

AS "Moda Kapitāls"  
ANNUAL REPORT FOR THE YEAR 2016  
prepared in accordance with IFRS as adopted in EU

Rīga, April 27, 2017

**AS "Moda Kapitāls"**

Annual report for the year 2016  
Prepared in accordance with International  
Financial Reporting Standards as adopted in

AS "Moda Kapitāls"  
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**GENERAL INFORMATION**

Name of the company	Moda Kapitāls		
Legal status of the company	Joint Stock Company		
Registration number, place and date of registration	LV 40003345861, Rīga, June 9, 1997		
Registered office	Ganību dambis 40A-34, Rīga, LV-1005		
Shareholders	Andris Banders (14.75%), Guntars Zvīnis (24,75%), Ilvars Sirmāis (24,75%), Verners Skrastiņš (21%), MK Investīcijas, SIA (14,75%)		
Board Members	Guntars Zvīnis Ilvars Sirmāis		
Supervisory Board Members	Verners Skrastiņš - head of the Council Andris Banders - deputy of the head of the Council Inese Kanneniece - member of the Council Dīāna Zvīne - member of the Council Aleksandrs Sirmāis - member of the Council		
Financial year	from	01.01.2016	to 31.12.2016
Auditors	Donoway Assurance SIA Dignājas iela 3B-3, Rīga LV - 1004 Licence No 157		Certified auditor Iveta Rutkovska Certificate No 43

**MANAGEMENT REPORT**

**Type of operations**

The principal activity of AS Moda Kapitāls (further - Company) is non-bank issuance of loans services, including issuance of short-term loans against a pledge of a movable property, a pledge of vehicles, real estate and issuance of consumer loans.

**Performance during the financial year and financial situation of the Company**

In 2016 there was no change for AS "Moda Kapitāls" branch structure and there is no plan to change it in 2017 either. Given the current market situation in non-bank loan sector, the company's priority is not the opening of new branches, but the improvement of branch operations and increasing of profitability. The Company considers changing the location for several branch premises to be able to improve the quality of services offered, expand the assortment and improve customer service conditions by expanding the customer service area.

There is continuous improvement of the qualification of employees and improvements in the Company's customer service system. In order to improve the quality of the services provided, Company is doing continuous staff rotation and recruitment of new employees. Improvement and modernization of branch premises continues. The Company actively expands its range of goods for sale by offering to its customers different types of used household appliances and electrical items. In order to have a variety of goods, the Company makes regular purchases of goods from their cooperation partners.

In 2016 as well as in previous years there was no significant overall customer growth activity and demand for AS "Moda Kapitāls" provided loan services rendered. By analyzing the statistical data of 2016 it is been observed that several types of loans have been increased, others decreased. In 2016 the turnover growth was observed in loans against a pledge of movable property and in consumer loans. Not in all Company's branches loan increase or decrease is observed under identical loan forms. Depending on the branch there is a different type of increase or decrease in the loan type segments which is observed in each branch.

The Company issues loans only in their branches. Company estimates that substantial proportion of the company's loan portfolio will be consumer loans without collateral.

In 2016 customer interest in purchase of slightly used household appliances objects and used gold products continued to increase. Accordingly there is an increase in the customer base that regularly uses the company's services - both customer loans and sale of existing merchandise.

As in previous years, major attention is being paid to the payment discipline and individual work with clients, solving delayed payment problem through co-operation.

**Future prospects and future development**

We expect that 2017 sales will be about the same level as in 2016. According to the company's plan, in 2017 we plan to significantly improve the results of trade and increase the trade of goods offer. Given that the development of this segment is associated with additional expenses, it will have a negative impact on the company's 2017 results, but will give a positive effect. The Company plans to resume gain profit from operating activities in the second part of 2018.

**Significant events since the year end**

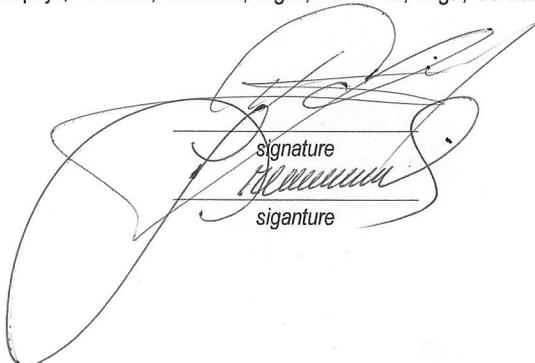
During the time period from the last day of the financial year till signing of this report, no significant events have occurred that would have significantly affected the financial position of the Company at 31 December 2016.

