

AS Moda Kapitāls

ANNUAL REPORT 2015

prepared in accordance with EU approved International Financial
Reporting Standards

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MANAGEMENT

Names and positions of the Council members

Andris Banders - member of the Council
Inese Kanneniece - member of the Council
Aleksandrs Sirmāis - member of the Council
Verners Skrastiņš - member of the Council
Diāna Zvīne - member of the Council

Names and positions of the Board members

Ilvars Sirmāis - member of the Board
Guntars Zvīnis - member of the Board

REPORT OF THE MANAGEMENT

Type of operations

The principal activity of AS Moda Kapitāls (further - Company) is issuance of short-term loans against a pledge of movable property, real estate and issuance of consumer loans, as well as trading of precious metals and little-used wide range of home appliances and electronics.

Performance during the financial year and financial situation of the Company

Given the increasing competition and the current market situation, the company's priority is not the opening of new branches, but the improvement of branch operations and increasing of profitability. The Company considers to change the location for several branch premises to be able to improve the quality of services offered and increase the customer service area.

There is continuous improves of the qualification of employees and improvements in the Company's customer service system. Improvements and modernization of branch premises continues. The Company actively develops the range of goods for sale by offering to its customers different types of used electrical items.

In 2015 there was no significant overall customer growth activity and demand for AS Moda Kapitāls services rendered. By analysing the statistical data of 2015 observed that several types of loans has been increased, others decreased. At the same time growth in customer activity was observed concerning to trade of goods. There is growing base of clients who regularly use the Company's services, both in borrowing and the purchase of goods traded.

During the second half of the 2015 increased amount of issued short-term loans against a pledge of movable property, but at the same time decreased the amount of loans pledged with real estate. The Company estimates that substantial proportion of the company's loan portfolio will take consumer loans without collateral.

Compared with the previous year, in most of the Company's branches further development of both the loan portfolio and income growth is observed. As in previous years, major attention is being paid to the payment discipline of clients and individual work with clients, that the delayed payment problem would be solved through co-operation. Work on offering of a higher quality loan services to clients continued.

Company's branches

Currently there are twenty-seven branches: Aizkraukle, Alūksne, Balvi, Bauska, Cesis, Dobele, Daugavpils, Gulbene, Jekabpils (two branches), Jelgava, Kraslava, Kuldīga, Liepāja, Limbazi, Madona, Ogre, Rezekne, Rīga, Saldus, Talsi, Valmiera, Ventspils, Tukums, Preiļi, Ludza and Valka.

Future prospects and future development

We expect that 2016 sales will be about the same level as in 2015. Taking into account that the Company recognised substantial provisions of impairment for loans we believe that financial results 2016 will be better than in 2015.

In December 2015 the online shop www.emoda.lv was opened, which has given an additional income and we estimate that online shop sales will significantly increase based on marketing activities carried out.

Significant events since the year end

During the time period from the last day of the financial year till signing of this report, no significant events have occurred that would have significantly affected the financial position of the Company at 31 December 2015.

Result for the reporting year

The board recommends that the 2015 losses are charged to the profit for next year.

Guntars Zvīnis
Member of the Board

Rīga, 29 April 2016

STATEMENT OF THE MANAGEMENT RESPONSIBILITY

The Management is responsible for the preparation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted the EU. The financial statements give a true and fair view of the financial position of the Company at the end of the reporting year, and the results of its operations and cash flow for the year then ended.

The Management certifies that proper accounting methods were applied to preparation of these financial statements on page 6 to page 26 and decisions and assessments were made with proper discretion and prudence. The accounting policies applied have been consistent with the previous period. The Management confirms that the financial statements have been prepared on going concern basis.

The Management is responsible for accounting records and for safeguarding the Company's assets and preventing and detecting of fraud and other irregularities in the Company. It is also responsible for operating the Company in compliance with the legislation of the Republic of Latvia.

Guntars Zvīnis
Member of the Board

Rīga, 29 April 2016

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2015 EUR	2014 EUR
Revenue	(1)	1 095 964	1 090 211
Finance income	(1)	1 373 717	1 427 100
Cost of sales	(2)	(900 396)	(890 017)
Finance costs	(3)	(428 937)	(416 513)
Gross profit		1 140 348	1 210 781
Distribution expenses	(4)	(798 063)	(919 464)
Administrative expenses	(5)	(337 283)	(369 704)
Other income	(6)	15 557	24 563
Other expenses	(7)	(146 045)	(108 065)
Profit or loss before tax		(125 486)	(161 889)
Corporate income tax	(9)	15 248	30 897
Net profit or loss		(110 238)	(130 992)
Other comprehensive income / (loss)		-	-
Total comprehensive income		(110 238)	(130 992)

Notes on pages 10 to 25 are an integral part of these financial statements.

Guntars Zvīnis
Member of the Board

Riga, 29 April 2016

STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2015. EUR	31.12.2014. EUR
<u>ASSETS</u>			
Non-current assets			
Intangible assets	(10)	44 739	49 105
Property, plant and equipment	(10)	587 128	713 913
Other non-current assets		142	142
Total non-current assets:		632 009	763 160
Current assets			
Inventories	(11)	1 105 387	1 003 405
Loans and receivables	(12)	2 212 807	2 536 875
Other current assets	(13)	44 086	49 156
Cash and cash equivalents	(14)	285 218	75 422
Total current assets:		3 647 498	3 664 858
Total assets		4 279 507	4 428 018
<u>EQUITY AND LIABILITIES</u>			
Equity			
Share capital	(16)	426 862	426 862
Revaluation reserves of non-current assets	(10)	133 288	133 288
Retained earnings/ (accumulated deficit)		(239 717)	(129 479)
Total equity:		320 433	430 671
Liabilities:			
Non-current liabilities:			
Borrowings	(17)	3 329 172	52 862
Deferred income tax liabilities	(9)	7 049	23 172
Total non-current liabilities:		3 336 221	76 034
Current liabilities:			
Borrowings	(17)	504 631	3 797 652
Trade and other payables	(18)	118 222	123 661
Total current liabilities:		612 853	3 921 313
Total liabilities:		3 959 074	3 997 347
Total equity and liabilities:		4 279 507	4 428 018

