

JOINT STOCK COMPANY MOGO
(UNIFIED REGISTRATION NUMBER LV50103541751)

**ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019**

**INCLUDING SEPARATE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE
WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EU
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT**

Riga, 2020

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General information

| | | | | | | | | | |
|---|--|---------------------------------|-----|--------------------|----|--------------|-------------|--|-----|
| Name of the Parent Company | mogo | | | | | | | | |
| Legal status of the Parent Company | JSC | | | | | | | | |
| Unified registration number, place and date of registration | 50103541751, Latvia, 03.05.2012 | | | | | | | | |
| Registered office | Skanstes street 50, Riga, Latvia | | | | | | | | |
| Shareholders | <div style="text-align: right;">31.12.2019.</div> <table> <tr> <td>Mogo Baltics and Caucasus JSC *</td><td style="text-align: right;">98%</td></tr> <tr> <td>Tobago capital LTD</td><td style="text-align: right;">2%</td></tr> <tr> <td>TOTAL</td><td style="text-align: right;">100%</td></tr> <tr> <td>*Mogo Finance S.A. (Luxembourg) till 27.03.2019.</td><td style="text-align: right;">98%</td></tr> </table> | Mogo Baltics and Caucasus JSC * | 98% | Tobago capital LTD | 2% | TOTAL | 100% | *Mogo Finance S.A. (Luxembourg) till 27.03.2019. | 98% |
| Mogo Baltics and Caucasus JSC * | 98% | | | | | | | | |
| Tobago capital LTD | 2% | | | | | | | | |
| TOTAL | 100% | | | | | | | | |
| *Mogo Finance S.A. (Luxembourg) till 27.03.2019. | 98% | | | | | | | | |
| Ultimate parent company | Mogo Finance S.A. (Luxembourg) | | | | | | | | |
| Board Members | <p>Krišjānis Znotiņš - Member of the Board from 14.03.2019</p> <p>Juris Pārups - Chairman of the Board from 25.09.2018 till 13.08.2019</p> | | | | | | | | |
| Council Members | <p>Modestas Sudnius, from 25.05.2018</p> <p>Dārta Keršule, from 05.09.2018</p> <p>Kārlis Bērziņš, from 25.05.2018</p> | | | | | | | | |
| Subsidiaries | <p>Loango JSC, Latvia (100%) till 11.07.2019.</p> <p>Renti JSC, Latvia (100%)</p> | | | | | | | | |
| Financial year | January - December | | | | | | | | |
| Previous financial year | January - December | | | | | | | | |
| Auditors | <p>KPMG Baltics AS</p> <p>Commercial licence No. 55</p> <p>Vesetas iela 7, Riga, Latvia, LV-1013</p> <p>Certified auditor in charge</p> <p>Armine Movsisjana</p> <p>Certificate No. 178</p> | | | | | | | | |

Management report

30 April 2020

The Board members of the Company present the report on the separate financial statements for the year ended December. All the figures are presented in EUR (euro).

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, Company's branded website, mobile homepage and onsite at customer service centres. During the year company continued to serve its existing customers and additionally focused on being service and development centre for 100% subsidiary JSC Renti and associated company JSC Primero finance, using companies resources and long lasting experience in leasing field. Services include full cycle service from sales and customer service to debt collection activities. Due to improved efficiency, these services constituted significant profitable part of Companies operations.

The Company continues to develop new products and sales channels. The Company's own product mix was strengthened with web friendly products (possibility to apply and receive funds remotely) such as consumer credit and added new products such as refinancing and auto credit. These products' issuance levels have been growing through the year reaching close to 80% of new sales.

New web sales channel autotev.lv was developed as car sales portal connected with Company's offered financing solutions. The portal is offered to Company's and its subsidiary's JSC Renti partners to promote their car sales to end customers. Development of car portal has been successful step in strengthening relationships with partner car sellers, constantly exceeding 1000 cars advertisements.

The Company complies with local laws relating to environmental protection.

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.

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

Total assets of the Company reached 58.3 million euro (10% increase, compared to 31.12.2019.), interest and similar income reached 15.4 million euro (18% decrease compared to 31.12.2019.), and net profit of the Company amounted to 7.3 million euro that is 2.41 times higher than in 2018.

At the end of December gross value of the lease portfolio reached 22.8 million euro (41% decrease compared to December).

Significant improvement in financial results were achieved through servicing related and associated entities. Additionally improvements in our customer service and partner account management processes were implemented, enabling us to serve our customers more efficiently. Monthly income from long term rent through its subsidiary JSC Renti grew 7.4 times from January to December reaching EUR 498 000.

In first part of the year underwriting policy was reviewed and significant changes implemented, making customer evaluation more precise and excluding high risk customers from new sales. This resulted in significant impairment decrease comparing to 2018 and further positive effect is foreseen.

Regional management human resources and administrative costs were transferred to related entity in 2018, which positively affected salaries and administrative costs in 2019. The performing net leasing portfolio in amount of 3 550 thousand EUR was sold to associated company JSC Primero finance, together with further portfolio servicing. Historical gross unperforming portfolio in amount of 1 726 thousand EUR, including unsecured balances and complicated cases were sold through the tender thus cleaning Company's balance sheet and having neutral P&L effect.

In 2019, the Company continued its operations in order to accomplish its mission – to offer accessible leasing services in a quick and simple way. The Company continued to invest significant resources in the development of information system solutions in order to improve its operational activities by automating the current processes in the nearest future, at the same time increasing customer satisfaction with the provided service. Main target in automation field includes instant decision for customers. It is expected that implementation will be finished in mid 2020.

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

The Company proceeded with various digital and offline marketing campaigns in order to promote the brand visibility and strengthen the Company brand awareness and recognition.

Management report (continued)

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.

Financial risks

The main financial risks arising from the Company's financial instruments are liquidity risk, and credit risk.

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.

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 its 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. These 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. The Company complies with applicable regulation for consumer lending and consumer rights protection.

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. See Notes 20 and 21 for more information.

Assessment of COVID-19 impact

The Latvian government declared a state of emergency on 12 March 2020, after the World Health Organization declared the coronavirus outbreak a pandemic.

For the safety of Company's employees and customers, the Company has temporarily closed customer service points and provides services remotely, except the branch located at the premises of JSC "Ceļu satiksmes drošības direkcija" in Riga, where services are available upon prior appointment. The sale of cars is ensured at the points of sale and in cooperation with partners.

The Company keeps close contact with our customers and works with them to ensure the contractual commitments are still being successfully maintained. The Company aims to offer its clients high quality and flexible solutions in current situation. The Company also controls its liquidity by managing the amount of funding it attracts through peer-to-peer platform.

The Company has taken all mandatory and recommended safety measures and ensured that its staff can work from home remotely.

See Note 43 for additional information.

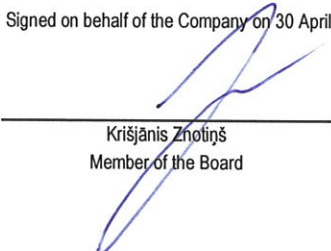
JSC mogo statement regarding the corporate governance in 2019 is prepared according with the requirements of the Financial Instruments Market Law part 3 of article 56.2 and is available to the public electronically on the Nasdaq Baltic webpage www.nasdaqbaltic.com.

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 year.

More information is disclosed in Note 40.

Signed on behalf of the Company on 30 April 2020 by:


Krišjānis Zhotiņš
Member of the Board

Statement of Management Responsibility

30 April 2020

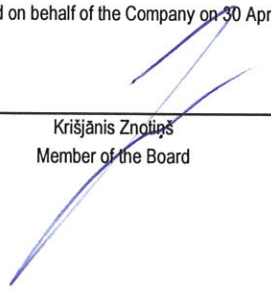
JSC „mogo” management is responsible for preparation of the separate financial statements.

Management of the Company declares that in accordance with the information in their possession, separate 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 31 December 2019, results of operations and cash flows for the year ended 31 December 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 separate 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.

Signed on behalf of the Company on 30 April 2020 by:



Krišjānis Znotiņš
Member of the Board

Separate Financial Statements

Separate Statement of Comprehensive Income

| | | 2019 EUR | 2018 EUR |
|--|----|-------------------|-------------------|
| Interest revenue | 4 | 15 428 073 | 18 795 287 |
| Interest expense | 5 | (5 208 437) | (6 155 762) |
| Net interest income | | 10 219 636 | 12 639 525 |
| Fee and commission income related to finance lease activities | 6 | 869 089 | 1 039 699 |
| Impairment expense | 7 | (2 559 045) | (5 251 123) |
| Net gain/(loss) from de-recognition of financial assets measured at amortised cost | 8 | (375 820) | (53 919) |
| Expenses related to peer-to-peer platforms services | 9 | (149 872) | (299 104) |
| Revenue from leases | 10 | - | 64 365 |
| Revenue from car sales | 11 | - | 470 695 |
| Cost of sales of cars | 11 | - | (470 695) |
| Selling expense | 12 | (343 469) | (651 950) |
| Administrative expense | 13 | (2 660 746) | (4 625 298) |
| Other operating income | 14 | 2 416 791 | 383 460 |
| Other operating expense | 15 | (147 090) | (181 072) |
| Net foreign exchange result | | (124) | (3 739) |
| Profit before tax | | 7 269 350 | 3 060 844 |
| Net profit for the period | | 7 269 350 | 3 060 844 |

Profit is attributable to:

Equity holders of the Parent Company

7 123 963

2 999 627

Non-controlling interests

145 387

61 217

Net profit for the year

7 269 350

3 060 844

The accompanying notes are an integral part of these separate financial statements.

Signed on behalf of the Company on 30 April 2020 by:

Krišjānis Znotiņš
Member of the Board

Jolanta Ziedone
Chief accountant

Separate Statement of Financial Position

| ASSETS | | 31.12.2019. | 31.12.2018. |
|---|--------|-------------------|-------------------|
| | | EUR | EUR |
| NON-CURRENT ASSETS | | | |
| Intangible assets | | | |
| Licenses | 17 | - | 3 096 |
| Other intangible assets | 17 | 27 899 | 21 042 |
| Total intangible assets | | 27 899 | 24 138 |
| Tangible assets | | | |
| Right-of-use assets | 18, 19 | 1 150 240 | 73 689 |
| Property and equipment | 18 | 121 180 | 72 249 |
| Advance payments for assets | 18 | 37 583 | 70 082 |
| Leasehold improvements | 18 | 6 605 | 10 376 |
| Total tangible assets | | 1 315 608 | 226 396 |
| Non-current financial assets and lease receivables | | | |
| Finance lease receivables | 20 | 13 361 713 | 24 925 333 |
| Loans and advances to customers | 21 | 1 824 652 | 1 311 573 |
| Loans to related parties | 36 | 27 952 012 | 11 041 800 |
| Investments in subsidiaries | 37 | 5 500 000 | 925 000 |
| Other investments | 37 | 26 | 26 |
| Total non-current financial assets and lease receivables | | 48 638 403 | 38 203 732 |
| TOTAL NON-CURRENT ASSETS | | 49 981 910 | 38 454 266 |
| CURRENT ASSETS | | | |
| Inventories | | | |
| Finished goods and goods for resale | 22 | - | 11 414 |
| Total inventories | | - | 11 414 |
| Receivables and other current assets | | | |
| Finance lease receivables | 20 | 5 704 587 | 8 562 209 |
| Loans and advances to customers | 21 | 850 415 | 1 376 781 |
| Trade receivables | 25 | 904 253 | 3 684 871 |
| Prepaid expense | 24 | 109 204 | 151 766 |
| Other receivables | 26 | 152 170 | 105 716 |
| Accrued revenue | 27 | 107 273 | 7 517 |
| Cash and cash equivalents | 28 | 270 571 | 674 185 |
| Total receivables and other current assets | | 8 098 473 | 14 563 045 |
| Assets held for sale | 23 | 195 978 | 133 140 |
| Total assets held for sale | | 195 978 | 133 140 |
| TOTAL CURRENT ASSETS | | 8 294 451 | 14 707 599 |
| TOTAL ASSETS | | 58 276 361 | 53 161 865 |

The accompanying notes are an integral part of these separate financial statements.

Signed on behalf of the Company on 30 April 2020 by:

Krišjānis Znotiņš
Member of the Board

Jelanta Ziedone
Chief accountant

Separate Statement of Financial Position

| EQUITY AND LIABILITIES | | 31.12.2019. | 31.12.2018. (restated)* |
|--|--------|-------------------|----------------------------|
| | | EUR | EUR |
| EQUITY | | | |
| Share capital | 29 | 5 000 000 | 5 000 000 |
| Foreign currency translation reserve | | 1 | 1 |
| Other reserves | 39 | (4 103 142) | (1 066 590) |
| Retained earnings | | | |
| brought forward | | 3 112 225 | 51 381 |
| for the period | | 7 269 350 | 3 060 844 |
| TOTAL EQUITY | | 11 278 434 | 7 045 636 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Liabilities for issued debt securities | 31 | 30 059 243 | 18 658 246 |
| Funding attracted through peer-to-peer platforms | 31 | 5 722 439 | 9 160 189 |
| Lease liabilities for right-of-use assets | 19, 31 | 998 804 | 10 952 |
| Loan from banks | 32 | 2 106 840 | - |
| Total non-current liabilities | | 38 887 326 | 27 829 387 |
| Provisions for financial guarantees | 39 | 3 675 944 | 948 263 |
| Other provisions | 30 | 492 671 | 449 027 |
| Total provisions for liabilities and charges and financial guarantees | | 4 168 615 | 1 397 290 |
| Current liabilities | | | |
| Liabilities for issued debt securities | 31 | - | 11 250 000 |
| Funding attracted through peer-to-peer platforms | 31 | 2 661 094 | 4 386 961 |
| Loans from related parties | 32 | - | 352 344 |
| Lease liabilities for right-of-use assets | 19, 31 | 124 438 | 63 421 |
| Prepayments and other payments received from customers | 32 | 45 273 | 68 959 |
| Payables to related companies | 36 | 75 652 | 59 702 |
| Trade payables | | 55 181 | 93 059 |
| Corporate income tax payable | 16 | - | 91 489 |
| Taxes payable | 33 | 46 995 | 41 794 |
| Other liabilities | 34 | 725 310 | 212 354 |
| Accrued liabilities | 35 | 208 043 | 269 469 |
| Total current liabilities | | 3 941 986 | 16 889 552 |
| TOTAL LIABILITIES | | 46 997 927 | 46 116 229 |
| TOTAL EQUITY AND LIABILITIES | | 58 276 361 | 53 161 865 |

The accompanying notes are an integral part of these separate financial statements.

Signed on behalf of the Company on 30 April 2020 by:

Krišjānis Znotiņš
Member of the Board

Jolanta Ziedone
Chief accountant

Separate Statement of Changes in Equity

| | Share capital | Currency revaluation reserve | Other Reserves | Retained earnings | Total |
|---|------------------|------------------------------------|--------------------|----------------------|-------------------|
| | EUR | EUR | EUR | EUR | EUR |
| Balance at 01.01.2018. | 5 000 000 | 1 | - | 4 551 381 | 9 551 382 |
| Profit for the reporting year | - | - | - | 3 060 844 | 3 060 844 |
| Total comprehensive income | - | - | - | 3 060 844 | 3 060 844 |
| Issue of financial guarantees (Note 39) | - | - | (878 051) | - | (878 051) |
| Net result of original guarantee derecognition and recognition of modified guarantee (Note 39) | - | - | (188 539) | - | (188 539) |
| Dividends distribution (Note 29) | - | - | - | (4 500 000) | (4 500 000) |
| Balance at 31.12.2018. | 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 | - | - | - | 7 269 350 | 7 269 350 |
| Total comprehensive income | - | - | - | 7 269 350 | 7 269 350 |
| Net result of original guarantee derecognition and recognition of modified guarantee (Note 39) | - | - | (3 036 552) | - | (3 036 552) |
| Balance at 31.12.2019. | 5 000 000 | 1 | (4 103 142) | 10 381 575 | 11 278 434 |

The accompanying notes are an integral part of these separate financial statements.

Signed on behalf of the Company on 30 April 2020 by:

Krišjānis Znotiņš
Member of the Board

Jolanta Ziedone
Chief accountant


Separate Statement of Cash Flows

| | | 2019 EUR | 2018 EUR |
|---|-----------|---------------------|---------------------|
| Cash flows to/from operating activities | | | |
| Profit before tax from continuing operations | | 7 269 350 | 3 060 844 |
| Adjustments for: | | | |
| Amortisation and depreciation | 17, 18 | 191 403 | 526 745 |
| Interest expense | 5 | 5 208 437 | 6 155 762 |
| Interest income | 4 | (15 428 073) | (18 795 287) |
| Disposals of property, equipment and intangible assets | | 11 234 | 94 |
| Impairment expense | 7 | 2 559 045 | 5 251 123 |
| Financial guarantees | 39 | (308 871) | (118 327) |
| Operating profit before working capital changes | | (497 475) | (3 919 046) |
| Decrease/ (increase) in inventories | | 11 414 | 328 078 |
| Increase in finance lease, loans and advances to customers, trade and other receivables | | 14 872 302 | (10 345 311) |
| Increase in advances received and trade payables and guarantees | | 683 338 | (3 981) |
| Cash generated to/from operations | | 15 069 579 | (13 940 260) |
| Interest received | | 15 825 734 | 18 732 123 |
| Interest paid | | (4 598 757) | (5 410 769) |
| Corporate income tax paid | | (91 489) | (332 770) |
| Net cash flows to/from operating activities | | 26 205 067 | (951 676) |
| Cash flows to/from investing activities | | | |
| Purchase of property and equipment and other intangible assets | 17, 18 | (1 197 534) | (925 980) |
| Investments in subsidiaries | | (4 575 000) | (925 000) |
| Loan repayments received from related parties | | 30 286 110 | 27 673 065 |
| Loans to related parties | | (47 196 322) | (25 312 000) |
| Net cash flows to/from investing activities | | (22 682 746) | 510 085 |
| Cash flows to/from financing activities | | | |
| Proceeds from borrowings | 31 | 37 657 406 | 68 681 405 |
| Repayments for borrowings | 31 | (41 466 426) | (68 005 154) |
| Repayment of liabilities for right-of-use assets | 31 | (116 915) | (232 346) |
| Net cash flows to/from financing activities | | (3 925 935) | 443 905 |
| Change in cash | | (403 614) | 2 314 |
| Cash at the beginning of the year | | 674 185 | 671 871 |
| Cash at the end of the year | 28 | 270 571 | 674 185 |

The accompanying notes are an integral part of these separate financial statements.

Signed on behalf of the Company on 30 April 2020 by:


Krišjānis Znotiņš
Member of the Board


Jolanta Ziedone
Chief accountant

Notes to the separate 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 ultimate parent company of mogo JSC is Mogo Finance S.A. (Luxembourg). The ultimate beneficiary owner of mogo JSC is Aigars Kesenfelds (41,07%). The share of the rest shareholders does not exceed 25%.

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

On 17 March 2014 JSC Mogo registered with the Latvian Central Depository a bond facility through which it can raise up to EUR 20 million. The mogo JSC has raised a total of EUR 20 000 000 as at 31 December 2019 (20 000 000 EUR at 31 December 2018). This bond issue is unsecured. The notes are issued at par, have a maturity of seven years and carry a fixed coupon of 10% per annum, paid monthly in arrears. The note type on 11 November 2014 was changed to "publicly issued notes" and were listed on the regulated market of NASDAQ OMX Baltic.

On 1 December 2017 JSC Mogo registered with the Latvian Central Depository a bond facility through which it can raise up to EUR 10 million. The mogo JSC has raised a total of EUR 10 000 000 as at 31 December 2019 (EUR 10 000 000 as at 31 December 2018). This bond issue is unsecured. The notes are issued at par, have a maturity of three years four months and carry a fixed coupon of 10% per annum, paid monthly in arrears. Bonds are listed on the alternative market Firth North of NASDAQ OMX Baltic and are "private issued notes".

Annual report of 2019 has been approved by decision of the board on 30 April 2020.

Shareholders have the separate financial statements approval rights after their approval by the Board of Directors.

| | 2019 | 2018 |
|---|------|------|
| Average number of employees during the reporting year | 60 | 107 |

2. Summary of significant accounting policies

a) Basis of preparation

These annual separate financial statements as of and for the year ended 31 December 2019 are prepared in accordance with International Financial Reporting Standards as adopted in the European Union.

The Company's annual separate financial statements and its financial result are affected by accounting policies, assumptions, estimates and management judgement (Note 3), which necessarily have to be made in the course of preparation of the annual separate 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 separate financial statements, when determinable. See Note 3.

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

The Company's presentation and functional currency is euro (EUR). The separate financial statements cover the period from 01 January 2019 till 31 December 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.

Going concern

These separate financial statements are prepared on the going concern basis.

Going concern assumptions in the context of subsequent events are disclosed under 'Going concern (non-adjusting subsequent events)' (Note 3) and 'Events after reporting period' (Note 43).

b) Changes in accounting policy disclosures and presentation

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Company as of 1 January 2019 (please note that IFRS 16 was early adopted in 2018).

IFRS 16: Leases

In January 2016, the IASB published the accounting standard IFRS 16 "Leases", which was implemented into European law on November 9, 2017. The standard replaces the existing guidance on leases, including IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases – Incentives" and SIC-27 "Assessing the substance of transactions in the legal form of leases".

2. Summary of significant accounting policies (continued)

b) Changes in accounting policy disclosures and presentation (continued)

IFRS 16 provides that in general, all leases and the associated contractual rights and duties must be reflected in the lessee's balance sheet, unless the term does not exceed 12 months or it constitutes a low-value asset. This classification required under IAS 17 into operating or finance leases therefore does not apply to the lessee. As for leases, the lessee recognizes a liability for lease obligations incurred in the future. Correspondingly, a right to use the leased asset is capitalized, which in principle is equivalent to the present value of the future lease payments plus directly attributable costs and is amortized over the useful life.

Elected transition approach

IFRS 16 is required to be applied for the first time for financial years commencing on or after January 1, 2019. The Company has exercised the option of early adoption of the standard and has applied IFRS 16 for the first time as of January 1, 2018, using the modified retrospective approach. First-time application within The Company to date has affected leases that previously had been classified as operating leases.

The Company has elected to apply modified retrospective approach. Under this approach it applies IFRS 16 to its leases retrospectively with the cumulative effect of initially applying IFRS 16 recognized at the date of initial application (1 January 2018). Company applies its elected transition approach consistently to all leases in which it is a lessee.

As an accounting policy choice the Company elects to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Company has therefore not applied the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. As a result, Company applies the requirements of the standard to identify a lease only to contracts entered into after the date of initial application.

For leases previously classified as operating leases by applying IAS 17, the Company:

1. recognizes a lease liability at the date of initial application for leases previously classified as an operating lease applying IAS 17. The Company measures that lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application;
2. recognizes a right-of-use asset at the date of initial application for leases previously classified as an operating lease applying IAS 17. On a lease-by-lease basis the Company measures that right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application; and
3. the Company applies the practical expedient permitted by IFRS 16 and relies on its assessment of whether leases are onerous applying IAS 37 immediately before the date of initial application as an alternative to performing an impairment review. The Company thus adjusts the right-of-use asset at the date of initial application by the amount of any provision for onerous leases recognized in the statement of financial position immediately before the date of initial application.

Elected practical expedients on transition where the Company is a lessee

Where the Company is a lessee the following practical expedients are applied on transition on a lease-by-lease basis. The Company:

1. applies a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).
2. does not make any adjustments on transition for leases for which the underlying asset is of low value (has a value, when new of 5 000 EUR or less). The Company accounts for those leases applying IFRS 16 from the date of initial application.
3. excludes initial direct costs of leases previously classified as operating leases from the measurement of the right-of-use asset at the date of initial application.
4. uses hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease. Consistently with IAS 8, usage of hindsight is applied only to matters of judgement and estimates and, therefore, is not applied to matters of fact such as changes to an index or rate.

