kaktiņa
Chief accountant

Notes to the Consolidated Financial Statements

1. Corporate information

Mogo JSC (the "Parent company") and its subsidiaries (together "the Group") are located in Latvia. The Parent company was incorporated on May 3, 2012 as a joint stock company for an unlimited duration, subject to general company law.

The consolidated financial statements of the Group include:

					% equity interest	
Subsidiary name	Registration date	Registration number	Country of incorporation	Principal activities	**2018**	**2017**
Renti JSC	10.10.2018	LV40203174147	Latvia	Rent services	100%	-
Loango JSC	06.06.2018	LV40203148375	Latvia	Financing	100%	-

The core business activity of the Group comprises of providing finance lease services, leaseback services and loans and advances to customers as well as rent services of vehicles.

On 17 March 2014 JSC Mogo registered with the Latvian Central Depository a bond facility through which it can raise up to EUR 20 million. The mogo JSC has raised a total of EUR 20 000 000 as at 31 December 2018 (20 000 000 EUR at 31 December 2017). 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.

On 1 December 2017 JSC Mogo registered with the Latvian Central Depository a bond facility through which it can raise up to EUR 10 million. The mogo JSC has raised a total of EUR 10 000 000 (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 alternative market Firth North of NASDAQ OMX Baltic and are "private issued notes".

Consolidated annual report of 2018 has been approved by decision of the board on 31 May 2019.

Shareholders have the financial statements approval rights after their approval by the Board of Directors.

2. Summary of significant accounting policies

a) Basis of preparation

These consolidated annual financial statements as of and for the year ended 31 December 2018 are prepared in accordance with International Financial Reporting Standards as adopted in the European Union.

The Group's consolidated annual financial statements and its financial result are affected by accounting policies, assumptions, estimates and management judgement (Note 3), which necessarily have to be made in the course of preparation of the annual consolidated financial statements. The Group 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 Group'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 consolidated financial statements, when determinable. See Note 3.

The consolidated financial statements are prepared on a historical cost basis as modified by the recognition of financial instruments measured at fair value, except for inventory which is accounted in net realizable value.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

The Group's presentation currency is euro (EUR). The financial statements cover the period from 01 January 2018 till 31 December 2018. Accounting policies and methods are consistent with those applied in the previous years, except as described below.

Going concern

These consolidated financial statements are prepared on the going concern basis. As at 31 December 2018 the Group's current liabilities exceeded its current assets by 3 204 886 EUR, which is mainly driven by 11 250 000 EUR recognized as short term liabilities for issued debt securities (Note 30). As disclosed in Note 42, after the report reporting period the Group received bondholders' consent for the proposed amendments to the terms of the notes issue, which provide that the principal amount of the notes shall be fully repaid in one instalment on 31 March 2021, replacing quarterly instalments of the principal amount of the notes.

b) Reclassifications in comparative indicators

1) The Group considers its net interest income to be a key performance indicator; the measure includes interest calculated using the effective interest method.

With effect from 1 January 2018, paragraph 82(a) of IAS 1 requires interest revenue calculated using the effective interest rate (EIR) method to be presented separately on the face of the income statement. This implies that interest revenue calculated using the EIR method is to be differentiated and presented separately from interest revenue calculated using other methods. To achieve such presentation the Group reclassified some of the items as described below. Together with such reclassifications also the titles of certain Statement of Comprehensive income lines were changed for them to properly reflect the nature of items presented under IFRS 9.

2) "Interest and similar income" is renamed to "Interest revenue calculated using the effective interest method". In 2017 consolidated financial statements the Group used "Interest and similar income" to present interest income calculated using EIR and this line also included other income, such as fee, penalties and commissions earned from customers in accordance with IAS 18. These fees and commissions are not calculated using EIR and therefore under IFRS 9 are to be presented separately. Such fees are therefore reclassified from this position and presented separately under "Fee and commission income".

3) To present all revenue recognized using EIR in a single Statement of Comprehensive line, other interest revenue calculated using EIR and previously presented under "Other interest income and similar income" is reclassified to "Interest revenue calculated using the effective interest method".

2. Summary of significant accounting policies (continued)

b) Reclassifications in comparative indicators (continued)

4) “Interest expense and similar expenses” is renamed to “Interest expense calculated using the effective interest method”. In 2017 consolidated financial statements the Group used “Interest expense and similar expenses” to present interest expense calculated using EIR and this line also included other costs, such as expenses related to peer-to-peer platforms, that are fees incurred for servicing the related loans and are recognized as incurred. These costs are not calculated using EIR and therefore under IFRS 9 are to be presented separately. Such costs are therefore reclassified from this position and presented separately under “Expenses related to peer-to-peer platforms services”.

5) The Group changed title of 2017 Statement of comprehensive income line “Loss arising from cession of financial lease receivables” to “Net loss from de-recognition of financial assets measured at amortized cost”. The change was done due to presentation change in 2018 because only financial lease receivables were ceded in 2017, however, from 2018 the Group also cedes loans and advances to customers. Therefore, the title change was required to properly present the nature of the underlying transactions under this line. Further, also upon transition to IFRS 9 the Group now presents the loss arising from de-recognition of financial assets measured at amortized cost net of the reversal of related ECLs previously recorded under Impairment expenses, respectively decreasing this line item.

6) The interest payable and similar expense related to forex exchange was reclassified to net foreign exchange result to separate this specific position.

These changes are also consistent with Group’ internal reporting and provides relevant information to its stakeholders. The above changes constitute a change in 2017 accounting policy in accordance with IAS 1 and the 2017 comparatives have been reclassified accordingly (Notes 4 through 9).

The Group has not presented the consolidated statement of financial position as at 1 January 2017 as the reclassifications do not have any affect on the information therein.

Reclassification made in financial statements:

Statement of Comprehensive income	**Annual report 2017 31.12.2017. before reclassification**	**Change in title**	**Reclassifications**	**Annual report 2018 31.12.2017. after reclassification**
Interest and similar income [2]	13 855 304	(13 855 304)	-	-
Interest revenue calculated using the effective interest method [2]	-	13 855 304	(949 770)	12 905 534
Fee and commission income [2]	-	-	950 280	950 280
Other interest receivable and similar income [3]	510	-	(510)	-
Interest expense and similar expenses [4]	(2 936 374)	2 936 374	-	-
Interest expense calculated using the effective interest method [4]	-	(2 936 374)	230 069	(2 706 305)
Expenses related to peer-to-peer platform services	-	-	(230 069)	(230 069)
Loss arising from cession of financial lease receivables [5]	(2 136 575)	2 136 575	-	-
Net gain/(loss) from de-recognition of financial assets measured at amortised cost [5]	-	(2 136 575)	1 913 966	(222 609)
Impairment expenses [5]	(246 785)	-	(1 913 966)	(2 160 751)
Interest payable and similar expense[6]	(925)	-	925	-
Net foreign exchange result [6]	-		(925)	(925)
	TOTAL:	-		

Reclassification made in Consolidated statement of cash flows:

1) The Group considers its interest income to be its core business therefore “Interest income” and “Interest received” has been reclassified from investing activities to operating activities.

2) Reclassification is also done for Interest expenses and Bonds acquisition expenses written off to show them under relevant positions according to approach used in year 2018.

3) “Increase in receivables” is renamed to “Increase in finance lease receivables, loans and advances to customers, trade and other receivables”. In 2017 financial statements the “Increase in receivables” was used to present increase in several receivables positions, in year 2018 the Group renamed position to make it more clearer for readers what is represented under this particular position.

4) “Increase/(decrease) in payables” is renamed to “Increase in advances received and trade payables and guarantees”. In 2017 financial statements the “Increase/(decrease) in payables” was used to present increase in several payables positions, in year 2018 the Group renamed position to make it more clearer for readers what is represented under this particular position.

5) The Group also made separation in incoming and outgoing cash flows from financing activities to present the actual cash flows.

Consolidated Statement of Cash Flows	**Annual report 2017 31.12.2017. before reclassification**	**Reclassifications**	**Annual report 2018 31.12.2017. after reclassification**
Reclassification of interest income from investing activities to operating activities			
Interest income [1]	(484 613)	(12 420 921)	(12 905 534)
Interest received [1]	483 999	12 420 921	12 904 920
Interest expense [2]	2 466 268	240 037	2 706 305
Interest paid [2]	(2 664 546)	(613 068)	(3 277 614)
Bonds acquisition expenses written off [2]	(373 031)	373 031	-
Impairment expense [2]	231 588	1 929 163	2 160 751
Change in names of the items in the statement of cash flow			
Increase in receivables [3]	(8 582 514)	8 582 514	-
Increase in finance lease receivables, loans and advances to customers, trade and other receivables [3]	-	(10 511 677)	(10 511 677)
Increase/(decrease) in payables [4]	517 910	(517 910)	-
Increase in advances received and trade payable and guarantees [4]	-	517 910	517 910
Separation of incoming and outgoing cash flows from financing activities			
Proceeds from borrowings [5]	16 156 804	23 710 352	39 867 156
Repayments for borrowings [5]	(715 500)	(23 710 352)	(24 425 852)
	TOTAL:	-	

2. Summary of significant accounting policies (continued)

c) Changes in accounting policy disclosures and presentation

The nature and effect of the changes as a result of adoption of these new accounting standards are described below. Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group.

IFRS 9 Financial Instruments

The Group applied IFRS 9 "Financial Instruments" for the first time.

IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018. The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable with the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of 1 January 2018 and are disclosed below.

The effect of adopting IFRS 9 as at 1 January 2018 was, as follows:

	According to IAS 39	Adjustment due to impairment recalculation*	Adjustment due to effective interest rate recalculation and modifications	According to IFRS 9
	EUR	EUR	EUR	EUR
Assets				
Finance lease receivables**	30 681 767	6 640	(293 398)	30 395 009
Loans and advances to customers	1 143 223	(28 960)	-	1 114 263
Trade receivables	200 751	-	-	200 751
Loans to related parties	17 865 000	-	-	17 865 000
Other receivables	1 311 895	-	-	1 311 895
Cash and cash equivalents	671 871	-	-	671 871
Equity				
Retained earnings	4 867 099	(22 320)	(293 398)	4 551 381

* - IFRS 9 and ECL model adoption had neutral effect on recognized impairment allowances. Introduction of IFRS 9 staging was driving increase of impairment allowance. Under IFRS 9 expected loss model higher probability of default rates are used due to switching to lifetime credit losses for exposures with an increased credit risk. However this impact was offset by exposure at default modelling which decreased the average exposure to which PD rates were applied, as well as introduction of credit loss discounting and recovery rate element introduction in the LGD determination.

** - Overall negative impact on finance lease asset carrying amount from IFRS 9 introduction is due to the revised principles around treatment of modifications in lease arrangements. IAS 39 guidance on modifications gain/loss recognition for financial assets was not as prescriptive, whereas IFRS 9 has introduced more prescriptive principles relating treatment of modifications. Finance lease receivables are subject to the derecognition provisions of IFRS 9. The Group has revised its approach to treating modifications of finance lease receivables upon adoption of IFRS 9. This resulted in a decreased carrying amount of finance lease receivables by 293 398 EUR as at 1 January 2018 with a corresponding decrease to retained earnings. Main impact arise from treatment of renewals, a specific modification of an existing lease agreement under which a customer's lease contract is renewed after it has already been terminated. Under IAS 39 renewals were treated as a derecognition event. Under IFRS 9 such modifications are treated as non-substantial modifications in line with more prescriptive IFRS 9 requirements on treatment of modifications occurring due credit reasons of the customer. As a result, under IFRS 9 modifications entered with customers due to credit restructuring reasons are not treated as derecognition, but as a modification of the existing finance lease agreements. The Group's policy of financial lease modification under IFRS 9 is disclosed in Note 2.

(a) Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 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 of financial asset (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:
• Debt instruments at amortised cost
• Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
• Equity instruments at FVOCI, with no recycling of gains or losses in profit or loss on derecognition
• Financial assets at FVPL
The accounting for financial liabilities remains largely the same as it was under IAS 39.

2. Summary of significant accounting policies (continued)

The Group has assessed its intentions for the above identified financial assets on a portfolio and financial instrument type basis and has reviewed its past practices in relation to sales of loan portfolios. From previous experience the Group has entered sales of loans agreements but only in response to significant credit deterioration. This is assessed to be in line with the described business model of the Group.

In summary, upon the adoption of IFRS 9, the Group had the following required or elected reclassifications as at 1 January 2018:

	IAS 39 measurement category			IFRS 9 measurement category		
	Fair value through profit or loss	Amortised cost	Available for sale	Fair value through profit or loss	Amortised cost	Fair value through OCI
Loans and advances to customers	-	1 143 223	-	-	1 114 263	-
Loans to non related parties	-	16 065	-	-	16 065	-
Loans to related parties	-	17 865 000	-	-	17 865 000	-
Trade receivables	-	200 751	-	-	200 751	-
Other receivables	-	1 311 895	-	-	1 311 895	-
Cash and cash equivalents	-	671 871	-	-	671 871	-
Liabilities for issued debt securities	-	26 563 303	-	-	26 563 303	-
Funding attracted through peer-to-peer platforms	-	16 155 096	-	-	16 155 096	-
Other financial liabilities	-	1 210 857	-	-	1 210 857	-
Trade payable	-	181 397	-	-	181 397	
Other investments	-	26	-	-	-	26

There was no change in carrying value in any balance sheet item due to this reclassification.

The change in carrying amounts is a result of additional impairment allowance. See the discussion on impairment below.

(b) Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the Group's accounting for credit impairments on lease receivables and loans by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all lease and loans and other debt financial assets not held at FVPL, together with financial guarantee contracts.

The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Upon adoption of IFRS 9 the Group recognised additional impairment on the Group's Finance lease receivables and Loans and advances to customers, which resulted in a decrease in retained earnings as at 1 January 2018. ECL impact on loans to related parties/loans to receivables to customers/other receivables was assessed as insignificant.

Set out below is the reconciliation of the ending impairment allowances in accordance with IAS 39 to the opening loss allowances determined in accordance with IFRS 9:

	Allowance for impairment under IAS 39 as at 31 December 2017	Remeasure-ment	ECL under IFRS 9 as at 1 January 2018
Finance lease receivables	1 473 085	(6 640)	1 466 445
Loans and advances to customers	53 812	28 960	82 772
Trade receivables	-	-	-
Loans to related parties	-	-	-
Other short term receivables from related parties	-	-	-
Cash and cash equivalents	-	-	-
TOTAL:	**1 526 897**	**22 320**	**1 549 217**

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted IFRS 15 using the modified retrospective approach with the date of initial application of 1 January 2018. The comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations. IFRS 15 adoption did not have a major impact on the Group. The effect of the transition on the current period has not been disclosed as the standard provides an optional practical expedient. The Group elected to apply the standard only to contracts that are not completed at the date of initial application. The Group did not apply any of the other available optional practical expedients.

Set out below, are the amounts by which each financial statement line item is affected as at and for the year ended 31 December 2018 as a result of the adoption of IFRS 15. The first column shows amounts prepared under IFRS 15 and the second column shows what the amounts would have been had IFRS 15 not been adopted:

2. Summary of significant accounting policies (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

	Amounts prepared under		
	IFRS15	Previous IFRS	Increase/ (decrease)
	EUR	**EUR**	**EUR**
Interest revenue calculated using the effective interest method	18 795 287	18 795 287	-
Interest expense calculated using the effective interest method	(6 128 990)	(6 128 990)	-
Net interest income	**12 666 297**	**12 666 297**	**-**
Fees and commissions income	1 039 962	1 039 962	-
Impairment expense	(5 251 123)	(5 251 123)	-
Net gain/(loss) from de-recognition of financial assets measured at amortised cost	(53 919)	(53 919)	-
Expenses related to peer-to-peer platform services	(299 104)	(299 104)	-
Revenue from car sales	470 695	470 695	-
Expenses from car sales	(470 695)	(470 695)	-
Revenue from operating leases	110 375	-	110 375
Selling expense	(652 430)	(652 430)	-
Administrative expense	(4 751 758)	(4 751 758)	-
Other operating income	206 570	316 945	(110 375)
Other operating expense	(181 072)	(181 072)	-
Net foreign exchange result	(3 740)	(3 740)	-
Profit before tax	**2 830 058**	**2 830 058**	**-**
Corporate income tax	-	-	-
Deferred corporate income tax	-	-	-
Net profit for the period	**2 830 058**	**2 830 058**	**-**

There is no impact on the revenue recognition of the Group. There is a change in the presentation of comprehensive income statement arising from separating revenue earned under IFRS 15 from other sources of income.