Notes on pages 10 to 25 are an integral part of these financial statements

Guntars Zvīnis
Member of the Board

Rīga, 29 April 2016

STATEMENT OF CHANGES IN EQUITY

	Share capital	Revaluation reserves of non-current assets	Retained earning/ (accumulated deficit)	Total
	EUR	EUR	EUR	EUR
31.12.2013.	426 862	133 288	1 513	561 663
Dividends approved	-	-	-	-
Net profit	-	-	(130 992)	(130 992)
Other comprehensive income / (loss)	-	-	-	-
Total comprehensive income	-	-	(130 992)	(130 992)
31.12.2014.	426 862	133 288	(129 479)	430 671
Dividends approved	-	-	-	-
Net profit or loss	-	-	(110 238)	(110 238)
Other comprehensive income / (loss)	-	-	-	-
Total comprehensive income	-	-	(110 238)	(110 238)
31.12.2015.	426 862	133 288	(239 717)	320 433

CASH FLOW STATEMENT

	Notes	2015 EUR	2014 EUR
Cash flow from operating activities			
Profit/ loss before corporate income tax		(125 486)	(161 889)
<i>Adjustments for:</i>			
depreciation and amortization	(10)	107 202	117 888
loss / (profit) from disposal of property, plant and equipment		2 100	2 086
changes in provisions		112 557	101 199
interest payments		428 937	416 513
<i>Changes in working capital</i>			
inventories		(177 593)	(204 844)
receivables		216 041	37 189
liabilities		<u>10 592</u>	<u>(23 660)</u>
Corporate income tax paid		-	(3 781)
Cash flow from operating activities		574 350	280 701
Cash flow from investing activities			
Acquisition of property, plant and equipment and intangible assets	(10)	<u>(9 419)</u>	<u>(103 123)</u>
Net cash flow from investing activities		(9 419)	(103 123)
Cash flow from financing activities			
Proceeds from bond issuance		15 000	435 000
Income from sales of fixed assets		95 142	-
Loans received, net	(17)	27 173	-
Borrowings repaid, net	(17)	-	(418 045)
Dividends paid		-	-
Interest payments		(454 143)	(416 513)
Paid on finance lease agreements		<u>(38 307)</u>	<u>(15 021)</u>
Net cash flow generated from financing activities from continuing operations		(355 135)	(414 579)
Net increase / (decrease) in cash and cash equivalents		<u>(209 796)</u>	<u>(237 001)</u>
Cash and cash equivalents at the beginning of the financial year		<u>75 422</u>	<u>312 423</u>
Cash and Cash equivalents at the end of the financial year	(14)	<u><u>285 218</u></u>	<u><u>75 422</u></u>

Notes on pages 10 to 25 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

I. GENERAL INFORMATION

AS Moda Kapitāls (further - Company) main activity is the issuing of short-term loans against pledge of movable and immovable property. AS Moda Kapitāls is a joint stock company founded and operating in Latvia. Registered address of the Company is at Ganību dambis 40A-34, Rīga, LV-1005.

The current financial year of the Company is from 1 January 2015 up to 31 December 2015.

These financial statements were authorized for issue by the Board of Directors of the Company on 29 April 2016, and Member of the Board Guntars Zvīnis signed these for and on behalf of the Board of Directors.

The auditor of the Company is SIA Taxlink audit.

II. ACCOUNTING POLICIES

(1) Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union (IFRS).

The financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the following notes.

Preparation of the financial statements in compliance with the IFRS requires critical assumptions. Moreover, preparation of the statements requires from the Management to make estimates and judgments applying the accounting policies adopted by the Company. Critical estimates and judgments are represented in Note (18) to accounting policies.

a) Standards and Interpretations effective in the current period

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board are effective for the current period.

Amendments to various standards "Improvements to IFRSs (cycle 2011-2013)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 18 December 2014 (amendments are to be applied for annual periods beginning on or after 1 January 2015),

IFRIC 21 "Levies" adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in accounting policies.

b) Standards and Interpretations issued and adopted in the EU but not yet effective

At the date of authorisation of these financial statements the following standards, amendments to the existing standards and interpretations issued and adopted in the EU were in issue but not yet effective:

Amendments to IFRS 11 "Joint Arrangements" –Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),

Amendments to IAS 1 "Presentation of Financial Statements"-Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),

Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"-Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),

Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" -Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016),

Amendments to IAS 19 "Employee Benefits"-Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 February 2015),

Amendments to IAS 27 "Separate Financial Statements"-Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016).

The Company is in the process of assessing the impact of the guidance on the financial position or performance of the Company. The Company plan to adopt the above mentioned standards and interpretations on their effectiveness date.

(3) Foreign currencies

(a) Functional and presentation currency

The company's functional currency and presentation currency is the Latvian national currency Euro (EUR).

(b) Transactions and balances

Foreign currency transactions are translated into euro at the European Central Bank's official exchange rate on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into euros at the European Central Bank's official exchange rate at the period end. Exchange rate differences arising from foreign currency transactions or financial assets and liabilities using the exchange rates that differ from the initial transaction accounting rates are recognized in profit or loss in net worth.

Exchange rates used at the year-end are as follows:

	31.12.2015.	31.12.2014.
	EUR	EUR
1 USD	1,0887	1,2141

(4) Segment disclosure

An operation segment is a component of entity which qualifies for the following criteria: (i) engages in business activities from which it may earn revenues and incur expenses; (ii) whose operation results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and (iii) for which discrete financial information is available.

Operation segments are reported in a manner consistent with the internal reporting provided to the Company's chief operating decision maker being the Board.

(5) Revenue recognition

Income is recognised to such extent, for which substantial measurement is feasible and there is a reason to consider that the Company will gain economic advantage related thereof. Income is evaluated in the fair value of remuneration received, less sale discounts and the value added tax. The Company assesses its income gaining operations according to certain criteria, in order to establish whether it acts as the parent company or a representation. The Company considers that in all income gaining operations it acts as the parent company. Before income recognition the following preconditions shall be fulfilled:

Sales of goods

Sales income shall be recognised if the Company has transferred to the customer significant risks related to the goods ownership and remunerations, usually at the moment of delivery of goods.

Mediation income

The Company gains income from mediation services for pledged goods. Mediation services refer to the Company basic type of operations, so these income is included in the income statement as revenue. Income from such services are gained when the Company sells to a client the respective pledged goods.

Interest income and expense

For all financial instruments booked in their amortised acquisition value and financial assets, for which interest is calculated and which are classified as available for sale, the interest income and expenses are registered using the effective interest rate, namely, the rate which actually discounts the estimated monetary income through the whole useful life period of the financial instrument or - depending on the circumstances may be - a shorter time period until the balance sheet value of the respective financial asset or liability is reached.

Other income

Income from penalties charged from clients is recognised at the moment of receipt. Penalties mainly consist of fines imposed on clients for the delay in payment.

(6) Intangible assets

Intangible assets, in general, consist of licenses and patents. Intangible assets are recognised at the cost of acquisition less accumulated amortisation. Amortisation is calculated from the moment the assets are available to use. Amortisation of intangible assets is calculated using the straight-line method to allocate amounts to their residual values over their estimated useful lives, as follows:

	Years
Licenses and patents	3-5

(7) Property, plant and equipment (PPE)

Buildings are recognised at their fair value on the basis of assessment made by independent valuator from time to time less accumulated depreciation. Accumulated depreciation is liquidated as of revaluation date, net sum is charged to the revaluated cost. Land is recognised at their fair value on the basis of assessment made by independent valuator from time to time. Other assets are recognised at their acquisition value less accumulated depreciation. Acquisition value includes the costs directly related to acquisition of the asset.

Subsequent costs are recognised in the asset's carrying amount or as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Other repairs and maintenance are recognised as an expense during the financial period when they are incurred.

Increase in value arising on revaluation is recognised in equity under "Revaluation reserve of non - current assets", but decrease that offsets a previous increase of the same asset's value (net of deferred tax) recognised in the said reserve is charged against that reserve; any further decrease is recognised in other comprehensive income for the year incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revaluated amounts to their residual values over their estimated useful life, as follows:

Property, plant and equipment (PPE) (continuation)

	Years
Buildings	20 - 30
Computer equipment	3 - 5
Other machinery and equipment	4 - 10

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each end of the financial year.

(8) Impairment of non-financial assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill, if any, is allocated to such cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Cash-generating units to which goodwill has been allocated are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest budget.

An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount. A reversal of an impairment loss for a cash-generating unit is allocated to the assets of the unit, except for goodwill, pro rata with the carrying amounts of those assets. In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of: (a) its recoverable amount (if determinable) and (b) the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

(9) Lease-to-buy (financial lease)

In cases when leased assets are received with lease-to-buy (financial lease) conditions, under which all risks and rewards of ownership are transferred to the Company, are recognized as Company's assets. Assets under the finance lease are recognized at the inception of lease at the lower of fair value of the leased assets or the present value of the minimum lease payments. Lease interest payments are included in the statement of comprehensive income by method to produce a constant periodic rate of interest on the remaining balance of the liability.

(10) Inventories

The inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. When the net realizable value of inventories is lower than their cost, provisions are created to reduce the value of inventories to their net realizable value.

(11) Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual obligations of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit and loss, which are measured at fair value.

The Company categorises its financial assets, except derivative financial instruments if any, under loans and receivables. The categorisation depends on the purpose for which the financial assets were acquired. Management determines the categorisation of its financial assets at initial

recognition.

The Company's financial liabilities include borrowings, trade and other payables and obligations arising from derivative financial instruments (if formed).

Loans and other receivables

Loans and receivables are non-derivative financial assets with fixed (including transaction costs) or determinable payments that are not quoted in an active market. They are included in current assets, except financial assets with maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

Upon recognition loans and receivables are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of loans and receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the loans and receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and recoverable value. The changes of the provision are recognised in the statement of comprehensive income. Loans and receivables carrying amount is reduced through the use of the provision account. Loss of the provision are recognized in the statement of comprehensive income as other operating expenses. When a loan or receivable is uncollectible, it is written off against the provision account for loans and receivables. Subsequent recoveries of amounts previously written off are credited against 'other operating expenses' in the statement of comprehensive income.

Borrowings

Borrowings are recognised initially at the amount of proceeds, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is gradually recognised in profit and loss.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(12) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and the balances of the current bank account.

(13) Share capital and dividends

Ordinary shares are classified as equity. Dividends to be paid to shareholders of the Company are represented as liabilities during the financial period of the Company, when shareholders of the Company approve the dividends.

(14) Employee benefits

Short-term employee benefits, including salaries, social security contributions and bonuses are included in the statement of profit or loss on an accrual basis.

