Riga, 26th April, 2019

AS "Moda Kapitāls"

Annual report for the year 2018.

Prepared in accordance with International
Financial Reporting Standards as adopted in EU

CONTENT

GERNERAL INFORMATION

Name of the company	Moda Kapitāls		
Legal status of the company	Joint Stock Company		
Registration number, place and date of registration	LV 40003345861, Riga, June 9, 1997		
Registered office	Ganību dambis 40A-34, Rīga, LV-1005		
Shareholders	Andris Banders (14.75%), Guntars Zvīnis (24,75%), Ilvars Sirmais (24,75%), Verners Skrastiņš (21%), MK Investīcijas, SIA (14,75%)		
Board Members	Guntars Zvīnis Ilvars Sirmais		
Supervisory Board Members	Verners Skrastiņš - head of the Council Andris Banders - deputy of the head of the Council Inese Kanneniece - meber of the Council Diāna Zvīne - member of the Council Aleksandrs Sirmais - member of the Council		
Financial year	from 01.01.2018	to	31.12.2018
Auditors	Crowe DNW SIA Bauskas iela 58-211, Rīga LV - 1004 Licence No 157		Certified auditor Iveta Rutkovska Certificate No 43

MANAGEMENT REPORT

Type of activity
The main activity of the joint-stock company "Moda Kapital" is the provision of non-bank lending services, incl. issuance of short-term loans against pledges of movable property, pledges of precious metals, antiques, pledges of real estate, issuance of consumer credit and sale of goods in the Internet shop.

Description of the company's activities in the reporting year and financial position
In 2018, small changes in the branch structure of JSC "Moda kapitāls" have occurred - two branches in Jēkabpils have been merged.
Taking into account the current market situation in the non-bank lending sector, the company's priorities have not changed, and the company's priority is not the opening of new branches, but increasing the profitability of existing branches and improving the quality of services offered. Several affiliates have made improvements to improve customer service.

The Company has developed and implemented systems related to changes in legislation, including the development and adaptation of personal data processing in accordance with the "Personal Data Processing Law" by taking into account the requirements and principles of the Law and the General Data Protection Regulation.
The company has improved its control system according to the changes in the Law “On the Prevention of Money Laundering and Terrorism Financing”.

In 2018, the company has more than doubled the turnover of the online shop emoda.lv and has acquired a regular circle of customers who use the services offered by emoda.lv on a regular basis.
The company continues to actively work on increasing sales of existing assortment of goods by offering its customers a wide range of various types of used household appliances and electrical engineering items by agreeing on cooperation with new foreign suppliers.

In 2018, as in previous years, changes in customer activity have been observed in certain types of loans and demand for certain types of loans.

As in 2017, in 2018, the biggest fall was in real estate loans, which is due to a change in the company's strategy regarding the minimum return on such loans.

There is a tendency that not in all branches of company loan growth or decrease is observed in identical forms of a loan. Depending on the branch, a variable growth or decline in loan segments can be observed.

The company does not provide customers with services that are intended to receive loans remotely, but all loans are issued at company branches.
As in previous years, in 2018, much attention is paid to the discipline of customer payments and individual work is done with clients who have solvency problems during the use of the loan in order to find a compromise on a possible solution to their obligations.

Future outlook and future development
Company management predicts that, due to legislative changes that will limit consumer credit offered by non-bank lenders, demand for loans secured by movable property and real estate pledges will increase in the second half of 2019, thus increasing the loan portfolio and interest income of the lending company.

Taking into account the growth of the turnover of the online shop emoda.lv in 2018, we expect that in 2019 the turnover of the online store could double in comparison with 2018, which would also increase the company's income.

The company's results in recent years have been unsatisfactory and the company's equity has reached a level that could prevent the company from working productively and developing in the near future, therefore a number of measures will be implemented in 2019 to strengthen the company's financial position. The relevant action plan and implementation of the objectives will be assessed at the company's shareholders' meeting, when final decisions on the measures to be taken and the deadlines for their implementation will also be made.

The bondholders of the company will be informed separately about the action plan by placing the relevant information in the public NASDAQ Riga news section.

Significant events since the end of the reporting year
From the end of the reporting year to the day of writing this report there have not been any significant events that would have a material impact on the financial position of the Company as at 31 December 2018.

Branches of the company

On December 31, 2018, the Company provides its services in twenty-six branches located in twenty-six largest Latvian cities: Aizkraukle, Alūksne, Balvi, Bauska, Cēsis, Daugavpils, Dobele, Gulbene, Jēkabpils, Jelgava, Kraslava, Kuldiga, Limbazi, Liepaja, Ludza, Madona, Ogre, Preili, Rezekne, Riga, Saldus, Talsi, Tukums, Valmiera, Valka and Ventspils.