**Company's branches**

On December 31, 2016 The Company provides its services in twenty-seven branches that are located in twenty-six major Latvian cities: Aizkraukle, Alūksne, Balvi, Bauska, Cesis, Dobele, Daugavpils, Gulbene, Jekabpils (two branches), Jelgava, Kraslava, Kuldīga, Liepāja, Limbazi, Madona, Ogre, Rezekne, Rīga, Saldus, Talsi, Valmiera, Ventspils, Tukums, Preiļi, Ludza and Valka.

Guntars Zvīnis

Ilvars Sirmāis



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**STATEMENT OF MANAGEMENT RESPONSIBILITY**

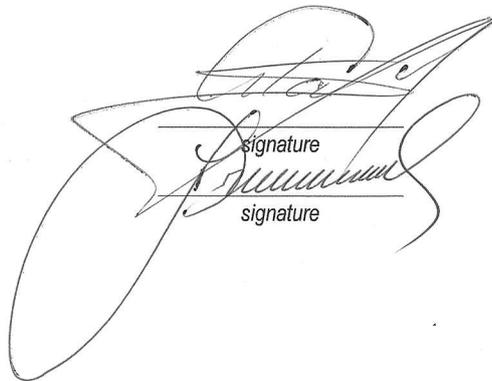
The Management is responsible for the preparation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted the EU. The financial statements give a true and fair view of the financial position of the Company at the end of the reporting year, and the 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 6 to page 25 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

Iļvars Sirmāis



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**STATEMENT OF COMPREHENSIVE INCOME**

	Notes	2016 EUR	2015 EUR
Net turnover	3	1 206 260	1 095 964
Finance income	3	1 281 250	1 373 717
Cost of sales	4	-992 968	-900 396
Finance costs	5	-418 198	-428 937
<b>Gross profit</b>		<b>1 076 344</b>	<b>1 140 348</b>
Selling costs	6	-787 648	-795 882
Administrative expenses	7	-303 708	-337 283
Other income	8	22 891	15 557
Other expenses	9	-65 350	-146 045
<b>Profit or loss before corporate income tax</b>		<b>-57 471</b>	<b>-123 305</b>
Corporate income tax	11	-34 230	15 248
<b>Net profit or loss</b>		<b>-91 701</b>	<b>-108 057</b>
Other comprehensive income / (loss)		81 999	0
<b>Total comprehensive income</b>		<b>-9 702</b>	<b>-108 057</b>

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

Guntars Zvinis

Iļvars Sirmāis

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**STATEMENT OF FINANCIAL POSITION**

	Notes	31.12.2016 EUR	31.12.2015 EUR
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	12	51 359	44 739
Fixed assets	12	597 061	587 128
Other non-current assets		142	142
<b>Total non-current assets</b>		<b>648 562</b>	<b>632 009</b>
<b>Current assets</b>			
Inventories	13	1 123 520	1 105 387
Loans and receivables	14	2 137 805	2 212 807
Other current assets	15	41 695	44 086
Cash and its equivalents	16	240 394	285 218
<b>Total current assets</b>		<b>3 543 414</b>	<b>3 647 498</b>
<b>TOATAL ASSETS</b>		<b>4 191 976</b>	<b>4 279 507</b>