The Company pays social security contributions for state pension insurance and to the state funded pension scheme in accordance with Latvian laws. State funded pension scheme is a defined contribution plan under which the Company pays fixed contributions determined by the law and they will have no legal or constructive obligations to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are recognised as an expense on an accrual basis and are included in the staff costs.

(15) Income tax

Corporate income tax is calculated in accordance with tax laws of the Republic of Latvia. Effective laws provide for 15% tax rate.

Deferred income tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, where the deferred income tax arise from recognition of the assets and obligations resulted from transactions, which are not the business dilution, and at the moment of transaction do not affect profit or loss neither in the financial statements nor for the taxation purposes, the deferred income tax is not recognised.

Deferred income tax is determined using tax rates (and laws) that have been enacted by the year-end and are expected to apply when the deferred income tax is settled.

The principal temporary differences, in general, arise from different tangible assets depreciation rates as well as provisions for slow-circulating goods, accruals for unused annual leave and accruals for bonuses. Where an overall deferred income tax arises it is only recognised to the extent it is probable which the temporary differences can be utilised.

(16) Fair value estimation

In respect of financial assets and liabilities held in the balance sheet at carrying amounts other than fair values, the fair values are disclosed separately in notes.

The carrying value of trade receivables and payables are assumed to approximate their fair values. The fair value of financial instruments for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments unless there is information on market prices.

(17) Related parties

Related parties are defined as shareholders of the Company, who have a significant influence or control over the Company, members of the Board and the Council, their close relatives and companies, in which they have a significant influence or control. Also companies located in ultimate control or significant influence by the controlling member are related parties.

(18) Critical accounting estimates and judgments

In order to prepare financial statements in accordance with IFRS it is necessary to make critical estimates. Therefore, preparing these financial statements the Management must make estimates and judgments applying the accounting policies adopted by the Company.

Preparation of financial statements in compliance with IFRS require estimates and assumptions affecting value of assets and liabilities recognised in the financial statements, and disclosures in the notes at the year-end as well as income and expenditures recognised in the reporting period. Actual results may differ from these estimates. Scopes, the most-affected by assumptions are revaluation of the land and building and determination of their useful life period, determination of revaluation regularity, as well as recoverable amount of receivables and inventories as disclosed in the relevant notes.

a) Revaluation of land and buildings

Management of the Company determines fair value of the assets based on assessment made by independent certified valuers in accordance with the property valuation standards and based on observable market price as well as future cash flow and construction costs methods.

The Management believes that assets must be revaluated at least once in 5 years or earlier if any indicators show the potential material changes in market values. By the management estimates, in the reporting year the factors that indicate a potentially significant changes in the value of those assets has not been identified, and, as a result, fair value measurement procedures has not been made. The total carrying amount of land and buildings as at 31 December 2015 is EUR 286 594 (31.12.2014 - EUR 316 571).

b) Recoverability of receivables

The calculation of recoverable value is assessed for every customer individually. Should individual approach to each customer be impossible due to great number of the customers only bigger receivables shall be assessed individually. Receivables not assessed individually are arranged in groups with similar indicators of credit risks and are assessed jointly considering historical losses experience. Historical losses experience is adjusted on the basis of current data to reflex effect of the current conditions that did not exist at acquisition of the historical loss, effect and of conditions in the past that do not exist at the moment. Information on amount and structure of receivables is disclosed in Note (12) of the financial statements.

III. OTHER NOTES

(1) Segment Information and net sales

(a) Operation and reportable segment

Core activity of the Company is the issuing of short-term loans against pledge of movable and immovable property and the realization of the pledged property. As the Company's other business lines, including other commodity trade is irrelevant, the Company has only one operation and reportable segment. Operation segments are reported in a manner consistent with the internal reporting provided to the Company's chief operating decision maker being the Board.

(b) Geographical markets

Currently there are twenty-seven branches: Aizkraukle, Alūksne, Balvi, Bauska, Cesis, Dobeles, Daugavpils, Gulbene, Jekabpils (two branches), Jelgava, Kraslava, Kuldīga, Liepāja, Limbazi, Madona, Ogre, Rezekne, Rīga, Saldus, Talsi, Valmiera, Ventspils, Tukums, Preiļi, Ludza, and Valka.

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(c) Revenue

	2015	2014
	EUR	EUR
Income from sales of pledged assets	844 489	797 489
Income from other goods sales	251 475	292 722
	<u>1 095 964</u>	<u>1 090 211</u>

(d) Finance income

Interest income on loans	1 109 677	1 255 010
Income from penalties, fines	184 040	172 090
	<u>1 373 717</u>	<u>1 427 100</u>

(2) Cost of sales

Cost of sold pledges	667 958	611 637
Cost of goods purchased for resale	232 438	278 380
	<u>900 396</u>	<u>890 017</u>

(3) Finance costs

Interest on loans and bonds	428 937	416 513
	<u>428 937</u>	<u>416 513</u>

(4) Distribution expenses

Personal costs	432 250	458 400
Rent of premises and maintenance costs	155 684	167 118
Depreciation of property, plant and equipment	107 202	117 888
Non-deductible VAT	8 194	57 803
License expenses	14 229	14 229
Advertising expenses	2 767	14 225
Write-off of low value inventory and fixed asset	1 871	6 811
Other distribution expenses	75 866	82 990
	<u>798 063</u>	<u>919 464</u>