Guntars Zvīnis ______________________ 26th April, 2019

signature

Ilvars Sirmais ______________________

signature

STATEMENT OF MANAGEMENT RESPONSIBILITY

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

The Management certifies that proper accounting methods were applied to preparation of these financial statements on page 7 to page 28 and decisions and assessments were made with proper discretion and prudence. The accounting policies applied have been consistent with the previous period. The Management confirms that the financial statements have been prepared on going concern basis.

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

Guntars Zvīnis ______________________ 26th April, 2019

signature

Ilvars Sirmais ______________________

signature

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2018	2017
		EUR	EUR
Net turnover	3	1 130 628	1 476 127
Finance income	3	1 107 020	1 176 104
Cost of sales	4	-891 971	-1 256 860
Finance costs	5	-424 399	-424 107
Gross profit		**921 278**	**971 264**
Selling costs	6	-779 510	-771 642
Administrative expenses	7	-294 722	-300 149
Other income	8	106 490	111 412
Other expenses	9	-132 653	-126 067
Profit or loss before corporate income tax		**-179 117**	**-115 182**
Corporate income tax	11	-2 753	31 021
Net profit or loss		**-181 870**	**-84 161**
Other income (loss)		0	18 147
Total income / loss		**-181 870**	**-66 014**

Pages 11. to 28. are an integral part of these financial statements.

Guntars Zvīnis ____________________ 26th April, 2019

signature

Ilvars Sirmais ____________________

signature

STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2018	31.12.2017
ASSETS		EUR	EUR
Non-current assets			
Intangible assets	12	67 668	57 136
Fixed assets	12	457 413	514 751
Other non-current assets		142	142
Total non-current assets		**525 223**	**572 029**
Current assets			
Inventories	13	1 229 400	1 327 074
Loans and receivables	14	1 730 345	2 031 258
Other current assets	15	82 515	41 174
Cash and its equivalents	16	159 545	165 334
Total current assets		**3 201 805**	**3 564 840**
TOTAL ASSETS		**3 727 028**	**4 136 869**

	Notes	31.12.2018	31.12.2017
EQUITY AND LIABILITIES		EUR	EUR
Equity			
Share capital	18	426 862	426 862
Revaluation reserves of non-current assets	12	168 973	174 240
Retained earnings/ (accumulated deficit)		-540 436	-358 566
Total equity		**55 399**	**242 536**
Liabilities			
Non-current liabilities			
Borrowings	19	3 386 500	3 418 748
Total non-current liabilities:		**3 386 500**	**3 418 748**
Current liabilities			
Borrowings	19	149 899	356 200
Trade and other payables	20	135 230	119 385
Total current liabilities		**285 129**	**475 585**
Total liabilities		**3 671 629**	**3 894 333**
TOTAL EQUITY AND LIABILITIES		**3 727 028**	**4 136 869**
		0	0

Pages 11. to 28. are an integral part of these financial statements.

Guntars Zvīnis ________________ 26th April, 2019

signature

Ilvars Sirmais ________________

signature

CASH FLOW STATEMENT

	Notes	2018 EUR	2017 EUR
Cash flow from operating activities			
Profit/ loss before corporate income tax		**-179 117**	**-115 182**
Adjustments:			
Depreciation and amortization	12	63 841	77 655
loss / (profit) from disposal of fixed assets		433	-24 902
Changes in provisions		-10 992	11 422
Interest payments		424 399	424 107
Changes in current assets:			
Inventories		97 674	-203 554
Receivables		259 572	107 068
Liabilties		17 786	-1 190
		673 596	**275 424**
Corporate income tax paid		-2 753	0
Cash flow from operating activities		**670 843**	**275 424**
Cash flow from investing activities			
Acquisition of fixed assets and intangible investments	12	-17 517	-9 451
Revenue from the sale of fixed assets and intangible assets		259	521
Net cash flow from investing activities		**-17 258**	**-8 930**
Cash flow from financing activities			
Loand received, neto	19	65 000	148 500
Borrowings repaid, neto	19	-297 000	-50 000
Interest payments		-424 399	-424 107
Payments for financial leasing contracts		-2 975	-15 947
Net cash flow from financing activities		**-659 374**	**-341 554**
Net increase / (decrease) in cash and cash equivalents		**-5 789**	**-75 060**
Cash and cash equivalents at beginning of the financial year		**165 334**	**240 394**
Cash and cash equivalents at the end of the financial year		**159 545**	**165 334**

Pages 11. to 28. are an integral part of these financial statements.