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**CASH FLOW STATEMENT**

	Notes	2016 EUR	2015 EUR
<b>Cash flow from operating activities</b>			
Profit/ loss before corporate income tax		-57 471	-123 305
<b>Adjustments for:</b>			
Depreciation and amortization	12	93 097	105 021
loss / (profit) from disposal of fixed assets		-2 717	2 100
Changes in provisions			112 557
Interest payments		418 198	428 937
<b>Changes in working capital:</b>			
Inventories		121 785	-177 593
Receivables		-71 921	216 041
Liabilities		17 615	10 592
		<b>518 586</b>	<b>574 350</b>
Corporate income tax paid		0	0
<b>Cash flow from operating activities</b>		<b>518 586</b>	<b>574 350</b>
<b>Cash flow from investing activities</b>			
Acquisition of fixed assets and intangible investments	12	-6 913	-9 419
<b>Net cash flow from investing activities</b>		<b>-6 913</b>	<b>-9 419</b>
<b>Cash flow from financing activities</b>			
Proceeds from the share and bond issues		0	15 000
Income from the sale of fixed assets and intangible investments		3 557	95 142
Loand received, neto	19	0	27 173
Borrowings repaid, neto	19	-116 500	0
Interest payments		-418 720	-454 143
Payments for financial leasing contracts		-24 834	-38 307
<b>Net cahs flow from financing activities</b>		<b>-556 497</b>	<b>-355 135</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>-44 824</b>	<b>209 796</b>
<b>Cash and cash equivalents at beginning of the financial year</b>		<b>285 218</b>	<b>75 422</b>
<b>Cash and cash equivalents at the end of the financial year</b>		<b>240 394</b>	<b>285 218</b>

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

Guntars Zvīnis

Ilvars Sirmāis

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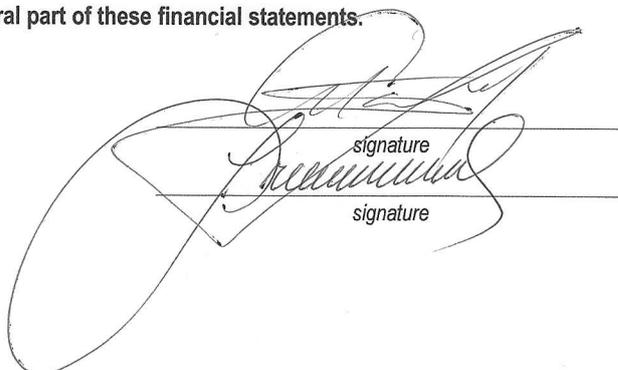
**STATEMENT OF CHANGES IN EQUITY**

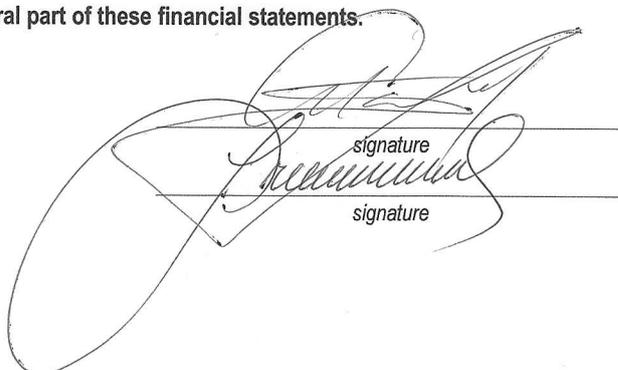
	Share capital	Revaluation reserves of non- current assets	Retained earning/ (accumulated deficit)	Total
	<u>EUR</u>	<u>EUR</u>	<u>EUR</u>	<u>EUR</u>
<b>Balance at 31.12.2014</b>	426 862	133 288	-129 479	430 671
Dividends calculated				0
Other comprehensive income / (loss)			-110 238	-110 238
<b>Net profit/loss</b>			<b>-110 238</b>	
<b>Balance at 31.12.2015</b>	426 862	133 288	-239 717	320 433
Accounting error correction effect on profit of 2015			2 181	2 181
Retrospective effect of accounting error correction		-71 468	69 287	-2 181
<b>Balance at 01.01.2016 after correction</b>	426 862	61 820	-168 249	320 433
Recognized gain from asset appreciation in the result of revaluation		96 454		96 454
Deferred income tax liabilities attributable to the revaluation reserve			-14 455	-14 455
Depreciation of fixed assets attributable to the revaluation reserve		-2 181		-2 181
Profit for the financial year			-91 701	-91 701
<b>Balance at 31.12.2016</b>	426 862	156 093	-274 405	308 550

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**NOTES TO THE FINANCIAL STATEMENTS**

**(1) GENERAL INFORMATION**

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

The auditor of the Company is SIA "DONOWAY ASSURANCE".

**Reporting period**

The reporting period is from 01.01.2016 to 31.12.2016

**(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 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 as follows.

**a) Standards, amendments and interpretations effective in the current year and have no impact on the Company's financial statements**

Amendments to IAS No 16 "Fixed Assets" and IAS No 38 "Intangible assets" - explanation of methods of permissible depreciation and amortization. IAS No 41 "Agriculture" and IFRS 16 "Fixed assets" of fruit-bearing plants.

Amendments to IAS No 1 "Presentation of Financial Statements" for the initiative of disclosed information.

Amendments to IFRS No 10 "Consolidated Financial Statements", IFRS No 12 "Disclosure of interests in other enterprises" and IAS No 28 "Associates and joint ventures" - application of the consolidation exception of the investment company.

Amendments to IFRS No 11 "Joint agreements": Participation in joint activities of purchase accounting.

IAS No 27 "Separate Financial Statements" - the equity method in the separate financial statements.

**b) Standards that have been issued but not yet effective**

Standards that have been issued but not yet effective or are not approved by the EU and which have not been applied before the effective date.

The Company has not applied the following IFRS and IFRIC Interpretations that have been issued for the approval day of financial statements, but not yet effective:

IFRS No 15 "Revenue from contracts that have been entered into with customers" (effective once adopted by the EU for annual periods beginning on 1 January 2017 or later).

IFRS No 9 "Financial Instruments" (effective once adopted by the EU for annual periods beginning on 1 January 2018 or later).

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

**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.

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**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

**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:

<u>Intangible assets:</u>	<u>Years</u>
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:

<u>Fixed assets:</u>	<u>Years</u>
Buildings	20-30
Computer equipment	3-5
Other machinery and equipment	4-10

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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 arose.

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

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

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

**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 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.

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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**

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

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

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

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

#### **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.

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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**

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

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

*Revaluation of land and buildings*

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

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

*Prior period errors*

During the preparation of annual report for the year 2016, it was found that in 2011 the long-term revaluation reserve was incorrectly calculated and disclosed.

In accordance with the International Accounting Standard No 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the Company accounted the adjustments in year 2016, but in the annual report it was disclosed retrospectively.

After making adjustments to prior period errors, changes have been occurred in the following financial report items:

Item adjusted	Annual report for the year 2015 before adjustments	Adjustment	Annual report for the year 2015 after adjustments
<u>Adjustment to Balance Sheet as at 31.12.2015</u>			
Long-term investments revaluation reserve	133 288	-61 654	71 634
Retained earnings form previous financial periods	-239 717	71 468	-168 249
<u>Adjustments to the income statement for the 2016</u>			
Depreciation of revalued fixed assets, which are recognized in equity	-110 238	2 181	-108 057

Due to adjustments Company's profit for the year 2015 was increased by 2181 EUR; the share equity as of 31.12.2015 was decreased by 9814 EUR and makes 320 433 EUR.

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

(3) **Types of net turnover**

	2016	2015
	EUR	EUR
Income from sales of pledged assets	940 575	844 489
Income from other goods sales	265 685	251 475
<b>Total</b>	<b>1 206 260</b>	<b>1 095 964</b>

**Finance income**

	2016	2015
	EUR	EUR
Interest income on loans	1 138 448	1 189 677
Income from penalties, fines	142 802	184 040
<b>Total</b>	<b>1 281 250</b>	<b>1 373 717</b>

(4) **Cost of sales**

	2016	2015
	EUR	EUR
Cost of sold pledges	757 299	667 958
Cost of goods purchased for resale	235 669	232 438
<b>Total</b>	<b>992 968</b>	<b>900 396</b>

(5) **Finance costs**

	2016	2015
	EUR	EUR
Interest on loans and bonds	418 198	428 937
<b>Total</b>	<b>418 198</b>	<b>428 937</b>

(6) **Selling costs**

	2016	2015
	EUR	EUR
Personal costs	421 045	432 250
Rent of premises and maintenance costs	152 528	155 684
Depreciation of fixed assets	93 097	105 021
Non-deductible VAT	13 755	8 194
License expenses	14 228	14 229
Advertising expenses	3 512	2 767
Write-off of low value inventory and fixed asset	1 301	1 871
Other distribution expenses	88 182	75 866
<b>Total</b>	<b>787 648</b>	<b>795 882</b>