IFRS 16 does not specify how a lessee would separate and allocate lease and non-lease components of a contract upon transition when the modified retrospective approach is adopted. Accordingly, the Company elects to use the practical expedient to account for each lease component and any associated non-lease components as a single lease component consistently with Company's policy.

Company as a lessor

With the exception of subleases, a lessor is not required to make any adjustments on transition for leases in which it is a lessor and accounts for those leases applying IFRS 16 from the date of initial application.

Other considerations

As a lessee the Company is not engaged in sale and leaseback transactions as well as it is not an intermediate lessor in sublease transactions. Furthermore, as a lessee it has no leases previously classified as finance leases. Accordingly, those transition provisions does not have an impact on the Company upon transition to IFRS 16.

IFRS 9: Prepayment features with negative compensation (Amendment)

The Amendment is effective for annual reporting periods beginning on or after 1 January 2019. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. The Company's management assessed that there was no effect on the Company accounting policies due to this amendment.

IAS 28: Long-term Interests in Associates and Joint Ventures (Amendment)

The Amendments are effective for annual reporting periods beginning on or after 1 January 2019. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied.

In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. These Amendments have not yet been endorsed by the EU. The Company's management assessed that there was no effect on the Company's accounting policies due to this amendment.

2. Summary of significant accounting policies (continued)

b) Changes in accounting policy disclosures and presentation (continued)

IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments

The Interpretation is effective for annual periods beginning on or after 1 January 2019. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The Company's management assessed that there was no effect on the Company's accounting policies due to the interpretation.

IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2019. The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. The Company's management assessed that there was no effect on the Company's accounting policies due to this amendment.

The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019. The Company's management assessed that there was no effect on the Company's accounting policies due to these improvements.

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

- IAS 12 Income Taxes: The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.

- IAS 23 Borrowing Costs: The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

c) Standards issued but not yet effective and not early adopted

The following new Standards, amendments to Standards and Interpretations are not yet mandatorily effective for annual periods beginning on or after 1 January 2019, and have not been applied in preparing these consolidated separate financial statements. The Company plans to adopt these pronouncements when they become effective.

| Standard/Interpretation | Nature of impending change in accounting policy | Possible impact on separate financial statements |
|---|--|---|
| Amendments to IAS 1 <i>Presentation of Financial Statements</i> and IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> (Effective for annual periods beginning on or after 1 January 2020) These amendments are not yet endorsed by the EU. | The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. | The Company does not expect the Amendments to have a material impact on its separate financial statements when initially applied. |

Amendments to IFRS 10 and IAS 28 *Sale or contribution of assets between an investor and its associate or joint venture*
The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:
• a full gain or loss is recognized when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
• a partial gain or loss is recognized when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

2. Summary of significant accounting policies (continued)

c) Standards issued but not yet effective and not early adopted (continued)

| Standard/Interpretation | Nature of impending change in accounting policy | Possible impact on separate financial statements |
|---|---|---|
| IFRS 17 Insurance Contracts (Effective for annual periods beginning on or after 1 January 2023; to be applied prospectively. Early application is permitted.) This pronouncement is not yet endorsed by the EU. | IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to when initially applied, will not have a material impact on the presentation of the separate financial statements of the entity because the Company does not operate in the insurance industry. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values, instead of historical cost. | |
| Amendments to IFRS 3 Business Combinations (Effective for annual periods beginning on or after 1 January 2020) These amendments are not yet endorsed by the EU. | The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. | The Company does not expect the Amendments to have a material impact on its separate financial statements when initially applied. |
| Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments and IFRS 7 Financial Instruments Disclosures (Effective for annual periods beginning on or after 1 January 2020) | The amendments are mandatory and apply to all hedging relationships directly affected by uncertainties related to the IBOR reform. The amendments provide temporary relief from applying specific hedge accounting requirements to the hedging relationships with the effect that IBOR reform should not generally cause hedge accounting to terminate. The key reliefs provided by the amendments relate to: • 'Highly probable' requirement. • Risk components • Prospective assessments • Retrospective effectiveness test (for IAS 39) • Recycling of the cash flow hedging reserve. The amendments also require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. | The Company does not expect the amendments to have a material impact on its separate financial statements when initially applied. |

d) Significant accounting policies

Internally generated intangible assets

Internally generated intangible assets primarily include the development costs of Company's information management systems. These costs are capitalized only if they satisfy the criteria as defined by IAS38 and described below.

Internal and external development costs on management information systems arising from the development phase are capitalized. Significant maintenance and improvement costs are added to the initial cost of assets if they specifically meet the capitalization criteria.

Internally generated intangible assets cost value is increased by the Company's information technology costs - salaries and social security contribution capitalization. Asset useful life is reassessed by management at each year end and amortization periods adapted accordingly.

Internally generated intangible assets are amortized over their useful lives 5 years. The main internally generated intangible assets are software programs ERP; Rubie, Mintos BI.

According to IAS38, development costs shall be capitalized if, and only if, the Company can meet all of the following criteria:

- the project is clearly identified and the related costs are itemized and reliably monitored;
- the technical and industrial feasibility of completing the project is demonstrated;
- there is a clear intention to complete the project and to use or sell the intangible asset arising from it;
- the Company has the ability to use or sell the intangible asset arising from the project;
- the Company can demonstrate how the intangible asset will generate probable future economic benefits;
- the Company has adequate technical, financial and other resources to complete the project and to use or sell the intangible asset.

When these conditions are not satisfied, development costs generated by the Company are recognized as an expense when incurred.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is completed and the asset is available for use.

Additional information is included in Notes 3 and 17.

2. Summary of significant accounting policies (continued)

d) Significant accounting policies (continued)

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 | - 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

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 Company enters into the contract giving rise to the financial instruments.

Initial recognition and measurement

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.

Business model assessment

The Company determines its business model at the level that best reflects how it manages Company's 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.

2. Summary of significant accounting policies (continued)

d) Significant accounting policies (continued)

Financial assets (continued)

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.

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 in 2019 or 2018.

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, the Company evaluates whether the cash flows of the modified asset are substantially different and 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 to customers and financial lease receivables the Company specifically considers the purpose of the modification for increase in lease term. It is evaluated whether modification was entered into for commercial reasons upon customer initiative or for credit restructuring reasons. Management has performed analysis of the changes being made due to business reasons and evaluated that changes due to business reasons result in substantial modification of terms and conditions. This is in line with the objective of this modification that is to originate a new asset with substantially different terms. If the DPD (days past due) of the counterparty immediately prior the modification is less than 5 DPDs and the characteristics of financial asset are substantially modified (e.g. on average financial asset term increases for several years substantially changing the term structure of the asset), the respective modification is considered to occur for a commercial reasons and results in derecognition of the initial lease/loan receivable.

Other modifications to the agreement terms are treated as modifications that do not result in derecognition (see section on Modifications below).

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 reasons (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 Company 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.

2. Summary of significant accounting policies (continued)

d) Significant accounting policies (continued)

Derecognition of financial assets and finance lease receivables (continued)

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.

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 4, 5) in the statements of comprehensive income, to the extent that an impairment loss has not already been recorded (Note 7). Further information on modified financial assets and finance lease receivables is disclosed in the following section on impairment.

Treatment of non-substantial modifications

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

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'.

If there has been no significant increase in credit risk since origination, the ECL allowance is based on the 12 months' expected credit loss (12mECL) as outlined in below. If there has been significant increase in credit risk since initial recognition, 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). 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 (Note 3).

Impairment of finance lease receivables and loans and advances to customers

Defining credit rating

Company's core business assets – finance 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 analyses 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 and presence of underlying collateral.

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 Company 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;
- 5) unsecured (general definition: days past due over 90 or collateral is not available, i.e. lost or sold).

2. Summary of significant accounting policies (continued)

d) Significant accounting policies (continued)

Overview of the expected credit loss principles (continued)

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.

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.

Key elements of the model are, as follows:

- PD The Probability of Default is an estimate of the likelihood of default over a 12 month or lifetime horizon (time horizon depends on ECL type - i.e. 12mECL or LTECL). The Default distribution vector (DDV) is the estimate of the time to default, more specifically it provides distribution of PD over the course of a 12 month or lifetime 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 cash flows due at the moment of default and those that the lender would expect to receive, including from the realization of any collateral and deducting expenses related to cash collections or collateral realization processes. It is usually expressed as a percentage of the defaulted balance.
- Lifetime period is estimated as average remaining contractual term of respective portfolio.

The Company employs multiplication model across all Stages for the ECL calculation:

$$ECL = EAD * PD * LGD * [DDV]$$

Given that DDV is a multidimensional vector (12 or 13 dimensions) it is aggregated into one value before multiplication - [DDV]. DDV aggregated value is obtained as follows:

- each value of the DDV is multiplied with discount factor;
- discount factor is calculated in a regular way (e.g. NPV formula), where discount is calculated on EIR of the portfolio and number of periods corresponds to the dimension of the respective DDV value;
- [DDV] is the sum of all respective multiplications of DDV values with respective discount factors.

Depending on Stage following specifics are applied to the general ECL model:

- Stage 1: The 12mECL is calculated. The Company calculates the 12mECL allowance using 12 months PDs and DDV over the 12-month horizon. These 12-month default probabilities are applied to an estimated EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR using DDV, in this way incorporating time to default into model.
- 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 like those explained above, but PDs and DDV are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR using DDV.
- Stage 3: For loans considered credit-impaired, the Company recognizes the LTECLs 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 the Company has no reasonable expectations of recovering a financial asset.

2. Summary of significant accounting policies (continued)

d) Significant accounting policies (continued)

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 Standard & Poor'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, i.e., 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.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or payables as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Company's financial liabilities include trade and other payables, loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

- Financial liabilities at fair value through the statement of comprehensive income

Financial liabilities at fair value through the statement of comprehensive income include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through the statement of comprehensive income.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of comprehensive income.

Financial liabilities designated upon initial recognition at fair value through the statement of comprehensive income are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Company has not designated any financial liability as at fair value through statement of comprehensive income.

- Loans and borrowings

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of comprehensive income.

This category generally applies to interest-bearing loans and borrowings.

2. Summary of significant accounting policies (continued)

d) Significant accounting policies (continued)

Impairment of financial assets other than loans and advances (continued)

Financial liabilities (continued)

Modification of financial liabilities

For financial liabilities, the Company considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. If the modification is substantial, then a derecognition gain or loss is recorded on derecognition. If the modification does not result in cash flows that are substantially different 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.

Treatment of non-substantial modifications

If expectations of fixed rate financial liabilities' cash flows are revised, 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 liability 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 liability is adjusted if the Company revises its estimates of payments or receipts. If modification of a financial 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 (Note 4; 5).

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 or liability 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.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of comprehensive income.

The Company considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent.

Loans and borrowings

All loans, borrowings and funding attracted through peer-to-peer platforms are initially recognized at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, loans, borrowings and funding attracted through peer-to-peer platforms are subsequently measured at amortized cost using the effective interest rate method.

Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognized in the statement of comprehensive income as interest income/ expense when the liabilities are derecognized through the amortization process.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Provisions for financial guarantees and Other reserves

Where a contract meets the definition of a financial guarantee contract the Company, as an issuer, applies specific accounting and measurement requirements of IFRS 9. These IFRS 9 measurement requirements are applied for all guarantee contracts, including guarantees issued between entities under common control, as well as guarantees issued by a subsidiary on behalf of a parent. If a Company gives a guarantee on behalf of an entity under common control, a respective provision is recognised in the separate financial statements. Where transaction is driven by the Company's shareholders in their capacity as owners, Company treats such transactions as an increase in Provisions for financial guarantees and an equal and opposite decrease in equity (as a distribution of equity). Distributions of equity under financial guarantees are recognized in Other reserves.

Financial guarantees are initially recognised in at fair value. Subsequently, unless the financial guarantee contract is designated at inception as at fair value through comprehensive income, Company's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of comprehensive income, and ECL provision determined in accordance with IFRS 9 (as set out in Note 3). Amortisation is recognised in the statement of comprehensive income under Other operating income on a straight line basis over the term of the guarantee.

Financial guarantees are derecognized if the terms of the guarantee are substantially changed. Changes in guarantee limit are treated as a derecognition. In such cases the original guarantee is derecognized and a new guarantee is recognized at fair value. Change in the fair value is recognized as a decrease or increase in Provisions for financial guarantees and an equal and opposite decrease or increase to Other reserves. Other reserves are transferred to retained earnings upon extinguishment of liabilities under the financial guarantee.

2. Summary of significant accounting policies (continued)

d) Significant accounting policies (continued)

Finance lease – Company as lessor

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 be classified as finance leases, the Company applies the same indicators of a lease classification, as for finance leases.

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" (Note 10).

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.

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the lease term.

Prepayments received from customers are presented in separate financial statements separately as part of liabilities due to uncertainty of how they will be utilized.

Prepayments received from customers are recorded in statement of financial position upon receipt and settled against respective client's finance lease receivables.

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 6) in accordance with IFRS 15.

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.

The Company applies derecognition and impairment requirements in IFRS 9 to the net investment in the lease.

Operating lease – Company as lessor

Leases in which the Company does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of comprehensive income. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2. Summary of significant accounting policies (continued)

d) Significant accounting policies (continued)

Operating lease – Company as lessee

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.

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.

Company involvement with the underlying asset before the commencement date

If a 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.

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 3 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.

2. Summary of significant accounting policies (continued)

d) Significant accounting policies (continued)

Inventories

Inventories are valued at the lower of cost and net realisable value.

Net realisable value represents the estimated selling price for inventories in the ordinary course of business less estimated costs necessary to make the sale.

Inventories contain only vehicles which are purchased for the sole purpose of selling them to customers.

Value of inventories is measured on a stock item by item basis. Write-off of each individual stock item is performed on sale of respective individual stock item.

Cash and cash equivalents

Cash comprises cash at bank and on hand with an original maturity of less than three months.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

- Financial liabilities at fair value through the statement of comprehensive income

Financial liabilities at fair value through the statement of comprehensive income include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through the statement of comprehensive income.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the statement of comprehensive income.

Financial liabilities designated upon initial recognition at fair value through the statement of comprehensive income are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Company has not designated any financial liability as at fair value through statement of comprehensive income.

- Loans and borrowings

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Assets held for sale

The Company classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use.

Assets held for sale includes vehicles which are obtained by enforcement of repossession in case clients default on existing lease agreements. Such repossessed collaterals are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell (FVLCTS). Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Assets classified as held for sale are presented separately as current items in the statement of financial position.

Vacation pay reserve

Vacation pay reserve is calculated based on Latvian legislation requirements.

Investments in subsidiaries

These are the Company's separate financial statements. Consolidated financial statements are prepared as a separate set. Investments in subsidiaries (i.e. where the Company holds more than 50% interest of the share capital or otherwise controls the company) and associates (i.e. an entity over which the Company has significant influence without control over the financial and operating policy decisions of the investee) are recognised at cost in the separate financial statements according to IAS 27. Following initial recognition, investments in subsidiaries and associates are carried at cost less any accumulated impairment losses. The carrying values of investments are reviewed for impairment at each statement of financial position date. The Company calculates the amount of impairment as the difference between the recoverable amount of the subsidiary or associate and its carrying value, then, recognises the loss in the statement of comprehensive income.

2. Summary of significant accounting policies (continued)

d) Significant accounting policies (continued)

Other investments

Equity investments at FVOCI

Upon initial recognition, the Company can choose to irrevocably classify its equity investments that are not held for trading as equity instruments designated at fair value through OCI (FVOCI). The Company evaluates and applies this classification for each instrument separately. These instruments are initially measured at fair value plus transaction costs, directly attributable to their acquisition. After the initial recognition, these instruments are measured at fair value. Dividends are recorded in comprehensive statement of income. Other net gains and losses are accumulated in OCI and are never applied or reclassified to profit or loss statement.

Equity investments in non-listed companies are classified and measured as Equity instruments designated at fair value through OCI as described above. The Company elected to classify irrevocably its non-listed equity investments under this category as it intends to hold these investments for the foreseeable future.

Transactions with peer-to-peer platforms

Background

Certain subsidiaries, as loan originators, have signed cooperation agreements with operator of a peer-to-peer (P2P) investment internet-based platform. Cooperation agreements and the related assignment agreements are in force until parties agree to terminate. Purpose of the cooperation agreement for the Company is to attract funding through the P2P platform.

P2P platform makes possible for individual and corporate investors to obtain a fully proportionate interest cash flows and the principal cash flows from debt instruments (finance lease receivables or loans and advances to customers) issued by the Company in exchange for an upfront payment. These rights are established through assignment agreements between investors and P2P platform, who is acting as an agent on behalf of the Company. Assignment agreements are of two types:

- 1) Agreements with recourse rights which require the Company to guarantee full repayment of invested funds by the investor in case of default of the Company's customer (buy back guarantee);
- 2) Agreements without recourse rights which do not require the Company to guarantee repayment of invested funds by the investor in case of default of the customer (no buy back guarantee).

The Company retains the legal title to its debt instruments (including payment collection), but transfers a part of equitable title and interest to investors through P2P platform.

Receivables and payables from/to P2P platform

P2P platform is acting as an agent in transferring cash flows between the Company and investors. Receivable for attracted funding from investors through P2P platform corresponds to the due payments from P2P platform.

Receivable is arising from assignments made through P2P platform where the related investment is not yet transferred to the Company (Note 26).

P2P platform commissions and service fees incurred by the Company are fees charged by P2P platform for servicing the funding attracted through peer-to-peer platform and are disclosed in Note 9.

Funding attracted through peer-to-peer platform

Liabilities arising from assignments with or without recourse rights are initially recognized at cost, being the fair value of the consideration received from investors net of issue costs associated with the loan.

Liabilities to investors are recognized in statement of financial position caption Funding attracted through peer-to-peer platform (Note 31) and are treated as loans received.

After initial recognition Funding attracted through peer-to-peer platform is subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in the statement of comprehensive income as interest income/ expense when the liabilities are derecognized.

The Company has to repay to the investor the proportionate share of the attracted funding for each debt instrument according to the conditions of the respective individual agreement with Company's client, which can be up to 72 months.

Assignments with recourse rights (buy back guarantee)

Assignments with recourse rights provide for direct recourse to the Company, thus do not meet the requirements to be classified as pass-through arrangement in accordance with IFRS 9.

Therefore, the Company's respective debt instruments do not qualify to be considered for partial derecognition and interest expense paid to investors is shown in gross amount under Interest revenue calculated using effective interest method (Note 4).

Assignments without recourse rights (no buy back guarantee)

Assignments without recourse rights are arrangements that transfer to investors substantially all the risks and rewards of ownership equal to a fully proportionate share of the cash flows to be received from the Company's debt instruments. Therefore such arrangements are classified as pass-through arrangements in accordance with IFRS 9.

As such, a fully proportionate share, equal to investor's claim in relation to the related debt instrument, is derecognized.

The derecognized part is accounted as an off-balance sheet item (Note 31) and interest income is recognized to the extent of being the residual interest. Residual income is the difference between the interest earned on the respective debt instrument by the Company and the respective share of interest earned by the investor.

Reserves

Foreign currency translation reserve

The Company has currency revaluation reserve amount 1 EUR, due to switch from Latvian Lats to EUR currency.

Other reserves

Other reserves is used to record the effect of transactions with owners in their capacity as owners and includes financial guarantees given by the Company.

2. Summary of significant accounting policies (continued)

d) Significant accounting policies (continued)

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of provisions to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

Accruals and deferrals

Accruals and deferrals are recorded to recognise revenues and costs as they are earned or incurred.

Contingencies

Contingent liabilities are not recognized in the separate financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the separate financial statements but disclosed when an inflow of economic benefits is probable.

Share-based payments

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognized in employee benefits expense, together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of comprehensive income for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognized is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through statement of comprehensive income.

Income and expenses

Expenses are recognized as incurred. Expenses are recognized net of the amount of value added tax. In certain situations value added tax incurred on a services received or calculated in accordance with legislation requirements is not recoverable in full from the taxation authority. In such cases value added tax is recognized as part of the related expense item as applicable. The same principles is applied if value added tax is not recoverable on acquisition an asset.

Revenue is recognized in accordance with the related standard's requirements and to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

The effective interest rate method

According to IFRS 9 for all financial instruments measured at amortized cost interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

When a financial asset becomes credit-impaired and is regarded as 'Stage 3', the Company calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Company reverts to calculating interest income on a gross basis.

Income from cession of bad debt

Gain or loss from sale of doubtful financial lease receivables and loans and advances to customers is presented on net basis under "Net loss from de-recognition of financial assets measured at amortized cost". Gains or losses arising on cession deals are recognized in the statement of comprehensive income at transaction date as the difference between the proceeds received and the carrying amount of derecognized lease receivables assigned through cession agreements.

Expenses related to attracting funding

Expenses related to attracting funding consists of administration fee for using peer-to-peer platform. Expenses are charged monthly and recognised in the Company's statement of comprehensive income when they occur.

Revenue and expenses from contracts with customers

Revenue from contracts with customers in scope for IFRS 15 encompasses sold goods or services provided as output of the Company's ordinary activities. The Company uses the following criteria to identify contracts with customers:

- the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
- can be identified each party's rights regarding the goods or services to be transferred;
- can be identified the payment terms for the goods or services to be transferred;
- the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract);
- it is probable that the Company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

2. Summary of significant accounting policies (continued)

d) Significant accounting policies (continued)

Revenue and expenses from contracts with customers (continued)

Performance obligations are promises in the contracts (either explicitly stated or implied) with the Company's customers to transfer to the customers distinct goods or services. Promised goods or services represent separate performance obligations if the goods or services are distinct. A promised good or service is considered distinct if the customer can benefit from the good or service on its own or with other readily available resources (i.e. distinct individually) and the good or service is separately identifiable from other promises in the contract (distinct within the context of the contract). Both of these criteria must be met to conclude that the good or service is distinct.

The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of equipment, the Company considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any).

The Company recognizes revenue when (or as) it satisfies a performance obligation to transfer a promised good or service to a customer. Revenue is recognized when customer obtains control of the respective good or service. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

Revenue from satisfied performance obligations is recognized over time, if one of the following criteria is met:

- customer simultaneously receives and consumes the benefits;
- customer controls the asset as it is created or enhanced;
- the Company's performance creates an asset and has a right to payment for performance completed.

Payment terms for goods or services transferred to customers according to contract terms are within 45 to 60 days from the provision of services or sale of goods. The transaction price is generally determined by the contractually agreed conditions. Invoices typically are issued after the goods have been sold or service provided.

In the year 2018 and 2019 the Company did not enter into contracts with variable considerations, rights of return, financing components, non cash considerations or consideration payable to customer.

The Company has generally concluded that it is the principal in its revenue arrangements, except for the debt collection activities and agency services below, because it typically controls the goods or services before transferring them to the customer.

When another party is involved in providing goods or services to Company's customers, the Company considers that it is a principal, if it obtains control of any one of the following:

- a) a good or another asset from the other party that it then transfers to the customer.
- b) a right to a service to be performed by the other party, which gives the entity the ability to direct that party to provide the service to the customer on the entity's behalf.
- c) a good or service from the other party that it then combines with other goods or services in providing the specified good or service to the customer.

Management judgment on transactions where the Company acts as agent is disclosed in Note 3.

