JSC Mogo
(UNIFIED REGISTRATION NUMBER 50103541751)

INTERIM UNAUDITED CONDENSED FINANCIAL STATEMENT

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2019

Riga, 2019

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General information

Name of the Company	Mogo	
Legal status of the Company	JSC	
Unified registration number, place and date of registration	50103541751, Latvia, 03.05.2012	
Registered office	Skanstes street 50, Riga, Latvia	
Shareholders		30.06.2019.
	HUB1 JSC	98%
	Tobago capital SIA	2%
	TOTAL	**100%**
	*Mogo Finance S.A. (Luxembourg) till 27.03.2019.	98%
Board Members	Krišjānis Znotiņš - Member of the Baord from 14.03.2019	
	Juris Pārups - Chairman of the Board from 25.09.2018 till 13.08.2019	
Council Members	Modestas Sudnius, from 25.05.2018	
	Dārta Keršule, from 05.09.2018	
	Kārlis Bērziņš, from 25.05.2018	
Subsidiaries	Loango JSC, Latvia (100%)	
	Renti JSC, Latvia (100%)	
Financial period	1 January - 30 June 2019	
Previous financial period	1 January - 30 June 2018	
Previous bilance date	31 December 2018	

Management report

29 August 2019

General information

JSC mogo (hereinafter – the Company) is a leading company in Latvia in used car financing in terms of number of leased items. The Company provides quick and convenient car financing services through partners network, the Company's branded website and mobile homepage and onsite at customer service centers. The Company also offers consumer loans and credit refinancing products.

In October, 2018 the Company established a subsidiary Renti JSC. Starting November, 2018, the subsidiary is offering longterm vehicle rent to its customers.

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

The market of used car sales and financing has stayed stable with positive outlook. Increasing trend from the Company`s customers in chosing subsidiaries Renti JSC offered long term rent, having opportunity to return car without any fines after 6 months of usage.

Mission, vision and values

Mission

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

Vision

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

Values

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

Operations and Financial Results

Interest and similar income reached 8.3 million euro (-11% decrease, compared to respective period in 2018), and net profit of the Company amounted to 4.2 million euro.

Significant financial results improvement was reached because of successful update of customer evaluation policy, what helped to decrease impairment for doubtful debtors. The Company has also reviewed its costs and excluded group related costs from the Company`s results, as well as implemented cost optimization initiatives, including review of customer service centers network.

The management is of the opinion that 6 months 2019 results supports the Company`s chosen direction for better customers necessities understanding, customer profile development and respective offer preparation. In addition cost optimization activities will allow to streamline business process and offer better service to customers.

In 2019, the Company started client approval and offer generation automatization with aim to offer instant decision to customers. For portfolio diversification purposes the Company has introduced credit refinancing product, improved consumer financing product and started development auto credit product for improved remote customers conversion. Stable results improvement also further will be based on customer servicing speed and quality improvement, product improvement for best sales channels fit and further customer underwriting principles improvement.

The first six month of the year 2019 was successful regarding the cooperation with car dealerships. The network of car dealerships has significantly contributed to the growth of the sales volume. For the establishment of more integrated cooperation with the partners in the field of vehicle trade, the Company offers various partnership solutions and an individual approach to effective handling of client applications, as well as provides various marketing materials and conducts joint marketing campaigns.

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

The Company have implemented necessary changes in sales channels management and pricing policy to be compliant regarding legislation changes effective July 1 2019, limiting marketing possibilities for financing companies and interest rate limitations.

Other information

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

Management report (continued)

Financial risks

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

Operational risks

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

Legal risks

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

Foreign currency risk

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

Interest rate risk

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

Liquidity risk

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

Credit risks

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

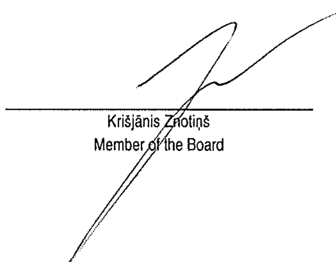
The Company operates by applying a clear set of finance lease granting criteria. This criteria includes assessing the credit history of customer, means of lease repayment and understanding the lease object. The Company takes into consideration both quantitative and qualitative factors when assessing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

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

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

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

Signed on behalf of the Company on 29 August 2019 by:



Krišjānis Znotiņš
Member of the Board

Statement of Management Responsibility

29 August 2019

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

Management of the Company declares that in accordance with the information in their possession, financial statements have been prepared in accordance with accounting transaction documentation and with the International Financial Reporting Standards as adopted by EU and give a true and fair view of the Company's assets, liabilities, financial position as at 30 June 2019, results of operations and cash flows for the six month period ended 30 June 2019.