	Amounts prepared under		
	IFRS15	Previous IFRS	Increase/ (decrease)
Assets	**EUR**	**EUR**	**EUR**
Licenses	3 096	3 096	-
Other intangible assets	21 042	21 042	-
Rental fleet	1 442 911	1 442 911	-
Right-of-use assets	89 832	89 832	-
Property and equipment	72 249	72 249	-
Leasehold improvements	10 376	10 376	-
Advance payments for assets	70 082	70 082	-
Finance lease receivables	24 925 333	24 925 333	-
Loans and advances to customers	1 311 573	1 311 573	-
Loans to related parties	11 041 800	11 041 800	-
Other investments	26	26	-
Finished goods and goods for resale	11 414	11 414	-
Finance lease receivables	8 562 209	8 562 209	-
Loans and advances to customers	1 376 781	1 376 781	-
Trade receivables	2 416 557	-	2 416 557
Prepaid expense	223 813	223 813	-
Other receivables	183 075	2 599 632	(2 416 557)
Accrued revenue	516	516	-
Cash and cash equivalents	743 195	743 195	-
Assets held for sale	133 140	133 140	-
TOTAL ASSETS	**52 639 020**	**52 639 020**	**-**

2. Summary of significant accounting policies (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

	Amounts prepared under		
	IFRS15	Previous IFRS	Increase/ (decrease)
EQUITY AND LIABILITIES	**EUR**	**EUR**	**EUR**
Share capital	5 000 000	5 000 000	-
Foreign currency translation reserve	1	1	-
Other reserves	(1 066 590)	(1 066 590)	-
Retained earnings	-	-	-
brought forward	51 381	51 381	-
for the period	2 830 058	2 830 058	-
Liabilities for issued debt securities	18 658 246	18 658 246	-
Funding attracted through peer-to-peer platforms	9 160 189	9 160 189	-
Lease liabilities for right-of-use assets	23 791	23 791	-
Provisions for financial guarantees	677 331	677 331	-
Other provisions	449 027	449 027	-
Liabilities for issued debt securities	11 250 000	11 250 000	-
Funding attracted through peer-to-peer platforms	4 386 961	4 386 961	-
Provisions for financial guarantees	270 932	270 932	
Lease liabilities for right-of-use assets	66 776	66 776	-
Prepayments and other payments received from customers	68 959	68 959	-
Payables to related companies	48 180	48 180	-
Trade payables	98 958	98 958	-
Corporate income tax payable	91 489	91 489	-
Taxes payable	46 211	46 211	-
Other liabilities	212 354	212 354	-
Accrued liabilities	314 766	314 766	-
TOTAL EQUITY AND LIABILITIES	**52 639 020**	**52 639 020**	**-**

With adoption of IFRS 15 Group also changes the presentation of trade receivables recognized under IFRS 15 and discloses those separately from other receivables.

IFRS 15: Revenue from Contracts with Customers (Clarifications) IFRS 15 Revenue from Contracts with Customers

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. The Group decided to apply the modified retrospective approach.

IFRS 16: Leases

In January 2016, the IASB published the accounting standard IFRS 16 "Leases", which was implemented into European law on November 9, 2017. The standard replaces the existing guidance on leases, including IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases – Incentives" and SIC-27 "Assessing the substance of transactions in the legal form of leases".

IFRS 16 provides that in general, all leases and the associated contractual rights and duties must be reflected in the lessee's balance sheet, unless the term does not exceed 12 months or it constitutes a low-value asset. This classification required under IAS 17 into operating or finance leases therefore does not apply to the lessee. As for leases, the lessee recognizes a liability for lease obligations incurred in the future. Correspondingly, a right to use the leased asset is capitalized, which in principle is equivalent to the present value of the future lease payments plus directly attributable costs and is amortized over the useful life.

2. Summary of significant accounting policies (continued)

IFRS 16: Leases (continued)

Elected transition approach

IFRS 16 is required to be applied for the first time for financial years commencing on or after January 1, 2019. The Group has exercised the option of early adoption of the standard and has applied IFRS 16 for the first time as of January 1, 2018, using the modified retrospective approach. First-time application within The Group to date has affected leases that previously had been classified as operating leases

The Group has elected to apply modified retrospective approach. Under this approach it applies IFRS 16 to its leases retrospectively with the cumulative effect of initially applying IFRS 16 recognized at the date of initial application (1 January 2018). Group applies its elected transition approach consistently to all leases in which it is a lessee. The financial information for the financial year 2017 were not restated.

As an accounting policy choice the Group elects to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group has therefore not applied the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. As a result, Group applies the requirements of the standard to identify a lease only to contracts entered into after the date of initial application.

For leases previously classified as operating leases by applying IAS 17, the Group:

1. recognizes a lease liability at the date of initial application for leases previously classified as an operating lease applying IAS 17. The Group measures that lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application;

2. recognizes a right-of-use asset at the date of initial application for leases previously classified as an operating lease applying IAS 17. On a lease-by-lease basis the Group measures that right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application; and

3. the Group applies the practical expedient permitted by IFRS 16 and relies on its assessment of whether leases are onerous applying IAS 37 immediately before the date of initial application as an alternative to performing an impairment review. The Group thus adjusts the right-of-use asset at the date of initial application by the amount of any provision for onerous leases recognized in the statement of financial position immediately before the date of initial application.

Elected practical expedients on transition where the Group is a lessee

Where the Group is a lessee the following practical expedients are applied on transition on a lease-by-lease basis. The Group:

1. applies a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

2. does not make any adjustments on transition for leases for which the underlying asset is of low value (has a value, when new of 5 000 EUR or less). The Group accounts for those leases applying IFRS 16 from the date of initial application.

3. excludes initial direct costs of leases previously classified as operating leases from the measurement of the right-of-use asset at the date of initial application.

4. uses hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease. Consistently with IAS 8, usage of hindsight is applied only to matters of judgement and estimates and, therefore, is not applied to matters of fact such as changes to an index or rate.

IFRS 16 does not specify how a lessee would separate and allocate lease and non-lease components of a contract upon transition when the modified retrospective approach is adopted. Accordingly, the Group elects to use the practical expedient to account for each lease component and any associated non-lease components as a single lease component consistently with Group's policy.

Group as a lessor

With the exception of subleases, a lessor is not required to make any adjustments on transition for leases in which it is a lessor and accounts for those leases applying IFRS 16 from the date of initial application.

Other considerations

As a lessee the Group is not engaged in sale and leaseback transactions as well as it is not an intermediate lessor in sublease transactions. Furthermore, as a lessee it has no leases previously classified as finance leases. Accordingly, those transition provisions does not have an impact on the Group upon transition to IFRS 16.

Effect of IFRS 16 adoption

The Group has two main categories of right-of-use assets - lease of office premises and lease of motor vehicles.

Majority of lease agreements for office premises are either short term agreements with the rights for the Group to extent the agreements by the initiative of the Group or lease agreements without defined expiration date with flexible termination options by initiative of the Group. Agreements do not include significant penalties for termination of agreements by the initiative of the Group. Significant judgements made by the Group in assessment of lease term are disclosed in Note 3.

Agreements of lease of motor vehicles are concluded for 1 year and 10 months. Agreements of lease of office premises are concluded for up to 5 years.

The average interest rate as of January 1, 2018 is approximately 2,64%.

The off-balance sheet lease obligations as of 31 December 2017 are reconciled as follows to the recognized lease liabilities as of 1 January 2018:

	01.01.2018.
Off-balance lease obligation as of December 31, 2017	150 948
Operating lease obligations as of January 1, 2018 (gross, without discounting)	150 948
Operating lease obligations as of January 1, 2018 (net, discounted)	**148 923**
Residual value guarantees	-
Non-lease-components	-
Lease liabilities due to initial application of IFRS 16 as of January 1, 2018	**148 923**

2. Summary of significant accounting policies (continued)

IFRS 16: Leases (continued)

The quantitative impact of the first-time application of IFRS 16 on the consolidated balance sheet as of 31 December 2017 or 1 January 2018 is shown in the following table:

	31.12.2017 before application of new IFRS	Adjustments IFRS 16	01.01.2018 after application of new IFRS
Right-of-use assets	-	148 923	148 923
Lease liabilities for right-of-use assets	-	148 923	148 923

Additional information on introduction of IFRS 16 is presented in Note 19.

Due to early adoption of IFRS 16 impact on the Group's expenses for the year 2018 were following:

- depreciation expenses increased by 170 868 EUR;
- interest expenses increased by 2 976 EUR;
- rent expenses decreased by 173 844 EUR.

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. The Group's management assessed that there was no effect on the Group's accounting policies due to this standard.

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. The Group management assessed that there was no effect on the Group's accounting policies due to this standard.

IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration

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. The Group's management assessed that there was no effect on the Group's accounting policies due to this standard.

The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle, which is a collection of amendments to IFRSs. The Group's management assessed that there was no effect on the Group 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 statement of comprehensive income 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.

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

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. The Group's management has assessed that there will be no effect on the Group's 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 assessed that there was no effect on the Group 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. The Group's management has assessed that there will be no effect on the Group's accounting policies due to this standard.

2. Summary of significant accounting policies (continued)

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. The Group's management has assessed that there will be no effect on the Group's 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. The Group's management has assessed that there will be no effect on the Group's 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. Its 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.

IFRS 3: Business Combinations (Amendments)

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU. The Group's management has assessed that there will be no effect on the Group's accounting policies due to this standard.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. These Amendments have not yet been endorsed by the EU. Management has assessed that there will be no effect on the Group accounting policies due to this standard. The Group's management has assessed that there will be no effect on the Group's accounting policies due to this standard.

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. The Group's management has assessed that there will be no effect on the Group's 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

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent company (mogo JSC) and its subsidiaries as at 31 December 2018. The financial statements of the subsidiaries are prepared for the same reporting period as for the Parent company, using consistent accounting policies.

Control is achieved when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

2. Summary of significant accounting policies (continued)

Basis of Consolidation (continued)

The financial statements of the Parent Company and its subsidiaries are consolidated in the Group's consolidated financial statements by adding together like items of assets and liabilities as well as income and expense. All intercompany transactions, balances and unrealised gains and losses on transactions between members of the Group are eliminated in full on consolidation. The equity and net income attributable to non-controlling interests are shown separately in the statement of financial position and the statement of comprehensive income.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. The acquisition of an additional ownership interest in a subsidiary without a change of control is accounted for as an equity transaction in accordance with IFRS 10. Any excess or deficit of consideration paid over the carrying amount of the non-controlling interests is recognised in equity of the parent in transactions where the non-controlling interests are acquired or sold without loss of control. The Group recognises this effect in retained earnings. If the subsidiary to which these non-controlling interests relate contain accumulated components recognised in other comprehensive income/ (loss), those are reallocated within equity of the Parent.

If the Group loses control over a subsidiary, it:
- Derecognises the related assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in the statement of comprehensive income;
- Reclassifies the Group's share of components previously recognised in other comprehensive income to statement of comprehensive income or retained earnings, as appropriate.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquire. For each business combination, the Group elects whether it measures the non-controlling interest in the acquire either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in other operating expense in the statement of comprehensive income.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquire.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquire is remeasured to fair value at the acquisition date through statement of comprehensive income.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group will retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the Group will also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Group receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognised in accordance with IFRS 9 in statement of comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope and IFRS 9, it is measured at fair value in statement of comprehensive income.

Internally generated intangible assets

Internally generated intangible assets primarily include the development costs of Group'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 Group'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 5 years. The main internally generated intangible assets are software programm ERP; Rubie, Mintos BI.

According to IAS38, development costs shall be capitalized if, and only if, the Group 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 Group has the ability to use or sell the intangible asset arising from the project;
• the Group can demonstrate how the intangible asset will generate probable future economic benefits;
• the Group 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 Group 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 17.

2. Summary of significant accounting policies (continued)

Licenses and other intangible assets

Intangible non-current assets are initially 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 - acquired IT Systems	- over 2, 3 and 5 years.

Property 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 7 years;
Leasehold improvements	- according to lease term;
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 comprehensive income in the impairment expense 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 comprehensive income in the year the item is derecognized.

Rental fleet

Rental fleet includes assets leased by the Group (as lessor) under operating leases. Group accounts for the underlying assets in accordance with IAS 16. Depreciation policy for the underlying assets subject to operating leases is consistent with the Group's depreciation policy for similar assets (vehicles) and amounts to 7 years.

Group adds initial direct costs incurred in obtaining the operating lease to the carrying amount of the underlying asset and recognises those costs as an expense over the lease term on the same basis as the lease income.

Group applies IAS 36 to determine whether an underlying asset subject to an operating lease is impaired and to account for any impairment loss identified.

Financial assets (according to IAS39) (policy applicable prior to 1 January 2018)

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 Group 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 Group recognises due to customer balances when funds reach the Group.

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 the statement of comprehensive income.

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 Group 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. The Group also derecognises the assets if it has both transferred the asset, and the transfer qualifies for derecognition.

The Group has transferred the asset if, and only if, either:

- The Group 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 the Group 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:

2. Summary of significant accounting policies (continued)

Derecognition of financial assets (continued)

- Group 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
- Group cannot sell or pledge the original asset other than as security to the eventual recipients for the obligation to pay them cash flows
- Group has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Group 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 Group has transferred substantially all the risks and rewards of the asset, or

- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Renegotiated finance lease receivables and loans and advances to customers

Where possible, the Group 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).

Treatment of non-substantial modifications (IAS 39)

The carrying amount of the financial asset is adjusted if the Group revises its estimates of payments or receipts. If modification of a financial asset measured at amortized cost does not result in the derecognition a modification gain/loss is not calculated. Any costs or fees incurred adjust the carrying amount of the modified financial asset. The net present value of changes to the future contractual cash flows is amortized over the remaining term of the modified asset through the revised EIR.

Financial assets (according to IFRS 9) (policy applicable from 1 January 2018)

Financial instruments – initial recognition

Date of recognition

Loans and advances to customers are recognized when funds are transferred to the customers' accounts. Other assets are recognized on the date when Group enters into the contract giving rise to the financial instruments.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described further in the accounting policies. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Other receivables are measured at the transaction price.

Classification of financial assets

From 1 January 2018, the Group only measures Loans and advances to customers, Loans to related parties, Receivables from related parties, cash equivalents and Other loans and receivables at amortized cost if both of the following conditions are met:
• The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective - the risks that affect the performance of the business model (and the financial assets held within that business model) and the way those risks are managed. The expected frequency, value and timing of sales are also important aspects of the Group's assessment. The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward. The assessed business model is with the intention to hold financial assets in order to collect contractual cash flows.

SPPI test

As a second step of its classification process the Group assesses the contractual terms of the financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).
The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. The Group has performed the SPPI assessment and assessed its financial assets to be compliant with SPPI criteria.

2. Summary of significant accounting policies (continued)

Financial assets (according to IFRS 9) (policy applicable from 1 January 2018) (continued)

Embedded derivatives

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.
Under IAS 39, derivatives embedded in financial assets, liabilities and non-financial host contacts, were treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL (fair value through profit or loss). The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognized in the income statement.
From 1 January 2018, with the introduction of IFRS 9, the Group accounts in this way for derivatives embedded in financial liabilities and non-financial host contracts. Financial assets are classified based on the business model and SPPI assessments as outlined above.

Reclassification of financial assets

From 1 January 2018, the Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group acquires, disposes of, or terminates a business line.
Financial liabilities are never reclassified. The Group did not reclassify any of its financial assets or liabilities in 2018 or 2017.

Derecognition of financial assets and finance lease receivables

Derecognition provisions below apply to all financial assets measured at amortized cost.

Derecognition due to substantial modification of terms and conditions

The Group derecognizes loan to a customer or finance lease receivable when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan or lease, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new financial asset is deemed to be purchased or originated credit impaired (POCI).
When assessing whether or not to derecognize a financial asset, amongst others, the Group considers the following qualitative factors:
• Change in currency of the loan
• Change in counterparty
• If the modification is such that the instrument would no longer meet the SPPI criterion
• Whether legal obligations have been extinguished.
• Furthermore, for loans and advances to customers and financial lease receivables the Group specifically considers the purpose of the modifications. It is evaluated whether modification was entered into for commercial (business) reasons or for credit restructuring reasons. Modification is considered to occur for a commercial reasons if the DPD (days past due) of the counterparty immediately prior the modification is less than 5 DPDs. In such cases the respective modification is considered to be performed for commercial reasons and results in derecognition of the initial lease/loan receivable.

Other modifications resulting in derecognition include increase in the lease amount and increase in lease term, which are agreed upon with customers for a specific commercial reason s (i.e.-, customers and the Group are both interested in substantially modifying the scope of the lease/loan transaction). Whenever such an agreement to modify is reached the old agreement and respective receivable is derecognized. Other modifications to the agreement terms are treated as modifications that do not result in derecognition (see section on Modifications below).

Derecognition other than for substantial modification

A financial asset or finance lease receivable (or, where applicable, a part of a financial asset or finance lease receivable or part of a group of similar financial assets or finance lease receivables) is derecognized when the rights to receive cash flows from the financial asset or finance lease receivable have expired. The Group also derecognizes the financial asset or finance lease receivable if it has both transferred the financial asset or finance lease receivable and the transfer qualifies for derecognition.
The Group has transferred the financial asset or finance lease receivable if the Group has transferred its contractual rights to receive cash flows from the financial asset or finance lease receivable.

The Group has transferred the asset if, and only if, either:
- The Group 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 Group 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:
- Group 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;
- Group cannot sell or pledge the original asset other than as security to the eventual recipients for the obligation to pay them cash flows;
- Group has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Group 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 Group has transferred substantially all the risks and rewards of the asset, or
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Modifications

The Group sometimes makes modifications to the original terms of loans/lease as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Group considers a lease/loan restructured when such modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include default or having at least 5 DPDs prior to the modifications. Such modifications may involve renewing (in the case of renewal of a terminated agreement) or extending (in case of customer having at least 5 DPD) the payment arrangements. Other modifications treated as non-substantial include modification of agreement conditions such as term or principal decrease or changes in payment dates, which are typically implemented due to customers' initiative.

2. Summary of significant accounting policies (continued)

Modifications (continued)

If the modification does not result in cash flows that are substantially different, as set out above, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss in interest revenue/expenses calculated using the effective interest method (Note 4, 5) in the consolidated statements of comprehensive income, to the extent that an impairment loss has not already been recorded (Note 7). Further information on modified financial assets and finance lease receivables is disclosed in the following section on impairment.