Fee and commission income related to finance lease activities (Note 6)

Income from debt collection activities and earned penalties (point in time)

Income from debt collection activities and penalties is recognized in the Company's statement of comprehensive income at the moment when the likelihood of consideration being settled for such services is high, therefore income is recognized only when actual payment for provided services is actually received.

Income from penalties arise in case customers breach the contractual terms of financial lease receivables and loans and advances to customers agreements, such as exceeding the payment date. In those situations the Company is entitled to charge the customers in accordance with the agreement terms. The Company recognizes income from penalties at the moment of cash receipt as likelihood and timing of settlement is uncertain. In case customers does not settle the penalty amount, the Company is entitled to enforce repossession of the collateral.

Debt collection activities revenue typically arises when customers delay the payments due. As a lessor, the Company has protective rights in the lease agreements with customers that require the customers to safeguard and maintain the condition of the vehicle, as it serves as a collateral to the lease. Company's revenue encompasses a compensation of internal and external costs incurred by the Company in relation to debt management, legal fees as well as repossession of vehicle in case of lease agreement termination and are recharged to the customers in accordance with the agreement terms. The performance obligation is satisfied when respective service has been provided.

Debt collection activities revenue typically arises when customers delay the payments due. As a lessor, the Company has protective rights in the lease agreements with customers that require the customers to safeguard and maintain the condition of the vehicle, as it serves as a collateral to the lease. Company's revenue encompasses a compensation of internal and external costs incurred by the Company in relation to debt management, legal fees as well as repossession of vehicle in case of lease agreement termination and are recharged to the customers in accordance with the agreement terms. Debt collection income is recognized on net (agent) basis as it these amounts are recharged to the customers in accordance with agreement terms and the Company does not control these services before they are transferred to a customer. The performance obligation is satisfied when respective service has been provided.

Revenue from car sales (Note 11)

Sale of motor vehicles (point in time)

The Company earns part of its revenues from the sales of used vehicles that were either bought from third parties or repossessed from its non-performing leasing customers. The Company is calculating minimum sales price based on initial cost or value after repossession plus additional cost incurred (e.g. repairs) and a margin added in order to make profit from the deal. The performance obligation is satisfied when car is registered on client's name.

Other operating income (Note 14)

Revenue from agency services (point in time)

Agency services consist of different services, such as settlement of costs on behalf of 3rd parties and recharging those costs to customers. The Company is acting as an agent in provision of these services to the customers. Such services are provided with the intention to realize the economies of scale of purchasing power for a service that is both used by the Company and the 3rd party. The performance obligation is satisfied when respective service has been provided.

2. Summary of significant accounting policies (continued)

e) Significant accounting policies (continued)

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration.

At 31 December the Company did not have any contract assets in its statement of financial position.

Trade receivables

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

These receivables are disclosed in balance sheet caption 'Trade receivables' (Note 25).

Trade receivables are non-interest bearing and are generally on terms of 30 to 120 days.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Company performs under the contract.

At 31 December the Company had no contract liabilities in its statement of financial position.

Income taxes

Legal entities have not been required to pay income tax on earned profits starting from 1 January 2018 in accordance with amendments made to the Corporate Income Tax Law of the Republic of Latvia. Corporate income tax is paid on distributed profits and deemed profit distributions. Consequently, current tax assets and liabilities are measured at the tax rate applicable to undistributed profits. Starting from 1 January 2018, both distributed profits and deemed profit distributions have been subject to the tax rate of 20 per cent of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognized in the consolidated statement of profit or loss as expense in the reporting period when respective dividends are declared, while, as regards other deemed profit items, at the time when expense is incurred in the reporting year.

No provision is recognized for income tax payable on a dividend distribution before dividends are declared but information on the contingent liability is disclosed in the notes to the consolidated separate financial statements.

As income tax has to be paid on distributed profits and deemed profit distributions, no temporary differences are arising between the tax bases of assets and liabilities and their carrying values for accounting purposes. Therefore deferred tax assets and liabilities are not recognized.

Related parties

The parties are considered related when one party has a possibility to control the other one or has significant influence over the other party in making financial and operating decisions. Related parties of the Company are shareholders who could control or who have significant influence over the Company in accepting operating business decisions, key management personnel of the Company including members of Supervisory body – Audit committee and close family members of any above-mentioned persons, as well as entities over which those persons have a control or significant influence, including subsidiaries and associates.

Dividend distribution

Dividend distribution to the shareholders of the Company is recognised as a liability and distribution of retained earnings in the separate financial statements in the period in which the dividends are approved by the shareholders. (Note 29)

Subsequent events

Post-period-end events that provide additional information about the Company's position at the statement of financial position date (adjusting events) are reflected in the separate financial statements. Post-period-end events that are not adjusting events are disclosed in the notes when material.

3. Significant accounting judgments, estimates and assumptions

The preparation of the separate financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses, and disclosure of contingencies. The significant areas of estimation used in the preparation of the separate financial statements relate to capitalization of development costs, depreciation and amortization, fair value measurement of repossessed collaterals, and impairment evaluation. Although these estimates are based on the management's best knowledge of current events and actions, the actual results may ultimately differ from those estimates.

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the separate financial statements.

Covid-19 impact assessment

In the light of events related to Covid-19, the Company's management has assessed the impact of the coronavirus outbreak on the Company's ability to continue as a going concern. The Company has performed the stress test – a quantitative analysis with a set of harsh scenarios of Company's operations assuming partly disrupted core processes or 'full lockdown' for several months due to Covid-19. The key assumptions of the stress test include limited or entirely paused issuance of new loans and car sales and severe cost reduction related with the issuance of new loans and administration costs.

3. Significant accounting judgments, estimates and assumptions (continued)

Covid-19 impact assessment (continued)

For further information and resulting management judgements please refer to Note 43.

Please also note that while non-adjusting in nature as at 31 December 2019, the economic impact of Covid-19 outbreak may have a significant negative impact on the estimates of recoverable values of financial and non-financial assets further discussed in this note. The magnitude of such impact cannot be presently estimated in a reliable manner.

Principal versus agent assessment

In provision of agency services (Note 14) the Company has assessed that it does not obtain control of these services before they are transferred to customers, as these services or goods are acquired on their behalf. Therefore, it is considered agent in these transactions.

The Company is also acting as an agent in purchasing specific goods and services from 3rd parties on behalf of customers - mainly legal, recruitment and similar services, as it does not obtain control of the service, does not incur inventory risk nor has discretion in determining the sales price.

Impairment of financial assets

The measurement of impairment losses under IFRS 9 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include Probability of Default and Loss Given Default, judgment is applied also when determining significant increase in credit risk.

Probability of default (PD)

The Probability of Default is an estimate of the likelihood of default over a given time horizon.

In order to estimate PDs the Company utilises Markov chains methodology. This methodology employs statistical analysis of historical transitions between delinquency buckets to estimate the probability that loan will eventually end up in default state which is set as absorbing state. Calculations are applied at product level (leasing vs loans products). Exposures are grouped into buckets of days past due (DPD) loans/leases.

The Company used one-month transition window and its respective n^{th} power to estimate PD over n-months horizon in 2018. The approach was changed in 2019. Transition window was changed to 12 months (continuous horizon), and estimation over lifetime was defined as n^{th} power of 12 months matrix. The approach significantly improved consistency of PD calculations, i.e. accounted for 12 months seasonality effect and smoothened volatile impact of the regular changes in the business processes. Change of the transition window implied also introduction of DDV in the model, which was not used previously.

As a result of the change one-off decrease in impairment amounted to 105 thousand EUR.

Calculations are applied at product level (leasing vs loans products). Exposures are grouped into buckets of days past due (DPD) loans/leases.

Forward-looking

In order to ensure that forward looking information is properly incorporated into impairment model, Company explored a broad range of forward looking information as economic inputs, such as:

- GDP growth;
- Unemployment rates;
- Consumer price indices;
- House price indices;
- Household debt;
- Inflation rates, etc.

GDP growth, Unemployment rate and Inflation in combination with additional internal variables were found to have the strongest statistical link to default levels. Obtained model was applied to PD to reflect the possible impact of the future changes in the macro economical environment. According to the model result future changes in the macro environment can positively affect default rates, ~5.6%.

Forward-looking information (applicable from 1 January 2019)

In 2019 the Company used accumulated experience and improved the model by including corrective variables into the model (variables, which eliminate impact, which is not explained by macro variables, but rather by changes in business processes), as well as by reconsidering modelling approach itself.

Input variables:

- Inflation;
- GDP growth;
- Unemployment;
- Flag of significant underwriting changes in the observation window (corrective);
- Flag of significant regulatory environment changes in the observation window (corrective);
- PD in previous periods (corrective).

Model coefficients:

- Intercept;
- Inflation;
- GDP growth;
- Unemployment;
- Flag of significant underwriting changes in the observation window (corrective);
- PD in previous periods (corrective).

Modelled variable:

- Current bucket PD.

3. Significant accounting judgments, estimates and assumptions (continued)

Impairment of financial assets (continued)

Modelling technique

Hierarchical Bayes model was used.

Weighted approach

Applying forecasted values of macro variables as per macro outlook the Company obtained expected PD scenario. Using optimistic and pessimistic values of macro variables (assumptions on pessimistic/optimistic values depend on the sign with which variables enter the model, e.g. GDP change has positive sign in the model for matured countries, thus bigger value increases PD, this implies that pessimistic assumption on the value is bigger than optimistic (however bigger GDP growth indicates better macro situation)) in the macro model, 2 additional outputs: optimistic and pessimistic were produced. Weighted scenario was obtained using vector of weights = (20% - optimistic, 20% - pessimistic, 60% - expected).

Weighted scenario is used to reflect forward looking information (macro information) impact on impairment.
The table below illustrates weighted scenario macro PDs as at 31 December 2019.

| Country | PD | PD macro model |
|---------|-------|----------------|
| LV | 7.99% | 7.60% |

The table below shows optimistic and pessimistic macro variables assumptions for matured countries as at 31 December 2019.

| Country | Macro development | GDP growth, YoY | Unemployment rate | Inflation, YoY |
|---------|-------------------|-----------------|-------------------|----------------|
| LV | optimistic | 1% | 8% | 4% |
| LV | pessimistic | 5% | 3.5% | 1% |

As any statistical model Hierarchical Bayes model builds relationship between input variables and modelled variable based on statistical correlation. This means that not always optimism or pessimism of input variables (namely macro variables) will concur with modelled variable pessimistic or optimistic value. E.g. increase in GDP growth is obviously sign of positive macro development, however higher GDP growth increases the PD rate in matured countries models, as both variables are negatively correlated in the modelling sample.

Overall the model demonstrated good stability. The model is also sensitive to severe changes in input variables and will react adequately on catastrophic scenarios. Impact of forward-looking information incorporation led to the decrease of impairment in amount of EUR 31 thousand at the end of 31.12.2019.

The Default distribution vector (DDV)

The default distribution vector provides distribution of PD over the course of a 12 month or lifetime horizon. It is calculated from historical data samples of all defaulted loans.

Loss Given Default

Company closely follows recoveries from defaulted finance lease receivables and revises LGD rates every month for portfolios based on actual recoveries received.

- The sample used for LGD calculation consists of all the finance lease receivables that have been defaulted historically. If termination of the contract happens before default state is reached, then loan is considered defaulted (early default) and it is considered in LGD sample. Subsequent recoveries on such loans are monitored on a monthly basis. Recoveries from regular collections process, car sales, cessions and legal process are followed.

- Renewed leases (restored payments capacity after termination) also affect the LGD rate by incorporating recovered cash after renewal of the agreement and comparing it to the exposure at default of the agreements subsequently renewed, implying the cure rate. Cure rate from renewals is calculated over a three-year period. For the 31 December 2019 impairment purposes recovery rate for renewed cases of 96.25% was applied

- Above described LGD rate is used for all portfolio groups except for unsecured portfolio. For unsecured portfolio LGD is estimated using triangular recovery matrix on all unsecured cases. Received recovery is discounted with effective interest rate depending on the number of months between the date account got unsecured status and the date when recovery was received. Given that majority of the car sales happen before unsecured status LGD for unsecured portfolio is significantly higher than for other buckets, as of 31 December 2019 80% was applied.

In case payments for renewed loans are made according to schedules at least for 36 months after the renewal date, the Company assumes that 100% recovery will be achieved.

Exposure at default (EAD) modelling

Exposure at default is modelled by adjusting the unpaid balance of lease and loan receivables as at the reporting date by expected future repayments during the next 12 months. As of 31 December 2019 it is applied for Stage 1 exposures only. This is performed based on contractual repayment schedules, adjusted for historical prepayment rate observed. Historical prepayment patterns are assumed to be a reliable estimate for future prepayment activity.

Impairment for loans to and receivables from related parties

Receivables from related parties inherently are subject to the Company's credit risk. Therefore, a benchmarked PD and LGD rate - based on Standard & Poor's corporate statistics studies has been applied in determining the ECLs.

Significant increase in credit risk for related party transactions is determined based on information available in the Company about the financial performance of the related parties. Financial position of related parties as at impairment assessment date is compared to that when the exposure was originated. Further 30 days past due back stop indicator is utilized to transfer exposures to Stage 2.

3. Significant accounting judgments, estimates and assumptions (continued)

Impairment of financial assets (continued)

Impairment assessment of investments in subsidiaries

Key assumptions used in value in use calculations:

The calculation of value in use for Renti JSC among other is sensitive to the assumptions of discount rate. The pre-tax discount rate applied to the cash flow projections was 12.36%.

Discount rates represent the current market assessment of the risks specific to Renti JSC, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculations are based on the specific circumstances of the Company and its operating segments and are derived from the weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the investors. A segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on the publicly available market data. The cost of debt is based on the interest-bearing borrowings the company is obliged to service.

In addition to the discount rate, the calculation of value in use for Renti JSC is most sensitive to the growth rate estimates. The recoverable amount was calculated using cash flow projections for three-years period assuming more than 20% annual growth in revenues, with terminal growth of 1% after that period.

Capitalization of development costs

For capitalization of expenses in process of developing Company's enterprise resource planning (ERP) system and other IT systems management uses certain assumptions. Capitalization of salary expenses of IT personnel is based on employee time sheets and personnel involved in development dedicate up to 80% of their time on developing new functionality. Therefore up to 80% of salary expenses of involved personnel are capitalized under Other intangible assets while remaining 20% are recognized as salary expenses in Statement of comprehensive income.

Expenses from amortization of capitalized development costs are included in statement of comprehensive income caption "Administrative expense".

Determination of the FVLCTS of assets held for sale

Determination of the FVLCTS for repossessed vehicles is performed on an individual basis at the moment of the repossession.

Management estimate is based on available data from historical sales transactions for such assets in previous reporting periods. Company also considers factors such as historical actual average loss (if any) from the previous years. Management considers whether also events after the reporting year indicate a decline in the sales prices of such assets.

Separation of embedded derivatives from the host contract

The Company has certain call and put option agreements that can accelerate repayment of the issued bonds. These options arise out of bond (host contract) prospectus and individual agreements with certain bondholders and meet the definition of an embedded derivative in accordance with IFRS 9.

Call option included in the bond prospectus gives the Company the right, but not the obligation to carry out early redemption, either in full or partially, of the issued bonds with a 1% premium. Call and put options included in the agreements signed with certain bondholders give the Company and bondholder the respective right of buying back or selling the bonds at exercise price equal to the amortized cost of the respective bond notes.

The Company's management has evaluated that the embedded derivatives are not contractually separable, not contractually transferrable independently and has the same counterparty. Each option's exercise price is approximately equal on each exercise date to the amortized cost of bond, therefore these embedded derivatives are not separated from the host contract.

Fair value of employee share options

The Company's employees have entered a share option agreements with Mogo Finance S.A. or its shareholders and subsidiaries. Under the agreements respective employees obtain rights to acquire Mogo Finance S.A. or certain subsidiaries' shares under several graded vesting scenarios.

The Company's management has estimated that fair value of the options would not be materially different than zero. If it were, the Company would have to record expenses related to this transaction and recognize a respective component of equity.

In estimating fair value for the share option the most appropriate valuation model would depend on the terms and conditions of the grant.

Management has considered that the financial position of the Subsidiaries that have issued share options (in particular for General Employee Share Option Plan described in Note 13 the particular features mentioned in the option agreements, such as buy-back options, non-competition clauses embedded in the agreements, restrictions of sales of shares, as well as delivered policy of the Mogo Finance S.A. effectively indicate that fair value of the employee options would not be material.

Financial guarantees

Fair value (FV) determination and initial recognition

The Company has elected to determine the FV of guarantee using the credit spread method. FV of guarantee is calculated as multiple of EAD, PD and LGD. EAD is the contractual commitment or guaranteed amount per guarantee agreement (Note 39).

Guarantee issued to secure the bond issuance of the ultimate parent of the Company, Mogo Finance S.A. The Company would incur loss in case Mogo Finance S.A. defaults on obligations towards its bondholders. Accordingly, PD of Mogo Finance S.A. is determined using benchmarking of a comparable similar credit risk entity with reference to the market transactions and default rates obtained from credit rating agencies.

ECL determination for subsequent measurement

For the purposes of FV estimation the Company is using benchmarking of a similar credit risk entity such as the ultimate parent of the Company. Since initial recognition the Company has assessed that that ultimate parent's credit risk has not increased and guarantee liability is therefore considered as Stage 1 exposure.

FV of other investments

As disclosed in Note 37, the Company holds equity investments, which are designated by the Company as FVOCI. Company's management has assessed that the FV of these investments is insignificant.

Estimate is based on the budgets of the investees, which are in start-up stage. It is further considered that the very small shareholding held further implies that the FV is insignificant.

3. Significant accounting judgments, estimates and assumptions (continued)

Lease term determination under IFRS 16 (Company as a lessee)

IFRS 16 requires that in determining the lease term and assessing the length of the non-cancellable period of a lease, an entity shall apply the definition of a contract in accordance with IFRS 15 and determine the period for which the contract is enforceable. In assessment of lease term determination the Company considers the enforceable rights and obligations of both parties. If both the lessee and the lessor can terminate the contract without more than an insignificant penalty at any time at or after the end of the non-cancellable term, then there are no enforceable rights and obligations beyond the non-cancellable term. For lease agreements without a fixed term and agreements that are "rolled over" on monthly basis until either party gives notice the Company considers that it does have enforceable rights and obligations under such agreements, therefore a reasonable estimate of the lease term assessment is made.

In considering the Company's options to extend or not to terminate the lease the Company evaluates what are the rights of the Company and the lessor under such options. The Company considers whether options included in the lease agreements (1) give an unilateral right for one party (i.e. Company) and (2) creates an obligation to comply for the other party (i.e. lessor). If neither party in the contract has an obligation then Company assessment is that no options are to be considered in the context of lease term assessment. In such situations the lease term would not exceed the non-cancellable contractual term. In determining the lease term the Company has assessed the penalties under the lease agreements as well as economic incentives to prolong the lease agreements such as the underlying asset being strategic.

Lease liability incremental borrowing rate determination under IFRS 16 (Company as a lessee)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company has used market rates as its incremental borrowing rate. The Company considers market rates used as an appropriate measure for incremental borrowing rates as they correctly reflect the ability to finance a specific asset purchase.

It is further considered that the way how local lenders would approach asset financing at each subsidiary level. As per Company's assessment each of the Company's subsidiaries would qualify as a good quality borrower in the local markets in the context of overall the Company results.

Lease classification for rental fleet (Company as a lessor)

The Company has entered into vehicle leases on its rental fleet (Note 18, 19). These lease agreements have a non-cancellable term of 6 months and an optional term of up to 72 months. After the non-cancellable term of 6 months the lessee can return the leased asset to the Company and losses associated with the cancellation are borne by the Company. The leased asset is not transferred to lessee at the end of lease term. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the leased assets and the present value of the minimum lease payments not amounting to substantially all of the fair value of the leased asset, that it retains all the significant risks and rewards of ownership of these assets and accounts for the contracts as operating leases.

Inventories net realizable value and allowances

Management evaluates the net realizable value of inventories (Note 22) based upon the expected sales prices and selling costs per various product groups and assesses the physical condition of inventories during the annual stock count. If the net realizable value of inventories is lower than the cost of inventories, an allowance is recorded. At the end of each reporting year the inventories are reviewed for any indications of damages or slow-moving inventories. In cases when damaged or slow-moving inventories are identified allowances are recognized. During the reporting year stock-counts of the inventories are performed with the purpose to identify damaged inventories. Allowances for an impairment loss are recognized for those inventories.

The net realizable value of the car is represented by the latest expected sales price, which is reviewed on a regular basis (at least once a month) and depend on demand for this product and the number of days it has been for sale. In case of damaged inventories, expected sales price is updated and represent the net realizable value in "as-is" state.

4. Interest revenue

| | 2019 EUR | 2018 EUR |
|--|-------------------|-------------------|
| Interest income from finance lease receivables | 11 572 177 | 14 945 056 |
| Interest income from intercompany loans | 2 446 545 | 2 447 623 |
| Interest income from loans and advances to customers | 1 409 351 | 1 402 608 |
| TOTAL: | 15 428 073 | 18 795 287 |

Interest income contains earned interest on portfolio derecognized from Company's assets (see Note 20).

Gross and net earned interest are as follows:

| | 2019 EUR | 2018 EUR |
|--|-------------------|-------------------|
| Gross interest income | 15 439 230 | 18 844 805 |
| Interest derecognized due to derecognition of portfolio from Company's assets* | (11 157) | (49 518) |
| TOTAL NET INTEREST: | 15 428 073 | 18 795 287 |

*Interest derecognized due to derecognition of portfolio from Company's assets relates to P2P interest for loans without buy back guarantee.

Part of interest revenue is derecognized as the Company has assigned to P2P investors part of its finance lease receivables and loans and advances to customer. In case the assignment is done without a buy back obligation the related interest revenue earned on such agreements is derecognized from Company's interest revenue in amount equal to investor's claim towards the interest earned.

5. Interest expense

| | 2019 EUR | 2018 EUR |
|---|------------------|------------------|
| <i>Interest expenses on financial liabilities measured at amortised cost:</i> | | |
| Interest expense on issued bonds | 3 149 904 | 3 289 842 |
| Interest expense on issued bonds related parties | 366 508 | 219 043 |
| Interest expenses for loans from P2P platform investors | 1 546 922 | 2 617 130 |
| Interest expenses for loans from related parties | - | 26 884 |
| Interest expenses for loans from not related parties | 35 971 | - |
| Interest expenses for lease liabilities | 12 142 | 2 863 |
| Interest expenses for loans from banks* | 96 990 | - |
| TOTAL: | 5 208 437 | 6 155 762 |

* On 8 July 2019 mogo JSC has concluded a Credit line agreement with JSC Citadele banka

During the financial year the Company has successfully continued funding through peer-to-peer platforms in the same level as prior.

Interest expense from peer-to-peer platform has decrease from prior year due to Company's new product offering which led to lower interest rates.

See Note 31 for additional information.

6. Fee and commission income related to finance lease activities

| | 2019 EUR | 2018 EUR |
|--|----------------|------------------|
| <i>Revenue from contracts with customers recognised point in time:</i> | | |
| Gross income from debt collection activities | 620 320 | 772 296 |
| Gross expenses from debt collection activities | (249 815) | (293 974) |
| Net debt collection income: | 370 505 | 478 322 |
| Income from commissions | 18 082 | - |
| Income from penalties received | 480 502 | 561 377 |
| TOTAL: | 869 089 | 1 039 699 |

7. Impairment expense

| | 2019 EUR | 2018 EUR |
|---|------------------|------------------|
| Change in impairment | (973 078) | 3 056 192 |
| Elimination of impairment allowance due to cession of receivables | 3 532 123 | 2 194 931 |
| TOTAL: | 2 559 045 | 5 251 123 |

For more information see Notes 20 and 21.