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(5) Administrative expenses	2015 EUR	2014 EUR
Personnel costs	222 957	230 742
Transport costs	42 712	54 759
Communication expenses	27 048	25 683
Professional service costs	19 052	25 425
Office expenses	14 187	18 766
Leasing interest	1 784	3 855
Bank charges	4 690	3 744
Representation costs	3 125	3 685
Donations	18	421
Business trip expenses	371	623
Other administrative expenses	1 339	2 001
	<u>337 283</u>	<u>369 704</u>
(6) Other income		
Net gain in accordance with cession agreement	-	5 000
Insurance income	9	-
Net gain on disposal and sales of property, plant and equipment	7 340	248
Other income	8 208	19 315
	<u>15 557</u>	<u>24 563</u>
(7) Other expenses		
Provisions for inventories (real estate – loan collateral owned by the Company, see Note 11)	10 000	11 771
Provisions for slow moving and damaged goods	13 611	-
Provisions for impairment of loans (see Note 12)	91 537	89 429
Provisions for doubtful receivables	8 810	1 991
Loss on sale of inventories (real estate)	9 440	-
Real estate tax	4 659	4 111
Loss from purchase - sale of foreign currency	-	32
Other expenses	7 988	731
	<u>146 045</u>	<u>108 065</u>
(8) Expenses by Nature		
Purchase cost of goods sold	900 396	890 017
Personnel costs	655 207	689 142
Interest paid on credits, borrowings	428 937	416 513
Rent of premises and maintenance costs	155 684	167 118
Depreciation of property, plant and equipment	107 202	117 888
Transport costs	42 712	54 759
Non-deductible VAT	8 194	57 803
Other expenses	312 392	340 513
	<u>2 610 724</u>	<u>2 733 753</u>

(9) Corporate income tax

a) Components of corporate income tax

	2015	2014
	EUR	EUR
Changes in deferred income tax	(15 248)	(30 897)
Corporate income tax according to the tax return	<u>-</u>	<u>-</u>
	(15 248)	(30 897)

b) Reconciliation of accounting profit to income tax charges

The actual corporate tax expenses consisting of corporate income tax as per tax return and changes in deferred tax differ from the theoretically calculated tax amount for:

	2015	2014
	EUR	EUR
Profit or loss before taxes	<u>(125 486)</u>	<u>(161 889)</u>
Theoretically calculated tax at 15% tax rate	(18 823)	(24 283)
Tax effects on:		
Non-deductible expenses for tax purposes	3 575	(6 274)
Tax relief for reinvested profits	-	-
Tax discounts for donations	-	(340)
Total corporate tax charge	<u>(15 248)</u>	<u>(30 897)</u>

c) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	22 297	54 069
Deferred tax changes charged to the income statement	<u>(15 248)</u>	<u>(30 897)</u>
Deferred tax liabilities (asset) at the end of the financial year	<u>7 049</u>	<u>22 297</u>

The deferred company income tax has been calculated from the following temporary differences between value of assets and liabilities in the financial statements and their tax base (tax effect 15% from temporary differences):

	31.12.2015.	31.12.2014.
	EUR	EUR
Temporary difference on depreciation of PPE and intangible assets	32 306	38 701
Temporary difference on revaluation reserve	<u>19 993</u>	<u>19 993</u>
Gross deferred tax liabilities	52 299	58 695
Temporary difference on accruals for annual leave	(2 120)	(3 831)
Tax loss carried forward	(2 420)	(9 576)
Temporary differences on accruals	<u>(40 710)</u>	<u>(22 116)</u>
Gross deferred tax assets	(42 250)	(35 522)
Net deferred tax liability (assets)	<u>7 049</u>	<u>22 297</u>

The Company offsets the deferred tax assets and the deferred tax liabilities only when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax is related to the same taxation authority. The offset amounts are as follows:

The movement of deferred tax assets and liabilities during the reporting year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Accelerated depreciation of PPE	Accruals for unused annual leave	Accruals	Total
	EUR	EUR	EUR	EUR
31.12.2014.	57 820	(3 831)	(31 692)	22 297
Charged / (credited) to income statement	(5 521)	1 711	(11 438)	(15 248)
31.12.2015.	<u>52 299</u>	<u>(2 120)</u>	<u>(43 130)</u>	<u>7 049</u>

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(10) Intangible assets and Property, plant and equipment (PPE)

	Intangible assets - licences	Property, plant and equipment				Total PPE
	Lands and buildings	Leasehold improvements	Other PPE	Advances and development costs		
	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2013						
Initial cost/ revaluated	58 796	357 995	16 207	605 000	642	979 844
Accumulated depreciation	(14 969)	(29 589)	(6 321)	(207 891)	-	(243 801)
Net book value	43 827	328 406	9 886	397 109	642	736 043
2014						
Opening net book value	43 827	328 406	9 886	397 109	642	736 043
Acquired	9 180	-	1 030	76 226	16 687	93 943
Disposed	-	-	-	(2 087)	-	(2 087)
Reclassified	-	-	-	429	(429)	-
Depreciation	(3 902)	(11 385)	(6 913)	(95 238)	-	(113 986)
Closing book value	49 105	316 571	4 003	376 439	16 900	713 913
31.12.2014						
Initial cost/ revaluated	67 976	357 995	17 237	679 568	16 900	1 071 700
Accumulated depreciation	(18 871)	(41 424)	(13 234)	(303 129)	-	(357 787)
Net book value	49 105	316 571	4 003	376 439	16 900	713 913
2015						
Opening net book value	49 105	316 571	4 003	376 439	16 900	713 913
Acquired	-	-	-	5 351	4 068	9 419
Disposed	-	(18 267)	-	(14 111)	(997)	(33 368)
Reclassified	-	-	-	7 911	(7 911)	-
Depreciation	(4 366)	(11 717)	(952)	(90 167)	-	(102 836)
Closing book value	44 739	286 594	3 051	285 423	12 060	587 128
31.12.2015						
Initial cost/ revaluated	67 976	339 735	17 237	678 719	12 060	1 047 751
Accumulated depreciation	(23 237)	(53 141)	(14 186)	(393 296)	-	(460 623)
Net book value	44 739	286 594	3 051	285 423	12 060	587 128

A number of assets that have been fully depreciated are still in active use. The total original cost value of these assets as at the end of the year was EUR 84 thousand.