Treatment of non-substantial modifications (IFRS 9)

If expectations of fixed rate financial assets' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset on the consolidated statement of financial position with a corresponding increase or decrease in Interest revenue/expense calculated using the effective interest method.
The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. If modification of a financial asset or liability measured at amortized cost does not result in the derecognition a modification gain/loss is calculated. 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.
Changes in the contractual cash flows of the asset are recognized in statement of comprehensive income and any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortized over the remaining term of the modified instrument. Therefore, the original EIR determined at initial recognition is revised on modification to reflect any costs or fees incurred.

Overview of the expected credit loss principles (according to IFRS 9)

The adoption of IFRS 9 has fundamentally changed the Group's finance lease receivables and loans and advances to customers loss impairment calculation method by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. From 1 January 2018, the Group has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL and finance lease receivables, in this section all referred to as 'financial instruments'.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL) as outlined in below. The Group's policies for determining if there has been a significant increase in credit risk are set out in below.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's 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. This is further explained in section on Significant increase in credit risk (Note 3).

Impairment of finance lease receivables and loans and advances to customers (according to IFRS 9)

Defining credit rating

Group's core business assets – financial lease receivables and loans and advances to customers – are of retail nature, therefore are grouped per countries and products (finance lease receivables and loans and advances to customers) for a collective ECL calculation that is predominantly based on DPD. The Group analyzes its portfolio of finance lease receivables and loans and advances to customers by segregating receivables in categories according to each receivables days past due metrics.

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition. When estimating ECLs on a collective basis for a group of similar assets, the Group applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition across the portfolios within the country based on product type – lease or loan product.

The Group segregates finance lease receivables and loans and advances to customers in the following categories:

Finance lease receivables (lease):
1) Not past due
2) Days past due up to 30 days
3) Days past due 31 up to 60 days
4) Days past due over 60 days

Loans and advances to customers (loan):
1) Not past due
2) Days past due up to 30 days
3) Days past due 31 up to 75 days
4) Days past due over 75 days

Based on the above process, the Group groups its leases and loans into Stage 1, Stage 2, and Stage 3, as described below:

• Stage 1: When loans/leases are first recognized, the Group recognizes an allowance based on 12mECLs. The Group considers leases that are current or with DPD up to 30 as Stage 1. A healing period of 1 month is applied before an exposure previously classified as Stage 2 can be transferred to Stage 1 and such an exposure must meet the general Stage 1 DPD criteria above. Exposures are classified out of Stage 1 if they no longer meet the criteria above.
• Stage 2: When a loan/lease has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. The Group generally considers leases that have a status of 31-60 DPD to be Stage 2 loans. A loan is considered Stage 2 if DPD is in range of 30 to 75 days. Exposures remain in Stage 2 for a healing period of 1 month, even if they otherwise would meet Stage 1 criteria above during this period.
• Stage 3: Leases and loans considered credit-impaired and at default. The Group records an allowance for the LTECLs.
The Group considers a finance lease agreement defaulted and therefore Stage 3 in all cases when the borrower becomes 60 DPD on its contractual payments or the lease agreement is terminated.
The Group considers a loan agreement defaulted and therefore Stage 3 in all cases when the borrower becomes 75 days past due on its contractual payments.
Exposures remain in Stage 3 for a healing period of 2 months, even if they otherwise would meet Stage 2 criteria above during this period.

Due to the nature of credit exposures of the Group qualitative assessment of whether a customer is in default is not performed and primary reliance is placed on the above criteria.

2. Summary of significant accounting policies (continued)

The calculation of ECLs

The Group calculates ECLs based on probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive.
The mechanics of the ECL calculations are outlined below and the key elements are, as follows:
• PD The Probability of Default is an estimate of the likelihood of default over a given time horizon.
• EAD The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments, whether scheduled by contract or otherwise.
• LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

The maximum period for which the credit losses are determined is the contractual life of a financial instrument.

Significant judgments used for determining PD and LGD are described in Note 3.

The mechanics of the ECL method are summarized below:
• Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date.
These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.
• Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
• Stage 3: For loans considered credit-impaired, the Group recognizes the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

ECL on restructured and modified loans

Modifications performed to customers that serve to renegotiate terms of an agreement that was previously in default result in continued Stage 3 treatment during the one month healing period, exposure enters Stage 2 directly. In case of modification for credit reasons prior to default (generally term extension), exposure is moved to Stage 2 for a healing period of 2 months.

Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. Such items will be classified as Stage 2 assets for a healing period of 2 months.

Write off of unrecoverable debts

The Group considers any kind of receivable completely unrecoverable and writes off the receivable from balance sheet entirely if all legal actions have been performed to recover the receivable and debt is considered as unrecoverable by respective court.

Impairment of financial assets other than loans and advances

Financial assets where the Group calculates ECL on an individual basis or collective basis are:
• Other receivables from customers/contract assets
• Trade receivables
• Loans to related parties
• Cash and cash equivalents
• Financial guarantees

Impairment of other receivables from customers/contract assets (Trade receivables)

During the course of business, the Group may have other type of claims against its leasing customers. In such cases the ECL methodology of the related lease receivable is mirrored and the ECL mirrors the impairment of the lease receivable. For other receivables and contract assets that are not related to lease portfolio receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The ECL recorded is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. For claims against its leasing customers the Group mirrors the staging applied to the underlying lease exposure.

Impairment for loans to related parties

Receivables from related parties inherently are subject to the Group's credit risk. Therefore, a benchmarked PD and LGD rate - based on Moody's corporate statistics studies has been applied in determining the ECLs. For related party exposures for the Stage 2 and lifetime ECL calculation is applied based on 30 day back stop and 90 day back stop is applied to Stage 3 determination.

Impairment of cash and cash equivalents

For cash and cash equivalents default is considered as soon as balances are not cleared beyond conventional banking settlement timeline, ie., a few days.
Therefore, transition is straight from Stage 1 to Stage 3 given the low number of days that it would take the exposure to reach Stage 3 classification, meaning default. For cash and cash equivalents no Stage 2 is applied given that any past due days would result in default.

Financial guarantees

Guarantees that are not integral to a loan contractual terms are accounted as separate units of accounts subject to ECL. For this purpose, the Group estimates ECLs based on the value of the expected payments to reimburse the holder for a credit loss that it would incur. ECLs are calculated on an individual basis.

The ECL allowance is based on the credit losses expected to arise over the life of the guarantee, unless there has been no significant increase in credit risk since origination, in which case,

the allowance is based on the 12months ECL. Group's policy and judgements for determining if there has been a significant increase in credit risk are set out in Note 3.

Financial liabilities (according to IAS39 and IFRS9) (policy applicable prior to and after 1 January 2018)

Policies of accounting of financial liabilities have not significantly changed with adoption of IFRS 9.

2. Summary of significant accounting policies (continued)

Financial liabilities (according to IAS39 and IFRS9) (policy applicable prior to and after 1 January 2018) (continued)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or payables 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 Group'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 the statement of comprehensive income

Financial liabilities at fair value through the statement of comprehensive income include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through the statement of comprehensive income.
Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. 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 comprehensive income.
Financial liabilities designated upon initial recognition at fair value through the statement of comprehensive income are designated at the initial date of recognition, and only if the criteria in IFRS 9 or IAS 39 are satisfied. The Group has not designated any financial liability as at fair value through statement of comprehensive income.

- Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the statement of comprehensive income 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 comprehensive income.
This category generally applies to interest-bearing loans and borrowings.

Modification of financial liabilities

For financial liabilities, the Group considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. If the modification is substantial, then a derecognition gain or loss is recorded on derecognition. If the modification does not result in cash flows that are substantially different the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss.

Treatment of non-substantial modifications (IFRS 9)

If expectations of fixed rate financial liabilities' cash flows are revised, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial liability on the consolidated statement of financial position with a corresponding increase or decrease in Interest revenue/expense calculated using the effective interest method.

The carrying amount of the financial liability is adjusted if the Group revises its estimates of payments or receipts. If modification of a financial liability measured at amortized cost does not result in the derecognition a modification gain/loss is calculated. 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 (Note 5).

Changes in the contractual cash flows of the asset are recognized in statement of comprehensive income and any costs or fees incurred adjust the carrying amount of the modified financial asset or liability and are amortized over the remaining term of the modified instrument. Therefore, the original EIR determined at initial recognition is revised on modification to reflect any costs or fees incurred.

Treatment of non-substantial modifications (IAS 39)

The carrying amount of the financial liability is adjusted if the Group revises its estimates of payments or receipts. If modification of a financial asset or liability measured at amortized cost does not result in the derecognition a modification gain/loss is not calculated. Any costs or fees incurred adjust the carrying amount of the modified financial asset or liability. The net present value of changes to the future contractual cash flows is amortized over the remaining term of the modified asset or liability through the revised EIR.

Derecognition

A financial liability is derecognized 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 recognized in the statement of comprehensive income.
The Group considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent.

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 comprehensive income as interest income/ expense when the liabilities are derecognized through the amortization process.

Provisions for financial guarantees and Other reserves

Where a contract meets the definition of a financial guarantee contract the Group, as an issuer, applies specific accounting and measurement requirements of IFRS 9. These IFRS 9 measurement requirements are applied for all guarantee contracts, including guarantees issued between entities under common control, as well as guarantees issued by a subsidiary on behalf of a parent. If a Group entity gives a guarantee on behalf of an entity under common control, a respective provision is recognised in the financial statements. Where transaction is driven by the Group's shareholders in their capacity as owners, Group treats such transactions as an increase in Provisions for financial guarantees and an equal and opposite decrease in equity (as a distribution of equity). Distributions of equity under financial guarantees are recognized in Other reserves.

Financial guarantees are initially recognised in at fair value. Subsequently, unless the financial guarantee contract is designated at inception as at fair value through comprehensive income, Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of comprehensive income, and ECL provision determined in accordance with IFRS 9 (as set out in Note 3). Amortisation is recognised in the statement of comprehensive income under Other operating income on a straight line basis over the term of the guarantee.

2. Summary of significant accounting policies (continued)

Provisions for financial guarantees and Other reserves (continued)

Financial guarantees are derecognized if the terms of the guarantee are substantially changed. Changes in guarantee limit are treated as a derecognition. In such cases the original guarantee is derecognized and a new guarantee is recognized at fair value. Change in the fair value is recognized as a decrease or increase in Provisions for financial guarantees and an equal and opposite decrease or increase to Other reserves. Other reserves are transferred to retained earnings upon extinguishment of liabilities under the financial guarantee.

Finance lease – Group as lessor (according to IAS 17 and IFRS 16)

Accounting principles under IFRS 16 from a lessor perspective remains substantially unchanged from IAS 17. Therefore the Group does not have any impact on accounting from early adoption of IFRS 16.

Whilst financial lease receivables that represent financial instruments and to which IAS 17 or IFRS 16 applies are within the scope of IAS 32 and IFRS 7, they are only within the scope of IFRS 9 to the extent that they are (1) subject to the derecognition provisions, (2) 'expected credit loss' requirements and (3) the relevant provisions that apply to derivatives embedded within leases.

Group is engaged in financial lease transactions by selling vehicles to its customers through financial lease contracts. Group also engages in financing of vehicles already owned by the customers. Under such leaseback transactions the Group purchases the underlying asset and the leases it back to the same customer. Vehicle serves as a collateral to secure all leases. In order to assess whether such leaseback transactions are to classified as finance leases, the Group applies the same indicators of a lease classification, as for finance leases.

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. 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).

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:

- 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.

Further indicators that individually or in combination would also lead to a lease being classified as a finance lease are:
- the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee;
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent..

Initial measurement

At lease commencement, the Group accounts for a finance lease, as follows:
- derecognises the carrying amount of the underlying asset;
- recognises the net investment in the lease; and
- recognises, in profit or loss, any selling profit or selling loss. Such profit or loss is recognized under "Revenue from leases" (Note 10).

Upon commencement of finance lease, the Group 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. Initial direct costs, such as client commissions and commissions paid by the Group to car dealers, are included in the initial measurement of the lease receivables. The calculations are done using effective interest method.

Prepayments and other payments 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.

Subsequent measurement

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 according to effective interest rate in respect of the finance lease. Group applies the lease payments relating to the period against the gross investment in the lease to reduce both the principal and the unearned finance income.

The Group recognises income from variable payments that are not included in the net investment in the lease (e.g. performance based variable payments, such as penalties or debt collection income) separately in the period in which the income is earned. Such income is recognized under "Fee and commission income" (Note 6) in accordance with IFRS 15 and IAS 18 in 2018 and 2017, respectively.

After lease commencement, the net investment in a lease is not remeasured unless the lease is modified and the modified lease is not accounted for as a separate contract or the lease term is revised when there is a change in the non-cancellable period of the lease.

Group applies derecognition and impairment requirements in IFRS 9 and IAS 39 in 2018 and 2017, respectively, to the net investment in the lease.

Operating lease – Group as lessor (according to IAS 17 and IFRS 16)

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of comprehensive income. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Operating lease – Group as lessee (according to IAS 17)

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.

2. Summary of significant accounting policies (continued)

Operating lease – Group as lessee (since adoption of IFRS 16)

Lease liability

Initial recognition

At the commencement date of the lease the Group measures the lease liability at the present value of the lease payments that are not paid at that date in accordance with lease term. Lease payments included in the measurement of the lease liability comprise:

• fixed payments (including in-substance fixed payments), less any lease incentives receivable;

• variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

• amounts expected to be payable by the Group under residual value guarantees;

• the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and

• payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

The Group has elected for all classes of underlying assets not to separate non-lease components from lease components in lease payments. Instead Group accounts for each lease component and any associated non-lease components as a single lease component. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the incremental borrowing rate.

Lease term is the non-cancellable period for which the Group has the right to use an underlying asset, together with both:

(a) Periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option; and

(b) Periods covered by an option to terminate the lease if the Group is reasonably certain not to exercise that option.

At the commencement date, the Group assesses whether it is reasonably certain to exercise an option to extend the lease or to purchase the underlying asset, or not to exercise an option to terminate the lease.

Subsequent measurement

After the commencement date, the Group measures the lease liability by:

• increasing the carrying amount to reflect interest on the lease liability;

• reducing the carrying amount to reflect the lease payments made; and

• remeasuring the carrying amount to reflect any reassessment or lease modifications specified, or to reflect revised in-substance fixed lease payments.

Right-of-use assets

Initial recognition

At the commencement date of the lease, the Group recognises right-of-use asset at cost. The cost of a right-of-use asset comprises:
•the amount of the initial measurement of the lease liability;
•any lease payments made at or before the commencement date, less any lease incentives received;
•any initial direct costs incurred by the Group; and
•an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are to produce inventories.

Subsequent measurement

Group measures the right-of-use asset at cost, less any accumulated depreciation and accumulated impairment losses; and adjusted for the remeasurement of the lease liability. Depreciation of the right-of-use asset is recognised on a straight-line basis in profit or loss. If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, the Group depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset in accordance with Group`s policy of similar owned assets. Otherwise, the right-of-use asset is depreciated from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Group involvement with the underlying asset before the commencement date

If a Group incurs costs relating to the construction or design of an underlying asset, the lessee accounts for those costs applying other IFRS, such as IAS 16. Costs relating to the construction or design of an underlying asset do not include payments made by the lessee for the right to use the underlying asset.

Group applies IAS 36 to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Initial recognition exemptions applied

As a recognition exemption the Group elects not to apply the recognition requirements of right-of-use asset and lease liability to:
(a) Short term leases – for all classes of underlying assets; and
(b) Leases of low-value assets – on a lease-by-lease basis.

For leases qualifying as short-term leases and/or leases of low-value assets, the Group does not recognise a lease liability or right-of-use asset. The Group recognises the lease payments associated with those leases as an expense on either a straight-line basis over the lease term.
(a) Short term leases

A short-term lease is a lease that, at the commencement date, has a lease term of 12 months or less. A lease that contains a purchase option is not a short-term lease. This lease exemption is applied for all classes of underlying assets.
(b) Leases of low-value assets

The Group defines a low-value asset as one that:
1)has a value, when new of 5 000 EUR or less. Group assesses the value of an underlying asset based on the value of the asset when it is new, regardless of the age of the asset being leased.
2)the Group can benefit from use of the assets on its own, or together with, other resources that are readily available to the Group; and
3)the underlying asset is not dependent on, or highly interrelated with, other assets.

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.

2. Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash comprises cash at bank and on hand with an original maturity of less than three months.

Assets held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use.

Assets held for sale includes vehicles which are obtained by enforcement of repossession in case clients default on existing lease agreements. Such repossessed collaterals are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell (FVLCTS). Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Assets classified as held for sale are presented separately as current items in the statement of financial position.

Vacation pay reserve

Vacation pay reserve is calculated based on Latvian legislation requirements.

Other investments

Equity investments at FVTOCI

Upon initial recognition, the Group can choose to irrevocably classify its equity investments as equity instruments designated at fair value through OCI (FVOCI), in case these investments a) meet the definition of equity instrument under IAS 32 Financial Instruments and b) and are not held for trading. The Group evaluates and applies this classification for each instrument separately. These instruments are initially measured at fair value plus transaction costs, directly attributable to their acquisition. After the initial recognition, these instruments are measured at fair value. Dividends are recorded in profit or loss statement. Other net gains and losses are accumulated in OCI and are never applied or reclassified to profit or loss statement.

Equity investments in non-listed companies previously under IAS 39 recognized at cost however now are classified and measured as Equity instruments designated at fair value through OCI as described above. The Group elected to classify irrevocably its non-listed equity investments under this category as it intends to hold these investments for the foreseeable future. There were no impairment losses recognised in profit or loss for these investments in prior periods.