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(7) Administrative expenses

	2016	2015
	EUR	EUR
Personal costs	207 594	222 957
Transport costs	37 612	42 712
Communication expenses	23 749	27 048
Professional service costs	19 107	19 052
Office expenses	6 350	14 187
Leasing interest	870	1 784
Bank charges	4 010	4 690
Representation costs	2 433	3 125
Donations	14	18
Business trip expenses	207	371
Other administrative expenses	1 762	1 339
<b>Total</b>	<b>303 708</b>	<b>337 283</b>

(8) Other income

	2016	2015
	EUR	EUR
Income from exchange rate fluctuations		9
Net gain on disposal and sales of fixed assets	3 557	7 340
Other income	19 334	8 208
<b>Total</b>	<b>22 891</b>	<b>15 557</b>

(9) Other expenses

	2016	2015
	EUR	EUR
Provisions for inventories (real estate – loan collateral owned by the Company, see Note 13)	19 720	10 000
Provisions for inventories (goods)	1 382	13 611
Provisions for impairment of loans (see Note 14)	29 662	91 537
Provisions for doubtful receivables	6 146	8 810
Loss on sale of inventories (real estate)	840	9 440
Real estate tax	4 945	4 659
Other expenses	2 655	7 988
<b>Total</b>	<b>65 350</b>	<b>146 045</b>

(10) Expenses by Nature

	2016	2015
	EUR	EUR
Purchase cost of goods sold	992 968	900 396
Personnel costs	628 639	655 207
Interest paid on credits, borrowings	418 197	428 937
Rent of premises and maintenance costs	152 528	155 684
Depreciation of fixed assets	93 097	107 202
Transport costs	37 612	42 712
Non-deductible VAT	13 755	8 194
Other expenses	230 972	312 392
<b>Total</b>	<b>2 567 768</b>	<b>2 610 724</b>

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(11) **Corporate income tax**

	2016	2015
	EUR	EUR
<b>Components of corporate income tax</b>		
Changes in deferred income tax	-32 931	-15 248
Corporate income tax according to the tax declaration	-1 299	0
<b>Total</b>	<b>-34 230</b>	<b>-15 248</b>

**Reconciliation of accounting profit to income tax charges**

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

	2016	2015
	EUR	EUR
<b>Corporate income tax:</b>		
Profit or loss before taxes	-57 471	-123 305
Theoretically calculated tax at 15% tax rate	<b>-8 621</b>	<b>-18 496</b>
<b>Tax effects on:</b>		
Non-deductible expenses for tax purposes	42 851	3 248
<b>Total corporate tax charge</b>	<b>34 230</b>	<b>-15 248</b>

**Movement and components of deferred tax**

	2016	2015
	EUR	EUR
Deferred tax liabilities (asset) at the beginning of the financial year	7 049	22 297
Deferred tax changes charged to the income statement	32 931	-15 248
On equity attributable deferred tax liability from revaluation included in other revenues	14 455	
<b>Deferred tax liabilities at the end of the financial year</b>	<b>54 435</b>	<b>7 049</b>

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

	2016	2015
	EUR	EUR
Temporary difference on depreciation of fixed assets and intangible assets	39 953	32 306
Temporary difference on revaluation reserve	23 414	19 993
<b>Gross deferred tax liabilities</b>	<b>63 367</b>	<b>52 299</b>
Temporary difference on accruals for annual leave	0	-2 120
Tax loss carried forward	0	-2 420
Temporary differences on accruals	-8 932	-40 710
<b>Gross deferred tax assets</b>	<b>-8 932</b>	<b>-45 250</b>
<b>Net deferred tax liability (assets)</b>	<b>54 435</b>	<b>7 049</b>

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

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

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	Accelerated depreciation of fixed assets	Accruals for unused annual leave	Accruals / tax losses	Total
	EUR	EUR	EUR	EUR
<b>31.12.2015</b>	<b>52 299</b>	<b>-2 120</b>	<b>-43 130</b>	<b>7 049</b>
Charged / (credited) to income statement	-3 387	2 120	34 198	32 931
<b>31.12.2016</b>	<b>63 367</b>	<b>0</b>	<b>-8 932</b>	<b>54 435</b>