Guntars Zvīnis ______________________ 26th April, 2019

signature

Ilvars Sirmais ______________________

signature

STATEMENT OF CHANGES IN EQUITY

	Share capital	Revaluation reserves of non-current assets	Retained earning/ (accumulated loss)	Total
	EUR	EUR	EUR	EUR
Balance as at 31.12.2016	**426 862**	**156 093**	**-274 405**	**308 550**
Deferred income tax liabilities attributable to the revaluation reserve		23 414		**23 414**
Depreciation of fixed assets attributable to the revaluation reserve		-5 267		**-5 267**
Profit for the financial year			-84 161	**-84 161**
Balance as at 31.12.2017	**426 862**	**174 240**	**-358 566**	**242 536**
Depreciation of fixed assets attributable to the revaluation reserve		-5 267		**-5 267**
Profit for the financial year			-181 870	**-181 870**
Balance as at 31.12.2018	**426 862**	**168 973**	**-540 436**	**55 399**

Pages 11. to 28. are an integral part of these financial statements.

Guntars Zvīnis ________ *signature* 26th April, 2019

Ilvars Sirmais ________ *signature*

NOTES TO THE FINANCIAL STATEMENTS

(1) GENERAL INFORMATION

AS Moda Kapitals (further - Company) main activity is the issuing of short-term loans against pledge of movable and immovable property. AS Moda Kapitals is a joint stock company founded and operating in Latvia. Registered address of the Company is at Ganibu dambis 40A-34, Riga, LV-1005.
The auditor of the Company is SIA “Crowe DNW”.

Reporting period

Financial year	01.01.2018	to	31.12.2018

(2) ACCOUNTING POLICIES

Basis of preparation

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

The financial statements are presented in Euro (EUR) unless stated otherwise. During the reporting year, the Company's functional currency was EUR.

They are prepared according to the original cost principle.

The financial statements are prepared on the basis of the principle of continuity of accounting policy, which understands the compliance of the accounting principles used in the preparation of the current financial statements with the principles used in the previous year.

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

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

Changes in accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the interpretations of standards issued by the International Financial Reporting Interpretations Committee (IFRIC) and adopted by the EU.

The Company's accounting policies are the same as those applied in the previous year. The Company has adopted the new standards and additions to the standards described below, including the accompanying amendments to other standards, the effective date of which was 1st January 2018.

• IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1st January 2018) is replacing IAS 39. Financial Instruments: Recognition and Measurment. IFRS 9 includes conditions for the recognition and measure of financial instruments, for impairment, for derecognition and for general hedging transaction accounting.

Classification and Measurment- IFRS 9 introduces a new approach to the classification of financial assets based on cash flow features as well as the business model for which a financial asset is held. This single, principle-based approach replaces the existing rule-based requirements contained in IAS 39. This new approach also defines a uniform valuation model for all financial instruments.

Impairment - IFRS 9 introduces a new expected loss impairment model that will require earlier recognition of expected loss from non-performance of the contract. The new standard requires companies to recognize contract losses at the time when the financial instruments are recognized for the first time, and requires the expected loss of full life cycle to be recognized much earlier.

Designation of hedging instruments - IFRS 9 introduces a fundamentally modified hedge accounting model with improved disclosure requirements for risk management activities. The new model brings major changes to hedge accounting, which now require it to be aligned with risk management activities.

• IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1st January 2018). IFRS 15 specifies how and when reporting agents will recognize revenue, and requires companies to provide more information and explanations to users of financial statements. The Standard supersedes IAS 18 Revenue, IAS 11 Construction Contracts and a number of interpretations of revenue. The application of the standard is mandatory for all financial statements prepared in accordance with IFRS and applies to almost all contracts with customers, except leases, financial instruments and insurance contracts. The basic principle of the standard is the recognition of revenue according to the value of the goods and services transferred to the customers, corresponding to the receivable (payment) the company expects in exchange for those goods and services. The new standard will provide improved disclosure of earnings information in the reports, will provide guidance for transactions that have not previously been comprehensively described (such as revenue from services and contract modifications), and will improve the guidelines for those agreements that include multiple contract performance components. The impact of IFRS 15 on the Company's financial statements is immaterial.

• IFRIC 22 Transactions in Foreign Currencies or Prepayments (effective for annual periods beginning on or after 1st January 2018). The explanation states that the transaction date for the purpose of determining the exchange rate is the date of recognition of the initial non-monetary prepayment asset or accrued income liability. If multiple payments or multiple prepayment invoices are provided, then the transaction date is set for each payment or invoice.

In preparing these financial statements, the Company has not adopted a number IFRS and interpretations of IFRS that have not yet been approved for application in the EU until 31st December 2018:

• IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1st January 2021). The new standard requires the insurance liability to be measured at its present performance value and provides even more uniform measurement and presentation for all insurance contracts. These requirements are designed to achieve the goal of making insurance contract accounting more consistent and principles-based. IFRS 17 supersedes IFRS 4 Insurance Contracts and related interpretations.

• IFRS 16 Leases (effective for annual periods beginning on or after 1st January 2019). IFRS 16 requires the lessee to recognize right-of-use assets and lease liabilities. Accounting for right-of-use assets is carried out similarly to other non-financial assets and is depreciated accordingly. Lease liabilities are initially measured at the present value of the lease payments for the entire lease period by applying a discount rate that is included in the lease if it can be identified. If this rate cannot be reasonably determined, the lessee must apply the borrowing rate itself. Like the previous in IAS 17, in IFRS 16, lessors classify leases in operating leases and finance leases, taking into account the nature of the transaction. A lease is classified as a finance lease if it transfers substantially all the risks and rewards of the asset, similar as it is in the case of asset ownership. In other cases, the lease is considered as an operating lease. In the case of a finance lease, the lessor recognizes the finance income over the lease term based on a model that reflects the constant rate of return on the net investment. The lessor recognizes operating lease payments as revenue using a straight-line method or, if more appropriate, a systematic calculation model that reflects how benefits of using the asset decreases. The Company does not consider that the issued standard will have a material impact on the financial statements

• Amendments to a number of standards Improvements to International Financial Reporting Standards (Cycle 2015-2017), which have emerged from the draft Improvements to IFRSs (IFRS 3, IFRS 11, IAS 12 and IAS 23), mainly to exclude contradictions and provide clarifications on the wording. (effective for annual periods beginning on or after 1st January 2019). The amendment clarifies that: (i) an entity reassesses its previous investment in a joint operation when it obtains control of the entity (IFRS 3); (ii) the entity does not reassess its previous investment in the joint operation when it acquires joint control of the entity (IFRS 11); (iii) the entity considers all income taxes on dividend payments in the same manner (IFRS 12); and the entity considers any borrowing as part of the general borrowings originally made to construct the asset when the asset is ready for its intended use or sale (IAS 23).

• IFRIC 23 Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1st January 2019). Perhaps it is not clear how tax legislation applies to a particular transaction or circumstance, or whether the tax administration will adopt an corporate income tax regime. IAS 12 Income Taxes clarifies the accounting for current and deferred tax assets, but does not reflect the effects of uncertainty. IFRIC 23 complements IAS 12 by specifying how to reflect the impact of uncertainty in income tax accounting.

Foreign currencies

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

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

Segment disclosure

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

Revenue recognition

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

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

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

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

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

Intangible assets and fixed assets

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

Intangible assets:	Years
Licenses and patents	3-5

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

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

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

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

Fixed assets:	Years
Buikdings	20-30
Computer equipment	3-5
Other machinery and equipment	4-10

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

Impairment of non-financial assets

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

Cash-generating units to which goodwill has been allocated are tested for impairment at least annually. For all other individual assets or cash-generating units impairment test is performed at the end of the reporting year if there is evidence of impairment.

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

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

Lease-to-buy (financial lease)

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

Inventories

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

Financial instruments

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

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

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

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

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

Loans and other receivables

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

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

Borrowings

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

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

Cash and cash equivalents

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

Share capital and dividends

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

Employee benefits

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

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

Corporate income tax

In 2017, the government adopted a fundamental change in the Corporate Income Tax Low, which came into force on January 1, 2018. In accordance with this law, temporary differences between financial and tax balances are no longer present. Consequently, the Company withdrew the deferred tax recognition as of 31.12.2017. Corporate income tax liabilities incurred outside the profit and loss account were attributed to the equity item "Long-term revaluation revaluation reserve"; other liabilities were recognized as income in the income statement for the year 2017.

Fair value estimation

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

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

Related parties

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

Critical accounting estimates and judgments

For the preparation of the financial statements in accordance with IFRS, significant assumptions are required. Similarly, when preparing the statements, management needs to make assumptions and judgments in applying the accounting policies chosen by the Company.

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

Going concern basis

The financial statements are prepared on a going concern basis.
Applying the principle involves evaluating a number of considerations and making the necessary management judgment as described in Note 24 - Capital Management.

Revaluation of land and buildings

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

The Management believes that assets must be revaluated at least once in 5 years or earlier if any indicators show the potential material changes in market values. By the management estimates, in the reporting year the factors that indicate a potentially significant changes in the value of those assets has not been identified, and, as a result, fair value measurement procedures has not been made. Last evolution of land and buildings was carried out in 2016 on preparation of financial statements.

Recoverability of receivables

The calculation of recoverable value is assessed for every customer individually. Should individual approach to each customer be impossible due to great number of the customers only bigger receivables shall be assessed individually. Receivables not assessed individually are arranged in groups with similar indicators of credit risks and are assessed jointly considering historical losses experience. Historical losses experience is adjusted on the basis of current data to reflex effect of the current conditions that did not exist at acquisition of the historical loss, effect and of conditions in the past that do not exist at the moment. Information on amount and structure of receivables is disclosed in Note (14) of the financial statements.

(3) Segment Information and net sales

Operation and reportable segment

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

Geographical markets

Currently there are twenty-six branches: Aizkraukle, Alūksne, Balvi, Bauska, Cesis, Dobele, Daugavpils, Gulbene, Jekabpils, Jelgava, Kraslava, Kuldiga, Liepaja, Limbazi, Madona, Ogre, Rezekne, Riga, Saldus, Talsi, Valmiera, Ventspils, Tukums, Preili, Ludza, and Valka.

(3) Types of net turnover

	2018	**2017**
	EUR	EUR
Income from sales of pledged assets	732 120	1 179 198
Income from other goods sales	398 508	296 929
Total	**1 130 628**	**1 476 127**

Finance income

	2018	**2017**
	EUR	EUR
Interest income on loans	962 588	1 048 113
Income from penalties, fines	144 432	127 991
Total	**1 107 020**	**1 176 104**

(4) Cost of sales

	2018	**2017**
	EUR	EUR
Cost of sold pledges	565 902	995 952
Cost of goods purchased for resale	326 069	260 908
Total	**891 971**	**1 256 860**

(5) Finance costs

	2018	**2017**
	EUR	EUR
Interest on loans and bonds	424 399	424 107
Total	**424 399**	**424 107**

(6) Selling costs

	2018	**2017**
	EUR	EUR
Personal costs	454 255	433 985
Rent of premises and maintenance costs	154 030	150 274
Depreciation of fixed assets	58 574	77 090
Non-deductible VAT	18 959	22 383
License expenses	14 225	14 225
Advertising expenses	5 506	3 613
Write-off of low value inventory and fixed asset	1 458	1 095
Other expenses	72 503	68 977
Total	**779 510**	**771 642**

(7) Administrative expenses

	2018 EUR	2017 EUR
Personal costs	203 230	218 074
Transport costs	37 613	36 727
Communication expenses	19 562	18 414
Professional service costs	20 708	10 912
Office expenses	4 172	6 366
Leasing interest	0	279
Bank charges	4 934	5 383
Representation costs	3 132	2 511
Donations	0	13
Business trip expenses	63	55
Other administrative expenses	1 308	1 415
Total	**294 722**	**300 149**

(8) Other income

	2018 EUR	2017 EUR
Rent and lease income	9 750	11 779
Write-off of provision	87 379	62 732
Net gain on disposal and sales of fixed assets	0	570
Other income	9 361	36 331
Total	**106 490**	**111 412**

(9) Other expenses

	2018 EUR	2017 EUR
Provisions	76 387	74 154
Loss on sale of inventories (real estate) ans fixed assets	36 486	40 390
Loss of the assignment contract	14 575	
Real estate tax	5 048	5 628
Other expenses	157	5 895
Total	**132 653**	**126 067**

(10) Expense by nature

	2018 EUR	2017 EUR
Purchase cost of goods sold	891 971	1 256 860
Personnel costs	657 485	652 059
Interest paid on credits, borrowings	424 399	424 107
Rent of premises and maintenance costs	154 030	150 274
Depreciation of fixed assets	58 574	77 090
Transport costs	37 613	36 727
Non-deductible VAT	18 959	22 383
Other expenses	280 224	259 325
Total	**2 523 255**	**2 878 825**

(11) Corporate income tax

Components of corporate income tax	2018 EUR	2017 EUR
Changes in deferred income tax	0	31 021
Corporate income tax according to the tax declaration	2 753	0
Total	**2 753**	**31 021**

In 2017, the government adopted a fundamental change in the Corporate Income Tax Law, which came into force on January 1st, 2018. In accordance with this law, temporary differences between financial and tax balances are no longer present. The Company, in accordance with International Accounting Standard No. 12 "Income Tax" interrupted the recognition of deferred tax on December 31st, 2017 as follows:

	Deffered income tax EUR
31.12.2016	**0**
Included in the profit and loss statement	2 753
Reversed long-term investment revaluation reserve	-23 414
31.12.2017	**0**

(12) Intangible assets and fixed assets

		Intangible assets - licences	Fixed assets: Lands and buildings	Leasehold improvements	Other fixed assets	Advances and development costs	Total fixed assets
		EUR	EUR	EUR	EUR	EUR	EUR
Initial value	**01.01.2017**	**79 076**	**442 411**	**16 207**	**650 729**	**961**	**1 110 308**
Acquired		10 477		888	6 884	1 679	**9 451**
Disposed				-1 626	-16 467		**-18 093**
Reclassified			-2 933			-719	**-3 652**
Overvalued							**0**
Initial value	**31.12.2017**	**89 553**	**439 478**	**15 469**	**641 146**	**1 921**	**1 098 014**
Accumulated depreciation	**01.01.2017**	**27 717**	**61 182**	**13 832**	**438 233**	**0**	**513 247**
Calculated depreciation		4 700	14 937	1 248	61 470		**77 655**
Depreciation of disposed fixed assets				-1 626	-6 013		**-7 639**
Accumulated depreciation	**31.12.2017**	**32 417**	**76 119**	**13 454**	**493 690**	**0**	**583 263**
The residual value	**01.01.2017**	**51 359**	**381 229**	**2 375**	**212 496**	**961**	**597 061**
The residual value	**31.12.2017**	**57 136**	**363 359**	**2 015**	**147 456**	**1 921**	**514 751**
Initial value	**01.01.2018**	**89 553**	**439 478**	**15 469**	**641 146**	**1 921**	**1 098 014**
Acquired		15 781			1 736		**1 736**
Disposed		-105		-1 344	-17 677	-48	**-19 069**
Reclassified				-10 568	-4 734	-1 252	**-16 554**
Initial value	**31.12.2018**	**105 229**	**439 478**	**3 557**	**620 471**	**621**	**1 064 127**
Accumulated depreciation	**01.01.2018**	**32 417**	**76 119**	**13 454**	**493 690**	**0**	**583 263**
Calculated depreciation		5 249	14 937	659	42 996		**58 592**
Depreciation of disposed fixed assets		-105		-1 344	-17 243		**-18 587**
Moved to another position depreciation				-10 568	-5 986		**-16 554**
Accumulated depreciation	**31.12.2018**	**37 561**	**91 056**	**2 201**	**513 457**	**0**	**606 714**
The residual value	**01.01.2018**	**57 136**	**363 359**	**2 015**	**147 456**	**1 921**	**514 751**
The residual value	**31.12.2018**	**67 668**	**348 422**	**1 356**	**107 014**	**621**	**457 413**

At the December 31, 2018 The Company had 553 intangible assets and fixed assets with the residual value of 0 EUR. The purchase cost of these assets was 303 257 EUR.

Revaluation of fixed assets and fair value techniques used

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

In June 2011 certified real estate valuator M. Vilnitis who was appointed by the Board of Company, appraised the market value of real estate classified under Land &
In November 2016 certified real estate valuator A. Vedike who was appointed by the Board of Company, appraised the market value of real estate classified under Land & Buildings. As a result of revaluation a revaluation reserve of non-current assets was increased by 96 364 EUR, where 15% or 14 455 EUR of the reserve was attributed to the liabilities of deferred corporate income tax liabilities. The valuation was determined by three valuation techniques:

1) Under cost approach - the value was calculated which would have been required to purchase an equivalent piece of land and to build a similar quality application building. Construction costs would have been adjusted with the factors that characterize the loss of the value of the building under infulence of physical depreciation, functional loss of use, and regional economic situation.
2) Under market approach - the value was calculated, that characterizes appraises property compared to comparable properties, which are known in their market value.
3) Under income approach - the expected cash flow has been estimated based on the rental income for the similar properties. The projected future rental income less

Total revaluation surplus of fixed assets on 31 December 2016 was EUR 168 088 (31.12.2015 - EUR 71 634). Revaluation amount less the attributable deferred income tax liabilities is recognizes in equity under “Revaluation reserve of non-current assets”.

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

(13) Inventories

	31.12.2018	31.12.2017
	EUR	EUR
Real estate - loan collateral owned by the Company	213 581	320 115
Advances paid (Real estate – loan collateral owned by the Company)	41 999	49 692
Provision for inventories - loan collateral owned by the Company	-57 228	-79 627
Goods purchased for sales purposes	93 293	130 791
Advances for goods	15 327	9 945
Provisions for goods	-6 228	-14 940
Other collateral owned by the Company	928 656	911 098
Total	**1 229 400**	**1 327 074**

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

Movement in provisions for impairment of inventories:

	31.12.2018	31.12.2017
	EUR	EUR
Provisions at the beginning of the year	**94 567**	**69 331**
Created/(reduced) provisions for real estate	-22 399	20 565
Created/reduced provisions for slow moving and damaged goods	-8 712	4 671
Provisions at the end of the year	**63 456**	**94 567**

(14) Loans and trade receivables

	31.12.2018	31.12.2017
	EUR	EUR
Short-term loans secured with pledges	1 437 385	1 813 781
Provisions for impairment for loans secured with pledges	-64 038	-103 308
Consumer loans (Short-term loans without pledge)	271 384	295 181
Provisions for impairment of short-term loans not secured with pledges	-65 131	-105 787
Accrued interest payments	150 745	131 391
Total	**1 730 345**	**2 031 258**

Movement in provisions for impairment of accounts receivable:

	Individual impairment	Portfolio impairment	Total
	EUR	EUR	EUR
Provisions at the beginning of the year 2017	**172 768**	**57 501**	**230 269**
Charged/(reduced) provisions in 2017	-28 214	7 040	-21 174
Provisions at the end of the year 2017	**144 554**	**64 541**	**209 095**
Charged/(reduced) provisions in 2018	-93 664	13 738	-79 926
Provisions at the end of the year 2018	**50 890**	**78 279**	**129 169**

	2018 % month	2017 % month
Loans against hand pledge	3-21%	3-21%
Loans against ore	3-21%	3-21%
Loans without collateral (consumer credit)	1,5-8,8%	1,5-8,8%
Loans against transport	>2,5 %	>2,5 %
Loans against real estate	>2%	>2%

Issued short-term loans quality analysis:

	Loans secured with pledges	Loans not secured with pledges	Total
	EUR	EUR	EUR
Neither past due nor impaired loans	**877 157**	**116 899**	**994 056**
Past due but not impaired loans:	**460 086**	**27 809**	**487 895**
less than 30 days	175 465	17 855	193 320
31 to 59 days	68 009	6 005	74 014
60 to 89 days	33 542	3 949	37 491
more than 90 days	183 070	0	183 070
Impaired loans	100 140	126 626	226 766
Total gross loans	**1 437 383**	**271 334**	**1 708 717**
Impairment allowance	-64 038	-65 131	-129 169
Total net loans	**1 373 345**	**206 203**	**1 579 548**

*The gross amount of loans does not include accrued interest payments of EUR 131 391.

(15) Other current assets

	31.12.2018	31.12.2017
<u>**Financial assets:**</u>	EUR	EUR
Other receivables, neto	35 994	33 507
Provisions for other receivables (items confiscated by police)	0	-17 311
Settlements for services	6 665	12 515
Provisions for settlements for services	0	-17 379
Overpaid taxes	20 177	8 741
Total	**62 836**	**20 073**
<u>**Non-financial assets:**</u>		
Prepaid expense	19 679	21 101
Total other current assets	**82 515**	**41 174**

Movement in provisions for impairment of other accounts receivable:

	31.12.2018	31.12.2017
	EUR	EUR
Provisions at the beginning of the year	**27 330**	**21 183**
Created/(reduced) provisions	-27 330	6 147
Provisions at the end of the year	**0**	**27 330**

(16) Cash and its equivalents

	31.12.2018	31.12.2017
	EUR	EUR
Cash at bank on current accounts	124 296	114 944
Cash on hand	35 249	50 390
Total	**159 545**	**165 334**

(17) Financial instruments by category

All financial assets of the Company amounting at the year end to EUR 1 773 004 (31.12.2017 - EUR 2 042 590) fell under the category of loans and receivables.

All financial liabilities of the Company amounting to EUR 3 671 629 (31.12.2017 - EUR 3 894 333) fell under the category of other financial liabilities, there are no liabilities at fair value through profit or loss.

(18) Share capital

As by 31 December 2018, the share capital has been completely paid. It consists of 6 000 shares with the nominal value of 71.14 (71.1435905316) EUR and the total value of 426 862 EUR.

(19) Borrowings

		31.12.2018	31.12.2017
Non-current	**Note**	EUR	EUR
Non-convertible bonds	b)	3 310 000	3 310 000
Other loans	c)	76 500	108 500
Finance lease liabilities	d)	0	248
Total non-current		**3 386 500**	**3 418 748**
Short-term			
Non-convertible bonds	b)	49 650	53 297
Other loans	c)	100 000	300 000
Finance lease liabilities	d)	249	2 903
Total short-term		**149 899**	**356 200**
Total borrowings		**3 536 399**	**3 774 948**

a) Fair value of borrowings

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

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

b) Bonds

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

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

	2018		2017	
	Nuber of bonds	EUR	Number of bonds	EUR
At beginning of the reporting year	3 310	3 310 000	3 310	3 310 000
Issued during the year	0	0	0	0
At the end of the year	**3 310**	**3 310 000**	**3 310**	**3 310 000**

C) Other loans

During the reporting and previous years, the Company has received loans from related and unrelated parties (see Note (21)). Borrowing interest rates range from 6% to 10% per year.

	31.12.2018	31.12.2017
	EUR	EUR
At beginning of the year	**408 500**	**310 000**
Borrowings received in the year	6 500	148 500
Repaid borrowings in the year	-297 000	-50 000
At the end of the year	**118 000**	**408 500**

d) Finance lease liabilities

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

In accordance with the agreements the minimum finance lease payments are:

	31.12.2018	31.12.2017
	EUR	EUR
Payable within 1 year	249	2 976
Payable from 2 to 5 years	0	248
Finance lease gross liability	**249**	**3 224**
Future finance costs	0	-362
Present value of finance lease liability	**249**	**2 862**

(20) Trade and other payables

	31.12.2018	31.12.2017
	EUR	EUR
Salaries	31 925	33 013
Accruals for unused annual leave	14 795	8 336
Mandatory State social insurance contributions	18 671	16 874
Trade payables	7 960	5 937
Accrued liabilities	10 416	7 877
Personal income tax	7 321	7 203
Advances from customers	41 245	38 669
Other payables	144	1 476
Corporate Income tax	2 753	
Total	**135 230**	**119 385**

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

(21) Transactions with related parties

In 2018 and 2017 the Company had economic transactions with the following entities that are directly or indirectly controlled by the Company's shareholders and members of the Board: Orheja SIA, Trezors SIA, Lielie rīta buļļi SIA and Premium Finance Group SIA.

Loans and interest payments

	Balances		Interest expenses	
	31.12.2018	**31.12.2017**	**2018**	**2017**
	EUR	EUR	EUR	EUR
Orheja SIA	46 500	58 500	5 912	5 053
Trezors SIA	0	50 000	3 149	3 854
Total	**46 500**	**108 500**	**9 061**	**8 907**

The non-current part of the loans	46 500	108 500
The non-current part of the loans	0	
	46 500	**108 500**

Remuneration to the management	**Remuneration to Council members**		**Remuneration to Board members**	
	2018	**2017**	**2018**	**2017**
	EUR	EUR	EUR	EUR
Salaries			88 931	88 685
Social security contributions			21 243	20 921
	0	**0**	**110 174**	**109 606**

(22) Number of employees

	2018	**2017**
The average number of persons employed by the company	54	59

(23) Operating leases - the Group as lessee

During the financial year was in effect a number of agreements of premises rent. Lease payments recognised as an expense during the reporting period amount to EUR 100 033 (2017: EUR 100 605). No sublease payments or contingent rent payments were made or received.

(24) Financial and capital risk management

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

Market risk

a)Foreign exchange risks

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

b) Interest rate risks

The Company is exposed to interest rate risk as the part of the liabilities are interest-bearing borrowings with the variable interest rate (Note (19)), as well as the Company’s interest bearing assets have fixed interest rate.

	31.12.2018	**31.12.2017**
	EUR	EUR
	249	3 151
Financial liabilities with variable interest rate	**249**	**3 151**

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

c) Other price risk

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

Credit risk

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

Maximum exposure to credit risk	**31.12.2018**	**31.12.2017**
	EUR	EUR
Loans and trade receivables	1 730 345	2 031 258
Other current assets	82 515	41 174
Cash and cash equivalents	159 545	165 334
Total	**1 972 405**	**2 237 766**

Within the Company the credit risk is managed using centralized procedures and control. The main credit risk occurs in connection with outstanding loans issued. To reduce these risks the Company applies a conservative credit policy – the sum of issued loans is smaller than the value of pledged movable and immovable property. Such policy allows the Company to reduce its credit risk to minimum. Information about the structure of the loan portfolio is provided in Note 14.

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

Liquidity risk

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

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

31st December, 2017	Total EUR	<1 year EUR	1-2 years EUR	2-5 years EUR	>5 years EUR
Bonds	3 363 297	53 297		3 310 000	
Loans from credit institutions					
Other loans	408 500	300 000		108 500	
Finance lease liabilities	3 151	2 903	248		
Trade and other payables	119 385	119 385			
	3 894 333	**475 585**	**248**	**3 418 500**	**0**

31st December, 2018	Total EUR	<1 year EUR	1-2 years EUR	2-5 years EUR	>5 years EUR
Bonds	3 359 650	49 650		3 310 000	
Loans from credit institutions	0				
Other loans	176 500	100 000		76 500	
Finance lease liabilities	249	249	0		
Trade and other payables	135 230	135 230			
	3 671 629	**285 129**	**0**	**3 386 500**	**0**

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

Capital Management

In accordance with the requirements of the Commercial Law of the Republic of Latvia, the Board shall require shareholders to evaluate and decide on the continuation of the Company's operations if the Company's losses exceed half of the share capital. Equity of the Company as at 31.12.2018 is less than half of the share capital. In 2019, a number of measures will be implemented to strengthen the company's financial position. The relevant action plan and implementation of the objectives will be assessed at the company's shareholders' meeting, when final decisions on the measures to be taken and the deadlines for their implementation will be made.

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

	31.12.2018 EUR	31.12.2017 EUR
Total borrowings	3 536 399	3 774 948
Cash and its equivalents	-159 545	-165 334
Net debt	**3 376 854**	**3 609 614**
Equity	55 399	242 536
Total capital	**3 432 253**	**3 852 150**
Total assets	3 727 028	4 136 869
Net debt to equity	6096%	1488%
Equity ratio on total assets	1%	6%

(25) Events after balance sheet date

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