Transactions with peer-to-peer platforms

Background

The Parent and a subsidiary, as loan originators, have signed cooperation agreements with operator of a peer-to-peer (P2P) investment internet-based platform. Cooperation agreements and the related assignment agreements are in force until parties agree to terminate. Purpose of the cooperation agreement for the Group is to attract funding through the P2P platform.

P2P platform makes possible for individual and corporate investors to obtain 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 Group in exchange for an upfront payment. These rights are established through assignment agreements between investors and P2P platform, who is acting as an agent on behalf of the Group. Assignment agreements are of two types:

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

The Group retains the legal title to its debt instruments (including payment collection), but transfers a part of equitable title and interest to investors through P2P platform.

Receivables and payables from/to P2P platform

P2P platform is acting as an agent in transferring cash flows between the Group and investors. Receivable for attracted funding from investors through P2P platform corresponds to the due payments from P2P platform.

Receivable is arising from assignments made through P2P platform where the related investment is not yet transferred to the Group (Note 26).

P2P platform commissions and service fees incurred by the Group are fees charged by P2P platform for servicing the funding attracted through peer-to-peer platform and are disclosed in Note 9.

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 30) 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 comprehensive income as interest income/ expense when the liabilities are derecognized.

Group 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 Group'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 Group, thus do not meet the requirements to be classified as pass-through arrangement in accordance with IFRS 9.

Therefore, the Group'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 revenue calculated using effective interest method (Note 4).

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 Group's debt instruments. Therefore such arrangements are classified as pass-through arrangements in accordance with IFRS 9.

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 30) and interest income is recognized to the extent of being the residual interest. Residual income is the difference between the interest earned on the respective debt instrument by the Group and the respective share of interest earned by the investor.

2. Summary of significant accounting policies (continued)

Reserves

Foreign currency translation reserve
The Group has currency revaluation reserve amount 1 EUR, due to switch from latvian Lats to EUR currency.

Provisions

Provisions are recognized when the Group 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 Group 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.

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.

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 Group'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

Expenses are recognized as incurred. Expenses are recognized net of the amount of value added tax. In certain situations value added tax incurred on a services received or calculated in accordance with legislation requirements is not recoverable in full from the taxation authority. In such cases value added tax is recognized as part of the related expense item as applicable. The same principles is applied if value added tax is not recoverable on acquisition an asset.

Revenue is recognized in accordance with the related standard's requirements and to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

The effective interest rate method (IAS 39 and IFRS 9)

Under both IFRS 9 and IAS 39 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.

When a financial asset becomes credit-impaired and is regarded as 'Stage 3', the Group calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis..

Income from cession of bad debt

Gain or loss from sale of doubtful financial lease receivables and loans and advances to customers is presented on net basis under " Net loss from de-recognition of financial assets measured at amortized cost". Gains or losses arising on cession deals are recognized in the statement of comprehensive income at transaction date as the difference between the proceeds received and the carrying amount of derecognized lease receivables assigned through cession agreements

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 the Group's statement of comprehensive income when they occur.

2. Summary of significant accounting policies (continued)

Revenue and expenses from contracts with customers (according to IFRS 15)

Revenue from contracts with customers in scope for IFRS 15 encompasses sold goods or services provided as output of the Group's ordinary activities. The Group uses the following criteria to identify contracts with customers:
– the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
– can be identified each party's rights regarding the goods or services to be transferred;
– can be identified the payment terms for the goods or services to be transferred;
– the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract);
– it is probable that the Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

Performance obligations are promises in the contracts (either explicitly stated or implied) with Group's customers to transfer to the customers distinct goods or services. Promised goods or services represent separate performance obligations if the goods or services are distinct. A promised good or service is considered distinct if the customer can benefit from the good or service on its own or with other readily available resources (i.e. distinct individually) and the good or service is separately identifiable from other promises in the contract (distinct within the context of the contract). Both of these criteria must be met to conclude that the good or service is distinct.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of equipment, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any).

The Group recognizes revenue when (or as) it satisfies a performance obligation to transfer a promised good or service to a customer. Revenue is recognized when customer obtains control of the respective good or service. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Revenue from satisfied performance obligations is recognized over time, if one of the following criteria is met:
– customer simultaneously receives and consumes the benefits;
– customer controls the asset as it is created or enhanced;
– the Group's performance creates an asset and has a right to payment for performance completed.

Payment terms for goods or services transferred to customers according to contract terms are within 45 to 60 days from the provision of services or sale of goods. The transaction price is generally determined by the contractually agreed conditions. Invoices typically are issued after the goods have been sold or service provided.

In the year 2017 and 2018 the Group did not enter into contracts with variable considerations, rights of return, financing components, non cash considerations or consideration payable to customer.

The Group has generally concluded that it is the principal in its revenue arrangements, except for the debt collection activities and agency services below, because it typically controls the goods or services before transferring them to the customer.

When another party is involved in providing goods or services to Group's customers, the Group considers that it is a principal, if it obtains control of any one of the following:
a) a good or another asset from the other party that it then transfers to the customer.
b) a right to a service to be performed by the other party, which gives the entity the ability to direct that party to provide the service to the customer on the entity's behalf.
c) a good or service from the other party that it then combines with other goods or services in providing the specified good or service to the customer.
Management judgment on transactions where the Group acts as agent is disclosed in Note 3.

Fee and commission income (Note 6)

Income from debt collection activities and earned penalties (point in time)

Income from debt collection activities and penalties is recognized in Group's statement of comprehensive income at the moment when the likelihood of consideration being settled for such services is high, therefore income is recognized only when actual payment for provided services is actually received.

Income from penalties arise in case customers breach the contractual terms of financial lease receivables and loans and advances to customers agreements, such as exceeding the payment date. In those situations Group is entitled to charge the customers in accordance with the agreement terms. The Group recognizes income from penalties at the moment of cash receipt as likelihood and timing of settlement is uncertain. In case customers does not settle the penalty amount, the Group is entitled to enforce repossession of the collateral.

Debt collection activities revenue typically arises when customers delay the payments due. As a lessor, the Group has protective rights in the lease agreements with customers that require the customers to safeguard and maintain the condition of the vehicle, as it serves as a collateral to the lease. Group's revenue encompasses a compensation of internal and external costs incurred by the Group in relation to debt management, legal fees as well as repossession of vehicle in case of lease agreement termination and are recharged to the customers in accordance with the agreement terms. Debt collection income is recognized on net (agent) basis as it these amounts are recharged to the customers in accordance with agreement terms and Group does not control these services before they are transferred to a customer. The performance obligation is satisfied when respective service has been provided.

Revenue from car sales (Note 11)

Sale of motor vehicles (point in time)

The Group earns part of its revenues from the sales of used vehicles that were either bought from third parties or repossessed from its non-performing leasing customers . The Group is calculating minimum sales price based on initial cost or value after repossession plus additional cost incurred (e.g. repairs) and a margin added in order to make profit from the deal. The performance obligation is satisfied when car is registered on client's name.

2. Summary of significant accounting policies (continued)

Other operating income (Note 14)

Revenue from agency services (point in time)

Agency services consist of different services, such as settlement of costs on behalf of 3rd parties and recharging those costs to customers. The Group is acting as an agent in provision of these services to the customers. Such services are provided with the intention to realize the economies of scale of purchasing power for a service that is both used by the Group and the 3rd party. The performance obligation is satisfied when respective service has been provided.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration.

At 31 December the Group did not have any contract assets in its consolidated statement of financial position.

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

These receivables are disclosed in balance sheet caption 'Trade receivables' (Note 30).

Trade receivables are non-interest bearing and are generally on terms of 30 to 120 days.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

At 31 December the Group had no contract liabilities in its consolidated statement of financial position.

Income taxes

Income taxes include current and deferred taxes. Until 31 December 2017, current corporate income tax had been applied at the statutory rate of 15%.

Legal entities have not been 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 is 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 have been subject to the tax rate of 25 per cent of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognized in the consolidated 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.

The consolidated financial statements include the current and deferred income tax of subsidiaries located in Latvia. The income tax rate in Latvia is 20%. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case it is recognized in equity or other comprehensive income.

No provision is recognized for income tax payable on a dividend distribution before dividends are declared but information on the contingent liability is disclosed in the notes to the consolidated financial statements.

Deferred tax assets and liabilities

Deferred tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying value for accounting purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Corporate income tax on profits and deferred income tax expense or benefit of subsidiaries are reported in the consolidated statement of comprehensive income

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend is recognized.

Deferred tax assets and liabilities were not recognized as at 31 December 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 were reversed in the financial statements for the year ended 31 December 2017 through the statement of profit or loss or other comprehensive income, depending on whether deferred tax assets were recognized initially in the statement of comprehensive income.

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 Group are shareholders who could control or who have significant influence over the group in accepting operating business decisions, key management personnel of the Group 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 associates.

Dividend distribution

Dividend distribution to the shareholders of the Group is recognised as a liability and distribution of retained earnings in the financial statements in the period in which the dividends are approved by the shareholders. (Note 28)

Subsequent events

Post-period-end events that provide additional information about the Group'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 Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the financial statements:

Principal versus agent assessment

In provision of debt collection (Note 6) and agency services (Note 14) the Group has assessed that it does not obtain control of these services before they are transferred to customers, as these services or goods are acquired on their behalf. Therefore, it is considered agent in these transactions. The Group has assessed that it is acting as agent when purchasing specific debt collection services in behalf of its customers. These services typically occur when customers are in breach of the contract with the Group and when collateral (vehicle) repossession takes place. If vehicle is repossessed, transported and repaired by third parties due to customer default under the lease agreement terms, the Group is entitled to recharge these costs to the customers. As the Group does not obtain control of the service nor has discretion in determining the sales price, the Group has assessed that it is acting as an agent in these transactions.

The Group is also acting as an agent in purchasing specific goods and services from 3rd parties on behalf of customers - mainly legal, recruitment and similar services, as it does not obtain control of the service, does not incur inventory risk nor has discretion in determining the sales price

Impairment of financial assets (policy applicable till 31 December 2017)

In assessing the need for collective loss allowances, Group 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:

Probability of default (PD)

- Group 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.

Loss given default (LGD)

- Group 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 loans and advances to customers (policy applicable till 31 December 2017)

As at 31 December 2017 all loans products had been launched relatively recently and, therefore, insufficient statistical data for these particular loan portfolios was available to perform an ECL calculation utilising the data from the portfolio. Until enough data is gathered, generally in the initial 9 months of operations, impairment allowances are calculated by applying financial lease product's PD rate from the same country and publicly available industry's average LGD rate of instalment loans.

Impairment of financial assets (Policy applicable from 1 January 2018)

The measurement of impairment losses under IFRS 9 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include Probability of Default and Loss Given Default, judgment is applied also when determining significant increase in credit risk.

The Probability of Default (PD)

The Probability of Default is an estimate of the likelihood of default over a given time horizon.
In order to estimate PDs the Group utilises roll-rate (rates by which receivables roll over to other dpd buckets) methodology, respectively Markov chains, in order to estimate its PDs. This methodology employs statistical analysis of historical data and experience of delinquency and default to estimate the loans that will eventually end up in write offs. Calculations are applied at product level (leasing vs loans products). Exposures are grouped into buckets of days past due (DPD) loans/leases and statistical analysis is used to estimate the likelihood of loans/leases in each of the buckets will eventually enter default status.

Forward-looking information

In modelling impact of forward looking information inclusion in determining PD as at 1 January 2018 and 31 December 2018, the Group explored a broad range of forward looking information as economic inputs, such as:
• GDP growth;
• Unemployment rates;
• Consumer price indices;
• House price indices;
• Household debt;

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

Forward-looking information (continued)

From the wide range of indicators house price changes and household debt levels were found to have the strongest statistical link to default levels. The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements.

To ensure completeness and accuracy, the Group obtains the data used from third party sources (Latvian Central Statistical Bureau and CEIC Data, a private data provider) and internal statisticians verify the accuracy of inputs to the Group's ECL models including determining the weights attributable to the multiple scenarios. The following tables set out the key drivers of expected loss and the assumptions used for the Group's base case estimate and alternative scenarios and their weighting as at 31 December 2018.

The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations.

	Weighting	House price index growth for 2018	Household debt levels as a % of GDP at end of 2018
Base case	40%	14,1%	23,3%
Pessimistic scenario	30%	6,9%	25,8%
Optimistic scenario	30%	21,3%	20,8%

Overall impact of forward looking information incorporation was negative in amount of EUR 14 thousand at the end of 31.12.2018.

Loss Given Default

Group 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 finance lease agreement is terminated again after a renewal then it goes back into the part of population terminated and is not considered as cured. This reflects a change from IAS 39 application, which reflects the combination of facts that PD rates are forward looking and there are generally high number of cures from default within the Group.
- Renewed leases also affect the LGD rate by incorporating recovered cash after renewal of the agreement and comparing it to the exposure at default of the agreements subsequently renewed, implying the cure rate.
- Estimated LGD rate is used for all portfolio groups except for unsecured portion of the defaulted portfolio. For unsecured part of portfolio the value estimate from independent third party cession offers is applied.

Cure rate from renewals is calculated over a three year period. For the 31 December 2018 impairment purposes the 91% cure rate was observed and applied for the part of default rate portfolio subsequently renewed.
For the 1 January 2018 impairment purposes the 95% cure rate was observed and applied for the part of default rate portfolio subsequently renewed
Renewals cure rate is applied only for lease portfolio where cures occur frequently and represent a reliable pattern within the Group's lending experience. Renewals cure rate is not applied for loans.

Exposure at default (EAD) modelling
Exposure at default is modelled by adjusting the unpaid balance of lease and loan receivables as at the reporting date by expected future repayments during the next 12 months in case of Stage 1 exposures and also beyond 12 months for Stage 2 exposures. This is performed based on contractual repayment schedules, adjusted for historical prepayment rate observed. Historical prepayment patterns are assumed to be a reliable estimate for future prepayment activity.

Impairment for loans to and receivables from related parties
Receivables from related parties inherently are subject to the Group's credit risk. Therefore, a benchmarked PD and LGD rate - based on Moody's corporate statistics studies has been applied in determining the ECLs.

Significant increase in credit risk for related party transactions is determined based on information available in the Group about the financial performance of the related parties. Financial position of related parties as at impairment assessment date is compared to that when the exposure was originated. Further 30 days past due back stop indicator is utilized to transfer exposures to Stage 2.

Capitalization of development costs

For capitalization of expenses in process of developing Group's enterprise resource planning (ERP) system and other IT systems management uses certain assumptions. Capitalization of salary expenses of IT personnel is based on employee time sheets and 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 comprehensive income caption "Administrative expense".

Determination of the FVLCTS of assets held for sale

Determination of the FVLCTS for repossessed vehicles is made collectively due to the varying condition of vehicles at the moment of the repossession, which sometimes is not readily determinable.

Management estimate is based on available data from historical sales transactions for such assets in previous reporting periods. Group also considers factors such as historical actual average loss (if any) from the previous years. Management considers whether also events after the reporting year indicate a decline in the sales prices of such assets.

Separation of embedded derivatives from the host contract

Group 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 and IFRS 9.

Call option included in the bond prospectus gives Group 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 Group 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.

Group'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.

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

Financial guarantees

Fair value (FV) determination and initial recognition

The Group has elected to determine the FV of guarantee using the credit spread method. FV of guarantee is calculated as multiple of EAD, PD and LGD. EAD is the contractual commitment or guaranteed amount per guarantee agreement (Note 38). Guarantee is issued to secure the bond issuance of the ultimate parent of the Group, Mogo Finance S.A. The Group would incur loss in case Mogo Finance S.A. defaults on obligations towards its bondholders. Accordingly, PD of Mogo Finance S.A. is determined using benchmarking of a comparable similar credit risk entity with reference to the market transactions and default rates obtained from credit rating agencies.

ECL determination for subsequent measurement

For the purposes of FV estimation the Group is using benchmarking of a similar credit risk entity such as the ultimate parent of the Group. Since initial recognition the Group has assessed that that ultimate parent's credit risk has not increased and guarantee liability is therefore considered as Stage 1 exposure.

Lease term determination under IFRS 16 (Group as a lessee)

IFRS 16 requires that in determining the lease term and assessing the length of the non-cancellable period of a lease, an entity shall apply the definition of a contract in accordance with IFRS 15 and determine the period for which the contract is enforceable. In assessment of lease term determination the Group considers the enforceable rights and obligations of both parties. If both the lessee and the lessor can terminate the contract without more than an insignificant penalty at any time at or after the end of the non-cancellable term, then there are no enforceable rights and obligations beyond the non-cancellable term. These considerations are also applied for lease agreements without a fixed term and agreements that are "rolled over" on monthly basis until either party gives notice. As a result, such agreements are considered as short term leases in accordance with IFRS 16 definition and the Group does not recognise a lease liability or right-of-use asset for these leases. Group considers that after the non-cancellable term lapses the Group does not have enforceable rights and obligations under such agreements.

In considering the Group's options to extend or not to terminate the lease the Group is firstly evaluates what the rights of the Group and the lessor under such options. The Group considers whether options included in the lease agreements (1) give an unilateral right for one party (i.e. Group) and (2) creates an obligation to comply for the other party (i.e. lessor). If neither party in the contract has an obligation then Group assessment is that no options are to be considered in the context of lease term assessment. In such situations the lease term would not exceed the non-cancellable contractual term. In determining the lease term the Group has assessed the penalties under the lease agreements as well as economic incentives to prolong the lease agreements such as the underlying asset being strategic. The judgment of the Group management has been that the impact of such factors is not significant due to the contractual features and the Group's business model, which is not reliant on strategic assets. See Note 18,19.

Lease liability incremental borrowing rate determination under IFRS 16 (Group as a lessee)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group has used market rates as its incremental borrowing rate. The Group considers market rates used as an appropriate measure for incremental borrowing rates as they correctly reflect the ability to finance a specific asset purchase.

It is further considered that the way how local lenders would approach asset financing at each subsidiary level. As per Group's assessment each of the Group's subsidiaries would qualify as a good quality borrower in the local markets in the context of overall Group results.

Lease classification for rental fleet (Group as a lessor)

The Group has entered into vehicle leases on its rental fleet (Note 18, 19). These lease agreements have a non-cancellable term of 6 months and an optional term of up to 72 months. After the non-cancellable term of 6 months the lessee can return the leased asset to the Group and losses associated with the cancellation are borne by the Group. The leased asset is not transferred to lessee at the end of lease term. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the leased assets and the present value of the minimum lease payments not amounting to substantially all of the fair value of the leased asset, that it retains all the significant risks and rewards of ownership of these assets and accounts for the contracts as operating leases.

Inventories net realizable value and allowances

Management evaluates the net realizable value of inventories (Note 27) based upon the expected sales prices and selling costs per various product groups and assesses the physical condition of inventories during the annual stock count. If the net realizable value of inventories is lower than the cost of inventories, an allowance is recorded. At the end of each reporting year the inventories are reviewed for any indications of damages or slow-moving inventories. In cases when damaged or slow-moving inventories are identified allowances are recognized. During the reporting year stock–counts of the inventories are performed with the purpose to identify damaged inventories. Allowances for an impairment loss are recognized for those inventories.

The net realizable value of the car is represented by the latest expected sales price, which is reviewed on a regular basis (at least once a month) and depend on demand for this product and the number of days it has been for sale. In case of damaged inventories, expected sales price is updated and represent the net realizable value in "as-is" state.

Segment reporting

Reportable segments are operating segments or their aggregation which meet certain criteria. No less frequently than once a year, the Group assess and identify all potential business segments and determine whether these segments should be accounted for separately. The Group reports the segment if it contributes 10% or more of the entity's total sales (combining internal and inter-segment sales), earns 10% or more of the combined reported profit of all operating segments that did not report a loss (or 10% or more of the combined reported loss of all operating segments that reported a loss), or has 10% or more of the combined assets of all operating segments. See note 41.

4. Interest revenue calculated using the effective interest method

	2018	2017
		(restated)*
	EUR	EUR
Interest income from finance lease receivables	14 945 056	12 339 744
Interest income from intercompany loans**	2 447 623	485 122
Interest income from loans and advances to customers	1 402 608	80 668
TOTAL:	**18 795 287**	**12 905 534**

* 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 Group's assets (see Note 20).
**intercompany interest revenue significantly increased due to transactions with Mogo Finance S.A. and other related parties.
Gross and net earned interest are as follows:

	2018	2017
	EUR	EUR
Gross interest income	18 844 805	13 036 234
Interest derecognized due to derecognition of portfolio from Group's assets*	(49 518)	(130 700)
TOTAL NET INTEREST:	**18 795 287**	**12 905 534**

*Interest derecognized due to derecognition of portfolio from Group's assets relates to P2P interest for loans without buy back guarantee.

Part of interest revenue is derecognized as the Group has assigned to P2P investors part of its finance lease receivables and loans and advances to customers. In case the assignment is done without a buy back obligation the related interest revenue earned on such agreements is derecognized from Group's interest revenue in amount equal to investor's claim towards the interest earned.

Interest income from impaired Stage 3 finance lease receivables/loans amounts to EUR 28 108.

5.Interest expense calculated using the effective interest method

	2018	2017
		(restated)*
	EUR	EUR
Interest expenses on financial liabilities measured at amortised cost:		
Interest expense on issued bonds	3 508 885	1 977 176
Interest expenses for loans from P2P platform investors	2 617 130	490 462
Interest expenses for lease liabilities	2 975	-
Interest expenses for loans from banks and related parties	-	238 667
TOTAL:	**6 128 990**	**2 706 305**

* Information regarding the reclassifications and corrections made in the financial statements is disclosed in Note 2.
During the financial year the Group continued to attract more funding through peer-to-peer platforms which increased the interest expenses consequently.
See Note 30 for additional information.

6. Fee and commission income

	2018	2017
		(restated)*
Revenue from contracts with customers recognised point in time where the Group acted as an agent:	EUR	EUR
Gross income from debt collection activities	772 507	744 617
Gross expenses from debt collection activities	(293 974)	(188 227)
Total net debt collection income	**478 533**	**556 390**

	2 018	2 017
Revenue from contracts with customers recognised point in time:	EUR	EUR
Income from penalties received	561 429	393 890
Total fees and commissions income:	**1 039 962**	**950 280**

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

7. Impairment expense

	2018	2017
		(restated)*
	EUR	EUR
Change in impairment (See Notes 20 and 21)	5 215 650	2 145 554
Written off debts	35 473	15 197
TOTAL:	**5 251 123**	**2 160 751**

The increase in impairment expenses was primarily driven by the growth in the loan portfolio and an increase in the non-performing loans ratio.
* Information regarding the reclassifications made in the financial statements is disclosed in Note 2.

8. Net gain/(loss) from de-recognition of financial assets measured at amortized cost

		2018	2017
			(restated)*
Financial lease		EUR	EUR
Net (gain)/loss arising from cession of financial lease receivables to related parties		**-**	66 925
Net (gain)/loss arising from cession of financial lease receivables to non related parties		63 197	155 684
	TOTAL:	**63 197**	**222 609**
Loans and advances to customers			
Net (gain)/loss arising from cession of loans and advances to customers receivables to non related parties		(9 278)	**-**
Net Loss arising from cession of financial lease and loans and advances to customers receivables	**TOTAL:**	**53 919**	**222 609**

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

During 2017 and 2018 the Group performed cessions to non related parties and related parties

In 2018 the Group started to perform also cessions for loans and advances to customers receivables.

When financial lease receivables portfolio is sold in cession the Group reverses the respective part of impairment allowance of the ceded assets (Note 20).

When loans and advances to customers receivables portfolio is sold in cession the Group reverses the respective part of impairment allowance of the ceded assets (Note 21).

The Group then separately recognizes net losses arising from derecognition of the ceded portfolio, which is reduced by the respective cession income.

9. Expenses related to peer-to-peer platforms services

		2018	2017
			(restated)*
		EUR	EUR
Service fee for using P2P platform		299 104	230 069
	TOTAL:	**299 104**	**230 069**

10. Revenue from leases

		2018	2017
		EUR	EUR
Profit earned from selling inventories through finance lease		64 365	-
Revenue from operating lease*		46 010	-
	TOTAL:	**110 375**	**-**

*Lease income on operating leases is fixed and does not contain to variable lease payments.

11. Revenue from car sales

		2018	2017
Revenue from contracts with customers recognised point in time:		EUR	EUR
Income from sale of vehicles		470 695	-
	TOTAL:	**470 695**	**-**

		2018	2017
Expenses from contracts with customers recognised point in time:		EUR	EUR
Expenses from sale of vehicles		(470 695)	-
	TOTAL:	**(470 695)**	**-**
	Total Net revenue from contracts with customers recognised point in time:	**-**	**-**

12. Selling expense

		2018	2017
		EUR	EUR
TV and radio marketing expenses		290 821	230 809
Marketing services		204 482	141 708
Marketing fees		74 194	14 226
Online advertising		62 854	69 465
Total marketing expenses		**632 351**	**456 208**
Other selling expenses		20 079	49 881
	TOTAL:	**652 430**	**506 089**

13. Administrative expense

	2018	2017
	EUR	EUR
Employees' salaries	2 323 807	2 072 269
Amortization and depreciation	534 841	410 540
Management fee**	372 266	-
Professional services*	267 173	112 453
Credit database expenses	192 640	121 433
Donations	182 000	159 000
IT services	181 967	162 717
Office and branches' maintenance expenses	164 342	369 024
Recruitment fees***	150 486	24 891
Business trips	49 435	42 403
Communication expenses	40 905	28 465
Other personnel expenses	37 882	23 762
Low value equipment expenses	25 355	7 301
Bank commissions	16 599	85 320
Transportation expenses	6 909	6 964
Other administration expenses	205 151	123 071
TOTAL:	**4 751 758**	**3 749 613**

*Audit fees for Group's entities' 2018 financial statements audit amounts to 122 200 EUR, the Parent Company - 79 200 EUR (2017: EUR 62 700; the Parent Company – 62 700 EUR).

**Starting from 1st July 2018 The Group also received management services from related companies JSC HUB1 and JSC HUB4. The nature of provided services relates to IT systems support and development, financial, marketing, research and business development strategic services

***Significant increase in recruitment expenses due to active recruitment in first half of FY 2018 as the Group was rapidly expanding and establishing new entities therefore additional employees were recruited. Part of the employees from The Group moved to HUBs. Recruitment fees were also recharged to related companies.

Key management personnel compensation

	2018	2017
	EUR	EUR
Board and Council Members		
Remuneration*	124 221	142 065
Social security contribution expenses	29 925	33 513
TOTAL:	**154 146**	**175 578**

*Including vacation accruals.

There are no outstanding balances as of 31 December 2018 with members of the Group's Management Board members (none at 31 December 2017). There are no emoluments granted to the members of the Board and commitments in respect of retirement pensions for former members of the Board.

Share-based payments

The Group's employees have entered a share option agreements with Mogo Finance S.A. or Parent Company's shareholders. Under the agreements respective employees obtain rights to acquire Mogo Finance's or certain subsidiaries' shares under several graded vesting scenarios. Vesting of the share options is dependent on the profitability of the Mogo Finance S.A or the respective subsidiary. Employees must remain in service for a period of one year from the date of grant.

The exercise price of the share options under typical circumstances is equal to the nominal price of the underlying shares. The contractual maximum term of the share options till 2025 and there are no cash settlement alternatives for the employees. The Parent Company does not have a past practice of cash settlement for these awards.

The following table illustrates the number and weighted average exercise prices of share options

	2018		2017	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 January	**2**	**0,01**	**2**	**0,01**
Granted during the year	-	-	-	-
Ended employment during the year	(2)	0,01	-	-
Outstanding at 31 December	**-**	**-**	**2**	**0,01**
Exercisable at the end of the period	-	-	2	0,01

The two employees with granted share options have terminated employment relationship with Mogo JSC as part of reorganisation.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2017 was 6 years.

14. Other operating income

		2018	2017
		EUR	EUR
Income recognised from amortization of financial guarantee (Note 38)		118 326	-
Other operating income		88 244	56 446
	TOTAL:	**206 570**	**56 446**

		2018	2017
Revenue from contracts with customers recognized point in time where the Group acted as an agent *		EUR	EUR
Gross income from transactions with related parties		773 969	-
Gross expenses transactions with related parties		(773 969)	-
Gross income from transactions with non related parties		131 627	-
Gross expenses from transactions with non related parties		(131 627)	-
	TOTAL:	**-**	**-**

* - Revenue associated with these transactions is presented as revenue in net amount in these consolidated financial statements.

15. Other operating expense

		2018	2017
		EUR	EUR
Penalty fees		166 178	92 093
Other operating expenses		14 894	25 237
	TOTAL:	**181 072**	**117 330**

16. Corporate income tax payable

	2018	2017
	EUR	EUR
Current corporate income tax charge for the reporting year	-	577 857
Deferred corporate income tax due to changes in temporary differences	-	21 637
Reversal of deferred tax	-	67 031
Corporate income tax charged to the income statement:	**-**	**666 525**

		31.12.2018.	31.12.2017.
		EUR	EUR
Corporate income tax liabilities		(91 489)	(365 786)
	TOTAL:	**(91 489)**	**(365 786)**

Deferred corporate income tax:

	Statement of financial position		**Statement of financial position**	
	31.12.2018.	31.12.2017.	2 018	2 017
	EUR	EUR	EUR	EUR
Deferred corporate income tax liability				
Accelerated depreciation for tax purposes	-	153 086	-	22 333
Gross deferred corporate income tax liabilities	**-**	**153 086**	**-**	**22 333**
Deferred corporate income tax asset				
Impairment	-	(220 117)	-	(696)
Gross deferred corporate income tax assets	**-**	**(220 117)**	**-**	**(696)**
Net deferred corporate income tax assets prior to the reversal of deferred tax	**-**	**(67 031)**	**-**	**21 637**
Reversal of deferred tax*:				
In the statement of comprehensive income	-	67 031	-	67 031
Net deferred corporate income tax assets	-	-	-	-
Net deferred corporate income tax expense/ (benefit)	-	-	-	88 668

*In 2017, deferred tax assets were reversed through the statement of comprehensive income, pursuant to amendments made to the tax legislation of the Republic of Latvia, which entered into force on 1 January 2018.

In accordance with the Corporate Income Tax Law, a taxable person which reported a loss as at 31 December 2017 in their corporate income tax return may decrease corporate income tax charged for dividends in the reporting year by the amount equal to 15 per cent of the total uncovered loss, but no more than 50 per cent of corporate income tax charged for dividends in the relevant reporting year.

The Group did not have tax losses at 31 December 2017.

16. Corporate income tax payable (continued)

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

	2018	2017
	EUR	EUR
Profit before tax	**2 830 058**	**4 218 569**
Income tax rate	**25%**	**15%**
Tax calculated at the applicable tax rate	**707 515**	**632 785**
Income tax effect from profit taxable with 0% rate	**(707 515)**	**-**
Permanent differences:		
With business not related expenses	-	39 263
Other	-	62 596
Income tax on dividends	-	-
Tax rebate on donations	-	(135 150)
Actual corporate income tax for the reporting year:	**-**	**599 494**
Reversal of deferred tax	-	**67 031**
Corporate income tax charged to the statement of comprehensive income:	**-**	**666 525**
Effective income tax rate	-	15,80%

There were no income tax consequences attached to the payment of dividends by the Group to its shareholders in 2017. The income tax consequence for the possible payment of dividends for year 2018 amounts to EUR 792 933 EUR according to legislation of the Republic of Latvia. The income tax would be payable only if the dividends are paid from current year profit, it is not applicable for previous years retained earnings.

In 2018 the Group subsidiaries were loss making and therefore no defered tax was recognized.

17. Intangible assets

	Licenses	**Other intangible assets***	**Total intangible assets**
Cost	34 941	1 411 379	**1 446 320**
Accumulated amortization	(23 261)	(402 998)	**(426 259)**
As at 1 January 2017	11 680	1 008 381	**1 020 061**
2017			
Additions	16 997	450 335	**467 332**
Disposals (cost)	-	-	**-**
Amortization charge	(16 810)	(297 592)	**(314 402)**
Disposals (amortization)	-	-	**-**
Cost	51 938	1 861 714	**1 913 652**
Accumulated amortization	(40 071)	(700 590)	**(740 661)**
As at 31 December 2017	**11 867**	**1 161 124**	**1 172 991**
2018			
Additions	51 011	376 329	**427 340**
Disposals (cost)	(52 359)	(2 135 291)	**(2 187 650)**
Amortization charge	(18 292)	(267 052)	**(285 344)**
Disposals (amortization)	4 937	891 864	**896 801**
Reclassification	5 932	(5 932)	**-**
Cost	50 590	102 752	**153 342**
Accumulated amortization	(53 426)	(75 778)	**(129 204)**
As at 31 December 2018	**3 096**	**21 042**	**24 138**

* Other intangible assets mainly consisted of Group's developed IT systems. IT systems were disposed during the reporting year by selling to HUB companies (related parties).

Amortization costs are included in Note 13 - "Administrative expense".

18. Rental fleet, Property and equipment and Right-of-use assets

	Rental fleet	Property and equipment	Advance payments for tangible assets	Leasehold improvements	Right-of-use premises	Right-of-use motor vehicles	**Total Right-of-use assets**	**TOTAL**
Cost	-	396 812	-	-	-	-	**-**	**396 812**
Accumulated depreciation	-	(219 174)	-	-	-	-	**-**	**(219 174)**
As at 1 January 2017	**-**	**177 638**	**-**	**-**	**-**	**-**	**-**	**177 638**
2017								
Additions	-	31 821	19 517	13 558	-	-	**-**	**64 896**
Disposals (cost)	-	(13 414)	-	-	-	-	**-**	**(13 414)**
Depreciation charge	-	(95 346)	-	(956)	-	-	**-**	**(96 302)**
Disposals (depreciation)	-	11 938	-	-	-	-	**-**	**11 938**
Cost	-	415 219	19 517	13 558	-	-	**-**	**448 294**
Accumulated depreciation	-	(302 582)	-	(956)	-	-	**-**	**(303 538)**
As at 31 December 2017	**-**	**112 637**	**19 517**	**12 602**	**-**	**-**	**-**	**144 756**
2018								
IFRS 16 adoption impact	-	-	-	-	135 259	13 664	**148 923**	**148 923**
Additions	1 449 682	160 352	84 299	10 693	111 776	-	**111 776**	**1 816 802**
Transferred	-	33 734	(33 734)	-	-	-	**-**	**-**
Disposals (cost)	-	(283 084)	-	(13 558)	-	-	**-**	**(296 642)**
Depreciation charge	(6 836)	(70 028)	-	(1 766)	(165 899)	(4 968)	**(170 867)**	**(249 497)**
Disposals (depreciation)	65	118 638	-	2 405	-	-	**-**	**121 108**
Cost	**1 449 682**	**326 221**	**70 082**	**10 693**	**247 035**	**13 664**	**260 699**	**2 117 377**
Accumulated depreciation	**(6 771)**	**(253 972)**	**-**	**(317)**	**(165 899)**	**(4 968)**	**(170 867)**	**(431 927)**
As at 31 December 2018	**1 442 911**	**72 249**	**70 082**	**10 376**	**81 136**	**8 696**	**89 832**	**1 685 450**

The cost relating to variable lease payments that do not depend on an index or a rate amounted to EUR nil for the year ended December 31, 2018. There were no leases with residual value guarantees or leases not yet commenced to which the Group is committed.