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

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

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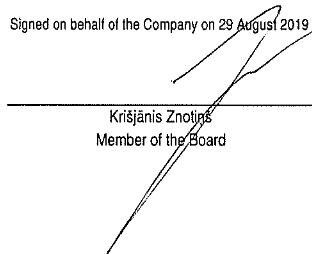

Krišjānis Znotiņš
Member of the Board

Financial Statements

Statement of Comprehensive Income

		01.01.2019. - 30.06.2019. EUR	01.01.2018. - 30.06.2018. EUR
Interest revenue calculated using the effective interest method	3	8 275 867	9 346 452
Interest expense calculated using the effective interest method	4	(2 474 872)	(3 027 412)
Net interest income		**5 800 995**	**6 319 040**
Fee and commission income	5	436 296	558 388
Impairment expense	6	(1 888 411)	(2 060 916)
Net gain/(loss) from de-recognition of financial assets measured at amortised cost	7	97 761	(407 186)
Expenses related to peer-to-peer platforms services		(82 658)	(316 706)
Selling expense	8	(206 791)	(496 461)
Administrative expense	9	(1 259 389)	(3 144 238)
Other operating income		1 380 339	72 795
Other operating expense		(100 936)	(114 408)
Net operating expenses		**(1 623 789)**	**(5 908 732)**
Net foreign exchange result		(36)	-
Profit before tax		**4 177 170**	**410 308**
Net profit for the period		**4 177 170**	**410 308**
Total comprehensive income for the year		**4 177 170**	**410 308**

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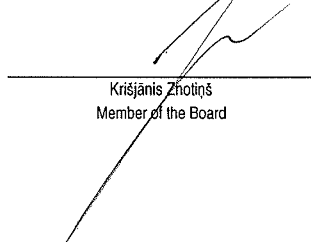
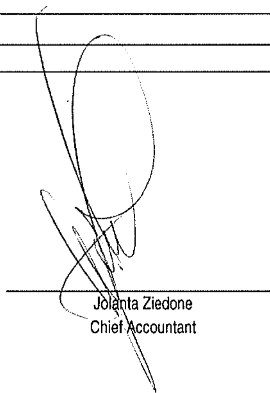