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

| | 2019 EUR | 2018 EUR |
|---|------------------|------------------|
| <i>Financial lease</i> | | |
| Income arising from cession of financial lease receivables to non related | 58 154 | 645 917 |
| Loss arising from cession of financial lease receivables to non related parties | (294 534) | (709 114) |
| TOTAL: | (236 380) | (63 197) |
| <i>Loans and advances to customers</i> | | |
| Income arising from cession of loans and advances to customers receivables to non related parties | 8 605 | 426 659 |
| Loss arising from cession of loans and advances to customers receivables to non related parties | (148 045) | (417 381) |
| TOTAL: | (139 440) | 9 278 |
| Net Loss arising from cession of financial lease and loans and | TOTAL: | (375 820) |
| | | (53 919) |

During 2019 and 2018 the Company performed cessions to non related parties

In 2018 the Company started to perform also cessions for loans and advances to customers receivables.

When financial lease receivables portfolio is sold in cession the Company reverses the respective part of impairment allowance of the ceded assets (Note 20).

When loans and advances to customers receivables portfolio is sold in cession the Company reverses the respective part of impairment allowance of the ceded assets (Note

The Company then separately recognizes net losses arising from derecognition of the ceded portfolio, which is reduced by the respective cession income.

9. Expenses related to peer-to-peer platforms services

| | 2019 EUR | 2018 EUR |
|------------------------------------|----------------|----------------|
| Service fee for using P2P platform | 149 872 | 299 104 |
| TOTAL: | 149 872 | 299 104 |

10. Revenue from leases

| | 2019 EUR | 2018 EUR |
|--|-------------|---------------|
| Profit earned from selling inventories through finance lease | - | 64 365 |
| TOTAL: | - | 64 365 |

11. Revenue from car sales

| <i>Revenue from contracts with customers recognised point in time:</i> | 2019 EUR | 2018 EUR |
|--|-------------|----------------|
| Income from sale of vehicles | - | 470 695 |
| TOTAL: | - | 470 695 |

| <i>Expenses from contracts with customers recognised point in time:</i> | 2019 EUR | 2018 EUR |
|--|-------------|------------------|
| Expenses from sale of vehicles | - | (470 695) |
| TOTAL: | - | (470 695) |
| Total Net revenue from contracts with customers recognised point in time: | - | - |

In 2018 Mogo JSC demerged part of its operations, car lot operations and sales of used cars in to a separate company, Longo Latvija AS. As a result of this demerger total net revenue from car sales was zero. In 2019 all income from car sales was settled against outstanding receivable from customers and there were no revenue and expenses recognized.

12. Selling expense

| | 2019 EUR | 2018 EUR |
|---------------------------------|----------------|----------------|
| TV and radio marketing expenses | 104 084 | 290 821 |
| Marketing services | 165 991 | 204 002 |
| Marketing fees | 15 668 | 74 194 |
| Online advertising | 47 975 | 62 854 |
| Total marketing expenses | 333 718 | 631 871 |
| Other selling expenses | 9 751 | 20 079 |
| TOTAL: | 343 469 | 651 950 |

13. Administrative expense

| | 2019 EUR | 2018 EUR |
|---|------------------|------------------|
| Employees' salaries | 1 292 096 | 2 292 592 |
| Amortization and depreciation | 191 403 | 526 745 |
| Management fee** | 430 968 | 372 266 |
| Professional services* | 89 760 | 180 266 |
| Credit database expenses | 134 237 | 192 640 |
| Donations | 94 000 | 182 000 |
| IT services | 44 013 | 181 967 |
| Office and branches' maintenance expenses | 83 063 | 164 237 |
| Recruitment fees*** | 6 686 | 150 486 |
| Business trips | 2 152 | 49 435 |
| Communication expenses | 36 366 | 40 905 |
| Other personnel expenses | 20 750 | 37 882 |
| Low value equipment expenses | 7 150 | 25 355 |
| Bank commissions | 23 436 | 16 505 |
| Transportation expenses | 4 967 | 6 909 |
| Other administration expenses | 199 699 | 205 108 |
| TOTAL: | 2 660 746 | 4 625 298 |

*Audit fees for Company 2019 separate financial statements audit amounts to - 20 000 EUR (2018: EUR 79 200)

**Starting from 1st July 2018 The Company also received management services from related companies JSC Mogo Baltics and Caucasus JSC and JSC Mogo Central Asia JSC. The nature of provided services relates to IT systems support and development, financial, marketing, research and business development strategic services

***Significant amount of recruitment expenses in 2018 was due to active recruitment in first half of FY 2018 as the Company was rapidly expanding and establishing new entities therefore additional employees were recruited. Part of the employees from the Company moved to HUBs. Recruitment fees were also recharged to related companies.

13. Administrative expense (continued)

Key management personnel compensation

| | 2019 | 2018 |
|---------------------------------------|----------------|----------------|
| | EUR | EUR |
| Board and Council Members | | |
| Remuneration | 111 670 | 124 221 |
| Social security contribution expenses | 26 901 | 29 925 |
| TOTAL: | 138 571 | 154 146 |

There are no outstanding balances as of 31 December 2019 with members of the Company's Management Board members (none at 31 December 2018). There are no emoluments granted to the members of the Board and commitments in respect of retirement pensions for former members of the Board.

Share-based payments

The Company's employees have entered a share option agreements with Mogo Finance S.A. or Parent Company's shareholders. Under the agreements respective employees obtain rights to acquire Mogo Finance's or certain subsidiaries' shares under several graded vesting scenarios. Vesting of the share options is dependent on the profitability of the Mogo Finance S.A or the respective subsidiary. Employees must remain in service for a period of one year from the date of grant.

The exercise price of the share options under typical circumstances is equal to the nominal price of the underlying shares. The contractual maximum term of the share options till 2025 and there are no cash settlement alternatives for the employees. The Company does not have a past practice of cash settlement for these awards.

The following table illustrates the number and weighted average exercise prices of share options.

| | 2019 | | 2018 | |
|--------------------------------------|--------|---------------------------|----------|---------------------------|
| | Number | Weighted average exercise | Number | Weighted average exercise |
| Outstanding at 1 January | - | - | 2 | 0.01 |
| Granted during the year | - | - | - | - |
| Ended employment during the year | - | - | (2) | 0.01 |
| Outstanding at 31 December | - | - | - | - |
| Exercisable at the end of the period | - | - | - | - |

The two employees with granted share options have terminated employment relationship with the Company as part of reorganisation.

14. Other operating income

| | 2019 | 2018 |
|--|------------------|----------------|
| | EUR | EUR |
| Commission for client acquisition* | 1 797 549 | 176 826 |
| Income recognised from amortization of financial guarantee (Note 39) | 308 871 | 118 327 |
| Reversal of accrued penalty | 169 939 | - |
| Income in subsidiaries sale** | 41 000 | - |
| Other operating income | 99 432 | 88 307 |
| TOTAL: | 2 416 791 | 383 460 |

* Significant increase in commission for client acquisition was related to expansion of business of Renti JSC. The Company is facilitating acquisition of clients for long term rent. The increase in revenue in 2019 compared to 2018 is also related to the service provision period - in 2018 the services were provided in the period November-December, but in 2019 the services were provided throughout the year.

**On July 11, 2019, JSC mogo sold its shares in JSC Loango to JSC Mogo Baltics and Caucasus. See more information in Note 36.

Revenue from contracts with customers recognized point in time where the Company acted as an agent *

| | 2019 | 2018 |
|---|-----------|-----------|
| | EUR | EUR |
| Gross income from transactions with related parties | 822 749 | 870 400 |
| Gross expenses transactions with related parties | (822 749) | (870 400) |
| Gross income from transactions with non related parties | 33 117 | 131 627 |
| Gross expenses from transactions with non related parties | (33 117) | (131 627) |
| TOTAL: | - | - |

* - Revenue associated with these transactions is presented as revenue in net amount in these separate financial statements.

15. Other operating expense

| | 2019 | 2018 |
|--------------------------|----------------|----------------|
| | EUR | EUR |
| Penalty fees paid | - | 166 178 |
| Other operating expenses | 147 090 | 14 894 |
| TOTAL: | 147 090 | 181 072 |

16. Corporate income tax payable

| | 31.12.2019. | 31.12.2018. |
|---|---------------|-----------------|
| | EUR | EUR |
| Corporate income tax (liabilities)/ receivables | 13 260 | (91 489) |
| TOTAL: | 13 260 | (91 489) |

Income tax is payable only if the dividend is paid out of the profit for the year, it is not applicable to the retained earnings of previous years.
The company has no corporate income tax payable in the reporting period. Additionally read the Note 26

17. Intangible assets

| | Licenses | Other intangible assets* | Total intangible assets |
|-------------------------------|---------------|--------------------------|-------------------------|
| Cost | 51 938 | 1 861 714 | 1 913 652 |
| Accumulated amortization | (40 071) | (700 590) | (740 661) |
| As at 1 January 2018 | 11 867 | 1 161 124 | 1 172 991 |
| 2018 | | | |
| Revaluation surplus | | | |
| Additions | 51 011 | 376 329 | 427 340 |
| Disposals (cost) | (52 359) | (2 135 291) | (2 187 650) |
| Amortization charge | (18 292) | (267 052) | (285 344) |
| Disposals (amortization) | 4 937 | 891 864 | 896 801 |
| Reclassification | 5 932 | (5 932) | - |
| Cost | 50 590 | 102 752 | 153 342 |
| Accumulated amortization | (47 494) | (81 710) | (129 204) |
| As at 31 December 2018 | 3 096 | 21 042 | 24 138 |
| 2019 | | | |
| Additions | - | 20 623 | 20 623 |
| Amortization charge | (3 096) | (13 766) | (16 862) |
| Cost | 50 590 | 123 375 | 173 965 |
| Accumulated amortization | (50 590) | (95 476) | (146 066) |
| As at 31 December 2019 | - | 27 899 | 27 899 |

* Other intangible assets mainly consisted of Company's developed IT systems. IT systems were disposed during 2018 year by selling to HUB companies (related parties). Amortization costs are included in Note 13 - 'Administrative expense'.

18. Property and equipment, Advance payments for tangible assets and Right-of-use assets

| | Property and equipment | Advance payments for tangible assets | Leasehold improvements | Right-of-use premises | Right-of-use motor vehicles | Total right-of-use assets | TOTAL |
|-------------------------------|------------------------|--------------------------------------|------------------------|-----------------------|-----------------------------|---------------------------|----------------|
| Cost | 415 219 | 19 517 | 13 558 | - | - | - | 448 294 |
| Accumulated depreciation | (302 582) | - | (956) | - | - | - | (303 538) |
| As at 1 January 2018 | 112 637 | 19 517 | 12 602 | - | - | - | 144 756 |
| 2018 | | | | | | | |
| IFRS 16 adoption impact | - | - | - | 135 259 | 13 664 | 148 923 | 148 923 |
| Additions | 160 352 | 84 299 | 10 693 | 94 373 | - | 94 373 | 349 717 |
| Transferred | 33 734 | (33 734) | - | - | - | - | - |
| Disposals (cost) | (283 084) | - | (13 558) | - | - | - | (296 642) |
| Depreciation charge | (70 028) | - | (1 766) | (164 639) | (4 968) | (169 607) | (241 401) |
| Disposals (depreciation) | 118 638 | - | 2 405 | - | - | - | 121 043 |
| Cost | 326 221 | 70 082 | 10 693 | 229 632 | 13 664 | 243 296 | 650 292 |
| Accumulated depreciation | (253 972) | - | (317) | (164 639) | (4 968) | (169 607) | (423 896) |
| As at 31 December 2018 | 72 249 | 70 082 | 10 376 | 64 993 | 8 696 | 73 689 | 226 396 |

18. Property and equipment, Advance payments for tangible assets and Right-of-use assets (continued)

| | Property and equipment | Advance payments for tangible assets | Leasehold improvements | Right-of-use premises | Right-of-use motor vehicles | Total right-of-use assets | TOTAL |
|-------------------------------|------------------------|--------------------------------------|------------------------|-----------------------|-----------------------------|---------------------------|------------------|
| 2019 | | | | | | | |
| Additions | 99 329 | 104 808 | 40 701 | 932 073 | - | 932 073 | 1 176 911 |
| Transferred | - | (137 307) | (33 008) | 170 315 | - | 170 315 | - |
| Disposals (cost) | (18 430) | - | - | (107 814) | - | (107 814) | (126 244) |
| Depreciation charge | (39 164) | - | (11 464) | (118 945) | (4 968) | (123 913) | (174 541) |
| Disposals (depreciation) | 7 196 | - | - | 205 890 | - | 205 890 | 213 086 |
| Cost | 407 120 | 37 583 | 18 386 | 1 224 206 | 13 664 | 1 237 870 | 1 700 959 |
| Accumulated depreciation | (285 940) | - | (11 781) | (77 694) | (9 936) | (87 630) | (385 351) |
| As at 31 December 2019 | 121 180 | 37 583 | 6 605 | 1 146 512 | 3 728 | 1 150 240 | 1 315 608 |

The cost relating to variable lease payments that do not depend on an index or a rate amounted to EUR nil for the year ended December 31, 2019 (0 EUR 31.12.2018). There were no leases with residual value guarantees or leases not yet commenced to which the Company is committed.

19. Right-of-use assets and lease liabilities

The Company early adopted IFRS 16 with an initial application date of 1 January 2018. The entity applied the modified retrospective transition method. The amounts disclosed in the extracts are expressed in euros. The entity provided quantitative disclosures in its separate financial statements in a tabular format based on the nature of the disclosure item (i.e., asset, equity and liability and income statement).

Right-of-use assets and other liabilities for rights to use assets are shown as follows in the statement of financial position and statement of comprehensive income:

| | 31.12.2019. EUR | 31.12.2018. EUR |
|---|---------------------|---------------------|
| ASSETS | | |
| Non-current assets | | |
| Right-of-use assets - premises | 1 146 513 | 64 993 |
| Right-of-use assets - motor vehicles | 3 727 | 8 696 |
| TOTAL: | 1 150 240 | 73 689 |
| EQUITY AND LIABILITIES | | |
| Non-current liabilities | | |
| Lease liabilities for right-of-use assets | 998 804 | 10 952 |
| Current liabilities | | |
| Lease liabilities for right-of-use assets | 124 438 | 63 421 |
| TOTAL: | 1 123 242 | 74 373 |
| Leases in the statement of comprehensive income | 2019 EUR | 2018 EUR |
| <i>Administrative expense</i> | | |
| Expenses relating to leases of low-value assets and short-term leases | (69 196) | (65 965) |
| Depreciation of right-of-use premises | (118 944) | (164 639) |
| Depreciation of right-of-use vehicles | (4 969) | (4 969) |
| <i>Net finance costs</i> | | |
| Interest expense for right-of-use premises | (11 969) | (2 561) |
| Interest expense for right-of-use vehicles | (173) | (302) |
| Total cash outflow from leases | (205 251) | (238 436) |

The weighted average borrowing rate for lease liabilities in 2019 was 2.66%. The weighted average borrowing rate of the initially recognized lease liability, initially recognized from 1 January 2018, was 2.64% per annum.

The cost relating to variable lease payments that do not depend on an index or a rate amounted to EUR nil for the year ended December 31, 2018. There were no leases with residual value guarantees or leases not yet commenced to which the Company is committed.

20. Finance Lease Receivables

The table below shows the credit quality and the maximum exposure to credit risk based on the Company's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

| Finance lease receivables | 2019 | | | | 2018 |
|---------------------------|-------------------|------------------|------------------|-------------------|-------------------|
| | Stage 1 | Stage 2 | Stage 3 | TOTAL | TOTAL |
| Not past due | 14 333 020 | 428 259 | 357 894 | 15 119 173 | 27 909 917 |
| 1-30 | 3 380 130 | 995 677 | 160 669 | 4 536 476 | 6 870 383 |
| 31-60 | - | 537 899 | 196 082 | 733 981 | 466 637 |
| >60 | - | - | 2 421 034 | 2 421 034 | 4 148 523 |
| TOTAL, GROSS: | 17 713 150 | 1 961 835 | 3 135 679 | 22 810 664 | 39 395 460 |

The analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to finance lease receivables are, as follows:

| Finance lease receivables | 2019 | | | |
|------------------------------------|-------------------|------------------|------------------|-------------------|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Balance at 1 January 2019 | 31 992 008 | 2 964 221 | 4 439 231 | 39 395 460 |
| Transfer to Stage 1 | 927 340 | (759 342) | (167 998) | - |
| Transfer to Stage 2 | (1 603 034) | 1 698 897 | (95 863) | - |
| Transfer to Stage 3 | (1 497 810) | (586 525) | 2 084 335 | - |
| New financial assets acquired | 467 878 | 28 541 | 15 633 | 512 052 |
| Receivables settled | (7 413 239) | (268 332) | (76 958) | (7 758 529) |
| Receivables written off | (1 694 670) | (838 740) | (2 431 238) | (4 964 648) |
| Receivables partially settled | (3 465 323) | (276 885) | (631 463) | (4 373 671) |
| Balance at 31 December 2019 | 17 713 150 | 1 961 835 | 3 135 679 | 22 810 664 |

| Finance lease receivables | 2018 | | | |
|------------------------------------|-------------------|------------------|------------------|-------------------|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Balance at 1 January 2018 | 29 474 900 | 3 192 231 | 674 009 | 33 341 140 |
| Transfer to Stage 1 | 957 477 | (868 991) | (88 486) | - |
| Transfer to Stage 2 | (1 534 963) | 1 577 245 | (42 282) | - |
| Transfer to Stage 3 | (2 057 163) | (1 115 544) | 3 172 707 | - |
| New financial assets acquired | 13 834 746 | 977 378 | 1 484 768 | 16 296 892 |
| Receivables settled | (4 847 052) | (188 074) | (16 722) | (5 051 848) |
| Receivables written off | (853 935) | (569 647) | (269 455) | (1 693 037) |
| Receivables partially settled | (2 982 002) | (40 377) | (475 308) | (3 497 687) |
| Balance at 31 December 2018 | 31 992 008 | 2 964 221 | 4 439 231 | 39 395 460 |

Transfers between stages capture the annual movement in financial assets that are in a different stage at the closing balance sheet from that at the opening balance sheet. The transfers between each stage are based on opening balances.

Receivables partially settled on stage transfer is reported within the stage that the assets are transferred into. This represents the period to date finance lease receivables movement transferred into a particular stage.

| Impairment allowance | 2019 | | | |
|---|----------------|----------------|------------------|------------------|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Balance at 1 January 2019 | 1 314 301 | 340 689 | 2 903 044 | 4 558 034 |
| Transfer to Stage 1 | 135 013 | (80 797) | (54 216) | - |
| Transfer to Stage 2 | (83 797) | 114 734 | (30 937) | - |
| Transfer to Stage 3 | (71 984) | (68 648) | 140 632 | - |
| Impairment for new financial assets acquired | 10 436 | 5 954 | 9 178 | 25 568 |
| Reversed impairment for settled receivables | (283 609) | (28 747) | (44 685) | (357 041) |
| Reversed impairment for written off receivables | (87 444) | (102 635) | (1 626 407) | (1 816 486) |
| Net remeasurement of loss allowance | (440 430) | 215 072 | 980 242 | 754 884 |
| Balance at 31 December 2019 | 492 486 | 395 622 | 2 276 851 | 3 164 959 |

20. Finance Lease Receivables (continued)

| Impairment allowance | 2018 | | | |
|---|------------------|----------------|------------------|------------------|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Balance at 1 January 2018 | 942 056 | 346 112 | 183 697 | 1 471 865 |
| Transfer to Stage 1 | 107 205 | (83 089) | (24 116) | - |
| Transfer to Stage 2 | (66 787) | 78 311 | (11 524) | - |
| Transfer to Stage 3 | (84 040) | (127 682) | 211 722 | - |
| Impairment for new financial assets acquired | 550 275 | 113 871 | 954 570 | 1 618 716 |
| Reversed impairment for settled receivables | (143 455) | (17 013) | (4 557) | (165 025) |
| Reversed impairment for written off receivables | (37 612) | (72 158) | (74 375) | (184 145) |
| Net remeasurement of loss allowance | 46 659 | 102 337 | 1 667 627 | 1 816 623 |
| Balance at 31 December 2018 | 1 314 301 | 340 689 | 2 903 044 | 4 558 034 |

Transfers between stages capture the annual loss allowance movement of financial assets that are in a different stage at the closing balance sheet from that at the opening balance sheet. The transfers between each stage are based on ECL at the start of the period.

The net remeasurement of loss allowance on stage transfer is reported within the stage that the assets are transferred into. This represents the period to date loss allowance movement transferred into a particular stage.

The analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to finance lease receivables are, as follows:

| Finance lease receivables | Minimum lease payments | | Minimum lease payments | |
|---------------------------|------------------------|-------------|------------------------|-------------|
| | EUR | % | EUR | % |
| | 31.12.2019 | 31.12.2019 | 31.12.2018. | 31.12.2018. |
| Stage 1 | 17 713 150 | 77% | 31 992 008 | 81% |
| Stage 2 | 1 961 835 | 9% | 2 964 221 | 8% |
| Stage 3 | 3 135 679 | 14% | 4 439 231 | 11% |
| TOTAL, | 22 810 664 | 100% | 39 395 460 | 100% |

| Finance lease receivables | Minimum lease payments | Change during the period | | Minimum lease payments |
|---------------------------|------------------------|--------------------------|-------------|------------------------|
| | EUR | EUR | % | EUR |
| | 31.12.2019 | | | 31.12.2018. |
| Stage 1 | 17 713 150 | (14 278 858) | -45% | 31 992 008 |
| Stage 2 | 1 961 835 | (1 002 386) | -34% | 2 964 221 |
| Stage 3 | 3 135 679 | (1 303 552) | -29% | 4 439 231 |
| TOTAL, GROSS: | 22 810 664 | (16 584 796) | -42% | 39 395 460 |

| Impairment allowance on finance lease receivables | Impairment allowance | | Impairment allowance | |
|---|----------------------|-------------|----------------------|-------------|
| | EUR | % | EUR | % |
| | 31.12.2019 | 31.12.2019 | 31.12.2018. | 31.12.2018. |
| Stage 1 | 492 486 | 15% | 1 314 301 | 29% |
| Stage 2 | 395 622 | 13% | 340 689 | 7% |
| Stage 3 | 2 276 851 | 72% | 2 903 044 | 64% |
| TOTAL, ALLOWANCE: | 3 164 959 | 100% | 4 558 034 | 100% |

| Impairment allowance on finance lease receivables | Impairment allowance | Change during the period | | Impairment allowance |
|---|----------------------|--------------------------|-------------|----------------------|
| | EUR | EUR | % | EUR |
| | 31.12.2019 | | | 31.12.2018. |
| Stage 1 | 492 486 | (821 815) | -63% | 1 314 301 |
| Stage 2 | 395 622 | 54 933 | 16% | 340 689 |
| Stage 3 | 2 276 851 | (626 193) | -22% | 2 903 044 |
| TOTAL, ALLOWANCE: | 3 164 959 | (1 393 075) | -31% | 4 558 034 |

| Finance lease receivables | Minimum lease payments | Present value of minimum lease payments | Minimum lease payments | Present value of minimum lease payments |
|----------------------------|------------------------|---|------------------------|---|
| | EUR | EUR | EUR | EUR |
| | 31.12.2019. | 31.12.2019. | 31.12.2018. | 31.12.2018. |
| Up to one year | 14 624 739 | 8 278 204 | 23 955 702 | 12 086 053 |
| Years 2 through 5 combined | 23 065 484 | 14 177 664 | 46 053 358 | 24 585 661 |
| More than 5 years | 418 653 | 354 796 | 3 194 150 | 2 723 746 |
| TOTAL, | 38 108 876 | 22 810 664 | 73 203 210 | 39 395 460 |

20. Finance Lease Receivables (continued)

| | 31.12.2019. | 31.12.2018. |
|--------------------------------|-------------------|-------------------|
| | EUR | EUR |
| Unearned finance income | | |
| Up to one year | 6 346 535 | 11 869 649 |
| Years 2 through 5 combined | 8 887 820 | 21 467 697 |
| More than 5 years | 63 858 | 470 404 |
| TOTAL, GROSS: | 15 298 213 | 33 807 750 |

| | 31.12.2019. | 31.12.2018. |
|---------------------------------------|-------------------|-------------------|
| | EUR | EUR |
| Finance lease receivables | | |
| Non-current finance lease receivables | 14 505 816 | 27 197 773 |
| Current finance lease receivables | 7 718 606 | 11 384 396 |
| Accrued interest | 586 242 | 813 291 |
| TOTAL, GROSS: | 22 810 664 | 39 395 460 |

| | 31.12.2019. | 31.12.2018. |
|---|------------------|------------------|
| | EUR | EUR |
| Movement in impairment allowance | | |
| Impairment allowance as at 01 January | 4 558 034 | 1 471 865 |
| Change in impairment allowance | 1 609 149 | 4 536 372 |
| Elimination of impairment allowance due to cession of receivables | (3 002 224) | (1 450 203) |
| Impairment allowance as at 31 December | 3 164 959 | 4 558 034 |

| | Non-Current 31.12.2019. EUR | Current 31.12.2019. EUR | Non-Current 31.12.2018. EUR | Current 31.12.2018. EUR |
|---|-----------------------------------|-------------------------------|-----------------------------------|-------------------------------|
| Finance lease receivables, net | | | | |
| Finance lease receivables | 14 505 816 | 7 718 606 | 27 197 773 | 11 384 396 |
| Accrued interest | - | 586 242 | - | 813 291 |
| Fees paid and received upon loan disbursement | (378 175) | (201 230) | (951 576) | (398 308) |
| Impairment allowance* | (765 928) | (2 399 031) | (1 320 864) | (3 237 170) |
| | 13 361 713 | 5 704 587 | 24 925 333 | 8 562 209 |

As of 31 December 2019 part of the gross finance lease portfolio in the amount of EUR 2 424 278 was pledged in favour of the Citadele bank as collateral for the credit line (31 December 2018: nil)

Transactions with peer-to-peer platforms

From year 2016 Company started placing lease agreement receivables on peer-to-peer lending platform based in Latvia. In 2018 Company started also placing loans and advances to customers receivables on peer-to-peer lending platform. Agreements are offered with buy back guarantee, which means that all risks of such agreements remain with the Company and in case of client default the Company has the liability to repay the whole remaining principal and accrued interest to P2P investor. By using the same platform Company also offer loans without buy back guarantee, which means that all risks related to client default were transferred to P2P investor. Portions of agreements purchased by investors therefore are considered as financial assets eligible for derecognition from Company statement of financial position.

Total gross portfolio and associated liabilities for the portfolio derecognised from Company financial assets were:

| | 31.12.2019. | 31.12.2018. |
|--|-------------|-------------|
| | EUR | EUR |
| Non-current | | |
| Finance lease receivable | 29 656 | 111 600 |
| Associated liabilities | (29 656) | (111 600) |
| NET POSITION: | - | - |
| Current | | |
| Finance lease receivable | 16 978 | 50 050 |
| Associated liabilities | (16 978) | (50 050) |
| NET POSITION: | - | - |
| Total gross portfolio derecognized from Company's financial assets | 46 634 | 161 650 |
| Total associated liabilities | (46 634) | (161 650) |
| TOTAL NET POSITION: | - | - |

As at end of reporting year 0.2% of all gross portfolio was purchased by P2P investors without buyback guarantee (0.4% in 2018).

21. Loans and advances to customers

The table below shows the credit quality and the maximum exposure to credit risk based on the Company's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

| <i>Loans and advances to customers</i> | 2019 | | | | 2018 |
|--|------------------|----------------|----------------|------------------|------------------|
| | Stage 1 | Stage 2 | Stage 3 | TOTAL | TOTAL |
| Not past due | 2 612 206 | 14 334 | 222 | 2 626 762 | 2 222 484 |
| 1-30 | 300 262 | 45 775 | 163 | 346 200 | 483 494 |
| 31-75 | - | 67 659 | 643 | 68 302 | 111 234 |
| >75 | - | - | 129 486 | 129 486 | 69 536 |
| TOTAL, GROSS: | 2 912 468 | 127 768 | 130 514 | 3 170 750 | 2 886 748 |

The analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to loans and advances to customers are, as follows:

| <i>Loans and advances to customers</i> | 2019 | | | |
|--|------------------|----------------|----------------|------------------|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Balance at 1 January 2019 | 2 658 635 | 158 577 | 69 536 | 2 886 748 |
| Transfer to Stage 1 | 14 112 | (14 112) | - | - |
| Transfer to Stage 2 | (61 361) | 61 361 | - | - |
| Transfer to Stage 3 | (37 972) | (2 810) | 40 782 | - |
| New financial assets acquired | 2 138 697 | 75 752 | 50 041 | 2 264 490 |
| Receivables settled | (822 034) | (24 186) | (3 919) | (850 139) |
| Receivables written off | (743 765) | (114 945) | (55 755) | (914 465) |
| Receivables partially settled | (233 844) | (11 869) | 29 829 | (215 884) |
| Balance at 31 December 2019 | 2 912 468 | 127 768 | 130 514 | 3 170 750 |

| <i>Loans and advances to customers</i> | 2018 | | | |
|--|------------------|----------------|---------------|------------------|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Balance at 1 January 2018 | 1 190 673 | 22 595 | 2 477 | 1 215 745 |
| Transfer to Stage 1 | 801 | (801) | - | - |
| Transfer to Stage 2 | (35 633) | 37 012 | (1 379) | - |
| Transfer to Stage 3 | (24 185) | (467) | 24 652 | - |
| New financial assets acquired | 2 210 703 | 124 231 | 44 762 | 2 379 696 |
| Receivables settled | (289 090) | (1 372) | (165) | (290 627) |
| Receivables written off | (254 528) | (19 955) | (932) | (275 415) |
| Receivables partially settled | (140 106) | (2 666) | 121 | (142 651) |
| Balance at 31 December 2018 | 2 658 635 | 158 577 | 69 536 | 2 886 748 |

Transfers between stages capture the annual movement in financial assets that are in a different stage at the closing balance sheet from that at the opening balance sheet. The transfers between each stage are based on opening balances. Receivables partially settled on stage transfer is reported within the stage that the assets are transferred into. This represents the period to date finance lease receivables movement transferred into a particular stage.

| <i>Impairment allowance</i> | 2019 | | | |
|---|----------------|---------------|---------------|----------------|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Balance at 1 January 2019 | 111 016 | 32 534 | 41 065 | 184 615 |
| Transfer to Stage 1 | 1 366 | (1 366) | - | - |
| Transfer to Stage 2 | (3 005) | 3 005 | - | - |
| Transfer to Stage 3 | (1 807) | (485) | 2 292 | - |
| Impairment for new financial assets acquired | 147 038 | 38 904 | 32 444 | 218 386 |
| Reversed impairment for settled receivables | (30 167) | (2 941) | (2 528) | (35 636) |
| Reversed impairment for written off receivables | (40 477) | (27 415) | (31 627) | (99 519) |
| Net remeasurement of loss allowance | 29 078 | 21 960 | 42 973 | 94 011 |
| Balance at 31 December 2019 | 213 042 | 64 196 | 84 619 | 361 857 |

| <i>Impairment allowance</i> | 2018 | | | |
|---|----------------|---------------|---------------|----------------|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Balance at 1 January 2018 | 74 119 | 7 290 | 1 363 | 82 772 |
| Transfer to Stage 1 | 267 | (267) | - | - |
| Transfer to Stage 2 | (2 308) | 3 066 | (758) | - |
| Transfer to Stage 3 | (1 517) | (155) | 1 672 | - |
| Impairment for new financial assets acquired | 88 724 | 26 441 | 25 997 | 141 162 |
| Reversed impairment for settled receivables | (17 110) | (376) | (91) | (17 577) |
| Reversed impairment for written off receivables | (17 955) | (6 491) | (513) | (24 959) |
| Net remeasurement of loss allowance | (13 204) | 3 026 | 13 395 | 3 217 |
| Balance at 31 December 2018 | 111 016 | 32 534 | 41 065 | 184 615 |

Transfers between stages capture the annual loss allowance movement of financial assets that are in a different stage at the closing balance sheet from that at the opening balance sheet. The transfers between each stage are based on ECL at the start of the period. The net remeasurement of loss allowance on stage transfer is reported within the stage that the assets are transferred into. This represents the period to date loss allowance movement transferred into a particular stage.

21. Loans and advances to customers (continued)

The analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to loans and advances to customers are, as follows:

| <i>Loans and advances to customers</i> | EUR 31.12.2019. | % 31.12.2019. | EUR 31.12.2018. | % 31.12.2018. |
|--|--------------------|------------------|--------------------|------------------|
| Stage 1 | 2 912 468 | 92% | 2 658 635 | 92% |
| Stage 2 | 127 768 | 4% | 158 577 | 5% |
| Stage 3 | 130 514 | 4% | 69 536 | 3% |
| TOTAL, | 3 170 750 | 100% | 2 886 748 | 100% |

| <i>Loans and advances to customers</i> | EUR 31.12.2019. | Change during the period EUR | % | EUR 31.12.2018. |
|--|--------------------|---------------------------------|------------|--------------------|
| Stage 1 | 2 912 468 | 253 833 | 10% | 2 658 635 |
| Stage 2 | 127 768 | (30 809) | -19% | 158 577 |
| Stage 3 | 130 514 | 60 978 | 88% | 69 536 |
| TOTAL, GROSS: | 3 170 750 | 284 002 | 10% | 2 886 748 |

| <i>Impairment allowance on loans and advances to</i> | EUR 31.12.2019. | Impairment allowance % | EUR 31.12.2018. | Impairment allowance % |
|--|--------------------|---------------------------|--------------------|---------------------------|
| Stage 1 | 213 042 | 59% | 111 016 | 60% |
| Stage 2 | 64 196 | 18% | 32 534 | 18% |
| Stage 3 | 84 619 | 23% | 41 065 | 22% |
| TOTAL, ALLOWANCE: | 361 857 | 100% | 184 615 | 100% |

| <i>Impairment allowance on loans and advances to</i> | EUR 31.12.2019. | Impairment allowance % | Change during the period EUR | Impairment allowance % | EUR 31.12.2018. |
|--|--------------------|---------------------------|---------------------------------|---------------------------|--------------------|
| Stage 1 | 213 042 | 59% | 102 026 | 92% | 111 016 |
| Stage 2 | 64 196 | 18% | 31 662 | 97% | 32 534 |
| Stage 3 | 84 619 | 23% | 43 554 | 106% | 41 065 |
| TOTAL, ALLOWANCE: | 361 857 | 100% | 177 242 | 96% | 184 615 |

| <i>Loans and advances to customers</i> | Minimum loan payments EUR 31.12.2019. | Present value of minimum loan payments EUR 31.12.2019. | Minimum loan payments EUR 31.12.2018. | Present value of minimum loan payments EUR 31.12.2018. |
|--|--|---|--|---|
| Up to one year | 2 118 063 | 1 052 613 | 2 910 779 | 1 453 057 |
| Years 2 through 5 combined | 3 207 582 | 1 718 906 | 2 445 917 | 1 433 691 |
| More than 5 years | 519 458 | 399 231 | - | - |
| TOTAL, | 5 845 103 | 3 170 750 | 5 356 696 | 2 886 748 |

| <i>Unearned finance income</i> | EUR 31.12.2019. | EUR 31.12.2018. |
|--------------------------------|--------------------|--------------------|
| Up to one year | 1 065 450 | 1 457 722 |
| Years 2 through 5 combined | 1 488 676 | 1 012 226 |
| More than 5 years | 120 227 | - |
| TOTAL, GROSS: | 2 674 353 | 2 469 948 |

| <i>Loans and advances to customers</i> | EUR 31.12.2019. | EUR 31.12.2018. |
|---|--------------------|--------------------|
| Non-current loans and advances to customers | 2 118 137 | 1 475 754 |
| Current loans and advances to customers | 954 331 | 1 274 730 |
| Accrued interest | 98 282 | 136 264 |
| TOTAL, GROSS: | 3 170 750 | 2 886 748 |

| <i>Movement in impairment allowance</i> | EUR 31.12.2019. | EUR 31.12.2018. |
|---|--------------------|--------------------|
| Impairment allowance as at 01 January | 184 614 | 53 812 |
| Impairment loss recognised during the year | 707 142 | 875 530 |
| Elimination of impairment allowance due to cession of receivables | (529 899) | (744 728) |
| Impairment allowance as at 31 December | 361 857 | 184 614 |

21. Loans and advances to customers (continued)

| | Non-Current 31.12.2019. EUR | Current 31.12.2019. EUR | Non-Current 31.12.2018. EUR | Current 31.12.2018. EUR |
|---|-----------------------------------|-------------------------------|-----------------------------------|-------------------------------|
| Loans and advances to customers, net | | | | |
| Loans and advances to customers | 2 118 137 | 954 331 | 1 475 754 | 1 274 730 |
| Accrued interest | - | 98 282 | - | 136 264 |
| Fees paid upon loan disbursement | 163 | 73 | (7 772) | (6 714) |
| Fees received upon loan disbursement | (92 421) | (41 641) | 379 | 327 |
| Impairment allowance | (201 227) | (160 630) | (156 788) | (27 826) |
| | 1 824 652 | 850 415 | 1 311 573 | 1 376 781 |

22. Finished goods and goods for resale

| | 31.12.2019. EUR | 31.12.2018. EUR |
|---|--------------------|--------------------|
| Acquired vehicles for purpose of selling them to customers* | - | 11 414 |
| TOTAL: | - | 11 414 |

During the financial year of 2018, the Company decided to separate the economic activities of selling vehicles to another related company, therefore amount of stock balance has significantly decreased compared to previous year.

*This non-financial asset was not impaired.

23. Assets held for sale

| | 31.12.2019. EUR | 31.12.2018. EUR |
|--|--------------------|--------------------|
| Other non-current assets held for sale, net | | |
| Reposessed collateral | 195 978 | 133 140 |
| Including impairment allowance | (106 887) | (226 948) |
| | 195 978 | 133 140 |

Reposessed collaterals are vehicles taken over by the Company in case of default by the Company's clients on the related lease agreements. After the default of the client, the Company has the right to reposess the vehicle and sell it to third party. The Company does not have the right to reposess, sell or pledge the vehicle in the absence of default by Company's clients. The Company usually sells the reposessed vehicles within 90 days after repossession.

24. Prepaid Expense

| | 31.12.2019. EUR | 31.12.2018. EUR |
|----------------------------|--------------------|--------------------|
| Prepaid Mintos service fee | 77 273 | 128 064 |
| Other prepaid expenses | 31 931 | 23 702 |
| TOTAL: | 109 204 | 151 766 |

25. Trade receivables

| | 31.12.2018. EUR | 31.12.2017. EUR |
|--------------------------------------|--------------------|--------------------|
| Receivables from related parties | 546 381 | 3 471 233 |
| Receivables from non related parties | - | 169 268 |
| Receivables for sold motor vehicles | - | 44 265 |
| Receivables from cession | 357 767 | - |
| Receivables for commissions | 105 | 105 |
| TOTAL: | 904 253 | 3 684 871 |

An analysis of Trade and other receivable staging and the corresponding ECL allowances at the year end are as follows:

| 2019 | Current | 1-30 | 31-90 | > 90 days | Total |
|----------------------------------|----------------|----------------|----------------|---------------|----------------|
| Receivables from related parties | 253 104 | 147 339 | 118 210 | 27 728 | 546 381 |
| Receivables from cession | 357 767 | - | - | - | 357 767 |
| Receivables for commissions | - | - | - | 105 | 105 |
| Total trade receivables | 610 871 | 147 339 | 118 210 | 27 833 | 904 253 |

In line with the expectations and agreement reached with the related parties on the settlement of the debts, material overdue related party receivables at year end were settled shortly after end of reporting period. As at year end ECLs are assessed based on this expected settlement. Accordingly, no ECL is recognized as at the end of the reporting period. (2018: EUR 0).

The Company does not have contract assets and contract liabilities at 31.12.2019 (EUR 0 at 31.12.2018)

26. Other receivables

| | 31.12.2019. EUR | 31.12.2018. EUR |
|--|--------------------|--------------------|
| Advances paid for goods and services | 35 078 | 40 023 |
| Security deposit for office lease (more information in Note 19). | 24 964 | - |
| Overpaid personal income tax | 3 294 | - |
| Overpaid company income tax | 13 260 | - |
| Other debtors | 75 574 | 65 693 |
| TOTAL: | 152 170 | 105 716 |

Due to less loans put in P2P platform at the end of FY19 and FY18, Company has no receivables from P2P platform at 31.12.2019. and 31.12.2018. Due to more repurchased loans from P2P platform the Company has payables to P2P platform. See Note 31.

27. Accrued revenue

| | 31.12.2019. | 31.12.2018. |
|--------------------------------------|----------------|--------------|
| Accrued revenue from subsidiary | 88 588 | 7 002 |
| Accrued revenue from related parties | 4 811 | - |
| Accrued revenue from other debtors | 13 874 | 515 |
| TOTAL: | 107 273 | 7 517 |

28. Cash and cash equivalents

| | 31.12.2019. | 31.12.2018. |
|---------------|----------------|----------------|
| Cash at bank | 236 437 | 582 086 |
| Cash on hand* | 34 134 | 92 099 |
| TOTAL: | 270 571 | 674 185 |

This financial asset is not impaired as of 31.12.2019. (31.12.2018.: 0 EUR).

*The cash on hand is held in regional offices and is kept there to ensure daily cash transactions.

The Company has not created ECL allowances for cash and cash equivalents on the basis that placements with banks are of short term nature and the lifetime of these assets under IFRS 9 is so short that the low probability of default would result in immaterial ECL amounts (2018 EUR 0).

29. Share capital

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.

The company has set off dividends in 2018 year in amount of 4 478 200 EUR. Dividends per share were 0.90 EUR.

The minority shareholders dividends of amount EUR 21 800 remained unpaid at the end of 31 December 2018.

The Company has currency revaluation reserve amount 1 EUR, due to switch from Latvian Lats to EUR.

The were no movements on the Share capital caption during the year.

Distributions made and proposed

| | 2019 EUR | 2018 EUR |
|---|-------------|------------------|
| Dividends off set with loan* | - | 4 478 200 |
| Proposed, but not paid dividends on ordinary shares | - | 21 800 |
| Total proposed dividends: | - | 4 500 000 |

* During the Shareholders General Meetings held on 02.05.2018. and 20.12.2018, it was decided that there will be dividends distribution to shareholders in total amount EUR 4 500 000. Part of dividends in total amount of EUR 4 478 200 were not paid to shareholders but with set-off agreements from 03.05.2018 and 28.12.2018 set off against Mogo Finance S.A. loan as of the dates of these agreements.

30. Other provisions

| | 31.12.2019. | 31.12.2018. |
|---|----------------|----------------|
| Provision for possible VAT liabilities* | 365 495 | 279 137 |
| Provision for possible penalties | 127 176 | 169 890 |
| TOTAL: | 492 671 | 449 027 |

* Provision for possible taxes and duties are calculated based on rates applied by tax body of Republic of Latvia and discounted with rate of 0.72% (2018: 1.15%) for estimated litigation process period of remaining of 5 years. The provisions are made for VAT possible liabilities.

Change in provision for possible VAT liabilities is recognized proportionally in those expense accounts, where the related VAT input is claimed.

Changes in other provisions

| | 01.01.2019. | Increase in provisions | Unwinding of discount | 31.12.2019 |
|--|----------------|---------------------------|--------------------------|----------------|
| Provision for possible VAT liabilities in Latvia | 279 137 | 80 534 | 5 824 | 365 495 |
| Provision for possible penalties in Latvia | 169 890 | (46 259) | 3 545 | 127 176 |
| TOTAL: | 449 027 | 34 275 | 9 369 | 492 671 |

30. Other provisions (continued)

All receivables are expected to be paid within the following year, except VAT overpayment where uncertainty of date of settlement is unclear due to ongoing litigation process.

During financial year 2016, the Company adjusted its VAT returns for the periods from 2014 to 2016 and recognized additional input VAT. The same approach is applied also for all period till 31.12.2019. There is possibility of recover input VAT, but not sure, so the Company makes a provision at the amount of the recognized input tax at 31.12.19 EUR 423 270 (at 31.12.2018 EUR 482 287)

This resulted in full settlement of payable VAT and recognition of VAT overpayment. Considering the uncertainty disclosed in company has decided to recognize the impairment provision in full amount for VAT receivable in the statement of financial position and additional provisions in amount of VAT payable settled by VAT return adjustment and related penalties."

31. Borrowings

| <i>Non-current</i> | <i>Interest rate per annum (%)</i> | <i>Maturity</i> | <i>31.12.2019.</i> | <i>31.12.2018.</i> |
|---|------------------------------------|------------------------|--------------------|--------------------|
| <i>Liabilities for issued debt securities</i> | | | <i>EUR</i> | <i>EUR</i> |
| Bonds 20 million EUR notes issue ¹⁾ | 10-12% | 31.03.2021 | 20 000 000 | 11 136 218 |
| Bonds 10 million EUR notes issue ²⁾ | 10-12% | 31.03.2021 | 10 000 000 | 7 613 782 |
| Bond additional interest accrual ⁵⁾ | | | 299 203 | 182 493 |
| Bonds acquisition costs | | | (239 960) | (274 247) |
| TOTAL: | | | 30 059 243 | 18 658 246 |
| <i>Other borrowings</i> | | | | |
| Funding attracted through peer-to-peer platforms ³⁾ | 8% - 14% | 30.11.2025. | 5 794 086 | 9 345 369 |
| Liabilities acquisition costs for funding attracted through peer-to-peer platform | | | (71 647) | (185 180) |
| TOTAL: | | | 5 722 439 | 9 160 189 |
| Loans from banks ⁷⁾ | 8% | 31.07.2021 | 2 106 840 | - |
| TOTAL: | | | 2 106 840 | - |
| Lease liabilities for right-of-use assets - premises ⁴⁾ | 2.64% | up to 5 years | 998 804 | 7 126 |
| Lease liabilities for right-of-use assets - vehicles ⁴⁾ | 2.64% | up to 1 year 10 months | - | 3 826 |
| TOTAL: | | | 998 804 | 10 952 |
| TOTAL NON CURRENT BORROWINGS: | | | 38 887 326 | 27 829 387 |
| <i>Current</i> | <i>Interest rate per annum (%)</i> | <i>Maturity</i> | <i>31.12.2019.</i> | <i>31.12.2018.</i> |
| <i>Liabilities for issued debt securities</i> | | | <i>EUR</i> | <i>EUR</i> |
| Bonds 20 million EUR notes issue ¹⁾ | 10-12% | 31.03.2021. | - | 8 863 782 |
| Bonds 10 million EUR notes issue ¹⁾ | 10-12% | 31.03.2021. | - | 2 386 218 |
| TOTAL: | | | - | 11 250 000 |
| <i>Other borrowings</i> | | | | |
| Funding attracted through peer-to-peer platforms ³⁾ | 8-14% | 30.11.2025. | 2 612 226 | 4 316 448 |
| Accrued interest for funding attracted through peer-to-peer platforms | | | 48 868 | 70 513 |
| TOTAL: | | | 2 661 094 | 4 386 961 |
| Lease liabilities for right-of-use assets - premises ⁴⁾ | 2.64% | up to 5 years | 120 613 | 58 437 |
| Lease liabilities for right-of-use assets - vehicles ⁴⁾ | 2.64% | up to 1 year 10 months | 3 825 | 4 984 |
| TOTAL: | | | 124 438 | 63 421 |
| Loans from related parties ⁶⁾ | 12.50% | 18.06.2019. | - | 352 344 |
| TOTAL CURRENT BORROWINGS: | | | 2 785 532 | 16 052 726 |

1) On 17 March 2014 the Company registered with the Latvian Central Depository a bond facility through which it can raise up to EUR 20 million.