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

		Fixed assets					
		Intangible assets - licences	Lands and buildings	Leasehold improvements	Other fixed assets	Advances and development costs	Total fixed assets
		EUR	EUR	EUR	EUR	EUR	EUR
Initial value	01.01.2015	67 977	357 995	17 237	679 568	16 900	1 071 700
Acquired					5 351	4 068	9 419
Disposed			-21 343	-1 030	-41 653	-997	-65 023
Reclassified					7 911	-7 911	0
Initial value	31.12.2015	67 977	336 652	16 207	651 177	12 060	1 016 096
Accumulated depreciation	01.01.2015	18 871	41 424	13 234	303 129	0	357 787
Calculated depreciation		4 367	11 717	952	90 167		102 836
Depreciation of disposed fixed assets			-3 083	-1 030	-27 542		-31 655
Accumulated depreciation	31.12.2015	23 238	50 058	13 156	365 754	0	428 968
The residual value	01.01.2015	49 106	316 571	4 003	376 439	16 900	713 913
The residual value	31.12.2015	44 739	286 594	3 051	285 423	12 060	587 128
Initial value	01.01.2016	67 977	336 652	16 207	651 177	12 060	1 016 096
Acquired					6 913		6 913
Disposed					-7 361		-7 361
Reclassified		11 099	9 395			-11 099	-1 704
Overvalued			96 364				96 364
Initial value	31.12.2016	79 076	442 411	16 207	650 729	961	1 110 308
Accumulated depreciation	01.01.2016	23 238	50 058	13 156	365 754	0	428 968
Calculated depreciation		4 479	11 124	676	79 000		90 800
Depreciation of disposed fixed assets					-6 521		-6 521
Accumulated depreciation	31.12.2016	27 717	61 182	13 832	438 233	0	513 247
The residual value	01.01.2016	44 739	286 594	3 051	285 423	12 060	587 128
The residual value	31.12.2016	51 359	381 229	2 375	212 496	961	597 061

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(13) Inventories

	31.12.2016	31.12.2015
	EUR	EUR
Real estate - loan collateral owned by the Company	358 957	405 803
Advances paid (Real estate – loan collateral owned by the Company)	54 221	81 497
Provision for inventories - loan collateral owned by the Company	-59 062	-36 000
Goods purchased for sales purposes	202 253	284 428
Advances for goods	18 374	9 405
Provisions for goods	-10 269	-13 611
Other collateral owned by the Company	559 046	373 865
<b>Total</b>	<b>1 123 520</b>	<b>1 105 387</b>

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:**

	31.12.2016	31.12.2015
	EUR	EUR
<b>Provisions at the beginning of the year</b>	<b>49 611</b>	<b>26 000</b>
Created/(reduced) provisions for real estate	23 062	10 000
Created provisions for slow moving and damaged goods	-3 342	13 611
<b>Provisions at the end of the year</b>	<b>69 331</b>	<b>49 611</b>

(14) Loans and trade receivables

	31.12.2016	31.12.2015
	EUR	EUR
Short-term loans secured with pledges	1 957 955	2 091 230
Provisions for impairment for loans secured with pledges	-163 640	-141 185
Consumer loans (Short-term loans without pledge)	268 017	203 951
Provisions for impairment of short-term loans not secured with pledges	-66 629	-59 421
Accrued interest payments	142 102	118 232
<b>Total</b>	<b>2 137 805</b>	<b>2 212 807</b>

**Movement in provisions for impairment of accounts receivable:**

	Individual impairment	Portfolio impairment	Total
	EUR	EUR	EUR
<b>Provisions at the beginning of the year 2015</b>	<b>84 069</b>	<b>25 000</b>	<b>109 069</b>
Charged/(reduced) provisions in 2015	65 511	26 026	91 537
<b>Provisions at the end of the year 2015</b>	<b>149 580</b>	<b>51 026</b>	<b>200 606</b>
Charged/(reduced) provisions in 2016	23 188	6 475	29 663
<b>Provisions at the end of the year 2016</b>	<b>172 768</b>	<b>57 501</b>	<b>230 269</b>