Krišjānis Znotiņš
Member of the Board



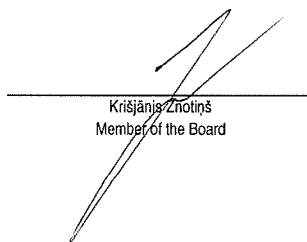
Jolanta Ziedone
Chief Accountant

Statement of Financial Position

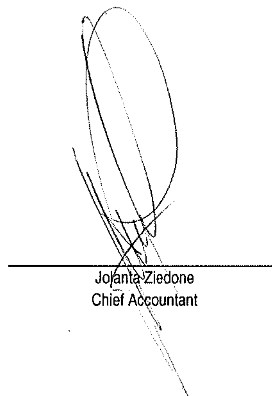
ASSETS

NON-CURRENT ASSETS	30.06.2019 EUR	31.12.2018 EUR
Intangible assets		
Licenses	1 238	3 096
Other intangible assets	17 017	21 042
Total intangible assets	**18 255**	**24 138**
Tangible assets		
Right-of-use assets	32 511	73 689
Property and equipment	73 184	72 249
Advance payments for assets	130 925	70 082
Leasehold improvements	5 846	10 376
Total tangible assets	**242 466**	**226 396**
Non-current financial assets and lease receivables		
Finance lease receivables	22 056 657	24 925 333
Loans and advances to customers	1 101 695	1 311 573
Loans to related parties	18 493 192	11 041 800
Investments in subsidiaries	925 000	925 000
Other investments	26	26
Total non-current financial assets and lease receivables	**42 576 570**	**38 203 732**
TOTAL NON-CURRENT ASSETS	**42 837 291**	**38 454 266**
CURRENT ASSETS		
Inventories		
Finished goods and goods for resale	-	11 414
Total inventories	**-**	**11 414**
Receivables and other current assets		
Finance lease receivables	5 978 427	8 562 209
Loans and advances to customers	824 628	1 376 781
Trade receivables	5 802 469	3 684 871
Prepaid expense	211 427	151 766
Other receivables	90 726	105 716
Accrued revenue	112 617	7 517
Accrued revenue related parties	530 111	-
Cash and cash equivalents	676 964	674 185
Total receivables and other current assets	**14 227 369**	**14 563 045**
Assets held for sale	142 028	133 140
Total assets held for sale	**142 028**	**133 140**
TOTAL CURRENT ASSETS	**14 369 397**	**14 707 599**
TOTAL ASSETS	**57 206 688**	**53 161 865**

Signed on behalf of the Company on 29 August 2019 by:



Krišjānis Znotiņš
Member of the Board



Jolanta Ziedone
Chief Accountant

Statement of Financial Position

EQUITY AND LIABILITIES

EQUITY		30.06.2019 EUR	31.12.2018 EUR
Share capital		5 000 000	5 000 000
Foreign currency translation reserve		1	1
Other reserves		(644 295)	(1 066 590)
Retained earnings			
brought forward		3 112 225	51 381
for the period		4 177 170	3 060 844
TOTAL EQUITY		**11 645 101**	**7 045 636**
LIABILITIES			
Non-current liabilities			
Liabilities for issued debt securities	10	29 016 033	18 658 246
Funding attracted through peer-to-peer platforms	10	9 724 508	9 160 189
Lease liabilities for right-of-use assets	10	7 515	10 952
Total non-current liabilities		**38 748 056**	**27 829 387**
Provisions for financial guarantees		300 553	677 331
Other provisions		273 139	449 027
Total provisions for liabilities and charges and financial guarantees		**573 692**	**1 126 358**
Current liabilities			
Liabilities for issued debt securities	10	-	11 250 000
Funding attracted through peer-to-peer platforms	10	4 254 738	4 386 961
Provisions for financial guarantees		150 276	270 932
Lease liabilities for right-of-use assets	10	25 499	63 421
Loans from related parties	10	373 083	352 344
Prepayments and other payments received from customers		77 184	68 959
Payables to related companies		188 945	59 702
Trade payables		83 721	93 059
Corporate income tax payable		-	91 489
Taxes payable		170 845	41 794
Other liabilities		843 577	212 354
Accrued liabilities		71 971	269 469
Total current liabilities		**6 239 839**	**17 160 484**
TOTAL LIABILITIES		**45 561 587**	**46 116 229**
TOTAL EQUITY AND LIABILITIES		**57 206 688**	**53 161 865**

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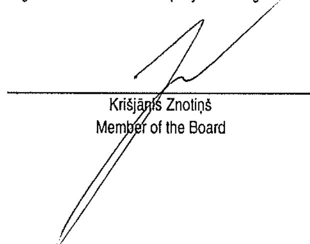

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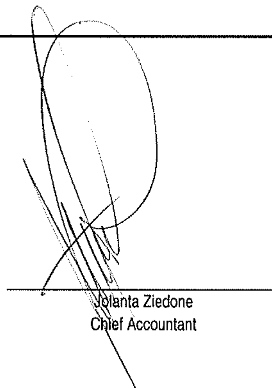