The Company has raised a total of EUR 20 000 000 as at 31 December 2019 (20 000 000 EUR at 31 December 2018).

This bond issue is unsecured. The notes are issued at par, have a maturity of seven years and carry a fixed coupon of 10% per annum, paid monthly in arrears. The note type on 11 November 2014 was changed to "publicly issued notes" and were listed on the regulated market of NASDAQ OMX Baltic.

2) On 1 December 2017 the Company registered with the Latvian Central Depository a bond facility through which it can raise up to EUR 10 million.

The Company has raised a total of EUR 10 000 000 as at 31 December 2019 (10 000 000 EUR at 31 December 2018).

This bond issue is unsecured. The notes are issued at par, have a maturity of three years four months and carry a fixed coupon of 10% per annum, paid monthly in arrears. Bonds are listed on the alternative market Firth north of NASDAQ OMX Baltic and are "private issued notes".

In accordance with the initial repayment of both bond facilities starts from 30.06.2019. Accordingly, those liabilities are split between current and non-current as at 31 December 2018. Subsequent to the reporting period the initial repayment terms were amended.

In March 2019 noteholders of As mogo bonds have accepted the amendments to the prospectuses of both emissions. The terms of the amendment provide that the principal amount of the notes shall be fully repaid in one instalment on 31 March 2021

31. Borrowings (continued)

3) Attracted funding from P2P platform is transferred to the Company's bank accounts once per week. The Company repurchased more loans back than put in P2P platform in December 2019 than in December 2018.

4) The Company has entered into several lease agreements for office premises and branches as well as several vehicle rent agreements. The Company has elected to early adapt IFRS16 accounting requirements starting from year 2018 therefore it has recognized lease liabilities for expected lease period. (Note 2 section IFRS 16: Leases)

5) The accrual represents accrued interest, which is to be paid at the maturity of the bonds, therefore the accrued interest is classified as long term.

6) On 18.06.2018 The Company signed agreement with Loango JSC for borrowing of EUR 330 000 with fixed interest rate 12.5% and payment term 18.06.2019. Accrued interest at the 31 December 2018 amounts to EUR 22344. In 2019 the loan was fully repaid.

7) On 2nd August 2019 AS "Citadele banka" granted to AS "mogo" the credit line in the amount of EUR 3 million for refinancing of existing indebtedness. Maturity of agreement - July 2021.

P2P platform payables/ receivables position at the year end dates were:

| | 31.12.2019. | 31.12.2018. |
|--|------------------|------------------|
| | EUR | EUR |
| (Payable)/ Receivable from attracted funding through P2P platform (Note 26,34) | (438 349) | (187 857) |
| TOTAL: | (438 349) | (187 857) |

1) In accordance with the initial repayment of both bond facilities starts from 30.06.2018. Accordingly, those liabilities are split between current and non-current as at 31 December 2019. Subsequent to the reporting period the initial repayment terms were amended.

2) See additional information in this Note under 'Non-current' section.

Total accrued expenses for services for attracted funding through P2P platform as at statement of financial position dates were:

| | 31.12.2019. | 31.12.2018. |
|---|--------------|---------------|
| | EUR | EUR |
| Accrued for expenses from attracted funding through peer-to-peer platform (Note 35) | 7 471 | 14 891 |
| TOTAL: | 7 471 | 14 891 |

Changes in liabilities

| | 31.12.2018. | Incoming cash flow | Outgoing cash flow | Other | 31.12.2019. |
|--|-------------------|--------------------|---------------------|------------------|-------------------|
| Funding attracted through peer-to-peer platforms | 13 661 817 | 27 714 483 | (32 969 988) | - | 8 406 312 |
| Lease liabilities for right-of-use assets | 74 373 | | (116 915) | 1 165 784 | 1 123 242 |
| Liabilities for issued debt securities | 30 000 000 | 6 346 083 | (6 346 083) | - | 30 000 000 |
| Loans from non related parties | - | 1 490 000 | (1 490 000) | | - |
| Loans from related parties | 352 344 | - | (330 000) | (22 344) | - |
| Loan from bank | - | 2 106 840 | - | - | 2 106 840 |
| TOTAL BORROWINGS PRINCIPAL: | 44 088 534 | 37 657 406 | (41 252 986) | 1 143 440 | 41 636 394 |

Changes in liabilities

| | 31.12.2018. | Incoming cash flow | Outgoing cash flow | Other | 31.12.2019. |
|--|-------------------|--------------------|---------------------|------------------|-------------------|
| Bonds acquisition costs* | (274 247) | - | (330 355) | 364 642 | (239 960) |
| Funding attracted through peer-to-peer platforms acquisition costs | (185 180) | - | - | 113 533 | (71 647) |
| TOTAL BORROWINGS ACQUISITION COSTS: | (459 427) | - | (330 355) | 478 175 | (311 607) |
| Accrued interest for financing received from P2P investors | 70 513 | - | (1 437 752) | 1 416 107 | 48 868 |
| Bonds interest | - | - | (3 038 810) | 3 038 810 | - |
| Additional bond interest accrual | 182 493 | - | - | 116 710 | 299 203 |
| TOTAL INTEREST LIABILITIES: | 253 006 | - | (4 476 562) | 4 571 627 | 348 071 |
| TOTAL BORROWINGS: | 43 882 113 | 37 657 406 | (46 059 903) | 6 193 242 | 41 672 858 |

* Changes in bond purchase costs are related to the nominal purchase and sale of individual bonds in 2019, as well as the costs of extending the maturity of bonds.

| | 01.01.2018 | Incoming cash flow | Outgoing cash flow | Other | 31.12.2018. |
|--|-------------------|--------------------|---------------------|------------------|-------------------|
| Funding attracted through peer-to-peer platforms | 16 067 118 | 59 201 405 | (61 266 575) | (340 131) | 13 661 817 |
| Lease liabilities for right-of-use assets | 148 923 | - | (232 346) | 157 796 | 74 373 |
| Liabilities for issued debt securities | 26 900 000 | 9 150 000 | (6 050 000) | - | 30 000 000 |
| Loans from related parties | - | 330 000 | - | 22 344 | 352 344 |
| TOTAL BORROWINGS PRINCIPAL: | 43 116 041 | 68 681 405 | (67 548 921) | (159 991) | 44 088 534 |
| Bonds acquisition costs* | (460 967) | - | (221 428) | 408 148 | (274 247) |
| Funding attracted through peer-to-peer platforms acquisition costs | - | - | (467 151) | 281 971 | (185 180) |
| TOTAL BORROWINGS ACQUISITION COSTS: | (460 967) | - | (688 579) | 690 119 | (459 427) |

31. Borrowings (continued)

| | 01.01.2018 | Incoming cash flow | Outgoing cash flow | Other | 31.12.2018. |
|--|-------------------|--------------------|---------------------|------------------|-------------------|
| Accrued interest for financing received from P2P investors | 87 975 | - | (2 369 486) | 2 352 024 | 70 513 |
| Bonds interest | - | - | (3 041 283) | 3 041 283 | - |
| Additional bond interest accrual | 124 270 | - | - | 58 223 | 182 493 |
| TOTAL INTEREST LIABILITIES: | 212 245 | - | (5 410 769) | 5 451 530 | 253 006 |
| TOTAL BORROWINGS: | 42 867 319 | 68 681 405 | (73 648 269) | 5 981 658 | 43 882 113 |

32. Prepayments and other payments received from customers

| | 31.12.2019. EUR | 31.12.2018. EUR |
|--|--------------------|--------------------|
| Unrecognized payments received* | 17 586 | 41 272 |
| Overpayments from historical customers | 27 687 | 27 687 |
| TOTAL: | 45 273 | 68 959 |

* Unrecognised payments are payments received from former clients after contractual terms are ended and payments received which cannot be identified and allocated to a respective finance lease or loan and advance to customer balance.

Advances received from customers are shown under finance lease receivables and loans and advances to customers in year 2019 and 2018.

33. Taxes payable

| | 31.12.2019. EUR | 31.12.2018. EUR |
|-------------------------------|--------------------|--------------------|
| Social security contributions | 46 994 | 19 819 |
| Personal income tax | - | 21 955 |
| Other taxes | 1 | 20 |
| TOTAL: | 46 995 | 41 794 |

34. Other liabilities

| | 31.12.2019. EUR | 31.12.2018. EUR |
|---|--------------------|--------------------|
| Payable for attracted funding through P2P platform* | 438 349 | 187 857 |
| Declared, but not paid dividends | - | 21 800 |
| Liabilities against employees for salaries | 64 603 | 2 697 |
| Other liabilities | 222 358 | - |
| TOTAL: | 725 310 | 212 354 |

* Due to more repurchased loans from P2P platform in December 2019 than in December 2018 the Company has payables to P2P platform.
For more information see Note 31.

35. Accrued liabilities

| | 31.12.2019. EUR | 31.12.2018. EUR |
|---|--------------------|--------------------|
| Accrued liabilities for services from non related parties | 50 221 | 109 284 |
| Accrued liabilities for management services from related parties | 39 833 | 85 905 |
| Accrued unused vacation | 79 495 | 46 622 |
| Accruals for bonuses | 31 023 | 12 767 |
| Accrued expenses from attracted funding through peer-to-peer platform (Note 31) | 7 471 | 14 891 |
| TOTAL: | 208 043 | 269 469 |

36. Related parties disclosures

Receivables and payables incurred are not secured with any kind of pledge.
Transactions with related parties for years 2019 and 2018 were as follows:

| | 2019 EUR | 2018 EUR |
|---------------------------------|----------------|----------------|
| Services provided | | |
| - Agent services (Note 14)* | 822 749 | 870 400 |
| - Mogo Finance S.A. | - | 32 748 |
| - Mogo Baltics and Caucasus JSC | 45 123 | - |
| - Subsidiaries | 612 167 | 96 430 |
| - HUB*** | 118 430 | 404 177 |
| - Longo Latvia JSC | - | - |
| - Other related companies | 47 029 | 337 045 |

36. Related parties disclosures (continued)

Transactions with related parties for years 2019 and 2018 were as follows (continued):

| | 2019 | 2018 |
|--|-----------|-----------|
| | EUR | EUR |
| Services provided (continued) | | |
| - Other services provided | 1 799 949 | 180 826 |
| - Subsidiaries (Note 14) | 1 797 549 | 176 826 |
| - Other related companies | 2 400 | 4 000 |
| Services received | | |
| - Management services (Note 13)***** | 430 968 | 372 266 |
| - HUB*** | 100 003 | 158 242 |
| - Mogo Baltics and Caucasus JSC | 330 965 | 214 024 |
| - Other services received**** | 109 615 | 351 645 |
| - HUB ** | 4 795 | 91 121 |
| - Mogo Baltics and Caucasus JSC** | 2 058 | 52 314 |
| - Subsidiaries | 8 561 | - |
| - Longo Latvia JSC | 93 212 | 70 946 |
| - Longo Latvia JSC** | - | 12 163 |
| - Other related companies | 989 | 125 101 |
| Assets | 1 256 320 | 3 528 978 |
| - Purchase of fixed assets from HUB*** | 515 | - |
| - Repossessed collaterals sold to Longo Latvia JSC ¹⁾ | - | 1 422 940 |
| - Vehicles sold to Subsidiaries | 980 280 | 214 787 |
| - Vehicles sold to Longo Latvia JSC | 275 525 | 470 695 |
| - Assets sold to Longo Latvia JSC ²⁾ | - | 10 498 |
| - Assets sold to HUBs ²⁾ | - | 1 404 156 |
| - Assets sold to Other related companies ²⁾ | - | 5 902 |
| Acquired vehicles for sale through finance leases ³⁾ | 295 300 | 786 111 |
| - Cars from Subsidiaries | 92 400 | 214 787 |
| - Cars from Longo Latvia JSC | 202 900 | 571 324 |
| Interest income (Note 4) | 2 446 545 | 2 447 623 |
| - Mogo Finance S.A. | 2 127 395 | 2 444 897 |
| - Other related companies | 319 150 | 2 726 |
| Interest expenses (Note 5) | 366 508 | 245 927 |
| - Mogo Finance S.A. | 366 508 | 219 043 |
| - Subsidiaries | - | 26 884 |
| Cession income (Note 8) ⁴⁾ | - | 68 681 |
| - Risk Management Services OU | - | 68 681 |

* When another party is involved in providing goods or services to the Company's customers, the Company considers that in these transactions it acts as an agent. (Note 2, 3)

** Vacation expenses compensation for employees moved from mogo JSC to HUB's.

*** HUB - under HUB there are disclosed the Company related parties JSC Mogo Baltics and Caucasus JSC, JSC Mogo Balkans and Central Asia JSC, JSC Mogo Eastern Europe JSC and JSC Mogo Central Asia JSC.

**** Other services received - include car dealership commissions (that form part of net finance lease receivable). It also includes vacation compensations to employees who moved from mogo JSC to HUB - and no gain or loss occurred on this transaction.

*****Management services - include non deductible VAT.

1) The Company has sold repossessed vehicles from customers with terminated agreements to related party Longo Latvia JSC. Sales proceeds reduces the respective customer's debt towards the Company and is recorded as a reduction in financial lease receivable upon sales.

2) The Company has sold internally developed IT systems (Note 17) and equipment (Note 18) at their net book values to related parties. As assets were sold at their carrying amounts to no gain or loss occurred on these transactions.

3) The Company has acquired vehicles from related party Longo Latvia JSC and Subsidiaries and these vehicles were sold to customers through finance lease (Note 20). No gain or loss occurred on these transactions.

4) Cession income from transaction with related parties is included in the net gain/(loss) from de-recognition of financial assets measured at amortized costs (Note 8).

Receivables from related companies

| | Interest rate per annum (%) | Maturity | 31.12.2019. EUR | 31.12.2018. EUR |
|---|-----------------------------|--------------|--------------------|--------------------|
| Non-current | | | | |
| Loan receivable from related company ¹⁾ | 12.50 | April 2023 | 24 298 800 | 11 041 800 |
| Loan receivable from Subsidiaries company ²⁾ | 12.50 | January 2024 | 3 653 212 | - |
| TOTAL: | | | 27 952 012 | 11 041 800 |

1) In 2017 the Company has signed the loan agreement with its ultimate Parent Company Mogo Finance S.A. Loan agreement allows both parties to agree on flexible loan pay-out and loan repayment arrangement with maximum loan amount of 30 million EUR.

2) In 03.01.2019 the Company signed loan agreement with Renti JSC for credit line of EUR 10 000 000 with maturity date 03.01.2024 and fixed interest rate 12.5%.

36. Related parties disclosures (continued)

An analysis of loan receivable staging and the corresponding ECL allowances at the year end are as follows:

| 2019 | Stage 1 | Stage 2 | Stage 3 | Total |
|--|------------|---------|---------|------------|
| Loan receivable from ultimate Parent company | 24 298 800 | - | - | 24 298 800 |
| Loan receivable from Subsidiaries company | 3 653 212 | - | - | 3 653 212 |

No ECLs are recognized for the loan receivable from related party (2018: EUR 0)

| | 31.12.2019. | 31.12.2018. |
|------------------------------------|-------------------|-------------------|
| Current | EUR | EUR |
| Receivables from Mogo Finance S.A. | - | 32 748 |
| Receivables from subsidiaries | 475 608 | 1 267 646 |
| Receivables from related companies | 70 773 | 2 170 839 |
| TOTAL: | 546 381 | 3 471 233 |
| TOTAL RECEIVABLES: | 28 498 393 | 14 513 033 |

Aging of receivables from related companies is disclosed in Note 25.

Payables to related companies

| | 31.12.2019. | 31.12.2018. |
|---|---------------|---------------|
| | EUR | EUR |
| Payables to Mogo Finance S.A. | - | 3 442 |
| Payables to Mogo Baltics and Caucasus JSC | 47 328 | - |
| Payables to subsidiaries | - | 15 032 |
| Payables to other related companies | 28 324 | 41 228 |
| TOTAL: | 75 652 | 59 702 |

On November 13, 2018 the Mogo Finance S.A. as Issuer and certain its subsidiaries (including Mogo JSC) as Guarantors signed a guarantee agreement dated 9 July 2018 as amended and restated on 13 November 2018 according to which the guarantors unconditionally and irrevocably guaranteed by way of an independent payment obligation to each holder of the Mogo Finance S.A. bonds the due and punctual payment of principal of, and interest on, and any other amounts payable under the Mogo Finance S.A. bonds prospectus (Note 39).

37. Investments in subsidiaries

The Company's investments in subsidiaries as of 31 December 2019 and 31 December 2018 are set out below:

| Company | Business | Shareholding | Company's investment | |
|-------------|--------------|---|----------------------|----------------|
| | | | 31.12.2019. | 31.12.2018. |
| | | | EUR | EUR |
| Loango JSC* | Consumer | 100% | - | 425 000 |
| Renti JSC** | Vehicle rent | 100% | 5 500 000 | 500 000 |
| | | Impairment: | - | - |
| | | Total Net Investments in subsidiaries: | 5 500 000 | 925 000 |

* On July 11, 2019, JSC mogo sold its shares in JSC Loango to JSC Mogo Baltics and Caucasus, which will introduce JSC Loango shares to develop new business lines by offering consumers credit services to another customer segment. See more information in Note 14.

** On December 30, 2019, JSC Renti the share capital was increased to EUR 5 500 000.

Impairment testing of the investments in subsidiaries has been performed by the management of the Company using valuation methods and based on assumptions described below in section impairment testing.

As a result of performed impairment test calculations there is no additional impairment recognised in the year ended 31 December 2019.

Income from investments

There were no dividends received from Company's subsidiaries during years 2019 and 2018.

Additional investments in subsidiaries

The following settlements for the new equity shares were made by the Company:

| | 31.12.2019. | 31.12.2018. |
|---------------------------------------|------------------|----------------|
| | EUR | EUR |
| Establishment of Loango JSC* | - | 425 000 |
| Establishment / increase of Renti JSC | 5 000 000 | 500 000 |
| TOTAL: | 5 000 000 | 925 000 |

Impairment testing

In 2018, the recoverable amount of JSC "Loango" was determined based on the financial position of the company on 31.12.2018. As most of the company's investments in Loango JSC amounting to EUR 425 000 are lent back to the company in the form of a loan (Note 30) and are therefore considered recoverable. The management has not identified any impairment of the company's investments in Loango JSC for the year ended 31 December 2018.

The recoverable amount of Renti JSC is determined based on a value in use calculation using cash flow projections from financial budgets approved by the management. As a result of performed calculations the management has not identified impairment for Company's investment in Renti JSC for the year ended 31 December, 2019 the same approach as for the year ended 31 December, 2018.

37. Investments in subsidiaries (continued)

Operating results of Renti JSC are presented below:

| | 2019 EUR | 2018 EUR |
|--------------------------------|------------------|----------------|
| Revenue | 3 984 410 | 50 829 |
| Profit | (1 298 865) | (116 598) |
| Profit attributable to NCI | - | - |
| | 31.12.2019. | 31.12.2018. |
| | EUR | EUR |
| Current assets | 1 707 121 | 271 283 |
| Non-current assets | 13 760 458 | 1 459 960 |
| Current liabilities | (3 633 266) | (11 547) |
| Non-current liabilities | (8 416 468) | (1 336 295) |
| Net assets | 3 417 845 | 383 401 |
| Net assets attributable to NCI | - | - |

37. Other investments

| Company | Shareholding | 31.12.2018 EUR | 31.12.2017 EUR |
|--------------------|--------------|-------------------|-------------------|
| Mogo IFN (Romania) | 0.01% | 20 | 20 |
| LLC Mogo Belarus | 0.01% | 6 | 6 |
| TOTAL: | | 26 | 26 |

38. Commitments and contingencies

Starting from 9 July 2018 Mogo Finance S.A. and its subsidiaries (including Mogo JSC) entered into several pledge agreements with Greenmarck Restructuring Solutions GmbH, establishing pledge over shares of the subsidiaries, pledge over present and future loan receivables of the subsidiaries, pledge over trademarks of the subsidiaries, general business pledge over the subsidiaries, pledge over primary bank accounts if feasible, in order to secure Mogo Finance S.A. obligations towards bondholders deriving from Mogo Finance S.A. bonds. Subsequently additional pledgors were added who became material (subsidiaries with net loan portfolio of more than EUR 7 500 000) according to terms and conditions of the bonds. The value of the assets pledged in accordance with the commercial pledge agreement concluded with Greenmarck Restructuring Solutions GmbH is estimated to be 41.5 million EUR as of 31/12/2019.

Starting from 13, 2018 the Mogo Finance S.A. as Issuer and its subsidiaries (including Mogo JSC) as Guarantors have entered into a guarantee agreement dated 9 July 2018 as amended and restated on 13 November 2018, 13 January 2019, 31 May 2019 and 11 November 2019 according to which the guarantors unconditionally and irrevocably guaranteed by way of an independent payment obligation to each holder of the Mogo Finance S.A. bonds the due and punctual payment of principal of, and interest on, and any other amounts payable under the Mogo Finance S.A. bonds prospectus (Note 39).

On 26 February 2018 the subsidiary in Latvia mogo JSC entered into a surety agreement with Ardshinbank CJSC and Mogo LLC, in order to secure Mogo LLC obligations towards Ardshinbank CJSC deriving from loan agreement concluded between Ardshinbank CJSC and Mogo LLC on 26 February 2018, with a maximum liability not exceeding the principal amount EUR 1 000 000.

In 2017 the Company signed a service agreement with tax advisory company. Agreement conditions assume partial remuneration for these services based on success fee principle. Estimated maximal amount payable for these services is assumed 70 000 EUR. There are no accruals made for this particular contingency.

On 11 December 2018 mogo JSC issued a payment guarantee No.2018.12.05 for the benefit of third party with a maximum liability not exceeding EUR 200 000, where the liability of mogo JSC is limited to the performance of other subsidiary's Mogo Baltics and Caucasus JSC obligations from the secured agreement with this party.

On 12 December 2018 The Company issued guarantee letters for the benefit of a third party to secure other subsidiaries Mogo Central Asia JSC and Longo Company JSC obligations from the secured office space lease agreements concluded on 12 December 2018. According to the guarantee letters mogo JSC undertook to fulfil Mogo Central Asia JSC and Longo Company JSC obligations towards the third party if they are overdue on liabilities under the agreements terms. The guarantees expire if the lease agreements are amended, renewed without prior written approval by mogo JSC and is effective for the entire duration of the respective lease agreements.