	2016	2015
	% per month	% per month
Loans against hand pledge	3-21%	2-21%
Loans against ore	3-21%	2-21%
Loans without collateral (consumer credit)	1,5-8,8%	1-20%
Loans against transport	>2,5 %	>4%
Loans against real estate	>2%	>3%

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**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	925 976	125 882	1 051 858
Past due but not impaired loans:	1 031 979	142 135	1 174 114
less than 30 days	156 085	11 658	167 743
31 to 59 days	76 533	5 733	82 266
60 to 89 days	21 957	2 544	24 501
more than 90 days	443 720	26 365	470 085
Impaired loans	333 684	95 835	429 519
<b>Total gross loans</b>	<b>1 957 955</b>	<b>268 017</b>	<b>2 225 972</b>
Impairment allowance	-163 640	-66 629	-230 269
<b>Total net loans</b>	<b>1 794 315</b>	<b>201 388</b>	<b>1 995 703</b>

\*The gross amount of loans does not include accrued interest payments of EUR 142 102.

**(15) Other current assets**

	31.12.2016	31.12.2015
	EUR	EUR
<b><u>Financial assets:</u></b>		
Other receivables, neto	32 033	31 636
Provisions for other receivables (items confiscated by police)	-21 540	-16 740
Settlements for services	10 937	8 299
Provisions for settlements for services	-5 790	-4 443
Overpaid taxes	1 865	1 865
<b>Total</b>	<b>17 505</b>	<b>20 617</b>
<b><u>Non-financial assets:</u></b>		
Prepaid expense	24 190	23 469
<b>Total</b>	<b>41 695</b>	<b>44 086</b>

**Movement in provisions for impairment of other accounts receivable:**

	31.12.2016	31.12.2015
	EUR	EUR
<b>Provisions at the beginning of the year</b>	<b>21 183</b>	<b>12 371</b>
Created/(reduced) provisions	6 147	8 812
<b>Provisions at the end of the year</b>	<b>27 330</b>	<b>21 183</b>

**(16) Cash and its equivalents**

	31.12.2016	31.12.2015
	EUR	EUR
Cash at bank on current accounts	191 749	247 996
Cash on hand	48 645	37 222
<b>Total</b>	<b>240 394</b>	<b>285 218</b>

**(17) Financial instruments by category**

All financial assets of the Company amounting at the year end to EUR 2 229 967 (31.12.2015 - EUR 2 233 424) fell under the category of loans and receivables.

All financial liabilities of the Company amounting to EUR 3 828 306 (31.12.2015 - EUR 3 952 025) fell under the category of other financial liabilities, there are no liabilities at fair value through profit or loss.

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**(18) Share capital**

As by 31 December 2016, 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**

	Note	31.12.2016 EUR	31.12.2015 EUR
<b>Non-current</b>			
Non-convertible bonds	b)	3 310 000	3 310 000
Other loans	c)	10 000	10 000
Finance lease liabilities	d)	3 152	19 172
<b>Total non-current</b>		<b>3 323 152</b>	<b>3 339 172</b>
<b>Current</b>			
Non-convertible bonds	b)	53 297	53 297
Other loans	c)	300 000	416 500
Finance lease liabilities	d)	16 020	24 834
<b>Total current</b>		<b>369 317</b>	<b>494 631</b>
<b>Borrowings total</b>		<b>3 692 469</b>	<b>3 833 803</b>

**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, denominations of bonds is 1 000 EUR, the coupon rate is 12%. Bond are maturing on 15 November 2020.

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

	2016		2015	
	Number of bonds	EUR	Number of bonds	EUR
At beginning of the reporting year	3 310	3 310 000	3 295	3 295 000
Issued during the year	0	0	15	15 000
<b>At the end of the year</b>	<b>3 310</b>	<b>3 310 000</b>	<b>3 310</b>	<b>3 310 000</b>

**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.

	31.12.2016 EUR	31.12.2015 EUR
<b>At beginning of the year</b>	<b>426 500</b>	<b>365 000</b>
Borrowings received in the year		126 500
Repaid borrowings in the year	-116 500	-65 000
<b>At the end of the year</b>	<b>310 000</b>	<b>426 500</b>

**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.

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

	31.12.2016	31.12.2015
	EUR	EUR
Payable within 1 year	16 309	25 904
Payable from 2 to 5 years	3 225	19 835
<b>Finance lease gross liability</b>	<b>19 534</b>	<b>45 739</b>
Future finance costs	-362	-1 733
<b>Present value of finance lease liability</b>	<b>19 172</b>	<b>44 006</b>

(20) Trade and other payables

	31.12.2016	31.12.2015
	EUR	EUR
Salaries	32 639	30 347
Accruals for unused annual leave	14 017	14 135
Value Added Tax	1 277	4 133
Mandatory State social insurance contributions	15 893	14 248
Trade payables	10 117	6 780
Accrued liabilities	14 423	8 155
Personal income tax	6 757	6 940
Advances from customers	39 062	32 073
Other payables	1 038	1 411
Corporate Income tax	1 299	
<b>Total</b>	<b>136 522</b>	<b>118 222</b>

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 2016 and 2015 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 bulļi SIA and Premium Finance Group SIA.

Loans and interest payments

	Loans balances		Interest expense	
	31.12.2016	31.12.2015	2016	2015
	EUR	EUR	EUR	EUR
Orheja SIA				
Trezors SIA	10 000	10 000	1 763	1 082
Lielie rīta bulļi SIA	0	115 000	6 381	12 468
Premium Finance Group SIA	0	0		0
<b>Total</b>	<b>10 000</b>	<b>125 000</b>	<b>8 144</b>	<b>13 550</b>
The non-current part of the loans	10 000	10 000		
The non-current part of the loans	0	115 000		
	<b>10 000</b>	<b>125 000</b>		

Remuneration to the management

	Remuneration to Council members		Remuneration to Board members	
	2016	2015	2016	2015
	EUR	EUR	EUR	EUR
Salaries			89 133	88 852
Social security contributions			21 027	20 960
Other expenses			0	0
	<b>0</b>	<b>0</b>	<b>110 160</b>	<b>109 812</b>

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**(22) Number of employees**

	<b>2016</b>	<b>2015</b>
The average number of persons employed by the company	53	52

**(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 99 981(2015: EUR 103 512). 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

**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.

	<b>31.12.2016</b>	<b>31.12.2015</b>
	EUR	EUR
Financial liabilities with variable interest rate	19 172	44 006
	<b>19 172</b>	<b>44 006</b>

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.

	<b>31.12.2016</b>	<b>31.12.2015</b>
	EUR	EUR
Maximum exposure to credit risk		
Loans and trade receivables	2 137 805	2 212 807
Other current assets	41 696	44 086
Cash and cash equivalents	240 394	285 218
<b>Total</b>	<b>2 419 895</b>	<b>2 542 111</b>

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 sums.

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**Liquidity risk**

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

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

On 31 December, 2015	Total EUR	<1 year EUR	1-2 years EUR	2-5 years EUR	>5 years EUR
Bonds	3 310 000			3 310 000	0
Loans from credit institutions	0				0
Other loans	425 000	415 000		10 000	0
Finance lease liabilities	44 006	24 834	16 019	3 153	0
Trade and other payables	118 222	118 222			0
	<b>3 897 228</b>	<b>558 056</b>	<b>16 019</b>	<b>3 323 153</b>	<b>0</b>

On 31 December, 2016	Total EUR	<1 year EUR	1-2 years EUR	2-5 years EUR	>5 years EUR
Bonds	3 310 000			3 310 000	
Loans from credit institutions	0				
Other loans	310 000	300 000		10 000	
Finance lease liabilities	19 172	16 020	3 152		
Trade and other payables	135 837	135 837			
	<b>3 775 009</b>	<b>451 857</b>	<b>3 152</b>	<b>3 320 000</b>	<b>0</b>

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

**Capital Management**

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

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

	31.12.2016 EUR	31.12.2015 EUR
Total borrowings	3 692 469	3 833 803
Cash and its equivalents	-240 394	-285 218
<b>Net debt</b>	<b>3 452 075</b>	<b>3 548 585</b>
Equity	308 550	320 433
<b>Total capital</b>	<b>3 760 625</b>	<b>3 869 018</b>
Total assets	4 191 976	4 279 507
Net debt to equity	1119%	1107%
Equity ratio on total assets	7%	7%

**(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.