Jolanta Ziedone
Chief Accountant

Statement of Changes in Equity

	Share capital EUR	Currency revaluation reserve EUR	Other Reserves EUR	Retained earnings EUR	Total EUR
Balance at 01.01.2018.	**5 000 000**	**1**	**-**	**4 867 099**	**9 867 100**
Effect of adoption of new accounting standards	-	-	-	(315 718)	(315 718)
Balance at 01.01.2018. (restated)	**5 000 000**	**1**	**-**	**4 551 381**	**9 551 382**
Profit for the reporting year	-	-	-	3 060 844	3 060 844
Restated profit for the period	-	-		3 060 844	3 060 844
Issue of financial guarantees	-	-	(878 051)	-	(878 051)
Increase in the guarantee limit	-	-	(188 539)		(188 539)
Dividends distribution	-	-	-	(4 500 000)	(4 500 000)
Balance at 30.06.2018	**5 000 000**	**1**	**(1 066 590)**	**3 112 225**	**7 045 636**
Balance at 01.01.2019.	**5 000 000**	**1**	**(1 066 590)**	**3 112 225**	**7 045 636**
Profit for the reporting year	-	-	-	4 177 170	4 177 170
Total comprehensive income	-	-	-	4 177 170	4 177 170
Reduction in guarantee limit	-	-	422 295	-	422 295
Balance at 30.06.2019.	**5 000 000**	**1**	**(644 295)**	**7 289 395**	**11 645 101**

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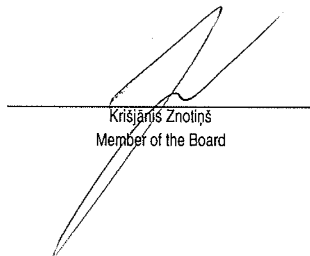

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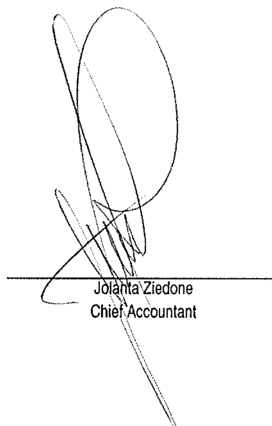


Jolanta Ziedone
Chief Accountant

Statement of Cash Flows

	01.01.2019. - 30.06.2019.	01.01.2018. - 30.06.2018.
Cash flows to/from operating activities	**EUR**	**EUR**
Profit before tax from continuing operations	4 177 170	410 308
Adjustments for:		
Amortisation and depreciation	72 147	268 298
Interest expense	2 474 872	3 027 412
Interest income	(8 275 867)	(9 346 452)
Impairment expense	1 888 411	2 050 294
Bonds acquisition expenses decrease	-	(120 036)
Increase in accrued income	-	9 607
Operating profit before working capital changes	**336 733**	**(3 700 569)**
Decrease/ (increase) in inventories	11 414	(160 293)
Increase in finance lease receivables, loans and advances to customers, trade and other receivables	1 601 296	(7 144 896)
Purchase of property and equipment and other intangible assets	(82 334)	(535 381)
Increase in advances received and trade payables and guarantees	888 404	740 164
Cash generated to/from operations	**2 755 513**	**(10 800 975)**
Interest received	7 745 756	9 346 452
Interest paid	(2 261 428)	(2 928 347)
Corporate income tax paid	(91 489)	(94 530)
Net cash flows to/from operating activities	**8 148 352**	**(4 477 400)**
Cash flows to/from investing activities		
Investments in subsidiaries	-	(425 000)
Loan repayments received from related parties	11 149 110	3 651 149
Loans to related parties	(18 600 502)	(11 750 000)
Net cash flows to/from investing activities	**(7 451 392)**	**(8 523 851)**
Cash flows to/from financing activities		
Proceeds from borrowings	19 618 183	31 975 750
Repayments for borrowings	(20 265 482)	(20 132 342)
Repayment of liabilities for right-of-use assets	(46 882)	-
Bonds issued	-	3 100 000
Dividends paid	-	(2 000 000)
Net cash flows to/from financing activities	**(694 181)**	**12 943 408**
Change in cash	**2 779**	**(57 843)**
Cash at the beginning of the year	674 185	671 871
Cash at the end of the year	**676 964**	**614 028**

Signed on behalf of the Company on 29 August 2019 by:

Krišjānis Znotiņš
Member of the Board

Jolanta Ziedone
Chief Accountant

Notes to the Financial Statements

1. Corporate information

Mogo JSC (the "Company") is a Latvian company. The Company was incorporated on May 3, 2012 as a joint stock company for an unlimited duration, subject to general company law.

The core business activity of the Company comprises of providing finance lease services, leaseback services and loans and advances to customers.

2. Summary of significant accounting policies

a) Basis of preparation

These financial statements for the period ended 30 June 2019 are prepared in accordance with International Financial Reporting Standards as adopted in the European Union.

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

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

The Company's presentation currency is euro (EUR). The financial statements cover the period from 01 January 2019 till 30 June 2019. Accounting policies and methods are consistent with those applied in the previous years, except as described below.

Business management does not use segmental approach to operational decision-making. All of the Company's economic activities are carried out in one geographical segment - Latvia.

b) Reclassifications in comparative indicators

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

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

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

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

4) "Interest expense and similar expenses" is renamed to "Interest expense calculated using the effective interest method". In 30 June 2018 financial statements the Company used "Interest expense and similar expenses" to present interest expense calculated using EIR and this line also included other costs, such as expenses related to peer-to-peer platforms, that are fees incurred for servicing the related loans and are recognized as incurred. These costs are not calculated using EIR and therefore under IFRS 9 are to be presented separately. Such costs are therefore reclassified from this position and presented separately under "Expenses related to peer-to-peer platforms services".

5) The Company changed title of 30 june 2018 Statement of comprehensive income line "Loss arising from cession of financial lease receivables" to "Net loss from de-recognition of financial assets measured at amortized cost". The change was done due to presentation change in 2018 because only financial lease receivables were ceded in 2017, however, from 2018 the Company also cedes loans and advances to customers. Therefore, the title change was required to properly present the nature of the underlying transactions under this line. Further, also upon transition to IFRS 9 the Company now presents the loss arising from de-recognition of financial assets measured at amortized cost net of the reversal of related ECLs previously recorded under impairment expenses, respectively decreasing this line item.

Reclassification and correction made in financial statements:

Statement of Comprehensive Income	Financial report 2018 30.06.2018. before reclassification	Change in title	Reclassifications	Financial report 2018 30.06.2018. after reclassification
Interest and similar income [2]	9 904 049	(9 904 049)		-
Interest revenue calculated using the effective interest method [2]	-	9 904 049	(557 597)	9 346 452
Fee and commission income [2]	-	-	558 388	558 388
Other interest receivable and similar income [3]	791	-	(791)	-
Interest expense and similar expenses [4]	(3 344 118)	3 344 118	-	-
Interest expense calculated using the effective interest method [4]	-	(3 344 118)	316 706	(3 027 412)
Expenses related to peer-to-peer platform services [4]	-	-	(316 706)	(316 706)
Loss arising from cession of financial lease receivables [5]	(407 186)	407 186	-	-
Net gain/(loss) from de-recognition of financial assets measured at amortised cost [5]	-	(407 186)	-	(407 186)
Other interest expense and similar expenses	(2 093)	-	2 093	-
Corporate income tax	(2 193)		2 193	-
Other operating expense	(110 122)	-	(4 286)	114 408
	TOTAL:	-	-	

2. Summary of significant accounting policies (continued)

b) Reclassifications in comparative indicators (continued)

Reclassification made in Consolidated statement of cash flows:

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

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

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

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

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

6) The Group made reclassification for Purchase of property and equipment and other intangible assets from investing activities to operating activities.

Statement of Cash Flows	Interim financial report 2018 30.06.2018. before reclassification	Reclassifications	Interim financial report 2018 30.06.2018. after reclassification
Reclassification of interest income and purchase of property and equipment and other intangible assets from investing and financing activities to operating activities			
Interest income [1]	(1 480 046)	(7 866 406)	(9 346 452)
Interest received [1]	1 480 046	7 866 406	9 346 452
Interest expense [2]	2 927 759	99 653	3 027 412
Interest paid [2]	(2 830 887)	(97 460)	(2 928 347)
Profit before tax	412 501	(2 193)	410 308
Purchase of property and equipment and other intangible assets (investing activities) [6]	(535 381)	535 381	-
Purchase of property and equipment and other intangible assets (operating activities) [6]	-	(535 381)	(535 381)
Change in names of the items in the statement of cash flow			
Increase in receivables [3]	(7 144 896)	7 144 896	-
Increase in finance lease receivables, loans and advances to customers, trade and other receivables [3]	-	(7 144 896)	(7 144 896)
Increase/(decrease) in payables [4]	740 164	(740 164)	-
Increase in advances received and trade payable and guarantees [4]	-	740 164	740 164
	TOTAL:	-	

Licenses and other intangible assets

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

Other intangible assets mainly consists of acquired computer software products.

Amortization is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Concessions, patents, licences and similar rights	- over 1 year;
Other intangible assets - acquired IT Systems	- over 2, 3 and 5 years.

Property and equipment

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

Computers	- over 3 years;
Furniture	- over 5 years;
Vehicles	- over 7 years;
Leasehold improvements	- according to lease term;
Other equipment	- over 2 years.

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

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

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

Financial instruments – initial recognition

Date of recognition

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

Initial measurement of financial instruments

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

Classification of financial assets

From 1 January 2018, the Company only measures Loans and advances to customers, Loans to related parties, Receivables from related parties, cash equivalents and Other loans and receivables at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

2. Summary of significant accounting policies (continued)

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

Business model assessment

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

SPPI test

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

Embedded derivatives

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

Reclassification of financial assets

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

Derecognition of financial assets and finance lease receivables

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

Derecognition due to substantial modification of terms and conditions

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

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

Derecognition other than for substantial modification

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

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

Pass-through arrangements are transactions when the Company retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:
- Company has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances by the entity with the right of full recovery of the amount lent plus accrued interest at market rates;
- Company cannot sell or pledge the original asset other than as security to the eventual recipients for the obligation to pay them cash flows;
- Company has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Company is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments is passed to the eventual recipients.

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

2. Summary of significant accounting policies (continued)

Derecognition of financial assets and finance lease receivables (continued)

Modifications

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

If the modification does not result in cash flows that are substantially different, as set out above, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Company records a modification gain or loss in interest revenue/expenses calculated using the effective interest method (Note 3, 4) in the statements of comprehensive income, to the extent that an impairment loss has not already been recorded (Note 6). Further information on modified financial assets and finance lease receivables is disclosed in the following section on impairment.

Treatment of non-substantial modifications (IFRS 9)

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

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

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

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

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.
Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in section on Significant increase in credit risk.

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

Defining credit rating

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

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

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

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

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

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

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

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

2. Summary of significant accounting policies (continued)

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

The calculation of ECLs

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

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

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

ECL on restructured and modified loans
Modifications performed to customers that serve to renegotiate terms of an agreement that was previously in default result in continued Stage 3 treatment during the one month healing period, exposure enters Stage 2 directly. In case of modification for credit reasons prior to default (generally term extension), exposure is moved to Stage 2 for a healing period of 2 months.
Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. Such items will be classified as Stage 2 assets for a healing period of 2 months.

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

Impairment of financial assets other than loans and advances

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

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

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

Impairment for loans to related parties

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

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

Financial guarantees

Guarantees that are not integral to a loan contractual terms are accounted as separate units of accounts subject to ECL. For this purpose, the Company estimates ECLs based on the value of the expected payments to reimburse the holder for a credit loss that it would incur. ECLs are calculated on an individual basis.
The ECL allowance is based on the credit losses expected to arise over the life of the guarantee, unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12months ECL. Company's policy and judgements for determining if there has been a significant increase in credit risk are set out in Note 3.

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

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

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

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

2. Summary of significant accounting policies (continued)

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

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As of this date:

- a lease is classified as a finance lease; and
- the amounts to be recognized at the commencement of the lease term are determined.

The commencement of the lease is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (i.e. the recognition of the assets, liabilities, income or expenses resulting from the lease, as appropriate).

A lease is classified as a finance lease at the inception of the lease if it transfers substantially all the risks and rewards incidental to ownership. The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As of this date:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than fair value at the date the option becomes exercisable that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- the lease term is for the major part of the economic life of the asset, even if title is not transferred;
- at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset;
- the lease assets are of a specialized nature such that only the lessee can use them without major modifications being made.

Further indicators that individually or in combination would also lead to a lease being classified as a finance lease are:

- the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee;
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent..

Initial measurement

At lease commencement, the Company accounts for a finance lease, as follows:

- derecognises the carrying amount of the underlying asset;
- recognises the net investment in the lease; and
- recognises, in profit or loss, any selling profit or selling loss. Such profit or loss is recognized under "Revenue from leases".

Upon commencement of finance lease, the Company records the net investment in leases, which consists of the sum of the minimum lease term payments, and gross investment in lease less the unearned finance lease income. The difference between the gross investment and its present value is recorded as unearned finance lease income. Initial direct costs, such as client commissions and commissions paid by the Company to car dealers, are included in the initial measurement of the lease receivables. The calculations are done using effective interest method.

Prepayments and other payments received from customers are recorded in statement of financial position upon receipt and settled against respective client's finance lease receivables agreement at the moment of issuing next monthly invoice according to the agreement schedule.

Subsequent measurement

Finance lease income consists of the amortization of unearned finance lease income. Finance lease income is recognized based on a pattern reflecting a constant periodic rate of return on the net investment according to effective interest rate in respect of the finance lease. The Company applies the lease payments relating to the period against the gross investment in the lease to reduce both the principal and the unearned finance income.

The Company recognises income from variable payments that are not included in the net investment in the lease (e.g. performance based variable payments, such as penalties or debt collection income) separately in the period in which the income is earned. Such income is recognized under "Fee and commission income" (Note 5) in accordance with IFRS 15 and IAS 18.

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

As of January 1, 2018, the Company applies the derecognition and impairment requirements of IFRS 9 for its net investment in the lease.

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

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

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

Lease liability

Initial recognition

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Company under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising an option to terminate the lease.

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

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

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

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

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

Subsequent measurement

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

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications specified, or to reflect revised in-substance fixed lease payments.

2. Summary of significant accounting policies (continued)

Right-of-use assets

Initial recognition

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

Subsequent measurement

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

The Company involvement with the underlying asset before the commencement date

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

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

Initial recognition exemptions applied

As a recognition exemption the Company elects not to apply the recognition requirements of right-of-use asset and lease liability to:
(a) Short term leases – for all classes of underlying assets; and
(b) Leases of low-value assets – on a lease-by-lease basis.
For leases qualifying as short-term leases and/or leases of low-value assets, the Company does not recognise a lease liability or right-of-use asset. The Company recognises the lease payments associated with those leases as an expense on either a straight-line basis over the lease term.
(a) Short term leases
A short-term lease is a lease that, at the commencement date, has a lease term of 12 months or less. A lease that contains a purchase option is not a short-term lease. This lease exemption is applied for all classes of underlying assets.
(b) Leases of low-value assets

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

3. Interest revenue calculated using the effective interest method

	01.01.2019. - 30.06.2019. EUR	01.01.2018. - 30.06.2018. EUR
Interest income from finance lease receivables	6 536 128	7 312 103
Interest income from intercompany loans	988 624	1 480 046
Interest income from loans and advances to customers	751 115	554 303
TOTAL:	**8 275 867**	**9 346 452**

4.Interest expense calculated using the effective interest method

	01.01.2019. - 30.06.2019. EUR	01.01.2018. - 30.06.2018. EUR
Interest expenses on financial liabilities measured at amortised cost:		
Interest expense on issued bonds	1 673 156	1 646 474
Interest expenses for loans from P2P platform investors	780 225	1 379 678
Interest expenses for loans from related parties	20 740	1 260
Interest expenses for lease liabilities	751	-
TOTAL:	**2 474 872**	**3 027 412**

5. Fee and commission income

Revenue from contracts with customers recognised point in time where the Company acted as an agent:	01.01.2019. - 30.06.2019. EUR	01.01.2018. - 30.06.2018. EUR
Gross income from debt collection activities	322 562	378 360
Gross expenses from debt collection activities	(129 382)	(124 309)
Total net debt collection income	193 180	254 051

Revenue from contracts with customers recognised point in time:	01.01.2019. - 30.06.2019. EUR	01.01.2018. - 30.06.2018. EUR
Income from penalties received	243 116	304 337
Total fees and commissions income:	**436 296**	**558 388**

6. Impairment expense

	01.01.2019. - 30.06.2019. EUR	01.01.2018. - 30.06.2018. EUR
Change in impairment	1 864 535	2 050 294
Written off debts	23 876	10 622
TOTAL:	**1 888 411**	**2 060 916**

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

	01.01.2019. - 30.06.2019. EUR	01.01.2018. - 30.06.2018. EUR
Financial lease		
Net gain/(loss) arising from cession of financial lease receivables to non related parties	25 005	(407 186)
Loans and advances to customers		
Net gain/(loss) arising from cession of loans and advanaces to customers receivables to non related parties	72 756	-
Net gain /(loss) arising from cession of financial lease and loans and advances to customers receivables TOTAL:	**97 761**	**(407 186)**

8. Selling expense

	01.01.2019. - 30.06.2019. EUR	01.01.2018. - 30.06.2018. EUR
TV and radio marketing expenses	80 231	254 714
Marketing services	93 225	147 694
Marketing fees	5 313	26 744
Online advertising	24 641	48 597
Total marketing expenses	**203 410**	**477 749**
Other selling expenses	3 381	18 712
TOTAL:	**206 791**	**496 461**

9. Administrative expense

	01.01.2019. - 30.06.2019. EUR	01.01.2018. - 30.06.2018. EUR
Employees' salaries	576 422	1 715 511
Amortization and depreciation	72 147	268 298
Management fee	199 791	-
Professional services	77 569	139 646
Credit database expenses	69 195	102 813
Donations	42 500	178 500
IT services	26 395	165 436
Office and branches' maintenance expenses	55 109	226 213
Recruitment fees	7 687	139 660
Business trips	1 961	50 901
Communication expenses	17 747	18 334
Other personnel expenses	9 935	32 463
Low value equipment expenses	3 027	22 784
Bank commissions	16 597	8 978
Transportation expenses	3 752	7 263
Other administration expenses	79 555	67 438
TOTAL:	**1 259 389**	**3 144 238**

10. Borrowings

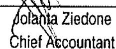
Non-current	*Interest rate per annum (%)*	*Maturity*	30.06.2019. EUR	31.12.2018. EUR
Liabilities for issued debt securities				
Bonds 20 million EUR notes issue	10%	31.03.2021	19 420 000	11 136 218
Bonds 10 million EUR notes issue	10-12%	31.03.2021	9 825 000	7 613 782
Bond additional interest accrual			224 809	182 493
Bonds acquisition costs			(453 776)	(274 247)
		TOTAL:	**29 016 033**	**18 658 246**
Other borrowings				
Funding attracted through peer-to-peer platforms	8% - 14%	29.12.2024.	9 911 472	9 345 369
Liabilities acquisition costs for funding attracted through peer-to-peer platform			(186 964)	(185 180)
		TOTAL:	**9 724 508**	**9 160 189**
Lease liabilities for right-of-use assets - premises	2.64%	up to 5 years	6 220	7 126
Lease liabilities for right-of-use assets - vehicles	2.64%	up to 1 year	1 295	3 826
		TOTAL:	**7 515**	**10 952**
		TOTAL NON CURRENT BORROWINGS:	**38 748 056**	**27 829 387**

10. Borrowings (continued)

Current	*Interest rate per annum (%)*	*Maturity*	**30.06.2019.** EUR	**31.12.2018.** EUR
Liabilities for issued debt securities				
Bonds 20 million EUR notes issue	10%	31.03.2021.	-	8 863 782
Bonds 10 million EUR notes issue	10-12%	31.03.2021.	-	2 386 218
		TOTAL:	**-**	**11 250 000**
Other borrowings				
Funding attracted through peer-to-peer platforms	8-14%	29.12.2024.	4 173 801	4 316 448
Accrued interest for funding attracted through peer-to-peer platforms			80 937	70 513
		TOTAL:	**4 254 738**	**4 386 961**
Lease liabilities for right-of-use assets - premises	2.64%	up to 5 years	20 460	58 437
Lease liabilities for right-of-use assets - vehicles	2.64%	up to 1 year	5 039	4 984
		TOTAL:	**25 499**	**63 421**
Loans from related parties	12.50%	18.06.2019.	**373 083**	**352 344**
		TOTAL CURRENT BORROWINGS:	**4 653 320**	**16 052 726**

Signed on behalf of the Company on 29 August 2019 by:

Krišjānis Znotiņš
Member of the Board



Jolanta Ziedone
Chief Accountant