On 31 July 2019 mogo JSC has concluded a Commercial pledge with JSC Citadele banka by virtue of which certain receivables of mogo JSC are pledged in favor of JSC Citadele banka in order to secure mogo JSC, mogo OU and UAB mogo LT obligations towards JSC Citadele banka under the Credit line agreement of 8 July 2019. As of 31 December 2019 part of the gross finance lease portfolio in the amount of EUR 2.4 million was pledged in favor of the Citadele bank as collateral for the credit line (31 December 2018: nil)

On 5 December 2017 mogo JSC entered into a commercial pledge agreement with Mintos OU, in order to secure mogo JSC obligations towards Mintos OU deriving from Cooperation agreement on issuance of loans No. 36/2017-L, dated 5 December 2017. The Company pledged gross receivables in amount of 9 043 890 EUR.

On 12 December 2018 the Company issued guarantee letters for the benefit of SWH Grupa JSC to secure other subsidiaries Mogo Group JSC and Longo Group JSC obligations from the secured office space lease agreements concluded on 12 December 2018. According to the guarantee letters the Company undertook to fulfil Mogo Group JSC and Longo Group JSC obligations towards SWH Grupa JSC if they are overdue on liabilities under the agreements terms. The guarantees expire if the lease agreements are amended, renewed without prior written approval by the Company and is effective for the entire duration of the respective lease agreements. At the beginning of 2020 both lease agreements were amended and the Company provided the new guarantee to secure only obligations of Mogo Group JSC. The guarantee for Longo Group JSC is deemed to be expired.

38. Commitments and contingencies (continued)

Externally imposed capital requirements

The Company considers both equity capital as well as borrowings a part of overall capital risk management strategy. The Company is subject to externally imposed capital requirements.

Main requirements are listed below:

Mogo JSC Bonds

There are restrictions in prospectus for bonds issued in Nasdaq Baltic (ISIN: LV0000801363 and LV0000880029)

- 1) To maintain positive amount of equity at all times;
- 2) To maintain Net Debt/Equity (total liabilities minus cash against equity) indicator at certain level.

During the reporting period the Company complied with all externally imposed capital requirements to which it was subjected to.

Cooperation agreement with P2P platform

- 1) Positive equity and ensure that DSCR* is above certain level.

The Company is subject to additional financial covenants relating to its attracted funding through P2P platform. The Company is regularly monitoring respective indicators and ensures that covenants are satisfied. The Company is in compliance with these covenants at 31 December 2019 and 31 December 2018.

* DSCR (debt service coverage ratio) is EBITDA / (divided by) sum of all payments of interest and principal for all interest bearing debt (loans, financial and operational leaseings, factorings, guarantees, letters of credit etc.) to be paid under all concluded agreements within period for which DSCR is calculated.

39. Provisions for financial guarantees

Effect on other reserves

| | 2019 EUR | 2018 EUR |
|---|---------------------------|---------------------------|
| | Other reserves | Other reserves |
| Outstanding as at 1 January | (1 066 590) | - |
| Fair value of the newly issued guarantees | - | (878 051) |
| Net result of original guarantee derecognition and recognition of modified guarantee (3), (4) | (3 036 552) | (188 539) |
| Outstanding as at 31 December | (4 103 142) | (1 066 590) |

Effect on provisions for financial guarantees

| | 2019 EUR | 2018 EUR |
|--|---------------------------------|---------------------------------|
| | Financial guarantees | Financial guarantees |
| Outstanding as at 1 January | 948 263 | - |
| Fair value of the newly issued guarantees | - | 878 051 |
| Increase in expected credit losses (3) | 2 858 890 | - |
| Amortized as income prior to modifications | (126 959) | (73 171) |
| Outstanding provisions for guarantees before modifications | 3 680 194 | 804 880 |
| Fair value of the guarantees subsequent to modification (4) | 3 857 856 | 993 419 |
| Net result of original guarantee derecognition and recognition of modified guarantee (4) | (177 662) | (188 539) |
| Outstanding provisions for guarantees | 3 857 856 | 993 419 |
| Fair value of the guarantees subsequent to modification | (181 912) | (45 156) |
| Amortised as income subsequent to modifications | - | - |
| Outstanding as at 31 December | 3 675 944 | 948 263 |
| Financial guarantee in favour of bondholders of Mogo Finance S.A. | 3 601 371 | 948 263 |
| Financial guarantee in favour of Ardshinbank | 74 573 | - |
| Total | 3 675 944 | 948 263 |
| Total recognized as income (Note 14) | (308 871) | (118 327) |

(1) On 9 July 2018 the Company entered a financial guarantee agreement issued in favor of bondholders of Mogo Finance S.A. The guarantee was issued to secure Mogo Finance S.A. exposure after issuing corporate bonds, ISIN XS1831877755 (as of 31 December 2019 the total nominal value of bonds is EUR 100 million; as of 31 December 2018 - EUR 75 million), which are listed on the Open Market of the Frankfurt Stock Exchange. Under the guarantee agreement the Company irrevocably guarantees the payment of Mogo Finance S.A. liabilities towards its bondholders in case of default of Mogo Finance S.A. under the provisions of bond prospectus. The Company did not receive compensation for the guarantee provided. Fair value of financial guarantee is recognized as liability and as a distribution of equity under "Other reserves". Liabilities under the financial guarantee agreement are recognized in income (Note 14) on straight line basis till bond maturity, which is July 2022.

(2) On 26 February 2018 the Company entered into a surety agreement with Ardshinbank CJSC and Mogo LLC (Georgia), in order to secure Mogo LLC obligations towards Ardshinbank CJSC deriving from loan agreement concluded between Ardshinbank CJSC and Mogo LLC. The Company did not receive compensation for the guarantee provided. Fair value of financial guarantee is recognized as a liability and as a distribution of equity under "Other reserves". Liabilities under the financial guarantee agreement are recognized in income (Note 14) on straight line basis till bond maturity, which is March 2021.

39. Provisions for financial guarantees (continued)

(3) Increase in credit losses in 2019 was identified and measured for the guarantees. It is related to the change in the estimated discount rate applied by the Company. In 2019 the discount rate was applied based on the received credit rating by Fitch B -. Such increase was recognized through profit or loss, offset by the effect of subsequent guarantee derecognition as explained in (4).

(4) On 11 November 2019 original guarantee agreement in (1) was revised following Mogo Finance S.A. tap bond issue of further 25 million EUR. The Company did not receive compensation for the guarantee provided. The amended guarantee agreement increases the total exposure of the Company under the amended guarantee agreement. Similar Mogo Finance S.A. tap bond issue of 25 million EUR occurred during 2018 which led to derecognition of initial guarantee.

Change is deemed substantial as it increases the guarantee limit. Accordingly, the original guarantee is derecognized (including reversed profit and loss charge as described in (3)). Net difference between the original guarantee provision book value and the fair value of the modified financial guarantee of 3 857 856 EUR is 177 662 EUR and is recognized as an increase in guarantee provision. Similar accounting approach prevailed in 2018 with net increase of 188 539 EUR was recognized in Other reserves. In 2019 notional capital distribution recognized through Other reserves as a result of substantial guarantee modification represents the result of derecognition of original guarantee prior to credit risk increase and recognition of new guarantee of 3 857 856 EUR - i.e. 3 036 552 EUR.

Liabilities under the new financial guarantee agreement are recognized in income (Note 14) on straight line basis till bond maturity, which is July 2022

After initial recognition, the liability under the guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized through linear amortization and an ECL provision. ECL provision for financial guarantee is a Stage 1 exposure as described in Note 3. The ECL for the guarantees issued by the Company is lower than their carrying amount as at 31 December 2019 and therefore no ECL were recognised.

40. Financial risk management

The risk management function within the Company is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises interest rate risk, credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays 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.

Operational risks

Compliance risk

Compliance risk refers to the risk of losses or business process disruption resulting from inadequate or failed internal processes systems, that have resulted in a breach of applicable law or other regulation currently in place.

Regulatory risks

The Company's operations are subject to regulation by a variety of consumer protection, financial services and other state authorities in various jurisdictions, including, but not limited to, laws and regulations relating to consumer loans and consumer rights protection, debt collection and personal data processing. The Company closely monitors all the changes in regulatory framework. The Company employs both in-house as well as outsourced legal specialists to assist in addressing any current or future regulatory developments that might have an impact on Company's business activities.

See further information on regulatory matters in Note 38.

Anti-money laundering and Know Your Customer laws compliance risk

The Company is subject to anti-money laundering laws and related compliance obligations. The Company has put in place anti-money laundering policies. As a financial institution, the Company is required to comply with anti-money laundering regulations that are generally less restrictive than those that apply to banks.

As a result, the Company often relies on anti-money laundering and know your customer checks performed by our customers' banks when such customers open new bank accounts, however Company has implemented further internal policies to minimise these risks. The Company has put in place internal control framework to identify and report all suspicious transactions with a combination of IT based solutions and human involvement. Internal policies of the Company typically include customers' background check against sanctioned lists and other public sources as required by local law and Consumer Rights Protection Centre.

Privacy, data protection compliance risk

The Company's business is subject to a variety of laws and regulations internationally that involve user privacy, data protection, advertising, marketing, disclosures, distribution, electronic contracts and other communications, consumer protection and online payment services. The Company has put in place an internal control framework consisting from a combination of IT based solutions and business procedures that are designed to capture any potential non-compliance matter before it has occurred and to ensure compliance with these requirements.

Market risks

The Company takes on exposure to market risks, which are the risks that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements and changes in the level of volatility or market rates or prices such as interest rates.

Financial risks

The main financial risks arising from the Company's financial instruments are interest rate risk, liquidity risk, and credit risk.

Interest rate risk

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

Capital risk management

The Company considers both equity capital as well as borrowings a part of overall capital risk management strategy.

The Company manages its capital to ensure that it will be able to continue as going concern. In order to maintain or adjust the capital structure, the Company may attract new credit facilities or increase its share capital. The Company fulfils externally imposed equity capital requirements as stated in Note 37.

40. Financial risk management (continued)

Capital risk management (continued)

The Company monitors equity capital on the basis of the capitalization ratio as defined in Eurobond prospectus. This ratio is calculated as Net worth (the sum of paid in capital, retained earnings, reserves and shareholder loan) divided by Net Loan portfolio.

In order to maintain or adjust the overall capital structure, the Company may issue new bonds, borrow in P2P platform or sell assets to reduce debt.

The management of the borrowings is driven by monitoring and complying the lender imposed covenants as well as planning the further borrowing needs to ensure business development of the Company.

Liquidity risk

The Company manages its liquidity risk by arranging an adequate amount of committed credit facilities with related parties and by issuing bonds and P2P platforms.

Externally imposed capital requirements

The company defines equity as its capital. There are no financial liabilities or other items that Company manages as capital.

During the period Company complied with several externally imposed capital requirements. There are restrictions in prospectus for bonds issued in Nasdaq Baltic (ISIN: LV0000801363 and LV0000880029):

1) To maintain positive amount of equity at all times;

2) Starting from 31 December 2015, to maintain Net Debt/Equity (total liabilities minus cash against equity) indicator at certain level.

and in cooperation agreement with AS Mintos Marketplace and Mintos OU:

1) Positive equity.

During the reporting period the Company complied with all externally imposed capital requirements to which it is subject. Company has several other covenants to comply with due to the bonds issued and funds borrowed in P2P platform- Company has complied with all of them during the reporting period.

The table below presents the cash flows payable by the Company and to the Company under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flow. Cash flow payable for borrowings includes estimated interest payments assuming principal is paid in full at maturity date.

| As at 31.12.2019. | Carrying value | Contractual cash flows | | | | |
|--|---------------------|------------------------|--------------------|---------------------|----------------|---------------------|
| | | On demand | Up to 1 year | 1-5 years | More than 5 | Total |
| Assets | EUR | EUR | EUR | EUR | EUR | EUR |
| Cash and cash equivalents | 270 571 | 270 571 | - | - | - | 270 571 |
| Loans and advances to customers | 2 675 067 | - | 2 118 063 | 3 207 582 | - | 5 325 645 |
| Loans to related companies | 27 952 012 | - | - | 27 952 012 | - | 27 952 012 |
| Trade receivables | 904 253 | - | 904 253 | - | - | 904 253 |
| Finance lease receivables | 19 066 300 | - | 14 624 739 | 23 065 484 | 418 653 | 38 108 876 |
| Total undiscounted financial assets | 50 868 203 | 270 571 | 17 647 055 | 54 225 078 | 418 653 | 72 561 357 |
| Liabilities | | | | | | |
| Funding attracted through peer-to-peer platforms | (8 383 533) | - | (3 216 525) | (6 485 577) | (8 604) | (9 710 706) |
| Liabilities for issued debt securities | (30 059 243) | - | (3 000 000) | (31 049 203) | - | (34 049 203) |
| Provisions for financial guarantees | (3 675 944) | - | - | (3 675 944) | - | (3 675 944) |
| Loan from banks | (2 106 840) | - | (2 106 840) | - | - | (2 106 840) |
| Lease liabilities for right-of-use assets | (1 123 242) | - | (124 438) | (998 804) | - | (1 123 242) |
| Other current liabilities | (1 111 181) | - | (1 111 181) | - | - | (1 111 181) |
| Total undiscounted financial liabilities | (46 459 983) | - | (9 558 984) | (42 209 528) | (8 604) | (51 777 116) |
| Net undiscounted financial assets / (liabilities) | 4 408 220 | 270 571 | 8 088 071 | 12 015 550 | 410 049 | 20 784 241 |

| As at 31.12.2018. | Carrying value | Contractual cash flows | | | | |
|--|---------------------|------------------------|---------------------|---------------------|--------------------|---------------------|
| | | On demand | Up to 1 year | 1-5 years | More than 5 | Total |
| Assets | EUR | EUR | EUR | EUR | EUR | EUR |
| Cash and cash equivalents | 674 185 | 674 185 | - | - | - | 674 185 |
| Loans and advances to customers | 2 688 354 | - | 2 910 779 | 2 445 917 | - | 5 356 696 |
| Loans to related companies | 11 041 800 | - | - | 15 458 520 | - | 15 458 520 |
| Trade receivables | 3 684 871 | - | 3 684 871 | - | - | 3 684 871 |
| Finance lease receivables | 33 487 542 | - | 23 955 702 | 46 053 358 | 3 194 150 | 73 203 210 |
| Total undiscounted financial assets | 51 576 752 | 674 185 | 30 551 352 | 63 957 795 | 3 194 150 | 98 377 482 |
| Liabilities | | | | | | |
| Funding attracted through peer-to-peer platforms | (13 547 150) | - | (4 645 948) | (8 401 487) | (1 971 873) | (15 019 308) |
| Liabilities for issued debt securities | (29 908 246) | - | (11 250 000) | (18 932 493) | - | (30 182 493) |
| Provisions for financial guarantees | (948 263) | - | - | (948 263) | - | (948 263) |
| Lease liabilities for right-of-use assets | (74 373) | - | (63 421) | (10 952) | - | (74 373) |
| Loans from related parties | (352 344) | - | (371 708) | - | - | (371 708) |
| Other current liabilities | (676 378) | - | (676 378) | - | - | (676 378) |
| Total undiscounted financial liabilities | (45 506 754) | - | (17 007 455) | (28 293 195) | (1 971 873) | (47 272 523) |
| Net undiscounted financial assets / (liabilities) | 6 069 998 | 674 185 | 13 543 897 | 35 664 600 | 1 222 277 | 51 104 959 |

40. Financial risk management (continued)

Credit risk

The Company is exposed to credit risk through its finance lease receivables, 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 lease), 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.

At the end of the contract of Renti product the customer has two options: return the car to Mogo or buy it out. If requested by customer, instalment plan is provided and residual amount is paid in several months. In the case when customer is breaking the contract and not willing neither return the car, nor buy it back, Mogo starts repossession process. Company has dedicated repossession team (skilled personnel equipped with robust processes) to handle the process. Additionally, at the moment when vehicles are rented out, the company installs GPS trackers, which are of huge help during the repossession process. If in early stages of the rent agreement company suspects any fraudulent activities, then repossession process can start before the end of the contract. Just a few contracts have reached the end of its term, however, based on available data company demonstrates high recovery rates.

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

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Company is maintaining a diversified portfolio. It's main product is subprime lease, however it is offering also near prime lease, as well as loans and advances to customers.

Capital risk management

The Company manages its capital to ensure that it will be able to continue as going concern. The Company fulfils externally imposed capital requirements. In order to maintain or adjust the capital structure, the Company may attract new credit facilities or increase its share capital.

41. Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the separate financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Instruments within Level 2 include assets, for which no active market exists, such as over the counter financial instruments that are traded outside the stock exchange, bonds, as well as balances due from banks and other financial liabilities. Bonds fair value is observable in NASDAQ OMX Baltic public information. Fair value of bank loans is based on effective interest rate which represents current market rate to similar companies. The management recognizes that cash and cash equivalents' fair value is the same as their carrying value therefore the risk of fair value change is insignificant.

Instruments within Level 3 include assets, for which no active market exists - such as loans and receivables, bonds, balances due from banks and other financial liabilities. Bonds fair value is observable in NASDAQ OMX Baltic public information. Fair value of bank loans is based on effective interest rate which represents current market rate to similar companies. The management recognizes that cash and cash equivalents' fair value is the same as their carrying value therefore the risk of fair value change is insignificant.

Fair value of finance lease and loan receivables is equal to the carrying value, which is present value of minimum lease and loan payments discounted using effective agreement interest rate and adjusted for impairment allowance.

Fair value of finance lease receivables and loans and advances to customers is determined using discounted cash flow model consisting of contractual lease and loan cash flows that are adjusted by expectations about possible variations in the amount and timings of cash flows using methodology consistent with the expected credit loss determination as at 31 December 2019 to determine the cash flows expected to be received net of impairment losses. The pre-tax weighted average cost of capital (WACC) of the entity holding the respective financial assets is used as the basis for the discount rate. The WACC is based on the actual estimated cost of equity and cost of debt that reflect any other risks relevant to the leases and loans that have not been taken into consideration by the impairment loss adjustment described above and also includes compensation for the opportunity cost of establishing a similar lease or loan. An additional 1.5% is added to the discount rate as an adjustment to consider service costs of the portfolio that are not captured by the cash flow adjustments.

The annual discount rate was determined as 13.46%. Impairment loss is estimated by applying PD and LGD rates, which are in line with ECL methodology described under 'The calculation of ECLs' (Note 2).

41. Fair value of financial assets and liabilities (continued)

Fair value of current and non-current borrowings is based on cash flows discounted using effective agreement interest rate which represents current market rate. The Company's management believes that interest rates applicable to loan portfolio and borrowings are in line with current market interest rates for companies similar to Mogo JSC.

The management recognizes that if a fair value of such assets/liabilities would be assessed as an amount at which an asset could be exchanged or liability settled on an arm's length basis with knowledgeable third parties, the fair values obtained of the respective assets and liabilities would not be materially different.

For assets and liabilities that are recognized in the separate financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Company's statement of financial position at their fair value:

| | Carrying value 31.12.2019. | Fair value 31.12.2019. | Carrying value 31.12.2018. | Fair value 31.12.2018. |
|---|----------------------------------|---------------------------|----------------------------------|---------------------------|
| | EUR | EUR | EUR | EUR |
| Assets for which fair value is disclosed | | | | |
| Finance lease receivables non-current* | 13 361 713 | 17 766 174 | 24 925 333 | - |
| Loans and advances to customers non-current* | 1 824 652 | 1 987 365 | 1 311 573 | - |
| Loans to related parties | 27 952 012 | 27 952 012 | 11 041 800 | 11 041 800 |
| Finance lease receivables current* | 5 704 587 | 9 771 504 | 8 562 209 | - |
| Loans and advances to customers current* | 850 415 | 1 485 188 | 1 376 781 | - |
| Trade receivables | 904 253 | 904 253 | 3 684 871 | 3 684 871 |
| Other receivables | 152 170 | 152 170 | 105 716 | 105 716 |
| Cash and cash equivalents | 270 571 | 270 571 | 674 185 | 674 185 |
| Total assets for which fair value is disclosed | 51 020 373 | 60 289 237 | 51 682 468 | 15 506 572 |

* The Company performed first estimation of fair value loans and leases receivable as at 31 December 2019. The precise quantification of fair value of finance lease and loan receivables as at 31.12.2018 has not been estimated as considered impracticable due to fair value estimation being a resource-intensive task and thus bearing high costs. The management anticipates similar differences between fair value and carrying value as at 31 December 2018 as compared to 2019.

Liabilities for which fair value is disclosed

| | 30 059 243 | 30 000 000 | 29 908 246 | 30 000 000 |
|--|-------------------|-------------------|-------------------|-------------------|
| Liabilities for issued debt securities | | | | |
| Lease liabilities for right-of-use assets | 1 123 242 | 1 123 242 | 74 373 | 74 373 |
| Loans from related parties | - | - | 352 344 | 352 344 |
| Trade payables | 55 181 | 55 181 | 93 059 | 93 059 |
| Other liabilities | 725 310 | 725 310 | 212 354 | 212 354 |
| Total liabilities for which fair value is disclosed | 31 962 976 | 31 903 733 | 30 640 376 | 30 732 130 |

The table below specified analysis by fair value levels as at 31 December 2019 (based on their carrying amounts):

| | Level 1 31.12.2019. | Level 2 31.12.2019. | Level 3 31.12.2019. | Level 1 31.12.2018. | Level 2 31.12.2018. | Level 3 31.12.2018. |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| | EUR | EUR | EUR | EUR | EUR | EUR |
| Assets at fair value | | | | | | |
| Finance lease receivables non-current | - | - | 13 361 713 | - | - | 24 925 333 |
| Loans and advances to customers non-current | - | - | 1 824 652 | - | - | 1 311 573 |
| Loans to related parties | - | - | 27 952 012 | - | - | 11 041 800 |
| Finance lease receivables current | - | - | 5 704 587 | - | - | 8 562 209 |
| Loans and advances to customers current | - | - | 850 415 | - | - | 1 376 781 |
| Trade receivables | - | - | 904 253 | - | - | 3 684 871 |
| Other receivables | - | - | 152 170 | - | - | 105 716 |
| Cash and cash equivalents | 270 571 | - | - | 674 185 | - | - |
| Total assets at fair value | 270 571 | - | 50 749 802 | 674 185 | - | 51 008 283 |
| Liabilities at fair value | | | | | | |
| Liabilities for issued debt securities | - | 30 059 243 | - | - | 29 908 246 | - |
| Lease liabilities for right-of-use assets | - | - | 1 123 242 | - | - | 74 373 |
| Loans from related parties | - | - | - | - | - | 352 344 |
| Trade payables | - | - | 55 181 | - | - | 93 059 |
| Other liabilities | - | - | 725 310 | - | - | 212 354 |
| Total liabilities at fair value | - | 30 059 243 | 1 903 733 | - | 29 908 246 | 732 130 |

43. Events after reporting period

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

Subsequent events and their impact on the Company's ability to continue as a going concern

On 11 March 2020 the World Health Organization declared the coronavirus outbreak a pandemic, and the Latvian government declared a state of emergency on 12 March 2020. Responding to the serious threat the COVID-19 presents to public health, the Latvian government authorities have taken measures to contain the outbreak, including suspension of international passenger transport through airports, ports, by bus and rail and the 'lock-down' of certain industries, pending further developments. In particular, airlines, sea carriers and railways suspended international transport of people, schools, universities, restaurants, cinemas, theatres and museums and sport facilities were closed or restricted their activities. Many businesses in Latvia have also instructed employees to remain at home and some have curtailed or temporarily suspended business operations. Similar measures were taken by other European countries and other countries affected by the pandemic.