Intangible assets and Property, plant and equipment (PPE) (continuation)

a) Revaluation of land and building and fair value techniques used

As at 31 December 2004 the Company made first revaluation of real estate. As a result of revaluation, a revaluation reserve of non-current assets in the amount of 53 528 EUR was booked, where 15% of the reserve was attributed to deferred corporate income tax liabilities. Initially calculated revaluation reserve was corrected in 2011 decreasing it by 11 066 EUR to 41 040 EUR.

In June 2011 certified real estate valuator M. Vilnitis who was appointed by the Board of Company, appraised the market value of real estate classified under Land & Buildings. As a result of revaluation a revaluation reserve of non-current assets was increased by 109 786 EUR, where 15% or 16 468 EUR of the reserve was attributed to the liabilities of deferred corporate income tax liabilities. The valuation was determined by two valuation techniques:

b) Under market approach (with the effect of 50% to estimated fair value) the recent market transactions for the similar assets has been used. Sales prices of comparable properties are adjusted for differences in key attributes such as property size, location, technical conditions of the buildings. The most significant input into this valuation is price per square meter.

c) Under income approach (with the effect of 50% to estimated fair value) the expected cash flow has been estimated based on the rental income for the similar properties. The projected future rental income less operational running costs and necessary investments has been discounted to present value. The most significant inputs into this valuation are rental price per square meter, discount rate representing the time value for money and risk premium, reversion or multiplier exit (exit multiple)

Valuation technique	Unobservable inputs (3rd level)	Range used	
		min- max	weighted average
Income approach	discount rate	10%	10%
	exit multiple	9%	9%

Total revaluation surplus of property, plant and equipment on 31 December 2015 was EUR 156 809 (31.12.2014 - EUR 156 809). Revaluation amount less the attributable deferred income tax liabilities is recognizes in equity under "Revaluation reserve of non-current assets".

Revaluation reserve can not be reclassified to other equity items, except at the disposal of assets, and paid to the shareholders as dividends.

b) Other notes

All fixed assets - real estate of the Company are pledged under conditions of the agreement of the Mortgage and Commercial pledge as the security for loans in favour of the credit institutions (see Note (17)).

(11) Inventories	31.12.2015. EUR	31.12.2014. EUR
Real estate - loan collateral owned by the Company	405 803	322 389
Advances paid (Real estate – loan collateral owned by the Company)	81 497	88 602
Provision for inventories - loan collateral owned by the Company	(36 000)	(26 000)
Goods purchased for sales purposes	284 428	249 398
Advances for goods	9 405	26 475
Provisions for slow moving and damaged goods	(13 611)	-
Other collateral owned by the Company	373 865	342 541
	<u><u>1 105 387</u></u>	<u><u>1 003 405</u></u>

*According to the loan agreements, failure to comply with terms of the contract, the Company is entitled to take over ownership of the pledged assets. These assets are held and available for sale.

Movement in provisions for impairment of inventories:

	2015 EUR	2015 EUR
Provisions at the beginning of the year	26 000	14 230
Created/(reduced) provisions	10 000	11 770
Created provisions for slow moving and damaged goods	13 611	-
Provisions at the end of the year	<u><u>49 611</u></u>	<u><u>26 000</u></u>

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(12) Loans and trade receivables	31.12.2015. EUR	31.12.2014. EUR
Short-term loans secured with pledges	2 091 230	2 367 284
Provisions for impairment for loans secured with pledges	(141 185)	(84 069)
Consumer loans (Short-term loans without pledge)	203 951	150 241
Provisions for impairment of short-term loans not secured with pledges	(59 421)	(25 000)
Accrued interest payments	118 232	128 419
	<u>2 212 807</u>	<u>2 536 875</u>

Movement in provisions for impairment of accounts receivable:

	Individual impairment EUR	Portfolio impairment EUR	Total EUR
Provisions at the beginning of the year	-	19 640	19 640
Charged/(reduced) provisions in 2014	84 069	5 360	89 429
Provisions at the beginning of the year 2015	84 069	25 000	109 069
Charged/(reduced) provisions in 2015	65 511	26 026	91 537
Provisions at the end of the year	<u>149 580</u>	<u>51 026</u>	<u>200 606</u>

Issued short-term loans interest rates:

	2015 % per year	2014 % per year
Loans against hand pledge till 427 EUR	144 - 252	60 - 240
Loans against hand pledge over 427 EUR	72 - 252	60 - 180
Loans against transport, which remains available to customers	30 - 60	30 - 180
Loans against real estate	24 - 84	24 - 96

Issued short-term loans quality analysis:

	Short-term loans secured with pledges EUR	Consumer loans (Short-term loans not secured with pledges) EUR	Total EUR
Neither past due nor impaired loans	1 357 780	95 916	1 453 696
Past due but not impaired loans	521 812	14 492	536 304
less than 30 days	103 367	8 374	111 741
31 to 59 days	91 030	3 507	94 537
60 to 89 days	39 454	2 611	42 065
more than 90 days	287 961	-	287 961
Impaired loans	211 638	93 543	305 181
Total gross loans	<u>2 091 230</u>	<u>203 951</u>	<u>2 295 181</u>
Impairment allowance	(141 185)	(59 421)	(200 606)
Total net loans	<u>1 950 045</u>	<u>144 530</u>	<u>2 094 575</u>

* The gross amount of loans does not include accrued interest payments of EUR 118 232.

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(13) Other current assets	31.12.2015. EUR	31.12.2014. EUR
Financial assets:		
Other receivables	31 636	28 722
Provisions for other receivables (items confiscated by police)	(16 740)	(12 372)
Settlements for services	8 299	5 934
Provisions for settlements for services	(4 443)	-
Overpaid taxes	1 865	6 436
	<u>20 617</u>	<u>28 720</u>
Non-financial ass		
Prepaid expense	23 469	20 436
	<u>44 086</u>	<u>49 156</u>

Movement in provisions for impairment of other accounts receivable:

	2015 EUR	2014 EUR
Provisions at the beginning of the year	12 371	10 381
Created/(reduced) provisions	8 811	1 991
Provisions at the end of the year	<u>21 183</u>	<u>12 372</u>

(14) Cash and cash equivalents	31.12.2015. EUR	31.12.2014. EUR
Cash at bank on current accounts	247 996	35 834
Cash on hand	37 222	39 588
	<u>285 218</u>	<u>75 422</u>

(15) Financial instruments by category

All financial assets of the Company amounting at the year end to EUR 2 233 424 (31.12.2014 - EUR 2 565 595) fell under the category of loans and receivables.

All financial liabilities of the Company amounting to EUR 3 952 025 (31.12.2013 - EUR 3 974 175) fee under the category of other financial liabilities, there are no liabilities at fair value through profit or loss.

(16) Share capital

As by 31 December 2015, the share capital has been completely paid. It consists of 6 000 shares with the nominal value of 71.14 (71.1435905316) EUR and the total value of 426 862 EUR.

(17) Borrowings		31.12.2015. EUR	31.12.2014. EUR
Non-current	Note		
Non-convertible bonds	b)	3 310 000	-
Bank borrowings	c)	-	-
Other loans	d)	10 000	-
Finance lease liabilities	e)	19 172	52 862
		<u>3 339 172</u>	<u>52 862</u>
Current			
Non-convertible bonds	b)	53 297	3 370 374
Bank borrowings	c)	-	32 827
Other loans	d)	416 500	369 629
Finance lease liabilities	e)	24 834	29 451
		<u>494 631</u>	<u>3 802 281</u>
Borrowings total:		<u>3 833 803</u>	<u>3 855 143</u>

a) Fair value of borrowings

Considering that the variable interest rate is applied to loans from credit institutions and financial leasing agreements, fair value is not materially different from the carrying value. The management assesses, that also carrying value of other borrowings is not materially different from their fair value.

During the reporting and previous year with the Company's bonds were not made transactions for which is available public information to assess their market value.

Borrowings (continuation)

b) Bonds

11 November 2015, the Company made the refinancing of the bonds with a new bond issue. The total number of issued bonds under refinancing emission was 3310, denominations of bonds is 1 000 EUR, the coupon rate is 12%. Bond are maturing on 15 November 2020.

Bonds are included in Baltic bond list of NASDAQ OMX Riga AS stock exchange.

	2015		2014	
	number of bonds	EUR	number of bonds	EUR
At beginning of the year	3 295	3 295 000	2 860	2 860 000
Issued during the year	15	15 000	435	450 000
At the end of the year	3 310	3 310 000	3 295	3 295 000

c) Bank borrowings

The Company used ABLV bank granted credit line with a maximum limit of EUR 65 000, with maturity date till February 2015 and interest rate of 5% + 6 months EURIBOR. The company also received a loan of EUR 137 000, with a maturity date until March 2015 and interest rate of 6.5% + 6 months EURIBOR.

Loans were secured by a mortgage on the Company's immovable properties with a total book value of EUR 286 593 (31.12.2013 - EUR 316 569).

	2015 EUR	2014 EUR
At beginning of the year	32 827	82 872
Borrowings received in the year	63 000	308 000
Repaid borrowings in the year	(95 827)	(358 045)
At the end of the year	-	32 827

d) Other loans

During the reporting and previous years, the Company has received loans from related and unrelated parties (see Note (19)). Borrowing interest rates range from 6% to 9% per year.

	2015 EUR	2014 EUR
At beginning of the year	365 000	733 000
Borrowings received in the year	125 000	143 100
Repaid borrowings in the year	(65 000)	(511 100)
At the end of the year	425 000	365 000

e) Finance lease liabilities

The Company has acquired fixed assets under finance lease. Interest payments are 2.5% + 3 M EURIBOR payable due on monthly basis.

	31.12.2015. EUR	31.12.2014. EUR
In accordance with the agreements the minimum finance lease payments are:		
Payable within 1 year	25 904	31 633
Payable from 2 to 5 years	19 835	54 817
Finance lease gross liability	45 739	86 450
Future finance costs	(1 733)	(4 137)
Present value of finance lease liability	44 006	82 313

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(18) Trade and other payables	31.12.2015.	31.12.2014.
	EUR	EUR
Salaries	30 347	29 055
Accruals for unused annual leave	14 135	25 537
Value Added Tax	4 133	17 762
Mandatory State social insurance contributions	14 248	14 242
Trade payables	6 780	6 699
Accrued liabilities	8 155	12 722
Personal income tax	6 940	6 546
Advances from customers	30 073	4 686
Other receivables	1 411	1 783
	<u>118 222</u>	<u>119 032</u>

The carrying values of trade and other payables approximate their fair values due to their short term nature. Trade and other payables carry no interest.

(19) Transactions with related parties

In 2015 and 2014 the Company had economic transactions with the following entities that are directly or indirectly controlled by the Company's shareholders and members of the Board: Orheja SIA, Trezors SIA, Lielie rīta bulīši SIA and Premium Finance Group SIA.

	Loans balances		Interest expenses	
	31.12.2015	31.12.2014	2015	2014
	EUR	EUR	EUR	EUR
Orheja SIA	-	-	-	976
Trezors SIA	10 000	15 000	1 082	1 985
Lielie rīta bulīši SIA	115 000	50 000	12 468	3 400
Premium Finance Group SIA	-	-	-	1 167
	<u>125 000</u>	<u>65 000</u>	<u>13 550</u>	<u>7 528</u>
The non-current part of the loans	10 000	-		
The current part of the loans	<u>125 000</u>	<u>65 000</u>		
	<u>125 000</u>	<u>65 000</u>		

(b) Remuneration to the management

	Remuneration to Council members		Remuneration to Board members	
	2015	2014	2015	2014
	EUR	EUR	EUR	EUR
Salaries	-	-	88 852	50 733
Social security contributions	-	-	20 960	11 968
Other costs	-	-	-	-
Salaries	<u>-</u>	<u>-</u>	<u>109 812</u>	<u>62 701</u>

(20) Operating leases - the Group as lessee

During the financial year was in effect a number of agreements of premises rent. Lease payments recognised as an expense during the reporting period amount to EUR 103 512 (2013: EUR 109 388). No sublease payments or contingent rent payments were made or received.

(21) Financial and capital risk management

The Company's activity is exposed to various financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Management of the Company seeks to minimize potential adverse effects of the financial risks on the Company's financial position. The Company uses derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risks

The Company's main financial assets and liabilities are in Euro (EUR). Revenues are collected in EUR. Daily purchases primarily are incurred in EUR. The Company is not exposed to foreign exchange risk.

(ii) Interest rate risks

The Company is exposed to interest rate risk as the part of the liabilities are interest-bearing borrowings with the variable interest rate (Note (17)), as well as the Company's interest bearing assets have fixed interest rate.

	31.12.2015.	31.12.2014.
	EUR	EUR
Financial liabilities with variable interest rate	44 006	115 140
Open position, net	<u>44 006</u>	<u>115 140</u>

Taking into account insignificant proportion of financial liabilities with variable interest rate in total financial liabilities, possible changes of interest and interest rate does not leave significant effect on the Company's profit before tax.

(ii) Other price risk

Other price risk is the risk that the value of financial instruments will fluctuate due to other market factors. The Company's management monitors the market fluctuations on a continuous basis and acts accordingly but does not enter into any hedging transactions.

(b) Credit risk

Financial assets, which potentially subject the Company to a certain degree of credit risk concentration are primarily cash, trade receivables and loans. For the bank transactions only the local and foreign financial institutions with appropriate ranking is accepted.

	31.12.2015.	31.12.2014.
	EUR	EUR
Maximum exposure to credit risk		
Loans and trade receivables	2 212 807	2 536 875
Other current assets	44 086	49 156
Cash and cash equivalents	285 218	75 422
	<u>2 542 111</u>	<u>2 651 453</u>

Within the Company the credit risk is managed using centralized procedures and control. The main credit risk occurs in connection with outstanding loans issued. To reduce these risks the Company applies a conservative credit policy – the sum of issued loans is smaller than the value of pledged movable and immovable property. Such policy allows the Company to reduce its credit risk to minimum. Information about the structure of the loan portfolio is provided in Note 12.

The Company is not subjected to income concentration risk because the Company gains income from many clients where the total payment of interest income or commission fees is formed by small sums.

Financial and capital risk management (continuation)

(c) Liquidity risk

Company pursues a prudent liquidity risk management and maintain a sufficient quantity of cash and ensure the availability of financial funds through bonds emission, loans provided by banks and related parties. Company's management monitors the operational forecasting of liquidity reserves, based on estimated cash flows.

The following table shows the maturity structure of financial liabilities of the Company, that is based on non-discounted cash flows (excluding interest):

On 31 December, 2014	Total EUR	<1 year EUR	1-2 years EUR	2-5 years EUR	>5 years EUR
Bonds	3 370 374	3 370 374	-	-	-
Loans from credit institutions	32 827	32 827	-	-	-
Other loans	365 000	365 000	-	-	-
Finance lease liabilities	82 313	29 451	30 379	22 483	-
Trade and other payables	123 661	123 661	-	-	-
	3 974 175	3 921 313	30 379	22 483	-

On 31 December, 2015	Total EUR	<1 year EUR	1-2 years EUR	2-5 years EUR	>5 years EUR
Bonds	3 310 000	-	-	3 310 000	-
Loans from credit institutions	-	-	-	-	-
Other loans	425 000	415 000	-	10 000	-
Finance lease liabilities	44 006	28 834	16 019	3 153	-
Trade and other payables	118 222	118 222	-	-	-
	3 897 228	558 056	16 019	3 323 153	-

All loans and trade receivables are short - term, with a maturity 1 year or less.

(d) Capital Management

According to the Latvian Commercial Law requirements if the Company's losses exceed half of the share capital, the Board is required to address shareholders to make decisions on Company's going concern. Equity of the Company meets the Latvian legal requirements. Company's management manages the capital structure on going concern basis. During the reporting period there were no changes in capital management objectives, policies or processes.

Company's management controls the net debt to equity (gearing ratio).

	31.12.2015. EUR	31.12.2014. EUR
Total borrowings	3 833 803	3 855 143
Less cash and its equivalents	(285 218)	(75 422)
Net debt	<u>3 548 585</u>	<u>3 779 721</u>
Equity	320 433	430 671
Total capital	<u>3 869 018</u>	<u>4 205 763</u>
Total assets	4 279 507	4 428 018
Net debt to equity	1 107%	878%
Equity ratio on total assets	7%	10%

(22) Events after balance sheet date

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