19. Right-of-use assets and lease liabilities

The Group early adopted IFRS 16 with an initial application date of 1 January 2018. The entity applied the modified retrospective transition method. The amounts disclosed in the extracts are expressed in euros. The entity provided quantitative disclosures in its consolidated financial statements in a tabular format based on the nature of the disclosure item (i.e., asset, equity and liability and income statement).

Right-of-use assets and other liabilities for rights to use assets are shown as follows in the consolidated statement of financial position and statement of comprehensive income:

ASSETS	31.12.2018. **EUR**	01.01.2018. **EUR**
Non-current assets		
Right-of-use assets - premises	81 136	135 259
Right-of-use assets - motor vehicles	8 696	13 664
TOTAL:	**89 832**	**148 923**
EQUITY AND LIABILITIES		
Non-current liabilities		
Lease liabilities for right-of-use assets	23 791	21 476
Current liabilities		
Lease liabilities for right-of-use assets	66 776	127 447
TOTAL:	**90 567**	**148 923**

Leases in the statement of comprehensive income	**2 018 EUR**
Administrative expense	
Expenses relating to leases of low-value assets and short-term leases	(66 062)
Depreciation of right-of-use premises	(165 899)
Depreciation of right-of-use vehicles	(4 969)
Net finance costs	
Interest expense for right to use premises	(2 674)
Interest expense for right to use vehicles	(302)
Total cash outflow from leases	**(239 906)**

In 2018 the Group incurred expenses for lease agreements which did not qualify for recognition of Right-of-use assets in total amount of EUR 19 928

The weighted-average incremental borrowing rate for lease liabilities initially recognized as of 1 January 2018 was 2,64% per year.

The cost relating to variable lease payments that do not depend on an index or a rate amounted to EUR nil for the year ended December 31, 2018. There were no leases with residual value guarantees or leases not yet commenced to which the Group is committed.

20. Finance Lease Receivables

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

	2018				2017
Finance lease receivables	Stage 1	Stage 2	Stage 3	TOTAL	TOTAL
Not past due	26 553 655	1 080 671	275 591	27 909 917	25 691 637
1-30	5 438 353	1 416 913	15 117	6 870 383	6 048 662
31-60	-	466 637	-	466 637	1 127 564
>60	-	-	4 148 523	4 148 523	473 276
TOTAL, GROSS:	**31 992 008**	**2 964 221**	**4 439 231**	**39 395 460**	**33 341 140**

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to finance lease receivables are, as follows:

	Minimum lease payments		Minimum lease payments	
	EUR	%	EUR	%
Finance lease receivables	31.12.2018.	31.12.2018.	01.01.2018.	01.01.2018.
Stage 1	31 992 008	81%	29 474 900	88%
Stage 2	2 964 221	8%	3 192 231	10%
Stage 3	4 439 231	11%	674 008	2%
TOTAL, GROSS:	**39 395 460**	**100%**	**33 341 140**	**100%**

	Minimum lease payments	Change during the period		Minimum lease payments
	EUR	EUR	%	EUR
Finance lease receivables	31.12.2018.			01.01.2018.
Stage 1	31 992 008	2 517 108	9%	29 474 900
Stage 2	2 964 221	(228 011)	-7%	3 192 231
Stage 3	4 439 231	3 765 223	559%	674 008
TOTAL, GROSS:	**39 395 460**	**6 054 320**	**18%**	**33 341 140**

	Impairment allowance		Impairment allowance	
	EUR	%	EUR	%
Impairment allowance on finance lease receivables	31.12.2018.	31.12.2018.	01.01.2018.	01.01.2018.
Stage 1	1 314 301	3%	942 055	3%
Stage 2	340 689	1%	346 112	1%
Stage 3	2 903 044	7%	178 278	26%
TOTAL, ALLOWANCE:	**4 558 034**	**12%**	**1 466 445**	**4%**

	Impairment allowance	Change during the period		Impairment allowance
	EUR	EUR	%	EUR
Impairment allowance on finance lease receivables	31.12.2018.			01.01.2018.
Stage 1	1 314 301	372 246	40%	942 055
Stage 2	340 689	(5 423)	-1,6%	346 112
Stage 3	2 903 044	2 724 766	1528%	178 278
TOTAL, ALLOWANCE:	**4 558 034**	**3 091 589**	**211%**	**1 466 445**

	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
	EUR	EUR	EUR	EUR
Finance lease receivables	31.12.2018.	31.12.2018.	31.12.2017.	31.12.2017.
Up to one year	23 955 702	12 086 053	19 814 943	8 639 672
Years 2 through 5 combined	46 053 358	24 585 661	43 076 480	22 940 746
More than 5 years	3 194 150	2 723 746	2 100 737	1 760 722
TOTAL, GROSS:	**73 203 210**	**39 395 460**	**64 992 160**	**33 341 140**

	31.12.2018.	31.12.2017.
Unearned finance income	EUR	EUR
Up to one year	11 869 649	11 175 271
Years 2 through 5 combined	21 467 697	20 135 734
More than 5 years	470 404	340 015
TOTAL, GROSS:	**33 807 750**	**31 651 020**

20. Finance Lease Receivables (continued)

Finance lease receivables, net	Non-Current 31.12.2018. EUR	Current 31.12.2018. EUR	Non-Current 31.12.2017. EUR	Current 31.12.2017. EUR
Finance lease receivables	27 197 773	11 384 396	24 701 468	7 542 751
Accrued interest	-	813 291	-	1 096 921
Fees paid and received upon loan disbursement	(951 576)	(398 308)	(954 328)	(291 410)
Impairment allowance*	(1 320 864)	(3 237 171)	(935 646)	(477 989)
	24 925 333	**8 562 209**	**22 811 494**	**7 870 273**

* - With introduction of IFRS 9 and new ECL calculation approach the Group has revised the methodology of calculating the non-current portion of the impairment allowance. This has lead to changes in proportions of current to non-current amounts accordingly.

Transactions with peer-to-peer platforms

From year 2016 Group started placing lease agreement receivables on peer-to-peer lending platform based in Latvia. In 2018 Group started also placing loans and advances to customers receivables on peer-to-peer lending platform. Agreements are offered with buy back guarantee, which means that all risks of such agreements remain with the Group and in case of client default the Group has the liability to repay the whole remaining principal and accrued interest to P2P investor. By using the same platform Group also offer 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 Group statement of financial position.

Total gross portfolio and associated liabilities for the portfolio derecognised from Group financial assets were:

		31.12.2018.	31.12.2017.
Non-current		EUR	EUR
Finance lease receivable		111 600	467 827
Associated liabilities		(111 600)	(467 827)
	NET POSITION:	**-**	**-**
Current		EUR	EUR
Finance lease receivable		50 050	153 524
Associated liabilities		(50 050)	(153 524)
	NET POSITION:	**-**	**-**
Total gross portfolio derecognized from Group's financial assets		161 650	621 351
Total associated liabilities		(161 650)	(621 351)
	TOTAL NET POSITION:	**-**	**-**

As at end of reporting year 0,4% of all gross portfolio was purchased by P2P investors without buyback guarantee (1,9% in 2017).
See more information in Note 2b.

21. Loans and advances to customers

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

	2018				2017
Loans and advances to customers	Stage 1	Stage 2	Stage 3	TOTAL	TOTAL
Not past due	2 194 830	27 654	-	2 222 484	1 064 497
1-30	463 805	19 689	-	483 494	127 381
31-75	-	111 234	-	111 234	21 391
>75	-	-	69 536	69 536	2 477
TOTAL, GROSS:	**2 658 635**	**158 577**	**69 536**	**2 886 748**	**1 215 746**

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to loans and advances to customers receivables are, as follows:

Loans and advances to customers	EUR 31.12.2018.	% 31.12.2018.	EUR 31.12.2017.	% 31.12.2017.
Stage 1	2 658 635	92%	1 190 673	98%
Stage 2	185 867	6%	22 596	2%
Stage 3	42 246	1%	2 477	0,2%
TOTAL, GROSS:	**2 886 748**	**100%**	**1 215 746**	**100%**

		Change during the period		
Loans and advances to customers	EUR 31.12.2018.	EUR	%	EUR 31.12.2017.
Stage 1	2 658 635	1 467 962	123%	1 190 673
Stage 2	158 577	135 981	602%	22 596
Stage 3	69 536	67 059	2708%	2 477
TOTAL, GROSS:	**2 886 748**	**1 671 002**	**137%**	**1 215 746**

Impairment allowance on loans and advances to customers	EUR 31.12.2018.	Impairment allowance % 31.12.2018.	EUR 31.12.2017.	Impairment allowance % 31.12.2017.
Stage 1	111 016	4%	74 119	6%
Stage 2	44 004	2%	7 290	1%
Stage 3	29 595	43%	1 362	55%
TOTAL, ALLOWANCE:	**184 614**	**6%**	**82 771**	**7%**

21. Loans and advances to customers (continued)

	Impairment allowance	Change during the period		Impairment allowance
	EUR	EUR	%	EUR
Impairment allowance on loans and advances to customers	31.12.2018.			31.12.2017.
Stage 1	111 016	36 897	50%	74 119
Stage 2	44 004	36 714	504%	7 290
Stage 3	29 595	28 233	2073%	1 362
TOTAL, ALLOWANCE:	**184 614**	**101 843**	**123%**	**82 771**

Loans and advances to customers, net	**Non-Current** 31.12.2018. EUR	**Current** 31.12.2018. EUR	**Non-Current** 31.12.2017. EUR	**Current** 31.12.2017. EUR
Loans and advances to customers	1 475 754	1 274 730	680 495	497 234
Accrued interest	-	136 264	-	38 016
Fees paid upon loan disbursement	379	327	-	-
Fees received upon loan disbursement	(7 772)	(6 714)	(10 811)	(7 899)
Impairment allowance	(156 788)	(27 826)	(29 696)	(24 116)
	1 311 573	**1 376 781**	**639 988**	**503 235**

22. Finished goods and goods for resale

	31.12.2018.	31.12.2017.
	EUR	EUR
Acquired vehicles for purpose of selling them to customers*	11 414	339 491
TOTAL:	**11 414**	**339 491**

During the financial year of 2018, the Group decided to separate the economic activities of selling vehicles to another related company, therefore amount of stock balance has significantly decreased compared to previous year.

*This non-financial asset is not impaired as of 31.12.2018. (31.12.2017.: 0 EUR).

23. Assets held for sale

Other non-current assets held for sale, net	31.12.2018. EUR	31.12.2017. EUR
Repossessed collateral	133 140	387 623
	133 140	**387 623**

Changes in other assets held for sale

	01.01.2018.	Additions during the year	Disposals during the year	31.12.2018.
Repossessed collateral	387 623	133 140	(387 623)	133 140
TOTAL, NET:	**387 623**	**133 140**	**(387 623)**	**133 140**

Repossessed collaterals are vehicles taken over by the Group in case of default by the Group's clients on the related lease agreements. After the default of the client, the Group has the right to repossess the vehicle and sell it to third party. The Group does not have the right to repossess, sell or pledge the vehicle in the absence of default by Group's clients. The Group usually sells the repossessed vehicles within 90 days after repossession.

24. Prepaid Expense

	31.12.2018.	31.12.2017.
	EUR	EUR
Prepaid Mintos service fee	128 064	210 544
Other prepaid expenses	95 749	150 736
TOTAL:	**223 813**	**361 280**

25. Trade receivables

	31.12.2018.	31.12.2017.
	EUR	EUR
Receivables from related parties	2 202 919	200 751
Receivables from non related parties	169 268	-
Receivables for sold motor vehicles	44 265	-
Receivables for commissions	105	-
TOTAL:	**2 416 557**	**200 751**

An analysis of Trade and other receivable aging and the corresponding ECL allowances at the year end are as follows:

2018	current	1-30	31-90	> 90 days	**Total**
Receivables from related parties	811 067	108 683	7 541	1 275 628	2 202 919
Receivables from non related parties	-	-	169 268	-	169 268
Receivables for sold motor vehicles	-	44 265	-	-	44 265
Receivables for commissions	-	105	-	-	105
Total trade receivables	**811 067**	**153 053**	**176 809**	**1 275 628**	**2 416 557**

In line with the expectations and agreement reached with the related parties on the settlement of the debts, material overdue related party receivables at year end were settled shortly after end of reporting period. As at year end ECLs are assessed based on this expected settlement. Accordingly, no ECL is recognized as at the end of the reporting period. (2017: EUR 0).

26. Other receivables

	31.12.2018. EUR	31.12.2017. EUR
Receivable for attracted funding through P2P platform (Note 30).*	-	1 155 378
Overpaid VAT (Parent company)	482 287	399 510
Impairment allowance for overpaid VAT	(482 287)	(399 510)
Net overpaid VAT**	-	-
Overpaid VAT (Subsidiaries)	53 637	-
Advances paid for goods and services	40 023	40 097
Receivables for commissions	-	29 764
Advances to employees	-	515
Overpaid personal income tax	-	261
Other debtors	89 415	85 880
TOTAL:	**183 075**	**1 311 895**

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 29.

* Due to less loans put in P2P platform at the end of FY18, Group has no receivables from P2P platform at 31.12.2018. Due to more repurchased loans from P2P platform the Group has payables to P2P platform. See Note 30.

** During financial year 2016, parent company adjusted its VAT returns for the periods from 2014 to 2016 and recognized additional input VAT. The same approach is applied also in Year 2018.

This resulted in full settlement of payable VAT and recognition of VAT overpayment. Considering the uncertainty disclosed in Note 29, 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 29).

27. Cash and cash equivalents

	31.12.2018.	31.12.2017.
Cash at bank	651 096	617 982
Cash on hand*	92 099	53 889
TOTAL:	**743 195**	**671 871**

This financial asset is not impaired as of 31.12.2018. (31.12.2017.: 0 EUR).

*The cash on hand is held in regional offices and is kept there to ensure daily cash transactions.

The Group has not created ECL allowances for cash and cash equivalents on the basis that placements with banks are of short term nature and the lifetime of these assets under IFRS 9 is so short that the low probability of default would result in immaterial ECL amounts (2017 EUR 0).

28. Share capital

The share capital of the Parent 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 Parent company has set off dividends in reporting year in amount of 4 478 200 EUR. In 2017 the Parent company paid dividends in amount of 1 590 000 EUR. Dividends per share were 0.90 EUR (2017: 0.32 EUR).

The minority shareholders dividends of amount EUR 21 800 remained unpaid at the end of 31 December 2018.

The Group has currency revaluation reserve amount 1 EUR, due to switch from latvian Lats to EUR.

The movements on the Share capital caption during the year are as follows:

	Share capital EUR
Opening balance as at 1 January 2017	**5 000 000**
Subscriptions	-
Redemptions	-
Closing balance as at 31 December 2017	**5 000 000**
Opening balance as at 1 January 2018	**5 000 000**
Subscriptions	-
Redemptions	-
Closing balance as at 31 December 2018	**5 000 000**

Distributions made and proposed

	2018 EUR	2017 EUR
Dividends off set with loan*	4 478 200	-
Proposed, but not paid dividends on ordinary shares	21 800	-
Cash dividends paid	-	1 590 000
Total proposed dividends:	**4 500 000**	**1 590 000**

* During the Shareholders General Meetings held on 02.05.2018. and 20.12.2018, it was decided that there will be dividends distribution to shareholders in total amount EUR 4 500 000. Part of dividends in total amount of EUR 4 478 200 were not paid to shareholders but with set-off agreements from 03.05.2018 and 28.12.2018 set off against Mogo Finance S.A. loan as of the dates of these agreements.

29. Other provisions

	31.12.2018.	31.12.2017.
Provision for possible taxes and duties*	279 137	199 279
Provision for possible VAT liabilities	169 890	157 890
TOTAL:	**449 027**	**357 169**

* Provision for possible taxes and duties are calculated based on rates applied by tax body of Republic of Latvia and discounted with rate of 1.15% for estimated litigation process period of remaining of 5 years.
The provisions are made for VAT possible liabilities.
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).
See Notes 26 and for more information.

Changes in other provisions

	01.01.2018.	Increase in provisions	31.12.2018.
Provision for possible taxes and duties in Latvia	199 279	79 858	279 137
Provision for possible VAT liabilities in Latvia	157 890	12 000	169 890
TOTAL:	**357 169**	**91 858**	**449 027**

30. Borrowings

Non-current	*Interest rate per annum (%)*	*Maturity*	31.12.2018.	31.12.2017.
Liabilities for issued debt securities			EUR	EUR
Bonds 20 million EUR notes issue[1]	10%	31.03.2021	11 136 218	20 000 000
Bonds 10 million EUR notes issue[2]	10-12%	31.03.2021	7 613 782	6 900 000
Bond additional interest accrual [5]			182 493	124 270
Bonds acquisition costs			(274 247)	(460 967)
		TOTAL:	**18 658 246**	**26 563 303**
Other borrowings				
Funding attracted through peer-to-peer platforms[3]	8% - 14%	29.12.2024.	9 345 369	12 724 915
Liabilities acquisition costs for funding attracted through peer-to-peer platform			(185 180)	-
		TOTAL:	**9 160 189**	**12 724 915**
Lease liabilities for right-of-use assets - premises[4]	2,64%	up to 5 years	19 966	-
Lease liabilities for right-of-use assets - vehicles[4]	2,64%	up to 1 year 10 months	3 825	-
		TOTAL:	**23 791**	**-**
		TOTAL NON CURRENT BORROWINGS:	**27 842 226**	**39 288 218**

Current

	Interest rate per annum (%)	*Maturity*	31.12.2018.	31.12.2017.
Liabilities for issued debt securities			EUR	EUR
Bonds 20 million EUR notes issue[1]	10%	31.03.2021.	8 863 782	-
Bonds 10 million EUR notes issue[1]	10-12%	31.03.2021.	2 386 218	-
		TOTAL:	**11 250 000**	-
Other borrowings				
Funding attracted through peer-to-peer platforms[3]	8-14%	29.12.2024.	4 316 448	3 342 202
Accrued interest for funding attracted through peer-to-peer platforms			70 513	87 979
		TOTAL:	**4 386 961**	**3 430 181**
Lease liabilities for right-of-use assets - premises[4]	2,64%	up to 5 years	61 791	-
Lease liabilities for right-of-use assets - vehicles[4]	2,64%	up to 1 year 10 months	4 985	-
		TOTAL:	**66 776**	-
		TOTAL CURRENT BORROWINGS:	**15 703 737**	**3 430 181**

1) On 17 March 2014 Parent company registered with the Latvian Central Depository a bond facility through which it can raise up to EUR 20 million.
Group has raised a total of EUR 20 000 000 as at 31 December 2018 (20 000 000 EUR at 31 December 2017).
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.

2) On 1 December 2017 Parent company registered with the Latvian Central Depository a bond facility through which it can raise up to EUR 10 million.
Group has raised a total of EUR 10 000 000 as at 31 December 2018 (6 900 000 EUR 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 alternative market Firth north of NASDAQ OMX Baltic and are "private issued notes".

In accordance with the initial repayment of both bond facilities starts from 30.06.2019. Accordingly, those liabilities are split between current and non-current as at 31 December 2018. As disclosed in Note 43, subsequent to the reporting period the initial repayment terms were amended.

30. Borrowings (continued)

3) Attracted funding from P2P platform is transferred to Group's bank accounts once per week.The Group repurchased more loans back than put in P2P platform in December 2018 than in December 2017.

4) Group has entered into several lease agreements for office premises and branches as well as several vehicle rent agreements. Group has elected to early adapt IFRS16 accounting requirements starting from year 2018 therefore it has recognized lease liabilities for expected lease period. (Note 2 section IFRS 16: Leases)

5) The accrual represents accrued interest, which is to be paid at the maturity of the bonds, therefore the accrued interest is classified as long term.

P2P platform payables/ receivables position at the year end dates were:

	31.12.2018. EUR	31.12.2017. EUR
(Payable)/ Receivable from attracted funding through P2P platform (Note 26,33)	(187 857)	1 155 378
TOTAL:	**(187 857)**	**1 155 378**

	31.12.2018. EUR	31.12.2017. EUR
Accrued for expenses from attracted funding through peer-to-peer platform (Note 34)	14 891	70 654
TOTAL:	**14 891**	**70 654**

Changes in liabilities

	01.01.2018.	Cash flows	Other	31.12.2018.
Funding attracted through peer-to-peer platforms	16 067 118	(2 065 170)	(340 131)	13 661 817
Lease liabilities for Right-of-use assets	148 923	(236 908)	178 552	90 567
Liabilities for issued debt securities	26 900 000	3 100 000	-	30 000 000
TOTAL BORROWINGS PRINCIPAL:	**43 116 041**	**797 922**	**(161 579)**	**43 752 384**
Bonds acquisition costs*	(460 967)	(221 428)	408 148	(274 247)
Funding attracted through peer-to-peer platforms acquisition costs	-	(467 151)	281 971	(185 180)
TOTAL BORROWINGS ACQUISITION COSTS:	**(460 967)**	**(688 579)**	**690 119**	**(459 427)**

*Bonds acquisition costs changes are related to a separate bond nominal purchase and sales transactions in year 2018.

Cash flows in this Note for borrowings principal and borrowings acquisition costs amounts to EUR 109 343 and are shown on net basis and reconciles with Consolidates statement of cash flows on net amounts.

	01.01.2018.	Cash flows	Other	31.12.2018.
Accrued interest for financing received from P2P investors	87 977	(2 369 486)	2 352 022	70 513
Bonds interest	-	(3 041 283)	3 041 283	-
Additional bond interest accrual	124 270	-	58 223	182 493
TOTAL INTEREST LIABILITIES:	**212 247**	**(5 410 769)**	**5 451 528**	**253 006**
TOTAL BORROWINGS:	**42 867 322**	**(5 301 426)**	**5 980 068**	**43 545 963**

	01.01.2017.	Cash flows	Other	31.12.2017.
Funding attracted through peer-to-peer platforms	-	16 067 118	-	16 067 118
Bonds nominal value	20 000 000	6 900 000	-	26 900 000
Bonds available for sale	(2 310 000)	2 310 000	-	-
Loan from bank	700 000	(700 000)	-	-
TOTAL BORROWINGS PRINCIPAL:	**18 390 000**	**24 577 118**	**-**	**42 967 118**
Bonds acquisition costs	(87 936)	(417 358)	44 327	(460 967)
TOTAL BORROWINGS ACQUISITION COSTS:	**(87 936)**	**(417 358)**	**44 327**	**(460 967)**
Accrued interest for funding attracted through peer-to-peer platforms	-	(402 484)	490 461	87 977
Bonds interest	-	(2 416 688)	2 416 688	-
Additional bond interest accural	318 841	-	(194 571)	124 270
Accrued interest for loan from bank	3 707	(247 858)	244 151	-
TOTAL INTEREST LIABILITIES:	**322 548**	**(3 067 030)**	**2 956 729**	**212 247**
TOTAL BORROWINGS:	**18 624 612**	**21 092 730**	**3 001 056**	**42 718 398**

31. Prepayments and other payments received from customers

	31.12.2018. EUR	31.12.2017. EUR
Unrecognized payments received*	41 272	-
Overpayments from historical customers	27 687	21 538
Advances received from customers**	-	272 268
TOTAL:	**68 959**	**293 806**

* Unrecognised payments are payments received from former clients after contractual terms are ended and payments received which cannot be identified and allocated to a respective finance lease or loan and advance to customer balance.
** Advances received from customers are shown under finance lease receivables and loans and advances to customers in year 2018.

32. Taxes payable

	31.12.2018. EUR	31.12.2017. EUR
Social security contributions	24 227	64 401
Personal income tax	21 955	-
Other taxes	29	3
TOTAL:	**46 211**	**64 404**

33. Other liabilities

	31.12.2018. EUR	31.12.2017. EUR
Payable for attracted funding through P2P platform*	187 857	-
Declared, but not paid dividends	21 800	-
Liabilities against employees for salaries	2 697	3 267
Other liabilities	-	4 446
TOTAL:	**212 354**	**7 713**

* Due to more repurchased loans from P2P platform in December 2018 than in December 2017 the Group has payables to P2P platform. See Note 30.

34. Accrued liabilities

	31.12.2018. EUR	31.12.2017. EUR
Accrued liabilities for sevices received	152 404	98 891
Accrued liabilities for management services from related parties	85 905	-
Accrued unused vacation	48 799	128 440
Accruals for bonuses	12 767	177 291
Accrued expenses from attracted funding through peer-to-peer platform (Note 30)	14 891	70 654
TOTAL:	**314 766**	**475 276**

35. Related parties disclosures

Receivables and payables incurred are not secured with any kind of pledge.

Transactions with related parties for years 2018 and 2017 were as follows:

	2018 EUR	2017 EUR
Services provided		
- Agent services (Note 14)*	773 969	42 279
- Mogo Finance S.A.	32 748	666
*- HUB****	404 177	-
- Other related companies	337 044	41 613
- Other services provided (Note 14)	4 000	77
- Other related companies	4 000	77
Services received		
- Management services (Note 13)	372 266	-
*- HUB****	372 266	-
- Other services received****	351 645	-
- HUB **	143 435	-
- Longo Latvia JSC	70 946	-
*- Longo Latvia JSC***	12 163	
- Other related companies	125 101	-
Assets sold	3 314 191	3 170
- Repossessed collaterals sold to Longo Latvia JSC [1)]	1 422 940	-
- Repossessed collaterals sold to other related companies	-	2 654
- Vehicles sold to Longo Latvia JSC (Note 11)	470 695	-
- Assets sold to Longo Latvia JSC [2)]	10 498	-
- Assets sold to HUBs [2)]	1 404 156	-
- Assets sold to Other related companies [2)]	5 902	516
Acquired vehicles for sale through finance leases	571 324	-
- Cars from Longo Latvia JSC [3)]	571 324	-
Interest income (Note 4)	2 447 623	485 122
- Mogo Finance S.A.	2 444 897	319 572
- Other related companies	2 726	165 550
Cession income (Note 8) [4)]	68 681	(66 925)
- Risk Management Services OU	68 681	(57 259)
- Other related companies	-	(9 666)

* When another party is involved in providing goods or services to Group's customers, the Group considers that in these transactions it acts as an agent. (Note 2, 3)

** Vacation expenses compensation for employees moved from mogo JSC to HUB`s.

*** HUB - under HUB there are disclosed the Group related parties JSC HUB1, JSC HUB2, JSC HUB3 and JSC HUB4.

**** Other services received - include car dealership commissions (that form part of net finance lease receivable). It also includes vacation compensations to employees who moved from mogo JSC to HUB - and no gain or loss occurred on this transaction.

1) The Group has sold repossessed vehicles from customers with terminated agreements to related party Longo Latvia JSC. Sales proceeds reduces the respective customer's debt towards the Group and is recorded as a reduction in financial lease receivable upon sales.

2) The Group has sold internally developed IT systems (Note 17) and equipment (Note 18) at their net book values to related parties. As assets were sold at their carrying amounts to no gain or loss occurred on these transactions.

3) The Group has acquired vehicles from related party Longo Latvia JSC and these vehicles were sold to customers through finance lease (Note 21). No gain or loss occurred on these transactions.

4) Cession income from transaction with related parties is included in the net gain/(loss) from de-recognition of financial assets measured at amortized costs (Note 8)

Receivables from related companies

Non-current	Interest rate per annum (%)	Maturity		31.12.2018. EUR	31.12.2017. EUR
Loan receivable from Parent company*	12	April 2023		11 041 800	17 865 000
			TOTAL:	**11 041 800**	**17 865 000**

* In 2017 the Group has signed the loan agreement with its Parent Company Mogo Finance S.A. Loan agreement allows both parties to agree on flexible loan payout and loan repayment arrangement with maximum loan amount of 30 million EUR.

An analysis of loan receivables staging and the corresponding ECL allowances at the year end are as follows:

2018	Stage 1	Stage 2	Stage 3	**Total**
Loan receivable from parent company	11 041 800	-	-	11 041 800

No ECLs are recognized for the loan receivable from related party (2017: EUR 0)

35. Related party disclosures (continued)

Current	31.12.2018. EUR	31.12.2017. EUR
Receivables from Mogo Finance S.A.	32 748	396
Receivables from related companies	2 170 171	200 355
TOTAL:	**2 202 919**	**200 751**
TOTAL RECEIVABLES:	**13 244 719**	**18 065 751**

Aging of receivables from related companies is disclosed in Note 25.

Payables to related companies

	31.12.2018. EUR	31.12.2017. EUR
Payables to Mogo Finance SA	3 442	-
Payables to other related companies	44 738	3 872
TOTAL:	**48 180**	**3 872**

On November 13, 2018 the Mogo Finance S.A. as Issuer and certain its subsidiaries (including Mogo JSC) as Guarantors signed a guarantee agreement dated 9 July 2018 as amended and restated on 13 November 2018 according to which the guarantors unconditionally and irrevocably guaranteed by way of an independent payment obligation to each holder of the Mogo Finance S.A. bonds the due and punctual payment of principal of, and interest on, and any other amounts payable under the Mogo Finance S.A. bonds prospectus (Note 38).

36. Other investments

	Shareholding	31.12.2018. EUR	31.12.2017. EUR
Investments in Mogo IFN (Romania)	0,01%	20	20
Investments in LLC Mogo Belarus	0,01%	6	6
TOTAL:		**26**	**26**

37. Commitments and contingencies

Starting from 9 July 2018 Mogo Finance S.A. and its subsidiaries (including Mogo JSC, Renti JSC and Loango JSC) entered into several pledge agreements with Greenmarck Restructuring Solutions GmbH, establishing pledge over shares of the subsidiaries, pledge over present and future loan receivables of the subsidiaries, pledge over trademarks of the subsidiaries, general business pledge over the subsidiaries, pledge over primary bank accounts if feasible, in order to secure Mogo Finance S.A. obligations towards bondholders deriving from Mogo Finance S.A. bonds. Subsequently additional pledgors were added who became material (subsidiaries with net portfolio of more than EUR 7 500 000) according to terms and conditions of the bonds.

On November 13, 2018 the Mogo Finance S.A. as Issuer and its subsidiaries (including Mogo JSC, Renti JSC and Loango JSC) as Guarantors signed a guarantee agreement dated 9 July 2018 as amended and restated on 13 November 2018 according to which the guarantors unconditionally and irrevocably guaranteed by way of an independent payment obligation to each holder of the Mogo Finance S.A. bonds the due and punctual payment of principal of, and interest on, and any other amounts payable under the Mogo Finance S.A. bonds prospectus (Note 38).

On 26 February 2018 the subsidiary in Latvia mogo JSC entered into a surety agreement with Ardshinbank CJSC and Mogo LLC, in order to secure Mogo LLC obligations towards Ardshinbank CJSC deriving from loan agreement concluded between Ardshinbank CJSC and Mogo LLC on 26 February 2018, with a maximum liability not exceeding the principal amount EUR 1 000 000.

In 2017 the Group 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. There are no accruals made for this particular contingency.

On 11 December 2018 the Parent company - mogo JSC issued a payment guarantee No.2018.12.05 for the benefit of third party with a maximum liability not exceeding EUR 200 000, where the liability of mogo JSC is limited to the performance of other subsidiary's HUB1 JSC obligations from the secured agreement with this party.

On 12 December 2018 The Parent company - mogo JSC issued guarantee letters for the benefit of a third party to secure other subsidiaries HUB 4 JSC and Longo Group JSC obligations from the secured office space lease agreements concluded on 12 December 2018. According to the guarantee letters mogo JSC undertook to fulfil HUB 4 JSC and Longo Group JSC obligations towards the third party if they are overdue on liabilities under the agreements terms. The guarantees expire if the lease agreements are amended, renewed without prior written approval by mogo JSC and is effective for the entire duration of the respective lease agreements.

Externally imposed capital requirements

The Group considers both equity capital as well as borrowings a part of overall capital risk management strategy. The Group is subject to externally imposed capital requirements.

Main requirements are listed below:

Mogo JSC Bonds

There are restrictions in prospectus for bonds issued in Nasdaq Baltic (ISIN: LV0000801363 and LV0000880029)

1) To maintain positive amount of equity at all times;

2) To maintain Net Debt/Equity (total liabilities minus cash against equity) indicator at certain level.

During the reporting period the Group complied with all externaly imposed capital requirements to which it was subjected to.

Cooperation agreement with P2P platform

1) Positive equity and ensure that DSCR* is above certain level.

The Group is subject to additional financial covenants relating to its attracted funding through P2P platform. Group is regularly monitoring respective indicators and ensures that covenants are satisfied. The Group is in compliance with these covenants at 31 December 2018 and 31 December 2017.

* DSCR (debt service coverage ratio) is EBITDA / (divided by) sum of all payments of interest and principal for all interest bearing debt (loans, financial and operational leasings, factorings, guarantees, letters of credit etc.) to be paid under all concluded agreements within period for which DSCR is calculated

38. Provisions for financial guarantees

Other reserves movement	**Other reserves**
Outstanding as at 1 January 2018	-
Fair value of financial guarantees issued [1)]	(878 051)
Increase in the guarantee limit [2)]	(188 539)
At 31 December 2018	**(1 066 590)**

Financial guarantees movement	**Financial guarantees**
Outstanding as at 1 January 2018	-
Fair value of the original guarantee recognized [1)]	878 051
Amortised as income	(73 171)
Outstanding provisions before derecognition	**804 880**
Fair value of the modified guarantee recognized [2)]	993 419
Difference recognized in equity under Other reserves	(188 539)
Outstanding provisions after increase in guarantee limit	
Fair value of the modified guarantee recognized [2)]	**993 419**
Amortised as income	(45 156)
31 December 2018	**948 263**
Non-current provisions for financial guarantees	677 331
Current provisions for financial guarantees	270 932
Total recognized as income (Note 14)	**(118 326)**

1) On 9 July 2018 the Parent company entered a financial guarantee agreement issued in favor of bondholders of Mogo Finance S.A. Guarantee was issued to secure Mogo Finance S.A. exposure after issuing a 4-year 50 million EUR corporate bond (XS1831877755), which listed on the Open Market of the Frankfurt Stock Exchange. Under the guarantee agreement the Parent company irrevocably guarantees the payment of Mogo Finance S.A. liabilities towards its bondholders in case of default of Mogo Finance S.A. under the provisions of bond prospectus. The Parent company did not receive compensation for the guarantee provided. Fair value of financial guarantee determined amounts to 878 051 EUR, which is recognized as liability andas a distribution of equity under “Other reserves”. Liabilities under the financial guarantee agreement are recognized in income (Note 14) on straight line basis till bond maturity, which is July 2022.