The wider economic impacts of these events include:

- Disruption to business operations and economic activity in Latvia, with a cascading impact on both upstream and downstream supply chains;
- Significant disruption to businesses in certain sectors, both within Latvia and in markets with high dependence on a foreign supply chain as well as export-oriented businesses with high reliance on foreign markets. The affected sectors include trade and transportation, travel and tourism, entertainment, manufacturing, construction, retail, insurance, education and the financial sector;
- Significant decrease in demand for non-essential goods and services;
- An increase in economic uncertainty, reflected in more volatile asset prices and currency exchange rates.

On 22 March 2020 the law on measures to prevent and overcome the national threat and combat its consequences in relation to the spread of the disease caused by COVID-19 entered into force.

The Cabinet of Ministers originally determined sectors that have been financially affected by the spread of COVID-19 and are eligible to receive the measures and special support mechanisms provided by the law and the list is being continuously extended and clarified.

A number of measures are introduced by the law, including the following principal ones:

- Idle time benefits to unemployed employees in the amount of up to 75% of their remuneration during the last six months but not in excess of EUR 700 for a calendar month;
- The right to apply for an extension of tax payment deadlines and also to request an extension of a tax payment deadline if the delay has been caused by COVID-19;
- Ways to increase the reserve capital of the state development financial institution ALTUM to enable companies affected by COVID-19 to use support instruments such as credit guarantees and loans to address the crisis.

Management evaluated the fact that the Company operates in a sector indirectly subject to temporary lockdown and state of emergency imposed by the government, and global circumstances and has considered that the lockdown and state of emergency period may be extended beyond the currently extended period of two months (i.e. beyond 12 May 2020). Due to these conditions over the last few weeks the Company has experienced reasonably expected decrease in its financial performance. Based on the publicly available information at the date these separate financial statements were authorized for issue, management considered a number of severe but plausible scenarios with respect to the potential development of the outbreak and its expected impact on the Company and economic environment, in which the Company operates, including the measures already taken by the Latvian government.

The Company monitors its liquidity ratios on an ongoing basis. The main liquidity ratios for the Company are capitalization ratio and interest coverage ratio. As at 31 March 2020, the Company's capitalization ratio and interest coverage ratio were accordingly 62% and 2.8 (31.12.2019: 49% and 2.6), indicating stable liquidity shape of the Company. The Company has maintained strong funding and liquidity position with its robust diversified funding base. As at 31 of March 2020 the Company is compliant with all financial covenants. The Company's management foresees that it will be able to fully satisfy the requirements of financial covenants as a minimum for 12 months assuming baseline development scenario as outlined below.

The Company management foresees that in the following months the main liquidity source would arise from positive net cash flow balances resulting from the Company's planned savings of administrative costs by more than 50% due to applied cost optimization actions and full focusing on debt collection. In order to strengthen the Company's liquidity and assure positive cash balances, the Company has carried out miscellaneous liquidity risk management activities such as limiting the issuance of new loans, focus on sound debt collection process and severe cost cutting. The Company controls its liquidity also by managing the amount of funding it attracts through peer-to-peer platform Mintos, which provides management greater flexibility to manage the level of borrowings and available cash balances. Despite the current uncertainty in the global economy, the amount of loans funded through Mintos have remained stable, demonstrating that investors trust in Mogo as a stable company, and they continue to invest in Mogo loans. The change in Mintos funding from 31/12/2019 to 31/03/2020 was EUR 543 thousand, which is 6% decrease.

Management further considered the following operating risks that may adversely affect the Company:

- Temporarily closed offline sales channels;
- Workforce unavailability for extended period;
- Recession in the Latvian economy and globally, as already confirmed by a number of economic forecasts done internationally, for the eurozone and in Latvia, that would significantly reduce the purchasing power of end consumers and businesses. For instance, the latest Bank of Latvia forecast anticipates GDP decline of 6.5% in 2020;

In order to mitigate the risks resulting from potential adverse scenarios, management started to implement the measures, which notably include:

- Formation of crisis management team, to ensure instant reaction to the situation, dedicated resources reviewing public health requirements and other related government announcements and ensuring the Company stays informed;
- To address increasing credit risk the Company has focused and reconsidered debt collection strategy for the existing portfolios;
- Strengthening the new loan issuance policy;
- Implemented set of cash preserving activities to manage liquidity risk;
- Developing alternative ways of accepting payments such as integration with paybox companies, online payment providers, remittance services;

43. Events after reporting period (continued)

Subsequent events and their impact on the Company's ability to continue as a going concern (continued)

- Successful implementation of work from home ensuring continuity of core processes;
- Employees have been required to adhere to very strict precautionary standards including social distancing and other health and safety best practices followed by published government guidelines;
- Monitoring and starting application process for any reliefs and support mechanisms provided by the Latvian government and governments in other countries, to which the Company could qualify, including discussions with tax authorities to renegotiate the tax payment schedules;
- Reviewing and renegotiating payment terms with suppliers.

The Company has performed the stress test – a quantitative analysis with a set of harsh scenarios of Company's operations assuming partly disrupted core processes or 'full lockdown' due to COVID-19 for several months. The key assumptions of the stress test include limited or entirely paused issuance of new loans and car sales and severe cost reduction related with the issuance of new loans and administration costs. The stress test includes 3 scenarios and the key assumptions are as follow:

1) Baseline scenario:

- loans issuance volumes: as of March 2020 decrease by 50% from budgeted amounts, April till June 2020 – no new loans issued, July 2020 - decrease by 70%, August 2020- decrease by 30%, starting from September 2020 – return to budgeted levels. Countries in Western Europe that were the first ones affected by COVID-19 have start to gradually relax the social distancing rules in the second half of April, therefore the management believes that the recovery scenario of 6 months is a reasonably conservative assumption;
- elimination of costs directly attributable to the loan issuance (e.g., marketing costs, car registration expenses, database costs): in March 2020 decrease by 50% from budgeted amounts, April till June 2020 – nil, from July till August – decrease by 30%;
- decrease of payroll costs by around 20% associated with certain employee layoff;
- decrease in profitability levels by 30% from April till August 2020- mostly on account of increased ECL. Since the pattern of loan and lease payments in March and April 2020 to date shows 15-25% worsening compared with payments discipline before COVID-19 outbreak, certain loan issuances continued into April, and there is no increase in numbers of rental fleet cars returned, the management believes that the estimate of profitability decrease by 30% for April till August 2020 due to payment worsening is a prudent assumption and it leaves certain room for a potential payment discipline worsening.

2) Optimistic scenario.

Key assumptions same as per baseline scenario, except no decrease in profitability estimated (i.e. no substantial payment discipline worsening)

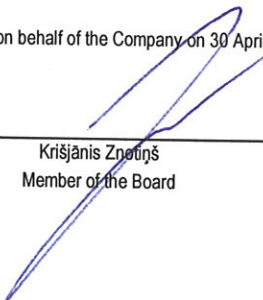
3) Pessimistic scenario:

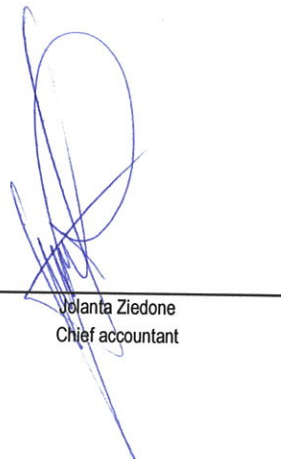
Key assumptions equal as per baseline scenario, except the profitability estimated to worsen twice from baseline's scenario for April till August 2020.

In management's view, and having considered the results of the stress testing, the above factors and measures taken support the assertion that the Company will have sufficient resources to continue for a period of at least 12 months from the reporting date. Management concluded that the range of possible outcomes considered at arriving at this judgment does not give rise to material uncertainties related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Management cannot however preclude the possibility that extended lock down periods, an escalation in the severity of such measures, or a consequential adverse impact of such measures on the economic environment the Company operates in will not have an adverse effect on the Company, and its financial position and operating results, in the medium and longer term. We continue to monitor the situations closely and will respond to mitigate the impact of such events and circumstances as they occur.

Signed on behalf of the Company on 30 April 2020 by:


Krišjānis Znotiņš
Member of the Board


Jolanta Ziedone
Chief accountant



KPMG Baltics AS
Vesetas iela 7
Rīga, LV-1013
Latvia

Telephone +371 67038000
Telefax +371 67038002
kpmg.com/lv

Independent Auditors' Report

To the shareholder of JSC Mogo

Report on the Audit of the Separate Financial Statements

Our Opinion on the Separate Financial Statements

We have audited the accompanying separate financial statements of JSC Mogo ("the Company") set out on pages 7 to 57 of the accompanying Annual Report, which comprise:

- the separate statement of financial position as at 31 December 2019,
- the separate statement of profit and loss and other comprehensive income for the year then ended,
- the separate statement of changes in equity for the year then ended,
- the separate statement of cash flows for the year then ended, and
- notes to the separate financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of JSC Mogo as at 31 December 2019, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

In accordance with the 'Law on Audit Services' of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibility for the Audit of the Separate Financial Statements* section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and independence requirements included in the 'Law on Audit Services' of the Republic of Latvia that are relevant to our audit of the separate financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and the 'Law on Audit Services' of the Republic of Latvia.

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

Key Audit Matters

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

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



| Going Concern | |
|--|--|
| Key audit matter | How we addressed the key audit matter |
| <p>The Company's separate financial statements are prepared on a going concern basis.</p> <p>The World Health Organization declared on 11 March 2020 the coronavirus (COVID-19) outbreak a pandemic, and also, on 12 March 2020, the Decree of the Government of Latvia was issued, whereby the country's government declared the state of emergency. The measures taken by the government to counter the effects of the outbreak include border closure, quarantine, severe limitations imposed on cross-border and domestic transportation, ban on social, cultural, leisure or sport events, among other things. As a consequence, the Company was forced to temporarily close offline sales channels and transfer to mostly remote working regime, until at least 12 May 2020. Due to these conditions during March and April 2020, the Company experienced a significant decrease in revenues and profitability.</p> <p>The Company's going concern assessment was based on cash flow forecasts, which, in the Management Board's view, support the assertion that the Company will have sufficient resources to continue for a period of at least 12 months from the reporting date. The preparation of these forecasts incorporated a number of assumptions and significant judgment under a number of scenarios, including those considered by the Management Board to be severe but plausible, such as an extended closure of offline channels and a substantial reduction in new loan issuance. As part of</p> | <p>Our procedures in this area included, among others:</p> <ul style="list-style-type: none"> • understanding the Company's business planning process, including the assessment of its ability to continue as a going concern, and the preparation and validation of cash flow forecasts used in the assessment, and also testing the Company's key related internal controls; • inspecting the Management Board's going concern assessment, including their evaluation of the business/operating and liquidity risks arising from the COVID-19 outbreak, and plans for further actions in response to the risks identified. As part of the procedure, we also made corroborating inquiries of the Company's CEO and CFO; • independently evaluating the reasonableness and feasibility of the plans for future actions in order to alleviate the effects of the outbreak, by reference to the preceding procedure as well as by performing the following: <ul style="list-style-type: none"> — challenging the key assumptions used in the determination of the forecast financial information under various scenarios. This primarily included challenging the assumed lockdown and sales channel closure periods, forecast amounts of new loans attracted, borrower payment discipline trends, capital expenditure and cost optimization volumes, based on our understanding of the Company's activities and by reference to publicly available industry/market reports; |



the assessment, the Company also considered a number of actions aimed at alleviating the potential disruption to its business and liquidity position, such as increased debt collection control, cost cutting initiatives and available tax payment deferrals.

The Management Board concluded that the range of possible outcomes considered at arriving at this judgment does not give rise to material uncertainties related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. Note 43 further explains how the judgment was formed.

The COVID-19 pandemic is an unprecedented challenge for humanity and for the economy globally, and at the date of approval of the separate financial statements for issue, its effects are subject to significant levels of uncertainty. The Company's use of the going concern basis of accounting is a key audit matter due to the associated extent of uncertainty, and consequently, high level of judgment required in evaluating the Management Board's plans for future actions and their financial impact.

- performing an analysis of the going concern conclusion's sensitivity to changes in the aforementioned key assumptions adopted in the going concern assessment, and considering whether there were any indicators of management bias in the assessment;
- assessing the availability of financing facilities and arrangements, by inspecting underlying documentation, such as agreements signed before the reporting period end, and assessing the impact of any covenants and other restrictive terms therein;
- considering whether any additional relevant facts or information have become available since the date on which the Company made its assessment;
- evaluating the appropriateness of Company's disclosures in respect of the going concern assessment, subsequent events and any related uncertainties in the separate financial statements.



Impairment allowance for finance lease receivables, loans and advances to customers

The gross amount of finance lease receivables as at 31 December 2019: EUR 22 811 thousand; reversal of impairment allowances on lease receivables recognised in 2019: EUR 1 393 thousand; total impairment allowance as at 31 December 2019: EUR 3 165 thousand.

The gross amount of loans and advances to customers as at 31 December 2019: EUR 3 171 thousand; impairment allowances on lease receivables recognised in 2019: EUR 177 thousand; total impairment allowance as at 31 December 2019: EUR 362 thousand.

We refer to the separate financial statements: Note 2 and Note 3 (accounting policy), Notes 20 and 21 (financial disclosures).

Key audit matter

Finance lease receivables, and loans and advances to customers, collectively ("exposures"), represent approximately 37% of the Company's assets as at 31 December 2019. Related impairment allowances represent the Management Board's best estimate of the expected credit losses associated with those exposures at the reporting date.

The Company estimates impairment allowances under the expected credit losses (ECLs) model of IFRS 9, considering multiple scenarios. In the process, the exposures are assigned to one of three stages. Stage 1 and Stage 2 loans are performing exposures, with Stage 2 exposures being those where a significant increase in credit risk since origination ("SICR") has been observed. Stage 3 loans are non-performing exposures. The ECLs for all are determined collectively, by applying modelling techniques, based on the historical pattern of losses and changes in the exposures' risk characteristics, adjusted by relevant forward-looking information. Key parameters within the model include those in respect of Probability of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD").

Timely identification of exposures with significant increase in credit risk and those credit impaired also requires significant management judgment.

Due to the above factors, we consider the area to be associated with a significant risk

How we addressed the key audit matter

Our procedures in the area included, among others:

- inspecting the Company's ECL methodology and assessing its compliance with the relevant requirements of the financial reporting standards. As part of the above, we challenged whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level and portfolio-level factors;
- testing selected key controls over the approval and recording of lease receivables and loans, and also those over the management review and approval of the key ECL model inputs and outcomes;
- assisted by our own information technology (IT) specialists, testing the application and general IT controls related to the ECL estimation process, data flows between source systems and calculation of days past due;
- assisted by our own financial risk management specialists, independently assessing the forward-looking information used in the ECL model, by means of corroborating inquiries of the Management Board and inspection of publicly available information;



| | |
|---|---|
| <p>of material misstatement, which requires our increased attention in the audit. As such, we determined it to be a key audit matter.</p> | <ul style="list-style-type: none"> challenging the LGD, PD and EAD parameters in the model, by inspecting the Company's experience studies, assessing any changes thereto in 2019 and making related inquiries of the Management Board and relevant credit risk personnel; assessing the appropriateness of the Company's staging of exposures, including identification of exposures with SICR, by reference to our analysis of the customer debt service experience. As part of the procedure, we also tested the appropriateness of the impairment rates applied in the model for exposures in a given stage; critically assessing the reasonableness of the ECL allowances, including both the share of the gross non-performing exposure in total gross exposure and the non-performing loans provision coverage; assessing the adequacy of the Company's disclosures on the loss allowances and credit risk management in the notes to the separate financial statements. |
|---|---|

Interest income recognition

Interest income from finance lease receivables in 2019: EUR 11 573 thousand; Interest income from loans and advances to customers in 2019: EUR 1 409 thousand;

We refer to the separate financial statements: Note 2 (accounting policy), Note 4 (financial disclosures).

| Key audit matter | How we addressed the key audit matter |
|--|---|
| <p>Interest income represented 82% of the Company's total revenue and other income for the year ended 31 December 2019.</p> <p>The calculation of interest income relies on the application of complex information technology systems, which process substantial amounts of data requiring frequent updates.</p> | <p>Our procedures in the area included, among others:</p> <ul style="list-style-type: none"> obtaining understanding of and evaluating the Company's interest income recognition policies against the requirements of the relevant financial reporting standards; testing the design and implementation of selected key controls within the |



In addition, interest income to be recognized is determined using the effective interest rate ("EIR") method. In making the determination, the Company applies a model whereby manual adjustments are made to the interest amounts calculated in an automated manner based on contractual interest rate, to reflect incremental costs incurred in securing the underlying lease and loan contracts in the measurement of the EIR and resulting interest income recognized in profit or loss.

The above complexities increase the risk of a material error in the recognition of interest income and, because interest income represents one of the Company's key performance indicators, there is an inherent risk that the timing of recognition and the amounts recognized could be manipulated to meet specific targets or expectations.

In the wake of the above factors, we considered interest income recognition to be associated with a significant risk of material misstatement due to both error and fraud. Therefore, the area required our increased attention in the audit and as such was determined to be a key audit matter.

interest recognition process, including those over application of appropriate contractual interest rates and other contractual terms in the interest income recognition process and review, and approval of manual accounting entries to measure EIR;

- assisted by our own IT specialists. testing IT general controls and selected key process level controls for the systems supporting the automated element of the interest income calculation, using contractual (nominal) interest rates;
- in respect of the internal reports and computations for manual adjustments to recognized interest income, testing the mathematical and logical accuracy of the reports and computations and, on a sample basis, tracing selected data inputs used in the reports, as follows:
 - commissions – by reference to supporting counterparty invoices;
 - interest rate implicit in the lease, principal outstanding at the year end and remaining lease term - by reference to the terms of the underlying finance lease and loan agreements;
- examining whether the interest income-related disclosures in the separate financial statements appropriately include and describe the relevant quantitative and qualitative information required by the applicable financial reporting framework.

Impairment of investment in and loan issued to the subsidiary

The carrying amount of investment in the subsidiary as at 31 December 2019: EUR 5 500 thousand; loan issued to the subsidiary as at 31 December 2019: EUR 3 653 thousand; related impairment allowances recognized as at 31 December 2019, and impairment loss for the year then ended: nil.

We refer to the separate financial statements: Note 2 and 3 (accounting policy), Note 36 and 37 (financial disclosures).

Key audit matter

As at 31 December 2019, the Company, in its separate financial statements, carried an investment in its subsidiary, Renti JSC ("Renti"). The investment is accounted for at cost less any related impairment losses. In addition, in 2019, the Company provided Renti with a loan up to the amount of EUR 10 000 thousand and with maturity in 2024.

Under the relevant financial reporting standards, at the end of each reporting period, management is required to assess whether there is any indication that investments in subsidiaries may be impaired. The indications may include significant current and past losses, negative equity or below-budget performance.

Based on the assessment, management identified impairment triggers in respect of the investment in Renti, as discussed in Note 37. As a result, the Company estimated the recoverable amount the investment, by reference to its value-in-use, using a discounted cash flow model. As at the reporting date, the Company also assessed its loan receivables from Renti for impairment, using the expected credit loss model, including the assessment of whether there is significant increase in credit risk and consequential need to classify the exposure as Stage 2 or Stage 3 per IFRS 9.

The determination of the investment's recoverable amount and the expected credit losses for the loan receivable requires the Management Board to make

How we addressed the key audit matter

Our procedures in the area, performed with the assistance from our own valuation specialists, included, among others:

- testing the selected key controls in the impairment testing process, including those over the review and approval of the key assumptions applied in the impairment testing and of the test outcomes;
- assessing the appropriateness of impairment testing methods applied to the assets in question, against the requirements of the relevant financial reporting standards and current market practice;
- evaluating the reasonableness of the Management Board's judgment as to the existence of impairment indicators and significant increase in loan credit risk. This included, but was not limited to, discussing the subsidiary's performance with the Company's finance function officers, and assessing its strategy and historical profitability;
- challenging the key assumptions applied in the impairment tests, as follows:
 - terminal flow growth rate - by reference to historical financial performance of other related companies, assessed quality of budgeting process, past and expected future market developments;
 - discount rates - by assessing whether the cost of debt and cost of equity used are within the reasonable range,



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| <p>subjective judgements, including those in respect of the subsidiary's future operating cash flows, growth rates and discount rates, and is therefore associated with significant estimation uncertainty.</p> <p>Due to the above, we determined impairment assessment in respect of the investment in subsidiary and the loan receivable therefrom to be associated with a significant risk of a material misstatement that required our increased attention in the audit. As such, the area was considered by us to be a key audit matter.</p> | <p>given Renti's industry, risk profile and financial position;</p> <ul style="list-style-type: none"> — other key inputs, such as estimates of free cash flows in the first 5 years of operation by inquires of the Management Board members and inspection of supporting documentation (including approved budgets); • performing an independent sensitivity analysis of impairment test' results to changes in key assumptions, such as, primarily, terminal growth and discount rates; • considering the adequacy of the Company's disclosures related to the assumptions and significant judgements used in estimating the recoverable amounts of the investment in subsidiary and the loan issued thereto. |
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Other Matter

The separate financial statements of the Company as at and for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those statements on 31 May 2019.

Reporting on Other Information

The Company's management is responsible for the other information. The other information comprises:

- Information about the Company, as set out on page 3 of the accompanying Annual Report,
- the Management Report, as set out on page 4 of the accompanying Annual Report,
- the Statement on Management Responsibility, as set out on page 6 of the accompanying Annual Report,
- the Statement of Corporate Governance for 2019, as set out in separate statement provided by JSC Mogo management and available on the Nasdaq Baltic exchange website <https://nasdaqbaltic.com>. JSC Mogo, section *Reports*,

Our opinion on the separate financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia Related to Other Information* section of our report.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.



If, based on the work we have performed and in light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia Related to Other Information

In addition, in accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the 'Law on the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Based solely on the work required to be undertaken in the course of our audit, in our opinion, in all material respects:

- the information given in the Management Report for the financial year for which the separate financial statements are prepared is consistent with the separate financial statements; and
- the Management Report has been prepared in accordance with the requirements of the 'Law on the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

In accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in section 56.1, first paragraph, clause 3, 4, 6, 8 and 9, as well as section 56.2, second paragraph, clause 5, and third paragraph of the 'Financial Instruments Market Law' of the Republic of Latvia and if it includes the information stipulated in section 56.2 second paragraph, clause 1, 2, 3, 4, 7 and 8 of the 'Financial Instruments Market Law' of the Republic of Latvia.

In our opinion, the Statement of Corporate Governance includes the information required in section 56.1, first paragraph, clause 3, 4, 6, 8 and 9, as well as section 56.2, second paragraph, clause 5, and third paragraph of the 'Financial Instruments Market Law' of the Republic of Latvia and it includes the information stipulated in section 56.2 second paragraph, clause 1, 2, 3, 4, 7 and 8 of the 'Financial Instruments Market Law' of the Republic of Latvia.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation of the separate financial statements that give a true and fair view in accordance with the IFRSs as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.



Auditors' Responsibility for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and objectivity, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Other Reporting Responsibilities and Confirmations Required by the Legislation of the Republic of Latvia and the European Union when Providing Audit Services to Public Interest Entities

We were appointed by those charged with governance on 31 October 2019 to audit the separate financial statements of JSC Mogo for the year ended 31 December 2019. Our total uninterrupted period of engagement is 1 year, covering the year ended 31 December 2019.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company;
- as referred to in the paragraph 37.6 of the 'Law on Audit Services' of the Republic of Latvia we have not provided to the Company the prohibited non-audit services (NASs) referred to of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

KPMG Baltics AS
Licence No. 55

Armine Movsisjana

Armine Movsisjana
Chairperson of the Board
Latvian Sworn Auditor
Certificate No. 178
Riga, Latvia
30 April 2020

This report is an English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails