

AS CAPITALIA GROUP

Consolidated annual accounts for year 2017

Prepared in accordance with the
international financial reporting standards
as adopted by EU

Translation from Latvian

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Information on the Group

Information on the parent company

Name of the Company	AS CAPITALIA
Legal status of the Company	Join-stock company (from 17.03.2014)
Number, place and date of registration	40003933213, registered in Riga, 21.07.2007
Operations as classified by NACE	64.92 Other credit granting 70.22 Business and management consultancy
Address	Brīvības street 40-35, Riga, LV-1050, Latvia
Shareholders	Resident of the Republic of Latvia (50%) Non-resident of the Republic of Latvia (50%)
Names and positions of Council members	Mārtiņš Krūtainis – Chairman of the Council Andrejs Strods – Deputy Chairman of the Council Jānis Dubrovskis – Chairman of the Council
Names and positions of Board members	Juris Grišins – Chairman of the Board
Person responsible for accounting	Lelde Vītiņa
Financial year	1 January 2017 – 31 December 2017
Responsible for accounting records	Lelde Vītiņa
Name and address of the auditor	Potapoviča un Andersone SIA Certified Auditors' Company, license No. 99. Ūdens street 12-45, Riga, LV-1007, Latvia Responsible Certified Auditor: Anna Temerova – Allena Certificate No. 154.

Information about the Group's subsidiaries companies

Subsidiaries' Name	Capitalia Finance AB, 100%
Address of the subsidiary	Ankštoji g. 5, Vilnius, Lietuva
Number, place and date of registration	302718931, Lithuania, registered on 30.01.2012
Operations as classified by NACE	64.92 Other credit granting
Name of the auditor	Tezaurus auditas UAB Certified Auditors' Company, licence No. 001211. Jasinskio g. 4-17, Vilnius, LT01112, Lithuania

Responsible Certified Auditor:
 Aiste Perminaitė
 Certificate No. 000592.

Subsidiaries' Name	Capitalia Finance AS, 100%
Address of the subsidiary	Tartu maantee 84a, Tallina, Igaunija
Number, place and date of registration	12822836, Estonia, registered on 26.03.2015
Operations as classified by NACE	64.92 Other credit granting
Name of the auditor	Auditorteenuse OU Certified Auditors' Company, licence No. 73. Rotermanni iela 8, Tallina, EE10111, Igaunija

Responsible Certified Auditor:
 Gerri-Lys Kalmus
 Certificate No. 658.

Management report

On financial results

Year 2017 for Capitalia group (further “Capitalia”) has been focused on improvements in operations. During the year total turnover of the Group reached EUR 1,189 thousand, increasing by 30% compared to the previous year. Capitalia ended the financial year with a profit of EUR 25.6 thousand. Our profitability this year has suffered as a result of larger than expected provisions for doubtful loans, mostly in the Estonian market. Furthermore, due to sub-optimal legal structure we are reporting relatively high profit in the Lithuanian daughter company that leads to technical overpayment of the corporate income tax across the Group. To avoid such situation in the future, we have started steps to create united Societas Europaea company as a result of which operations in Lithuania and Estonia will be structured as branches. During 2017 we have made a number of significant improvement in our organizational work, including strengthened our team of investment managers in Latvia and Estonia, systematized internal audit procedures, simplified and broadened our product range as well as updated our financing and monitoring procedures. Despite increasing turnover, we have kept similar balance sheet size compared to the previous year.

On key events

The following are the key events of Capitalia in 2017:

Jan	Further bonds listed on NASDAQ Baltic are issued
Jun	Audit committee is created and internal audit procedures re-worked
Sep	Financing product range of Capitalia is simplified
Oct	Capitalia starts offering venture capital fundraising and investment services
Nov	Survey on small business environment in Latvia is published in association with Lursoft
Dec	First co-financing projects are published in platform www.capitalia.com

On developments of business activity

Capitalia’s mission since the foundation has been to provide financing to small and medium sized businesses in situations where bank financing is not suitable or nor available. During 2017 we have financed more than 500 companies for the total amount of EUR 10.1 million. Our most popular product continues to be traditional amortizing loan, which has around 88% share of our portfolio. Invoice purchasing (or factoring) still holds relatively small share of 12% of the loans. From autumn of 2017 we have started offering businesses advisory in attracting venture capital and business angel investments, based on our extensive experience and contacts in these fields. Capitalia will consider co-investments its own capital in such projects, but no more than 10% of the total balance sheet volume.

On new markets

At the end of 2017 Capitalia employed 8 investment managers that serviced over 500 clients in the Baltic countries. Capitalia does not expect to enter any new markets during 2018, focusing instead our full attention to the growth in the Baltic States.

On economic environment

Capitalia’s clients are typically regional and local businesses with small share of export revenues. Therefore, investment activity (optimism) and performance of our clients is greatly tied to the general economic developments in Latvia, Lithuania and Estonia. GDP of all of the three Baltic countries expanded during 2017 with growth rates from 3.8% to 4.9%. With expected influx of EU structural support funds in the economies, we expect that GDP will continue to growth and economic environment will continue to be favorable for Capitalia.

With regards to competitive environment there has been increasing pressure on Capitalia both from the commercial banks as well as from other non-bank lenders. Some of the banks, for example, Citadele, and Swedbank, have been designing and actively promoting new products aimed particularly at small and medium size business sectors. We are in no position to compete on cost basis with the banks’ offerings and hence our financing is always a potential add-on rather than replacement of bank credit. Nevertheless, to date we have lost relatively few clients to banks, with Capitalia more often assuming supplementary role to new or existing bank liabilities of the businesses. With regards to competitors from non-banking sector, the number of companies aiming at similar clients is rather large with a number of new participants entering the marketplace regularly. Competitive advantage of Capitalia over other alternative financing companies is long experience in evaluating businesses, strong reputation and economies of scale that allow to offer our clients best and most convenient financing solutions.

On future strategy

In 2018 our focus will be on growing the profitability of the Group and increasing the portfolio size. Our aim is to grow the portfolio under management by at least 50% by the end of this year, with particular focus on financing medium size companies that are seeking capital of up to EUR 500,000. We will also continue working on further automation of evaluation and processing of loan applications for microloans of up to EUR 25,000. By offering finance raising services from venture capital, business angels and other financial investors, we seek to further strengthen our position as go-to source for companies in situations when alternative financing is required.

On corporate social responsibility

With Capitalia small and medium businesses are able to obtain financial resources in situations when they are rejected by banks or bank loan is not sufficient for their needs. Therefore, we fill an important void in the financial ecosystem by improving SME access to capital, as well as encouraging employment and entrepreneurship. In 2017 we have issued EUR 10.1 million of new loans to 525 companies in Latvia, Lithuania and Estonia. Apart from financing we have a mission to provide tools, forms and studies to small businesses on how to improve management and assist in daily operations. Such resources we provide for download through our corporate websites with over 1000 registered downloads recorded in 2017. In 2018 in association with Stockholm School of Economics in Riga we are planning a nationwide activity to promote business mentorship. Furthermore, we are planning to start support of young Baltic artists in partnership with organizers of Baltic Young Artist award.

On risk management

The role of risk management in Capitalia is to identify the key risks facing the operations, develop measures to counter such risks and create a policy for controlling the implementation of risk management procedures. The exposures to various risks, as well as policies on risk management are reviewed once per year by the management board of the company. Actions on controlling and minimizing risks are included in each year's strategy document of the company. Independent internal audit department it is in charge of training and monitoring employees in implementation of the operating procedures. Our annual financial results are audited by external sworn auditors to ensure compliance of our financial books to international accounting standards. We are continuously improving and implementing procedure on control of suspicious transactions and identification of true beneficiaries.

On going concern

As of December 31, 2017 short term liabilities of the company exceeded short term assets by EUR 1 373 544. This is mainly result of the fact that on October 25, 2018 bonds with the nominal value of EUR 2 250 000 will have matured. In order to attract capital for re-financing, company is planning to attract institutional investor as well as issue new bond placement. The new closed bond issue is anticipated to have nominal value EUR 1 500 000 – 2 000 000 with term of 2 – 3 years and 10% annual yield. In order to decrease the necessary re-financing amount on October 25, 2018, the company will continue its bond repurchase and redemption program in accordance to the overall strategy of reducing liabilities, while concentrating on management rather than ownership of business loan portfolio. Based on the above and evaluating the set strategy, the management of the company is confident that necessary liquidity can be ensured within the bounds of normal business activities. The management of the company is certain that the company has sufficient resources to continue operations in the foreseeable future.

On internal control procedures

The Board confirms that internal control procedures are effective and that risk management and internal controls throughout the whole reporting year have been performed according to these internal control procedures.

On share capital

As of December 31, 2017, the Company's registered and paid-up share capital was EUR 500,000, consisting of 250,000 ordinary dematerialized registered shares with a nominal value of EUR 1 and 250,000 dematerialized registered preferred shares with a nominal value of EUR 1.

On bondholders

As of the end of the year Capitalia had 41 bondholders of which 11 were legal entities, while 30 were private investors. The council members of Capitalia in total held 178 bonds or 7.0% of the total issue amount. No bonds were owned by the management board of the company. As of December 31, 2017, equity and subordinated (to both bond issues of Capitalia) debt constituted to 40% of the total assets of Capitalia and hence above the bond issue covenant benchmark level of 20%.

On proposed distribution of profits

Profit of the current financial year shall be cover losses of the previous periods.

On post balance sheet events

In January of 2018 the Parent company has redeemed 750 of the bonds with ISIN LV0000801488. There are no other subsequent events since the last date of the reporting year, which would have a significant effect on the financial position of the Company as at December 31, 2017.

Juris Grišins
Chairman of the Board

Riga, April 30, 2018

Summary of financial performance

The summary of financial results portrays the development of key financial indicators of Capitalia over the last reporting periods. Group's assets and loan portfolio have slightly increased compared to figures at the end of the last year. Such rise is the result of growth of loan book in Lithuania and Estonia, while loan portfolio in Latvia has slightly decreased. The turnover of the Group continued to grow thanks to good performance in the second half of 2017, while net profitability is lower than target 10% of turnover as a result of increase in loan loss provisions. Equity and other liabilities subordinated to the outstanding bond issues constituted 40% of the total assets or well above the benchmark bond covenant of 20%.

Summary of balance sheet figures

EUR	2014	2015	2016
Total assets	2 623 207	3 984 473	3 945 083
Loan portfolio	1 938 899	3 410 747	3 181 163
Equity capital	173 156	435 276	460 941

Loan portfolio distribution by geography

EUR*	2015	2016	2017
Latvia	1 716 121	2 062 438	1 887 756
Lithuania	845 348	1 985 770	2 089 035
Estonia	0	567 932	904 690
Total	2 561 469	4 616 140	4 881 481

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

Summary of profit and loss figures

EUR	2015	2016	2017
Total revenue	574 568	924 932	1 189 028
Interest expenses	-211 639	-328 933	-377 727
Impairment expenses	-64 891	-88 928	-184 805
Sales and marketing expenses	-41 354	-124 688	-102 716
Administrative costs	-195 984	-359 373	-432 254
Net profit	48 587	-11 576	25 665

Key operating ratios

EUR	2015	2016	2017
Equity to assets	6.60%	10.92%	11.68%
Turnover growth	45.72%	60.97%	28.56%
Return on equity (ROE)	40.22%	-3.74%	5.57%
Net profitability	8.46%	-1.23%	0.22%
Annualized impairment loss	4.81%	3.33%	5.30%

Statement of Management Responsibility

Management of Capitalia is responsible for preparation of year 2017 consolidated financial statements. Management of the Company declares that in accordance with the information in their possession, condensed unaudited financial statements have been prepared in accordance with accounting transaction documentation and with the International Financial Reporting Standards and give a true and fair view of the company's assets, liabilities, financial position as of December 31, 2017 and year 2017 profits and cash flows.

Management of the Company confirms that an appropriate and consistent accounting policies and management estimates are used. Management of the Company confirms that the financial statements are prepared using precaution principle as well as the going concern assumption.

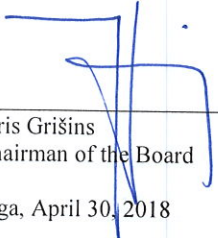
Management of the Company confirms its responsibility for providing proper accounting provisioning, as well as asset monitoring, control and conservation policies. The Company's management is responsible for detection and prevention of the error, inaccuracy and /or fraud. The Company's management is responsible for the Company's activities to be carried out in compliance with the legislation of the Republic of Latvia.

The management report includes a fair view of the development of the Company's business and results of operations.

Statement on corporate governance

Together with the annual report, Capitalia issues Corporate Governance Report for 2017 that has been prepared on the basis of NASDAQ OMX Riga "Corporate governance principles and recommendation on their implementation" issued in 2010. The report details implemented corporate governance principals of the company. The Corporate governance report is submitted to NASDAQ Riga accompanied with audited 2017 consolidated financial statements of Capitalia, published in webpage of NASDAQ Riga (www.nasdaqbaltic.com), as well as Capitalia (www.capitaliafinance.com) in Latvian and English.

Supervisory board of Capitalia consists of three members – Mārtiņš Krūtainis (chairman), Andrejs Strods and Jānis Dubrovskis. Board of Capitalia consists of one member – Juris Grišins. Board of the company is responsible for daily management and development of strategic decisions of Capitalia. Council of the company, in line with supervisory board regulation, supervises operations of the board, reviews the financial performance, performs duties of audit committee and approves the key decisions in Capitalia. The detailed obligations functions of each layer of the corporate governance of the company are described in corporate statutes that, together with supervisory board regulation, are available in our investors' portal. The external audits of Capitalia are provided by certified auditors Potapoviča and Andersone SIA, registration number 40003612562.



Juris Grišins
Chairman of the Board

Riga, April 30, 2018

Consolidated statement of income for the year ended December 31, 2017

	Notes	2017 EUR	2016 EUR
Interest and similar income	1	1 189 028	924 932
Interest expense	2	(377 727)	(328 933)
Impairment	3	(184 805)	(88 928)
Selling expense	4	(102 716)	(124 688)
Administrative expense	5	(432 254)	(359 373)
Other operating income	6	11 326	5 718
Other operating expense	7	(45 839)	(35 965)
Other financial income	8	-	10 206
Losses from investments in associated companies	9	-	(6 249)
Other financial expense		-	(1)
Profit before taxes		57 013	(3 281)
Corporative income tax	10	(31 348)	(8 295)
Current year's profit (loss)		25 665	(11 576)
Other income		-	-
Total current year's profit/ (loss)		25 665	(11 576)

Notes on pages from 13 to 31 are integral part of these financial statements.

Juris Grišins
Chairman of the Board

Riga, April 30, 2018

Lelde Vītiņa
person responsible for accounting

Consolidated statement of financial position as at December 31, 2017

	Notes	31.12.2017 EUR	31.12.2016. EUR
<u>Assets</u>			
Long term investments			
Intangible assets			
Fixed assets and asset creation	11	92 429	77 855
Receivables from affiliated companies	11	30 917	56 352
Loans and receivables	13	313 500	190 500
Deferred tax assets	12	462 830	475 485
	10	-	4 248
Total long-term investments:		899 676	804 440
Current assets			
Receivables from affiliated companies			
Loans and receivables	13	23 166	11 928
Other debtors	12	2 718 333	2 935 262
Loans to shareholders and management	14	50 307	20 018
Unpaid share capital	15	20 120	5 000
Cash		-	100 000
	16	233 481	107 825
Total current assets:		3 045 407	3 180 033
Total assets		3 945 083	3 984 473
<u>Liabilities</u>			
Shareholders' funds:			
Share capital	17	500 000	500 000
Other reserves	17	(10 389)	(10 389)
Prior year's accumulated losses		(54 335)	(42 759)
Current year's losses		25 665	(11 576)
Total shareholders' funds:		460 941	435 276
Creditors			
Long-term creditors			
Bonds issued	18	295 474	1 715 165
Other borrowings	19	60 545	33 959
Other creditors	21	-	130 000
Deferred income	23	-	41 981
Total long-term creditors:		356 019	1 921 105
Short-term creditors			
Bonds issued	18	2 241 933	38 491
Other borrowings	19	805 738	1 486 862
Trade creditors and accrued liabilities	20	22 901	32 160
Taxes	22	36 795	19 120
Deferred income	23	20 756	51 459
Total short-term creditors:		3 128 123	1 628 092
Total liabilities and shareholders' funds		3 945 083	3 984 473

Notes on pages from 13 to 31 are integral part of these financial statements.

Juris Grišins
Chairman of the Board

Riga, April 30, 2018

Lelde Vītiņa
person responsible for accounting

Consolidated statement of changes in equity for the year ended December 31, 2017

	Share capital EUR	Other reserves EUR	Retained earnings/ (losses) EUR	Total EUR
As at 31 December 2015	226 490	(10 389)	(42 759)	173 342
Share capital increase	273 510	-	-	273 510
Total comprehensive (losses) for the period	-	-	(11 576)	(11 576)
As at 31 December 2016	500 000	(10 389)	(54 335)	435 276
Total comprehensive profit for the period	-	-	25 665	25 665
As at 31 December 2017	500 000	(10 389)	(28 670)	460 941

Notes on pages from 13 to 31 are integral part of these financial statements.

Consolidated statement of cash flows for the year ended December 31, 2017

	Notes	2017 EUR	2016 EUR
<u>Cash flow from operating activities</u>			
Profit/ (loss) before extraordinary items and taxes			
Adjustments for:		57 013	(3 281)
- fixed assets depreciation			
- changes in provisions (excluding provision for doubtful debts)		37 569	25 869
- interest income and similar income		-	3 403
- net loss on sale of securities		(1 189 028)	(935 139)
- losses from shares		377 727	328 933
Loss before working capital and short-term movements in net adjustments		-	6 249
Adjustments for:		(716 719)	(573 966)
- (increase)/decrease in trade and other debtors		(37 320)	7 953
- decrease/ (increase) of issued loans		96 654	(871 693)
- (decrease)/ increase of trade creditors		(70 186)	18 366
Cash generated from operations		(727 571)	(1 419 340)
Interest paid		(341 545)	(299 189)
Interest received		1 196 060	868 090
Corporate income tax payments		(5 962)	(6 933)
Net cash flow from operating activities		120 982	(857 372)
<u>Cash flow from investing activities</u>			
Purchase of fixed assets, net			
Sale of shares		(26 709)	(58 682)
Net loans issued / repaid		-	1
Net cash flow from investing activities		(89 112)	91 732
		(115 821)	33 051
<u>Cash flow from financing activities</u>			
Proceeds from issued stocks and bonds			
Net borrowings		697 000	488 510
Finance lease payments		(576 505)	412 200
Net cash flow from financing activities		120 495	900 293
Net cash flow of the reporting year		125 656	75 972
Cash and cash equivalents at the beginning of the reporting year	16	107 825	31 853
Cash and cash equivalents at the end of reporting year	16	233 481	107 825

Notes on pages from 13 to 31 are integral part of these financial statements.

Notes to consolidated financial statements

(1) Information about the Group

AS Capitalia Group (hereinafter – Group) parent company was registered in the Enterprise Register of the Republic of Latvia on June 21, 2007. The registered office of the Group's Parent company is at Brīvības street 40-35, Riga, Latvia. 31 December 2017, the Group will consist of two subsidiaries - AB Capitalia Finance (100%, Lithuania) and AS Capitalia Finance (100%, Estonia). The core business activity of the Group is issuing short and medium term loans to small and medium-sized enterprises in the Baltics.

The true beneficiary of the Group Juris Grišins.

(2) Significant accounting judgements, estimates and assumptions

The Group's consolidate financial statements and its financial result are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements. The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the current and next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgments 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. The assumptions based on which the estimates have been made may be influenced by future events. The effect of any changes in estimates will be recorded in consolidate financial statements, when determinable.

Impairment allowance

At the end of each reporting year the Group assesses, whether there is objective evidence that a group of financial assets is impaired. A group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- adverse changes in the payment status of borrowers in the portfolio of financial assets, i.e. financial assets whose interest and principal payments are past due;
- termination of agreement due to a breach of contract by the borrower, such as a default or delinquency in interest, principal and/or penalty payments.

The Group assesses whether objective evidence of impairment exists collectively for a group of financial assets with similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, levels of arrears, collateral recoverability, or other factors indicative of changes in the probability of losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience. When a receivable is uncollectible, it is written off against the related allowance for receivable impairment. Such receivables are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the accounts receivable aging), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement.

Note (continued)

Accounting policies (continued)

Financial assets that are subject to collective impairment assessment and whose terms have been renegotiated are no longer considered to be past due but are treated as new assets. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated again.

Going concern

The Group's management has assessed of its ability to continue its operations in the future. The Group's equity is positive and short-term assets exceed its short-term liabilities by EUR 82 716. This is mainly result of the fact that on October 25, 2018 bonds with the nominal value of EUR 2 250 000 will have matured. In order to attract capital for re-financing, Group is planning to attract institutional investor as well as issue new bond placement. The new closed bond issue is anticipated to have nominal value EUR 1 500 000 – 2 000 000 with term of 2 – 3 years and 10% annual yield. In order to decrease the necessary re-financing amount on October 25, 2018, the Group will continue its bond repurchase and redemption program in accordance to the overall strategy of reducing liabilities, while concentrating on management rather than ownership of business loan portfolio. Based on the above and evaluating the set strategy, the management of the Group is confident that necessary liquidity can be ensured within the bounds of normal business activities. The management of the Group is certain that the Group has sufficient resources to continue operations in the foreseeable future. Consequently, the Group's management believes that the 2017 financial statements prepared in accordance with and based on the assumption that the Group will continue its operations in the future.

(3) Summary of significant accounting policies

Basic principles for preparation of financial statements

AS Capitalia Group's consolidated financial statements for the year ended 31 December 2017, prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU).

Consolidated financial reporting period is the year from 1 January 2017 until 31 December 2017. The consolidated financial statements prepared on a historical cost basis. The Group's functional and presentation currency is the euro (EUR).

Basis of consolidation

The consolidated financial statements include AS Capitalia and its subsidiaries financial statements for the year ended 31 December 2017. Subsidiaries are all those entities controlled by the Group. A company is controlled by the Group if the Group is exposed, or has rights to variable returns from its involvement in the community and are able to influence its profit.

Subsidiaries are fully consolidated from the date of acquisition, namely, from the date when the Group has obtained control over the subsidiaries, and consolidation is continued until the moment when Group's control over the company stops. Financial statements of the subsidiaries are prepared for the same period as for the parent company, using the same accounting policies. In preparation of consolidated financial statements all inter-company accounting transactions among the subsidiary and the parent company, profit and loss, and dividends are excluded. Change of ownership in subsidiary, without change of control, is treated as equity capital transaction.

If the Group loses control over a subsidiary, it:

- Cease to recognize the subsidiary's assets (including goodwill) and liabilities derecognized non-controlling interests in accordance with its carrying amount derecognized in equity listed in the cumulative currency translation differences;
- Recognizes the fair value of the consideration received is recognized as investment retained their fair value are recognized any gains or losses in the income statement;
- Reclassified all the parent companies eligible amounts previously recognized in other comprehensive income to profit or loss.

Foreign currency translation

The Group maintains its accounts in euros. During the reporting period the transactions carried out in foreign currencies are recognized in accordance with the euro exchange rate determined on the basis of the European System of Central Banks and other central bank reconciliation and publication procedure.

Note (continued)

Accounting policies (continued)

At the year-end foreign currency cash balances and foreign currency expressed in an advance, loan or loan balances, as well as other foreign currencies payable receivables or payables balances the conversion of the foreign currency to the euro in accordance with the accounting used in the foreign exchange rate in force in the year-end at the end of the day.
Foreign exchange gain or loss is reflected in profit or loss statement of the reporting year.

Investment in associated company and unconsolidated subsidiaries

The Group's investments in associates are accounted for using the equity method. Associated company is a company in which the Group has significant influence. Under the equity method, the investment in the associate is reflected in the statement of financial position at their acquisition cost, which is increased or decreased to recognize the company after acquisition changes in the Group's associated company's net assets side. Goodwill arising from investment in associated company is recorded in the net book value of the investment and amortization is not calculated. No separate additional impairment test are performed.

The income statement reflects the operations of the associate for a part. If there have been any changes recognized directly associated companies in the consolidated statement of comprehensive income, the Group recognizes these changes in proportion to its size, and if such a change is recognized, reflected in its consolidated statement of comprehensive income. Gains or losses from the Group's associated companies and transactions are eliminated in accordance with the Group's interest in the associate.

Financial statements of the associated companies are prepared for similar period with the parent company's financial statement. If necessary, adjustments are made to the associate's accounting principles in line with the Group's accounting principles.

The Group evaluates whether it is necessary to recognize impairment of the Group's investment in associates. At the each financial position date, the Group assesses whether there is any objective evidence to indicate that the investment in associate is impaired. If such indication exists, the Group determines the amount of impairment is calculated as the difference between the recoverable amount of the associate and its statement of financial position value and the amount recognized in the income statement.

If the Group loses significant influence in the associate company, any retained investment in the Group's associated company are recognized at their fair value. The difference between the participation of the associate statement of financial position value of the loss of significant influence at the time of the retained investment and the fair value of the proceeds on disposal the Group are recognized in profit or loss. Investments in subsidiaries that are not participating in the consolidation, shares are listed in the same way as investment in associated company shares.

Intangible assets

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

Specialized program, database	- over 5 years
Webpage	-over 3 years

Fixed assets

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

PCs	- over 3 years
Furniture	- over 5 years
Vehicles	- over 5 years

Depreciation is calculated starting with the following month after the asset is put into operation or engaged in commercial activity. 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 exist 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 risk specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash- generating to which the asset belongs. Impairment losses are recognized in the income statement as cost of sales item.

Note (continued)

Accounting policies (continued)

Recoverable value of the asset which does not generate cashflows is determined based on the value of the asset part of which it is. Loss from impairment is recognised in the statement of comprehensive income.

Recognition of the fixed asset is discontinued on disposal of the asset or if future use of the asset will not generate any operating benefits. Any profit or loss arising from disposal of the asset (which is calculated as a difference between net income and net book of the asset) is recognised in the statement of comprehensive income in the reporting year.

Finance lease

Where the property, plant and equipment are acquired under a finance lease arrangement and the Group takes over the related risks and rewards, the property, plant and equipment items are measured at the value at which they could be purchased for an immediate payment. Leasing interest is charged to the profit and loss in the period in which it arises.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank.

Debtors

Accounts receivable comprise loans and other receivables (other debtors, advances and deposits) that are non-derivative financial assets with fixed or determinable payments. All loans and receivables are recognized when cash is advanced to borrowers and derecognized on repayments. Restructured loans are no longer considered to be past due unless the loan is past due according to the renegotiated terms.

At each balance sheet date the Group evaluates any objective evidence of the possible impairment of issued loans. If any such evidence exists, the amount of the allowances for loan impairment is assessed as the difference between the carrying amount and the recoverable amount, including amounts recoverable from collateral using management's estimates, assumptions and estimates.

When loans cannot be recovered they are written off and charged against allowances for loan impairment losses. They are not written off until all the necessary legal procedures have been completed and the amount of the loss is finally determined. Provisions for loan impairment losses are reduced when the estimated recoverable value of the loan exceeds the value reflected in the balance sheet.

The provision in the allowance account is reversed if the estimated recovery value exceeds the carrying amount. In accordance with the provisioning policy developed by the Group, based on accounts receivable days past due, the following provisions are made for the doubtful loans:

Late days	Provision amount
0-15	0%
16-30	10%
31-90	30%
91-180	60%
181+	100%

The recoverability of other debtors, advances and deposits paid is valued on individual basis if there are any indications of net book value of the asset exceeding its recoverable amount.

Vacation pay reserve

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

Contingencies

Contingent liabilities are not recognized in consolidate 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 consolidate financial statements but disclosed when an inflow of economic benefits is probable.

Income

The Group presents interest income in the section of the Profit and loss account prior to calculation of gross profit, as this income is related to the basic activities of the Group – charging interest for loans issued in return to pledge held as security or loans issued on other conditions. Interest income is recognized using accruals principle.

Note (continued)

Accounting policies (continued)

Interest income is not recognized from the moment the recoverability of principal is considered doubtful. Other income is recognized based on accruals principle. Penalties and similar income of collection exists, is recognized based on cash principle.

Taxes

The corporate income tax expense is included in consolidate financial statements based on the management's calculations made in accordance with the requirements of relevant national tax legislation. Deferred tax asset is written off in the profit and loss account for the period, based on changes in the legislation that lead to the deferred tax base changing.

Payment of dividends

Dividends due to the shareholders are recognized in consolidated financial statements as a liability in the period in which the shareholders approve the disbursement of dividends.

Related parties

Related parties include the shareholders, members of the Board of the parent company of the Company, their close family members and companies in which the said persons have control or significant influence.

Subsequent events

Subsequent events that provide additional information about the Group's position at the consolidate balance sheet data (adjusting events) are reflected in consolidate financial statements. Subsequent events that are not adjusting events are disclosed in the notes when material.

(4) Risk management

The activities of the Group are exposed to different financial risks: credit risk, liquidity risk, market risk, cash flow and interest rate risk, operational risk and foreign currency risk. Chairman of the board is responsible for risk management. Chairman of the board identifies, assesses and seeks to find solutions to avoid financial risks.

Credit risk

The Group has a credit risk concentration based on its operational specifics – issuance of loans against pledge, as well as issuance of non-secured loans that is connected with an increased risk of asset recoverability. The risk may result in short-term liquidity problems and issues related to timely coverage of short-term liabilities. The Group's policies are developed in order to ensure maximum control procedures in the process of loan issuance, timely identification of bad and doubtful debts and adequate provisioning for potential loss. Group has no concentration of credit risk to one loan receiver. Group issues loans that are secured with collateral as well as non-collateralized loans. Group's credit risk concentration of loans to related companies:

	31.12.2017	31.12.2016
	EUR	EUR
Loans to related entities (Note 13)	336 666	202 428
Total amount of issued loans	3 537 949	3 618 175
Credit risk concentration	9.51%	5.59%

Group and its management fully control related companies hence managing the credit risk exposure to those businesses. The Group provides loans secured by collateral and unsecured loans (gross amounts):

	31.12.2017	%	31.12.2016	%
	EUR		EUR	
Loans with collateral	1 103 738	33%	1 430 550	40%
Loans without collateral	1 876 077	59%	1 471 124	41%
Ceded loans to repurchase obligations, incl.	367 143	11%	694 068	19%
with collateral*	303 415	10%	-	-
without collateral*	32 176	1%	-	-
Total loan amount (Note 12)	3 346 958	100%	3 595 742	100%

* Comparative information for December 31, 2016 is not available

Note (continued)

Accounting policies (continued)

Liquidity risk

The Group complies with the prudence principle in the management of its liquidity risk and maintains sufficient funds. The management of the Group has an oversight responsibility of the liquidity reserves and it makes current forecasts based on anticipated cash flows. Most of the Group's liabilities are short-term liabilities. The management is of the opinion that the Group will be able to secure sufficient liquidity by its operating activities.

The total undiscounted liabilities (i.e. including future interest payments) of the Company by term is reflected in the following table:

Loans (excluding financial leasing)	Less than 3 months	3 months to year	From year to 5 years	Total
December 31, 2016, EUR	651 483	417 167	2 733 959	3 802 609
December 31, 2017, EUR	507 737	2 783 401	407 274	3 698 412

Please also see Accounting Policies, *Going Concern*

Market risk

The Group is exposed to market risks, basically related to the fluctuations of interest rates between the loans granted and funding received, as well as demand for the Group's services fluctuations. The Group attempts to limit market risks, adequately planning the expected cash flows, diversifying the product range and fixing funding resource interest rates.

Cash flow and interest rate risk

The Group is not exposed to interest rate risk because its current and non-current borrowings and lease receivable are at a fixed rate. The financial lease liabilities, which is applied to the variable interest rate is negligible. (See Notes 18 and 19)

Operational risk

Operational risk is a loss risk due to external natural disasters, crimes, etc.) or internal ones (IT system crash, fraud, violation of laws or internal regulations, insufficient internal control). Operating activities of the Group carry a certain operational risk which can be managed using several methods including methods to identify, analyze, report and reduce the operational risk.

Foreign exchange risk

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

(5) Financial instruments

Accounting for derivative financial instruments

The Group does not use derivative financial instruments in its operations.

Fair value

The carrying value of financial assets and liabilities approximates their fair value.

Management of the capital structure

In order to ensure the continuation of the Group's activities while maximizing the return on shareholders' capital, optimization of the debt and equity balance is performed. The Group's capital structure consists of borrowings from related parties, third party loans and loans from credit institutions and financial lease liabilities, cash as well as equity, consisting of issued share capital, retained earnings and share premium. At year-end the capital structure ratios were as follows

	31.12.2017	31.12.2016
	EUR	EUR
Liabilities gross	3 403 690	3 274 477
Cash	(233 481)	(107 825)
Net debt	3 170 209	3 166 652
Equity	460 941	435 276
Liabilities / equity ratio	7.39	7.52
Net liabilities / equity ratio	6.88	7.28

Note (continued)

Accounting policies (continued)

Financial instruments by category

The Group's principal financial instruments are cash and cash equivalents, loans, issued bonds and other borrowings, debts to suppliers and other creditors. These financial instruments ensure everyday operations of the Group. As at 31 December 2017 and 2016, carrying value of the Group's financial assets and liabilities approximates its fair value.

In order to determine and present the financial assets and liabilities fair value, the Group uses the following three-level fair value hierarchy.

Level 1: price quotations published in active market;

Level 2: other methods that use data, all of which are directly or indirectly observable and have a significant impact on the recognized fair value;

Level 3: other methods in which inputs which have a significant effect on the recorded fair value are used that are not based on observable market data.

Level 1 it includes cash and cash equivalents. In Level 2 are not included any of the financial assets or financial liabilities. Level 3 includes loans and other debts, other financial assets, payables and other liabilities. These assets and liabilities, with the exception of long-term loans, are short-term assets (with maturity less than 1 year), and as a result, the Group assumes that the assets (less the calculated provisions) are carried at their fair value.

Loans received from and given to related parties are priced at market rates (published statistical lending rates), hence the Group assumes that the fair value of these loans is reflected in their carrying value. The Group's assets and liabilities that are measured at fair value hierarchy are as follows:

Assets carried at amortized value	31.12.2017	31.12.2016
<i>level 3</i>	EUR	EUR
Loans and receivables and others debtors		
Receivables from affiliated companies	3 231 470	3 430 765
Loans to shareholders and management	336 666	202 428
<i>Total level 3</i>	<u>20 120</u>	<u>5 000</u>
	<u>3 588 256</u>	<u>3 638 193</u>
<i>Level 1</i>		
Cash		
<i>Total level 1</i>	<u>233 481</u>	<u>107 825</u>
Total	<u>233 481</u>	<u>107 825</u>
	3 821 737	3 746 018
Liabilities at amortized value		
<i>level 3</i>		
Borrowings		
Trade creditors and other creditors	3 403 690	3 274 477
<i>Total level 3</i>	<u>22 901</u>	<u>32 160</u>
Total	<u>3 426 591</u>	<u>3 306 637</u>
	3 426 591	3 306 637

(6) Changes in accounting principles and reporting

The following new and amended IFRS and interpretations became effective in 2017, but have no significant impact on the operations of the Group and these consolidated financial statements:

Amendments to IAS 12 "Income taxes" – recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).

Amendments to IAS 7 "Statement of Cash Flows" – Disclosure initiative (effective for annual periods beginning on or after 1 January 2017) came in force. In connection with the implementation of this initiative, the Group discloses additional information on the understanding of borrowing and lending movements in the cash flow statement.

Note (continued)

Accounting policies (continued)

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on 1 January 2018 or later periods or are not yet endorsed by the EU:

IFRS 9 “Financial instruments” (effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity’s business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets’ cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a ‘three stage’ approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The management of the Group has assessed that the applying of IFRS 9 will not cause significant fluctuations to Group’s financial results and financial position, as in the previous financial periods the Group recognizes not only individual but also general provisions for its receivables portfolio. In turn, the Group’s general provisions and special drawing-up methodology already includes the expected approach to credit losses.

IFRS 15 “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

As the Group’s main operations are related to lending services, and operating income is generated by interest income, the Group’s management expects no significant impact to Group’s financial results and financial situation adopting the IFRS 15 “Revenue from Contracts with Customers”.

IFRS 16 “Leases” (effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise:

- assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value;

Note (continued)

Accounting policies (continued)

- depreciation of lease assets separately from interest on lease liabilities in the income statement.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Consequently, the lessor continues to classify lease contracts in financial and operating leases and provides a separate accounting for these transactions.

Considering the fact that the Group has no entered into significant operating lease agreements, amendments to IFRS 16 “Leases” does not require significant changes in accounting of the Group.

Amendments to IFRS 10 “Consolidated financial statements”, IAS 28 “Investments in associates and joint ventures” – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date to be determined by the IASB, not yet endorsed in the EU).

Amendments to IFRS 2 “Share-based Payment” (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

Amendments to IFRS 4 “Insurance Contracts” – Applying IFRS 9 “Financial instruments” with IFRS 4 “Insurance contracts” (effective for annual periods beginning on or after 1 January 2018).

Annual improvements to IFRS’s 2016. The amendments include changes that affect 3 standards:

- IFRS 12 “Disclosure of Interests in Other Entities” (effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU),
- IFRS 1 “First-time Adoption of International Financial Reporting Standards” (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU), and
- IAS 28 “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

IFRS 17 “Insurance contracts” (effective for annual periods beginning on or after 1 January 2021, not yet endorsed in the EU).

IFRIC 23 “Uncertainty over Income Tax Treatments” (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU).

Amendments to IAS 40 “Investment Property” – Transfers of investment property (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

Amendments to IFRS 9 “Financial instruments” – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU).

Amendments to IAS 28 “Investments in Associates and Joint Ventures” – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU).

Annual improvements to IFRS’s 2017 (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU). The amendments include changes that affect 4 standards: IFRS 3 - “Business Combinations”, IFRS 11 - “Joint Arrangements”, IAS 12 - “Income taxes”, IAS 23 - “Borrowing costs”.

Board of the Group decided not to initiate new standards and interpretations before endorsing them in EU. Management of the Group believes that new standards and interpretations listed above does not have significant impact on Group’s consolidated financial statements in the year of endorsement.

At the time of report, there are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

Note (continued)

Consolidated notes to the financial statements

(1) Interest and similar income

	2017 EUR	2016 EUR
Interest and commission income from loans	1 038 966	857 595
Income from fines	150 062	67 337
	<u>1 189 028</u>	<u>924 932</u>
<i>Net sales by geographic markets</i>		
Latvia	427 855	473 503
Lithuania	550 801	327 649
Estonia	210 372	123 780
	<u>1 189 028</u>	<u>924 932</u>

(2) Interest expense

Interest on loans received	377 727	328 933
	<u>377 727</u>	<u>328 933</u>

(3) Impairment

Provision for doubtful debts, written-off receivables	164 235	72 870
Legal services and debt collection costs	20 570	16 058
	<u>184 805</u>	<u>88 928</u>

(4) Selling expense

Advertising services and materials	41 407	86 351
Other costs	61 309	38 337
	<u>102 716</u>	<u>124 688</u>

(5) Administrative expense

Staff costs	241 816	187 477
Professional services costs	89 162	82 299
Office rent, utilities, security	32 051	29 426
Depreciation of fixed assets, low value items	40 391	26 963
Annual report audit costs *	6 952	6 120
Office expenses	8 563	7 164
Other costs	13 319	19 924
	<u>432 254</u>	<u>359 373</u>

* During the reporting period the Group has not received any other services from the auditors.

(6) Other operating income

Income from office space lease	2 420	3 076
Other income	8 906	2 642
	<u>11 326</u>	<u>5 718</u>

(7) Other operating expense

Non-deductible VAT	21 045	26 785
Paid fines and penalties	16 245	7
Donations	215	-
Other costs	8 334	9 173
	<u>45 839</u>	<u>35 965</u>

Note (continued)

(8) Other financial income

	2017	2016
	EUR	EUR
Securities coupon income	-	10 206
	<u>-</u>	<u>10 206</u>

(9) Losses from investments in associated companies

Losses from associated companies sales	-	6 249
	<u>-</u>	<u>6 249</u>

(10) Corporate income tax for the reporting year

Deferred corporate income tax	4 248	(2 516)
Current corporate income tax for the reporting year	27 100	10 811
	<u>31 348</u>	<u>8 295</u>

Corporate income tax differs from the theoretical amount:

Profit/ (loss) before tax	<u>57 013</u>	<u>(3 281)</u>
Theoretically calculated tax	8 552	(492)
Permanent differences, net	22 796	8 787
	<u>31 348</u>	<u>8 295</u>

Deferred tax (assets)/ liabilities

Deferred tax (asset)/ liability at the beginning of year	(4 248)	(1 732)
Change in the deferred tax in the reporting year	4 248	(2 516)
Deferred tax (asset)/ liability at the end of year	<u>-</u>	<u>(4 248)</u>

In 2017, a deferred tax asset is written off in the profit and loss statement for the period, based on legislative changes that lead to a deferred tax base.

Notes (continued)

(11) Fixed and intangible assets

	Intangible assets	Fixed assets	Asset creation	Total
Cost	EUR	EUR	EUR	EUR
31.12.2016.	98 500	59 437	17 623	175 560
Additions	5 133	3 538	18 038	26 709
Reclassified	33 050	-	(33 050)	-
Disposals	-	(1 083)	-	(1 083)
31.12.2017	136 683	61 892	2 611	201 186
Depreciation				
31.12.2016.	20 645	20 708	-	41 353
Calculated	23 609	13 960	-	37 569
Disposals	-	(1 083)	-	(1 083)
31.12.2017.	44 254	33 585	-	77 839
Carrying amount as at 31.12.2016.	77 855	38 729	17 623	134 207
Carrying amount as at 31.12.2017.	92 429	28 307	2 610	123 347

(12) Loans and receivables

	31.12.2017	31.12.2016.
	EUR	EUR
Debtors for loans issued against pledge	198 056	318 527
Debtors for loans issued without pledge	233 222	156 958
Ceded loans to repurchase obligations	31 552	-
Long-term loans and receivables, total	462 830	475 485
Debtors for loans issued against pledge	905 682	1 111 973
Debtors for loans issued without pledge	1 642 855	1 314 166
Trade receivables	4 995	3 066
Ceded loans to repurchase obligations	335 591	694 068
Provisions for bad and doubtful trade debtors	(170 790)	(188 011)
Short-term loans and receivables, total	2 718 333	2 935 262
	3 181 163	3 410 747
<i>Loans and receivables by currency, EUR:</i>		
EUR	3 351 953	3 598 758
Including:		
Issued loans	3 346 958	3 595 692
Trade receivables and other receivables	4 995	3 066

Notes (continued)

Loans and receivables (gross) age analysis:

	31.12.2017	31.12.2016
	EUR	EUR
Debt does not exceed the payment deadline	2 662 160	2 882 266
Delayed from 1 - 30 days	146 569	143 647
Delayed from 31 - 90 days	166 217	122 838
Delayed from 91 - 180 days	106 986	139 672
Over 180 days past due	270 021	310 335
	3 351 953	3 598 758

Provisions for bad and doubtful loans and receivables:

Provisions at the beginning of the year	188 011	134 119
Additional provisions	157 654	152 827
Recovered debts	(64 194)	(50 670)
Debts written off in the reporting year	(110 681)	(48 265)
Provisions at the end of the year	170 790	188 011

Late debtors are analyzed and evaluated in accordance to the following methodology: loans are divided into groups according to the risk class that is function of number of late days, collateral liquidity, collateral amount and information from the collection lawyers.

Loans split by loan groups

Group's issued loans by their risk exposure is identified in the following table (presented in gross values):

Debtors for loans issued against pledge	2 131 875	2 351 836
Debtors for loans issued without pledge	2 618 925	2 418 805
Ceded loans without redemption obligation	(1 403 842)	(1 174 949)
	3 346 958	3 595 692
<i>From that:</i>		
Altum (AS "Attīstības finanšu institūcija Altum") co-financing part	-	198 955
Ceded loans with repurchase obligations	367 143	694 068

Information on loan groups of loans with a maximum credit risk given below:

Loans issued against pledge		
Provisions for bad and doubtful trade debtors	2 131 875	2 351 836
The net value of loans issued against pledge	(68 749)	(97 274)
	2 063 126	2 254 562

The maximum credit risk is half of the net amount of the debt after the enforcement of the pledge or the collection against the guarantor - individual person.

Loans issued without pledge		
Provisions for bad and doubtful trade debtors	2 618 925	2 418 805
The net value of loans issued without pledge	(102 041)	(90 737)
	2 516 884	2 328 068

The maximum credit risk is the net amount of the debt after the collection against the guarantor - individual person.

Loans with Altum co-financing		
Provisions for bad and doubtful trade debtors	-	198 955
The net value of loans with Altum co-financing	-	(20 270)
	-	178 685

Agreement with Altum provides, that for loans with Altum co-financing Altum assumes 50% for bad debt risks if such arise. In December 2017, the agreement was discontinued. According to the agreement, the repayment of the financing received by the Group's Parent company from Altum but not refunded must be made in equal installments by September 30, 2020.

Assigned loans with buyback obligations		
Provisions for bad and doubtful debtors	367 143	694 068
The net value of assigned loans with buyback obligation	-	-
	367 143	694 068

Notes (continued)

The maximum credit risk is the net amount of the debt after the enforcement of the pledge or the collection against the guarantor - individual person.

	31.12.2017	31.12.2016
	EUR	EUR
Assigned loans without buyback obligations	1 403 842	1 174 949
Provisions for bad and doubtful trade debtors	(132 259)	(29 339)
The net value of the assigned loans without buyback obligation	<u>1 271 583</u>	<u>1 145 610</u>

For ceded debts, credit risk of the loan is assumed by the loan purchaser. For the uncaded part of the loan, credit risk is the net amount of the debt after the enforcement of the pledge or the collection against guarantors – individuals, but not less than 5% of the amount owed. The Group is required to make accounting and administration of all ceded debts.

(13) Receivables from affiliated companies

Loan to Capitalia Kredīti SIA	190 500	190 500
Loan to Sparta Capital OU	123 000	-
Long term part:	<u>313 500</u>	<u>190 500</u>
Capitalia Kredīti SIA accrued interest	8 596	11 928
Sparta Capital OU accrued interest	14 570	-
Short term part:	<u>23 166</u>	<u>11 928</u>
Total:	<u>366 666</u>	<u>202 428</u>

The Group has issued unsecured loan to Capitalia Kredīti SIA in 2015, at annual interest rate of 3.5%. Loan is to be repaid in 2020. The loan of Capitalia Kredīti SIA in the period from 31 December 2017 to the date of signing of this annual report has been repaid.

The Group has issued unsecured loan to Sparta Capital OU in 2017, at annual interest rate of 12%. Loan is to be repaid in 2020.

(14) Other debtors

Prepaid expenses	13 180	804
Assignment contracts	16 026	-
Lease security deposit	4 846	4 087
Overpaid taxes	2	4 878
Other debtors	16 253	10 249
	<u>50 307</u>	<u>20 018</u>

(15) Loans to shareholders and management

Loan to Juris Grišins	20 120	5 000
Short term part:	<u>20 120</u>	<u>5 000</u>

The Group has issued unsecured loan to Juris Grišins, at annual interest rate of 2%. Loan is to be repaid by the 21 September, 2018.

(16) Cash

Cash in the bank, EUR	<u>233 481</u>	<u>107 825</u>
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Notes (continued)

(17) Share capital and other reserves

In 2016, the share capital of the Group's parent company has been increased and new class of preference shares created. As of December 31, 2017, the the Group's Parent company registered and paid share capital was EUR 500,000, consisting of 250,000 ordinary dematerialized registered shares with a nominal value of EUR 1 and 250,000 dematerialized registered preferred shares with a nominal value of EUR 1.

Ordinary dematerialized registered voting shares, nominal value in EUR	250 000	50%
Dematerialized registered preferred non-voting shares, nominal value in EUR	250 000	50%
The item "Other reserves" reflects the reorganization reserves.	500 000	100%

(18) Bonds issued

In August, 2014 the Group's Parent company issued 1,000 bonds at nominal value of EUR 1,000 and at initial sales price of EUR 920 (effective annual yield of 15%). In October 2015, issued an additional 750 bonds, which were realized at nominal value. Coupon rate on the bonds is 12% per annum and it is paid quarterly. The securities are due on 25th of October, 2018.

In January of 2018 the Group has redeemed 750 of the bonds.

In November, 2016 the Group's Parent company made closed issue of 500 bond securities (bonds at nominal value of EUR 1,000). Coupon rate on the bonds is 6% per annum and it is paid quarterly. The securities are due on 25th of October, 2019

	31.12.2017.	31.12.2016.
	EUR	EUR
Securities nominal value	3 500 000	2 250 000
Unrealized bonds	(970 000)	(447 000)
Impact of effective interest rate (discounting)	(44 002)	(87 835)
Accrued coupon interest payments at the period end	70 417	43 333
Accrued coupon interest payments at the period end, unrealized bonds	(19 008)	(4 842)
Long term part:	295 474	1 715 165
Short term part:	2 241 933	38 491
	2 537 407	1 753 656

In order to secure the Group's Parent company's liabilities against its bond holders, on 2 November 2016 and 12 December 2016, the Parent company of the Group entered into a security agent agreement with law firm Loze & Partneri. In order to secure its liabilities, the Group's Parent company has pledged all its current and future assets to the security agent – law firm Loze & Partneri. The maximum amount of the secured claim is EUR 4 320 000. The pledge holder has rights to sell the pledget assets (without organising an auction). The plde is effective, until the Group's Parent company has fulfilled its obligations against bond holders after the bond maturity.

Please see also Accounting policies *Going concern*.

(19) Other borrowings

Non-interest bearing loan within EU funds*	60 545	33 959
Long term part:	60 545	33 959
Loans without debtors guarantee – short term**	403 999	683 201
Non-interest bearing loan within EU funds*	34 596	109 593
Liabilities for ceded loans	367 143	694 068
Short term part:	805 738	1 486 862
Total:	866 283	1 520 821

The annual interest rate of received loans is from 8% to 13.8% annually, term – 1 to 12 months.

Notes (continued)

* In 2014 the Group signed micro-loan portfolio loan management agreement with AS "Attīstības finanšu institūcija Altum" (previously Latvian Guarantee Agency SIA). According to the agreement Latvian Guarantee Agency SIA provides state and EU financing to the small and medium businesses, providing non-interest bearing loan to AS Capitalia for purposes of issuing loan to boost competitiveness of small and medium enterprises in Latvia. In December 2017, the agreement was discontinued. According to the agreement, the repayment of the financing received by the Group's Parent company from Altum but not refunded must be made in equal installments by September 30, 2020.

** A loan of EUR 200 000 has been secured by the Group Parent company's shareholder by issuing a personal guarantee.

Future minimum present value of payments and interest expenses of other borrowings (excluding liabilities for ceded loans):

Deadline:	Future minimum payments, gross 31.12.2017 EUR	Minimum payments at the present value of net 31.12.2017 EUR	Interest expense 31.12.2017 EUR	Future minimum payments, gross 31.12.2016 EUR	Minimum payments at the present value of net 31.12.2016 EUR	Interest expense 31.12.2016 EUR
2 to 5 years	60 545	60 545	-	33 959	33 959	-
less than one year	449 095	438 595	10 500	802 921	792 794	10 127
	509 640	499 140	10 500	836 880	826 753	10 127

Other borrowings by currency, EUR:

	31.12.2017. EUR	31.12.2016. EUR
EUR	866 283	1 520 821
Other borrowings, age analysis:		
Debts which do not exceed the payment deadlines	866 283	1 520 821

(20) Trade creditors and accrued liabilities

Debt for goods and services received	11 848	18 476
Accrued liabilities	10 663	8 423
Other creditors	390	5 261
	22 901	32 160

(21) Other creditors

Payment for the bonds issued in January 2017	-	130 000
	-	130 000

(22) Taxes and social insurance

Corporate income tax (overpayment)/ liabilities	27 100	(4 848)/ 10 811
Value added tax	1 373	2 836
Statutory social insurance contribution	6 828	4 043
Personal income tax	1 494	(16)/ 1 430
State fees	(2)	(14)
Total, Including:	36 793	14 242
Liabilities	36 795	19 120
(Overpayment)	(2)	(4 878)

Notes (continued)

(23) Deferred income

Accrued income from bond sales
Listed interest income from future payments of issued loans

Long term part:

Short term part:

-	41 981
20 756	51 459
-	41 981
20 756	51 459

(24) Average number of the Group's employees

Average number of the Group's employees

2017	2016
13	11

(25) Management remuneration

Board members' remuneration

- salary expenses
- social insurance
- business risk duty

2017 EUR	2016 EUR
23 952	23 853
5 927	6 598
4	4
29 883	30 455

Council members' remuneration

- salary expenses
- social insurance
- business risk duty

870	-
204	-
-	-
1 074	-

Members of the council have not received remuneration for the reporting periods of 2016.

(26) Related party transactions

Transactions with:

Shareholder

Loans issued
Loans repaid
Interest income
Purchase of fixed assets
Sale of fixed assets

2017 EUR	2016 EUR
17 000	6 000
2 000	75 725
120	2 111
-	1 025
-	1 000

Companies and individuals under common control or significant influence

Loans issued
Loans repaid
Purchase of fixed assets
Interest income
Cession transaction
Investment transaction

249 500	-
136 500	149 350
-	49 000
22 025	9 779
30 000	-
3 000	-

Notes (continued)

	2017	2016
	EUR	EUR
Associated companies		
Loans repaid	-	10 115
Loans issued	-	1 000
Interest income	-	882
Other related parties		
Purchase of bonds	6 040	-

Goods from affiliated companies and persons are sold and purchased as well as the services received and delivered at market prices.

(27) Report on the movement of loans and borrowings received in accordance with the requirements for a cash-flow disclosure initiative

(27a) Report on loans issued

	2 017	2 016
	EUR	EUR
Loans and receivables		
Loans to shareholders and management	3 407 681	1 933 758
Loans to affiliated companies	5 000	67 656
Loans to related parties	202 428	342 000
Loans issued at the beginning of the year	-	51 278
	3 615 109	2 394 692
Loans issued core business	12 130 396	9 219 302
Loans repaid, including ceded	(12 056 284)	(7 924 281)
Loans issued other	17 000	10 000
Loans repaid other	(2 000)	(68 576)
Interest calculated	1 189 028	924 932
Interest received	(1 196 060)	(868 090)
Provision for doubtful debts	(164 235)	(72 870)
Loans issued at the end of the year	3 532 954	3 615 109
including		
Loans and receivables	3 176 168	3 407 681
Loans to shareholders and management	20 120	5 000
Loans to affiliated companies	336 666	202 428
Loans to related parties	-	-

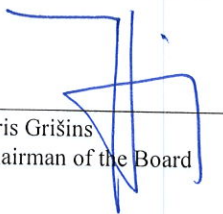
(27b) Received loan overview

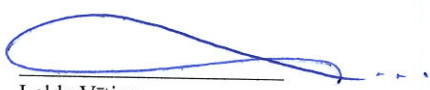
	2 017	2 016
	EUR	EUR
Bonds issued	1 753 656	1 653 716
Other borrowings	1 520 821	656 431
Loans at the beginning of the year	3 274 477	2 310 147
Loans received	1 949 688	2 769 152
Loans repaid	(1 829 193)	(1 805 556)
Interest calculated	377 727	328 933
Interest paid	(369 009)	(328 199)
Loans at the end of the year	3 403 690	3 274 477
including		
Bonds issued	2 537 407	1 753 656
Other borrowings	866 283	1 520 821

Notes (continued)

(28) Subsequent events

In January of 2018 the Parent company has redeemed 750 of the bonds with ISIN LV0000801488.
There are no other subsequent events since the last date of the reporting year, which would have a significant effect on the financial position of the Company as at December 31, 2017.



Juris Grišins
Chairman of the Board

Lelde Vītiņa
person responsible for accounting

Riga, April 30, 2018

Independent Auditor's Report

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To the shareholders of AS Capitalia

Our Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of AS Capitalia and its subsidiaries ("the Group") set out on pages 9 to 31 of the accompanying annual report, which comprise:

- consolidated statement of comprehensive income for the year 2017,
- consolidated statement of financial position as at 31 December 2017,
- the consolidated statement of changes in equity for the year 2017,
- the consolidated statement of cash flows for the year 2017, and
- the notes to the consolidated financial statements, which include 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 consolidated financial position of AS Capitalia Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year 2017 in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

Basis for Opinion

In accordance with the Law on Audit Services of the Republic of Latvia 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) and independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our audit of the consolidated financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and Law on Audit Services of the Republic of Latvia.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

Without qualifying opinion, we draw attention to subsection *Going concern* within section (a) *Significant accounting judgments, estimates and assumptions* of the Accounting policies note of the financial statements and Note 18, which disclose, that as at 31 December 2017 the Group's current liabilities include EUR 2 241 933 issued bonds maturing in October 2018. To provide financing for repayment of the said borrowings and the going concern of the Group, the management of the Group is planning new bond issue, as well as is negotiating with existing and potential investors application for new bonds and/or issue of new borrowings. Accordingly, there is an uncertainty on how the Group will ensure liquidity for maturing bond issue, which might raise doubts on the Group's going concern.

We do not modify our opinion in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our report:

Audit matter

(a) Revenue completeness

Consolidated financial statements of the Group contain Interest income and similar income of EUR 1 189 028.

Detailed information on the relevant income items is presented in Note 1 to the consolidated financial statements (financial information) and in the section of the accounting policies (income recognition).

Interest income and similar income comprise all income of the Group derived from its main operations, therefore income recognition and control matters are considered to be a key audit matter.

Audit procedures performed

Our audit procedures, amidst others, included the following:

- meeting with the financial management of the Group's parent company in order to discuss the specifics of the current market situation, income structure of the Group, changes in the reporting year and key risks in ensuring revenue completeness;
- obtaining understanding of the adequacy of the accounting methods and control procedures applied;
- performing of detailed analytical procedures, comparing interest income to the asset base of loans issued;
- on a random selection basis performed tests of ageing of loans issued and income recognized on the respective loan base in accordance with the loan agreement provisions.

Audit matter

(b) Recoverable values of loans issued

The Group's balance sheet contains non-current and current loans and receivables of EUR 3 181 163.

Detailed information on this balance sheet item is included in Note 12 to the consolidated financial statements (financial information) and in the section of the accounting policies (accounting principles and policies for Debtors and Financial risk management, Credit risk).

The loans and receivables are included in the balance sheet in net realizable values and consist of the gross values of loan principal reclaimable, interest income accrued as at the balance sheet date net of provisions created in accordance with the bad debt provisioning policies as developed by the management of the Group.

In making provisions for doubtful receivables significant management decisions are needed in order to evaluate the adequacy of the provisioning policy determined and make required improvements in order to ensure that loans and receivables inclusive of interest income accrued are presented in the values that do not exceed net recoverable values of the respective assets.

We consider this to be one of the key audit matters as loans and receivables represent material portion of assets of the Group and the valuation of these assets involves significant decisions and judgements applied.

(c) Related party transactions

The Group undertakes transactions also with related parties. Detailed information on this matter is disclosed in Note 26 to the consolidated financial statements (financial information), as well as Notes 13 and 15 (explanatory notes on financial position items).

We consider this a key audit matter, since IFRS compliant disclosure on related party transactions is important in proper understanding of the consolidated financial performance and consolidated financial position of the Group.

Audit procedures performed

Our audit procedures, amidst others, included the following:

- meeting with the financial management of the Group's parent company in order to discuss the specifics of the current market situation, expected profit levels and ratios of asset return;
- obtaining understanding of general principles applied to loan issuance and the adequacy of control procedures applied for the monitoring of borrowers;
- on a sample basis review of adequacy of ageing analysis of loans issued, as ageing analysis is the basis for application of provisioning procedures developed;
- in accordance to the risk measurement methodology developed by the Group, as well as our test results, identified accounts receivables with the highest risk level and evaluated recognized provision adequacy in detail;
- comparing of adequacy and sufficiency of provisions made in prior periods with the actual repayment data for the loans provided for;
- performance of analytical calculations to test the consistency and adequacy of provisioning policy application;
- evaluating the loan repayment dynamics after the balance sheet date.

Our audit procedures, amidst others, included the following:

- performing procedures on related party identification and related party transactions undertaken by the Group during the reporting year;
- identification of related parties from the public information sources and reconciling this information to the data provided by the management of the Group's parent company;
- meeting the management of the Group's parent company to discuss main principles of related party transactions;
- on a sample basis testing terms of related party transactions and ensuring their proper disclosure in the consolidated financial statements;
- testing that the related party disclosure included in the consolidated financial statements complies to IFRS requirements and reconciles to the Group's accounting data.

Reporting on Other Information

The management of the Group is responsible for the other information. The other information comprises:

- the Management Report, as set out on pages 5 to 6 of the accompanying Annual Report,
- the Statement on Management Responsibility and Corporate Governance, as set out on page 8 of the accompanying Annual Report.

Our opinion on the consolidated financial statements does not cover the other information included in the Annual Report, 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

In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the 'Law On the 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:

- the 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 the 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 section 56.1, first paragraph, clause 3, 4, 6, 8 and 9, as well as section 56.2, second paragraph, clause 5, and third paragraph of the Financial Instruments Market Law and if it includes the information stipulated in section 56.2 second paragraph, clause 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

In our opinion, the Statement of Corporate Governance includes the information required in section 56.1, first paragraph, clause 3, 4, 6, 8 and 9, as well as section 56.2, second paragraph, clause 5, and third paragraph of the Financial Instruments Market Law and it includes the information stipulated in section 56.2 second paragraph, clause 1, 2, 3, 4, 7 and 8 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 consolidated financial statements that give a true and fair view in accordance with IFRS and for such internal control as management determines is necessary to enable the preparation of the consolidated 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 consolidated financial reporting process.

Auditor's Responsibility 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 a fair presentation.

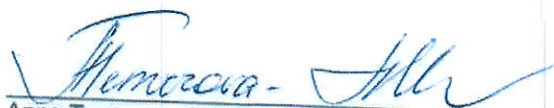
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and objectivity, 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 year and are therefore the key audit matters. We describe these matters in our auditors' 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.

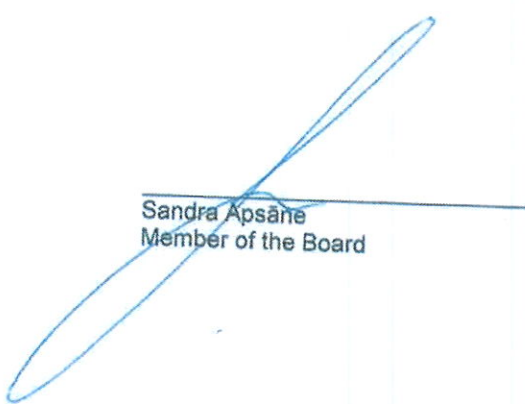
The responsible certified auditor on the audit resulting in this independent auditors' report is Anna Temerova-Allena.

On behalf of SIA Potapoviča un Andersone,
Ūdens street 12-45, Riga, LV-1007
Certified Auditors Company License No. 99



Anna Temerova-Allena
Responsible Certified Auditor
Certificate No. 154
Member of the Board

30 April 2018



Sandra Apsāne
Member of the Board