2) On 13 November 2018 original guarantee agreement was revised following Mogo Finance S.A. tap bond issue of further 25 million EUR. The Parent company did not receive compensation for the guarantee provided. The amended guarantee agreement increases the total exposure of the Parent company under the amended guarantee agreement.

Change is deemed substantial as it increases the guarantee limit. Accordingly, the original guarantee is derecognized. Difference between the original guarantee provision book value and the fair value of the modified financial guarantee of 993 419 EUR corresponds to 188 539 EUR and is recognized as an increase in guarantee provision and a respective decrease in Other reserves as a distribution of equity. Liabilities under the new financial guarantee agreement are recognized in income (Note 14) on straight line basis till bond maturity, which is July 2022.

After initial recognition, the liability under the guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised through linear amortisation and an ECL provision. ECL provision for financial guarantee is a Stage 1 exposure as described in Note 3. Throughout 2018 ECL provision for the guarantee did not exceed its carrying amount.
ECL provision on 13 November 2018 amounted to 282 451 EUR which is lower than guarantee carrying amount of 804 880 EUR therefore no adjustment to the carrying amount was required.
As at year end ECL provision amounts to 270 055 EUR which is lower than guarantee carrying amount of 948 263 EUR therefore no adjustment to the carrying amount is required.

Financial guarantee is a Stage 1 exposure as described in Note 3.

39. Financial risk management

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises interest rate 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.

Operational risks

Compliance risk

Compliance risk refers to the risk of losses or business process disruption resulting from inadequate or failed internal processes systems, that have resulted in a breach of applicable law or other regulation currently in place.

Regulatory risks

Group’s operations are subject to regulation by a variety of consumer protection, financial services and other state authorities in various jurisdictions, including, but not limited to, laws and regulations relating to consumer loans and consumer rights protection, debt collection and personal data processing. The Group closely monitors all the changes in regulatory framework. The Group employs both in-house as well as outsourced legal specialists to assist in addressing any current or future regulatory developments that might have an impact on Group’s business activities.

Anti-money laundering and Know Your Customer laws compliance risk

The Group is subject to anti-money laundering laws and related compliance obligations. The Group has put in place anti-money laundering policies. As a financial institution, the Group is required to comply with anti-money laundering regulations that are generally less restrictive than those that apply to banks.

As a result, the Group often relies on anti-money laundering and know your customer checks performed by our customers’ banks when such customers open new bank accounts, however the Group has implemented further internal policies to minimise these risks. The Group has put in place internal control framework to identify and report all suspicious transactions with a combination of IT based solutions and human involvement. Internal policies of the Group typically include customers’ background check against sanctioned lists and other public sources as required by local law and Consumer Rights Protection Centre.

39. Financial risk management (continued)

Privacy, data protection compliance risk

The Group's business is subject to a variety of laws and regulations internationally that involve user privacy, data protection, advertising, marketing, disclosures, distribution, electronic contracts and other communications, consumer protection and online payment services. The Group has put in place an internal control framework consisting from a combination of IT based solutions and business procedures that are designed to capture any potential non-compliance matter before it has occurred and to ensure compliance with these requirements.

Market risks

The Group takes on exposure to market risks, which are the risks that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements and changes in the level of volatility or market rates or prices such as interest rates.

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

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

Capital risk management

The Group considers both equity capital as well as borrowings a part of overall capital risk management strategy.
The Group manages its capital to ensure that it will be able to continue as going concern. In order to maintain or adjust the capital structure, the Group may attract new credit facilities or increase its share capital. The Group fulfils externally imposed equity capital requirements as stated in Note 37

Liquidity risk

The Group manages its liquidity risk by arranging an adequate amount of committed credit facilities with related parties and by issuing bonds and P2P platforms.

The table below presents the cash flows payable by the Group and to the Group 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.

		Contractual cash flows				
	Carrying value	**On demand**	**Up to 1 year**	**1-5 years**	**More than 5 years**	**Total**
Assets						
Cash and cash equivalents	743 195	743 195	-	-	-	**743 195**
Loans and advances to customers	2 688 354	-	2 910 779	2 445 917	-	**5 356 696**
Loans to related parties	11 041 800	-		15 458 520	-	**15 458 520**
Trade receivables	2 416 557	-	2 416 557	-	-	**2 416 557**
Finance lease receivables	33 487 542	-	23 955 702	46 053 358	3 194 150	**73 203 210**
Total undiscounted financial assets	50 377 448	743 195	29 283 038	63 957 795	3 194 150	**97 178 178**
Liabilities						
Funding attracted through peer-to-peer platforms	(13 547 150)	-	(4 645 948)	(8 401 487)	(1 971 873)	**(15 019 308)**
Liabilities for issued debt securities	(29 908 246)	-	(11 250 000)	(18 932 493)	-	**(30 182 493)**
Lease liabilities for right-of-use assets	(90 567)	-	(66 776)	(23 791)	-	**(90 567)**
Other liabilities	(720 469)	-	(720 469)	-	-	**(720 469)**
Total undiscounted financial liabilities	(44 266 432)	-	(16 683 193)	(27 357 771)	(1 971 873)	**(46 012 837)**
Net undiscounted financial assets / (liabilities)	6 111 016	743 195	12 599 845	36 600 024	1 222 277	**51 165 341**

		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 and cash equivalents	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 parties	17 865 000	-	2 143 800	17 865 000	-	**20 008 800**
Trade receivables	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						
Funding attracted through peer-to-peer platforms	(16 155 096)	-	(3 430 181)	(12 724 915)	-	**(16 155 096)**
Liabilities for issued debt securities	(26 563 303)	-	(3 124 089)	(36 968 744)	-	**(40 092 833)**
Other 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)**

39. Financial risk management (continued)

Credit risk

The Group is exposed to credit risk through its finance lease receivables, loans and advances to customers as well as cash and cash equivalents.
The key areas of credit risk policy cover lease granting process (including solvency check of the lease), monitoring methods, as well as decision making principles.

The Group 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 Group takes into consideration both quantitative and qualitative factors when assessing the creditworthiness of the customer. Based on this analysis, the Group sets the credit limit for each and every customer.

When the lease agreement has been signed, the Group monitors the lease object and customer's solvency. The Group 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 Group's exposure to bad debts is minimized, and, where appropriate, provisions are being made.
The Group does not have a significant credit risk exposure to any single counterparty, but has risk to group of counterparties having similar characteristics.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group is maintaining a diversified portfolio. It's main product is subprime lease, however it is offering also near prime lease, as well as loans and advances to customers and long-term rent products.

40. 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 Group.

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 Group 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.

Group does not have any assets or liabilities classified within Level 1 or Level 2

Instruments within Level 3 include assets, for which no active market exists - such as loans and receivables, bonds, 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.

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. Group's management believes that interest rates applicable to loan portfolio and borrowings are in line with current market interest rates for companies similar to Mogo JSC.

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 Group 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 Group 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 Group's statement of financial position at their fair value:

	Carrying value	Fair value	Carrying value	Fair value
	31.12.2018.	31.12.2018.	31.12.2017.	31.12.2017.
Assets for which fair value is disclosed	**EUR**	**EUR**	**EUR**	**EUR**
Loans to related parties	11 041 800	11 041 800	17 865 000	17 865 000
Trade receivables	2 416 557	2 416 557	200 751	200 751
Other receivables	183 075	183 075	1 311 895	1 311 895
Cash and cash equivalents	743 195	743 195	671 871	671 871
Total assets for which fair value is disclosed	**14 384 627**	**14 384 627**	**20 049 517**	**20 049 517**

Liabilities for which fair value is disclosed				
Liabilities for issued debt securities	29 908 246	30 000 000	26 563 303	26 900 000
Lease liabilities for right-of-use assets	90 567	90 567	-	-
Trade payables	98 958	98 958	181 397	181 397
Other liabilities	212 354	212 354	7 713	7 713
Total liabilities for which fair value is disclosed	**30 310 125**	**30 401 879**	**26 752 413**	**27 089 110**

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

The table below specified analysis by fair value levels as at 31 December 2018 (based on their carrying amounts):

	Level 1 31.12.2018.	Level 2 31.12.2018.	Level 3 31.12.2018.	Level 1 31.12.2017.	Level 2 31.12.2017.	Level 3 31.12.2017.
Assets at fair value	EUR	EUR	EUR	EUR	EUR	EUR
Loans to non related parties non-current	-	-	11 041 800	-	-	17 865 000
Trade receivables	-	-	2 416 557	-	-	200 751
Other receivables	-	-	183 075	-	-	1 311 895
Cash and cash equivalents	-	-	743 195	-	-	671 871
Total assets at fair value	**-**	**-**	**14 384 627**	**-**	**-**	**20 049 517**
Liabilities at fair value						
Liabilities for issued debt securities	-	-	29 908 246	-	-	26 563 303
Lease liabilities for right-of-use assets	-	-	90 567	-	-	-
Trade payables	-	-	98 958	-	-	181 397
Other liabilities	-	-	212 354	-	-	7 713
Total liabilities at fair value	**-**	**-**	**30 310 125**	**-**	**-**	**26 752 413**

The market for Parent company's bonds is not assessed as an active market thus classified as Level 3. Fair value of the bonds has been determined based on observable quotes.

41. Segment information

For management purposes, the Group is organized into business units based on its economic activities. Group includes two types of economic activities:

1) Financing activities. This is the major segment of the Group representing entity performing financing activities.

2) Other segments. This segment comprises Group's business lines with aggregate unconsolidated revenue below 10% of the total unconsolidated revenue of all operating segments.

Management monitors mainly the following indicators of operating segments for the purpose of making decisions about resource allocation and performance assessment: net revenue, profit before tax, gross portfolio and impairment.

The Group`s Chief operating decision maker is Group`s CEO.
Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2017 or 2018.

Segment information below shows main income and expense items of comprehensive income statement. Other smaller income and expense items are summarized and shown under 'Other income/(expense)' column.

Segment information for the period ended on 31 December 2018 is presented below:

Period ended 31.12.2018.	Interest income	Interest expenses	Impairment expense	Other operating income	Other operating expense	Corporate income tax	Segment profit/(loss) for the period	Total assets	Total liabilities
Financing	18 817 631	(6 155 762)	(5 305 042)	2 401 757	(6 677 559)	-	3 081 024	52 682 977	45 733 759
Other segments	7 796	(112)	-	42 952	(167 235)	-	(116 599)	1 733 103	1 733 103
Total segments	18 825 427	(6 155 874)	(5 305 042)	2 444 709	(6 844 794)	-	2 964 425	54 416 080	47 466 862
Adjustments and eliminations	(30 140)	26 884	-	(617 107)	485 995	-	(134 368)	(1 777 060)	(1 642 692)
Consolidated	18 795 287	(6 128 990)	(5 305 042)	1 827 602	(6 358 799)	-	2 830 057	52 639 020	45 824 170

Inter-segment revenues are eliminated upon consolidation and reflected in the 'adjustments and eliminations' column. All other adjustments and eliminations are part of detailed reconciliations presented further below.

Revenue		2 018 EUR
External customers (interest income and other income)		20 622 889
Elimination of intragroup interest income and other operating income		647 247
	TOTAL:	**21 270 136**

Reconciliation of profit	31.12.2018. EUR
Segment profit	2 964 425
Elimination of intragroup interest income	(30 140)
Elimination of intragroup income from dealership commissions	(176 826)
Elimination of intragroup other income/(expenses)	45 714
Consolidated profit for the period	2 830 057

41. Segment information (continued)

Reconciliation of assets	
Segment operating assets	54 416 080
Elimination of intragroup loans	(1 777 060)
Total assets	52 639 020

Reconciliation of liabilities	
Segment operating liabilities	47 466 862
Elimination of intragroup borrowings	(1 642 692)
Total liabilities	45 824 170

2017 balances include only the Parent company as subsidiaries included in the consolidated were established in 2018 (Note 2). The Parent company has only financing segment. Therefore segment information for comparative period is not presented.

42. Events after reporting period

Since the last day of the reporting year several significant events took place:
1) New Member of the Board and CEO Krišjānis Znotiņš has joined Mogo AS on 11.03.2019

2) The Company received bondholders of 30 000 000 EUR outstanding bonds (ISIN: LV0000880029 and LV0000801363) consent for the proposed amendments to the terms of the notes issue, which provide that the principal amount of the notes shall be fully repaid in one instalment on 31 March 2021, replacing quarterly instalments of the principal amount of the notes.

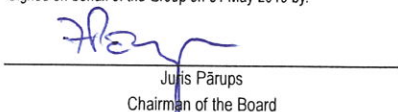
3) From 01.03.2019 the Group has overtaken part of related company`s Longo JSC business in dealing with repossessed vehicle sale and rent.

4) 98% of Parent company`s shares from 27.03.2019 are held by HUB1 JSC

5) JSC Renti started the cooperation with P2P platform from 01.02.2019.

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.

Signed on behalf of the Group on 31 May 2019 by:



Juris Pārups
Chairman of the Board

Krišjānis Znotiņš
Member of the board

Rita Kaktiņa
Chief accountant

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Translation from Latvian

INDEPENDENT AUDITOR'S REPORT

To the shareholders of mogo AS

Opinion

We have audited the accompanying consolidated financial statements of mogo AS and its subsidiaries (the Group) set out on pages 7 to 56 of the accompanying Annual Report, which comprise the consolidated statement of financial position as at 31 December 2018 and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018 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 consolidated financial statements* section of our report. We are independent of the Group 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 consolidated 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements.

Key audit matter	How we addressed the key audit matter
Impairment allowance for finance lease receivables, loans and advances to customers	
The carrying amount of finance lease receivables as at 31 December 2018 amounts to EUR 33 487 542 and the carrying amount of loans and advances to customers at this date amounts to EUR 2 688 354, as disclosed in Note 20 and Note 21, respectively. Finance lease receivables and loans and advances to customers together correspond to 69% of the Group's assets.	Our audit procedures included, among others, the following: • We have obtained an understanding of the Group's implementation process for determining the impact of adoption of IFRS 9, including understanding of the changes to the Group`s accounting processes. Additionally, we obtained an understanding of the credit risk modelling methodologies. • We analyzed the accounting policies and framework methodology developed by the Group in order to evaluate its compliance with the requirements of the new standard.

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Key audit matter	How we addressed the key audit matter
Effective 1 January 2018, the Group adopted IFRS 9 Financial Instruments and the requirements of the IFRS 9 have been applied using modified retrospective approach without restating the comparatives. The additional impairment recognized as a result of IFRS 9 adoption in the opening balance of retained earnings of the Group on 1 January 2018 amounts to EUR 22 320 (Note 2 c). Under IFRS 9, the Group has introduced the expected credit loss model. The Group`s impairment allowance policy is presented in the accounting policies section in Note 2 sub-section *Overview of the expected credit loss principles* to the financial statements. Critical accounting estimates and judgments are set out in Note 3 sub-section *Impairment of financial assets* to the financial statements. Given the complexity and judgements related particularly to the calculation of expected credit losses we considered this area as a key audit matter.	• We also assessed the methodology developed by the management to calculate loss allowance under IFRS 9, concentrating on such aspects as factors for determining a 'significant increase in credit risk' and allocating the finance lease receivables and loans and advances to customers to stages, estimation of key impairment allowance calculation input parameters and forward-looking information. • We checked the mathematical correctness of impairment allowance calculations. • On a sample basis we tested key controls over impairment allowance calculation process. We further performed additional procedures that involved assessment of the accuracy and completeness of the data used in the models. On sample basis we tested the data flow in the models, as well as evaluated the integrity of the data used during the process and consistency between the sources/ systems. We also assessed the adequacy of the related disclosures contained in Notes 20 and Note 21, 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 consolidated statement of comprehensive income the Group recognized interest income from financial lease receivables amounting to 14 945 056 EUR and loans and advances to customers amounting to 1 402 608 EUR, as disclosed in Note 4. The calculation of the EIR includes commissions paid or received between the Group 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 controls over the process, especially operational effectiveness of IT related controls. 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, modification of those terms, as well as the amount of commissions included in the EIR calculation. Group's accounting policy in relation to agreement modifications is disclosed in Note 2. 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.	Our audit procedures included, among others, the following: • We assessed whether the Group's accounting policies in relation to the interest income recognition are in compliance with IFRS and reviewed Group`s calculation of the EIR. • 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, commissions forming part of the EIR and principal outstanding at the financial year end by comparing the amounts recognized by the Group with the respective agreement terms, agreement modifications 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.

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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 2018, set out in separate statement provided by mogo AS management and available on the Nasdaq Baltic exchange website https://nasdaqbaltic.com mogo AS section *Reports*,

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

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the Group 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.

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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 consolidated 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 Group on 2 November 2017 by shareholders. Our appointment has been renewed annually by shareholders resolution representing a total period of uninterrupted engagement appointment of 2 years.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Group;
- as stipulated in paragraph $37.^{6}$ of the Law on Audit Services of the Republic of Latvia, we have not provided to the Group 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.

Ernst & Young Baltic SIA
Licence No. 17

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

Riga, 31 May 2019

A member firm of Ernst & Young Global Limited