TWINO

SIA TWINO CONSOLIDATED ANNUAL REPORT FOR 2018

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General Information

NAME OF THE COMPANY	TWINO
LEGAL STATUS OF THE COMPANY	Limited liability company
REGISTRATION NUMBER, PLACE AND DATE	40103919184, Riga, 5 August 2015
REGISTERED OFFICE AND MAILING ADDRESS	41 Mukusalas street, Riga, LV-1004
BUSINESS ACTIVITY	Other credit granting (NACE 64.92)
CHAIRMAN OF THE COUNCIL	Armands Broks
MEMBERS OF THE COUNCIL	Armands Broks, Chairman of the Council from 09.10.2019. Eleonora Zelmene, Member of the Council from 09.10.2019 Martins Mellens, Member of the Council from 09.10.2019
MANAGING DIRECTOR	Anastasija Oleinika
MEMBERS OF THE BOARD	Anastasija Oleinika, Member of the Board from 31.01.2019 until 04.04.2019, Chairman of the Board from 09.10.2019 Miks Lusitis, Member of the Board from 09.10.2019 Roberts Bite, Member of the Board from 09.10.2019 Nauris Bloks, Member of the Board from 09.10.2019 Roberts Lasovskis, Member of the Board from 09.10.2019 Armands Broks, Chairman of the Board until 09.10.2019 Zane Ziedone, Member of the Board from 23.04.2018 to 31.01.2019 Jevgenijs Kazanins, Member of the Board until 15.12.2017
REPORTING PERIOD	01.01.2018 – 31.12.2018
SHAREHOLDER	Armands Broks Equity interest: 100%
AUDITOR	BDO ASSURANCE SIA 15 - 3B Kaļķu street Riga, Latvia LV-1050 Licence No 182 Certified auditor in charge: Modrīte Johansone Certificate No 135

Management report

Business profile

SIA "TWINO" (hereinafter – the Company) and its subsidiaries form a group of companies (hereinafter – the Group), and the Group's management has prepared the consolidated financial statements for the period from 1 January 2018 to 31 December 2018 in accordance with International Financial Reporting Standards (IFRS). The Group unites and aids development of peer-to-peer lending companies as a single body incorporating the online peer-to-peer lending platform twino.eu (hereinafter – the twino.eu platform) and subsidiaries in several countries, whose core business is non-bank lending.

The Company offers customers an opportunity to earn premium returns on investments by registering and investing on the peer-to-peer lending platform twino.eu. The Group also supplies non-bank lending services via its subsidiaries in Russia, Poland, Latvia, Georgia and Kazakhstan. The Group's business model is based on earning profits from the spread between the income from issued loans and return to investors and operational costs. The Company acts as a holding company, a fundraising center and a leading human resource competence center for the Group's companies.

Group's operations and financial performance in the reporting period

Group's operations

The Group reported strong operating performance for the year 2018. The Group pursued a sustainable growth strategy, focusing on the improvement of lending products and quality of loan portfolio, leading to optimized profitability, as well as examination and improvement of customer experience. Owing to this strategic direction and efforts, which were initiated in 2017, the Group earned a net profit of EUR 8,740 thousand for the year 2018, of which the amount of EUR 6,124 is attributable equity holders of the Company.

Key events and activities of the Group for 2018 were as follows:

- the focus was put on the growth of the unsecured instalment consumer loan portfolio in Latvia and Poland by bringing in customers with stronger creditworthiness and offering them larger loans with longer maturities;
- the customer identification process was improved by introducing additional identification tools and expanding the range of credit databases to be used, with special focus placed on anti-fraud tools. Owing to these efforts, the quality of the loan portfolio improved considerably across the Group;
- great work and efforts were contributed to improve the internal control system, thereby supporting fight of the financial sector against money laundering and terrorism financing. The twino.eu platform had more stringent AML/CTF requirements introduced, for which purpose anti-money laundering and know-your-customer procedures were improved;
- the twino.eu platform introduced a new functionality called Currency Exposure to partly hedge the Group's exposure against negative Russian ruble fluctuations. At the same time, also investors can benefit as the loans that come with this functionality are listed with significantly higher return of 14% p.a.;
- continuous efforts were invested in limiting the Group's liquidity risk by growing the proportion of the current assets of the Group. Group's cash and cash equivalents increased by 119% on year over year basis reaching EUR 8,108 thousand.

The management is confident that the Group's financial situation is strong and prepares this annual report on the going concern basis.

Management report (cont'd)

Performance indicators

The twino.eu platform is one of the major peer-to-peer lending platforms in continental Europe offering investors buyback and payment guarantees. During the reporting period, the twino.eu platform attracted 4,621 new investors that together with the existing client base of 11,604 acquired claims totaling EUR 199 million with an average annual yield above 10.9%.

In the reporting period, the Group's non-bank lending companies issued loans amounting to EUR 183 million, of which 73% were issued in Russia, 9% – in Georgia, 7% – in Kazakhstan, 6% – in Poland and, 5% – in Latvia. During the reporting period, the Group employed on average 543 employees.

Financial performance

At the end of the reporting period, the Group's assets mainly consisted of claims against private individuals amounting to EUR 27,756 thousand, of which EUR 23,887 thousand were current loans and EUR 3,869 thousand – non-current loans.

For the reporting period, the total consolidated profit of the Group was EUR 8,740 thousand, of which the amount of EUR 6,124 is attributable equity holders of the Company. This profit will be used to cover the accumulated loss.

In the reporting period, the Group's net interest income grew by 64% against 2017 and reached EUR 37,726 thousand, while Group's finance and operating expenses amounted to EUR 70,627 thousand, of which finance expense were EUR 2,868 thousand and operating costs EUR 67,759 that mainly arose from losses of loan portfolio sale.

Financial risk management

Due to operational specifics, the Group is exposed to various financial risks, including credit risk, liquidity risk and currency risk. The Group has introduced procedures and processes for respective risk assessment and mitigation. A detailed description of financial risk management is provided in the section "Financial instruments and financial risks" of the notes to the consolidated financial statements.

Support projects and activities

The Group received several international awards, including the Digital Top 50 award in the B2C Scaleup category at the Tech Open Air event, decision on main awards were made by representatives from such famous companies as Google, McKinsey & Company and Rocket Internet SE. The Company was also recognized as one of the most export capable companies in 2018 and won the prestigious Red Jackets award in the Outstanding Export brand category. The Company was also one of the main candidates to be selected as a People's Choice Runner up by Altfi Awards. During the reporting period, the Company took an active part in activities aimed at strengthening the image of the industry and proceeded with educational FinTech talks by TWINO in Latvia and Estonia, which have brought together more than 10 000 industry experts in total so far. The Company continued actively to support the start-up community, for which purpose the Company supported the biggest and most recognized industry events, such as TechChill and Digital Freedom Festival in Latvia and Latitude59 in Estonia.

Subsequent events

Subsequent to the end of the reporting period, the twino.eu platform continued demonstrating sustainable growth rates, i.e. by the end of September, the number of identified customers of the platform grew by 2,527 and the amount of purchased claims was up by EUR 143 million.

In April 2019, the Company repurchased all the existing bonds from bondholders and in May has finalized its redemption process. In April 2019 new operations were launched in Latvia by introducing SME lending product to the market.

Management report (cont'd)

In May 2019, twino.eu platform reached a profound achievement by becoming only the fourth peer-to-peer lending platform in Continental Europe to breach EUR 500 million threshold of loans funded.

The Currency Exposure functionality that lets investors to invest in loans that are pegged to the loan issuing country's local currency got an update. This will allow the Group to further decrease its Russian ruble exposure.

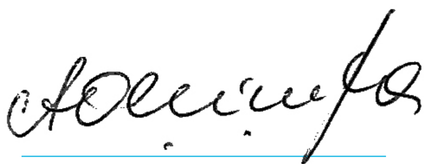
Russian consumer lending market experienced 2 waves of regulation – in January and July 2019. The Group was prepared and on timely basis adjusted its risk tolerance and product structure to retain profitability.

In June 2019 Georgian company was transformed into an in-house IT Services Support Center. Due to the current circumstance origination of new loans within the historical operating model were discontinued.

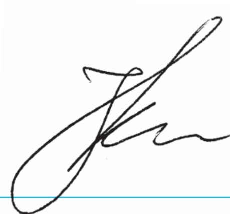
Future prospects

In the year 2019, the Group will:

- broaden the range of products offered and customer segments, thereby diversifying the risk of customer and country concentration. At the beginning of 2019, a Group's company OC Finance started issuing loans of up to EUR 100,000 to small and medium-sized enterprises in Latvia;
- analyze and evaluate potential launch of lending operations in Asian market to further limit the country concentration risk;
- proceed with the strategic development of the twino.eu platform, offering investors high-quality services, i.e. safe investments with high returns and investment experience with broad diversification opportunities such as currency exposure functionality in additional markets;
- seek for additional long-term revenue generating products such as lending to real-estate and development projects. Moreover, this will create a new investment opportunities for twino.eu investors to satisfy the ever-growing interest for high yield investments in European zero interest rate environment;
- continue to improve and build robust anti-money laundering and counter-terrorism financing internal control system according to local and international regulations by leveraging latest technologies and international best practices;
- focus on further reinforcement of financial stability and liquidity position.



Anastasija Oleinika
Chairman of the Board



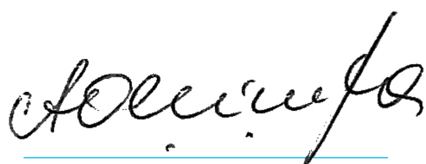
Imants Baklans
Head of Finance

31 October 2019

Consolidated statement of comprehensive income for 2018

	Notes	2018, EUR'000	2017, EUR'000
Interest income		38,402	23,753
Interest expense	2	(676)	(762)
Net interest income		**37,726**	**22,991**
Fee and commission income	3	52,062	34,687
Fee and commission expense	4	(2,192)	(2,865)
Other operating expenses	5	(38,957)	(31,395)
Non-interest income		**10,913**	**427**
Net impairment income/(loss) on loans and receivables from customers		(5,245)	2,592
Operating costs	6	(28,802)	(31,470)
Net foreign currency loss		(1,594)	(1,753)
Profit/ (loss) before tax		**12,998**	**(7,213)**
Corporate income tax and changes in deferred tax	7	(4,258)	(2,645)
Total comprehensive income/ (expenses) for the reporting period		**8,740**	**(9,858)**
Attributable to:			
Equity holders of the Parent Company		6,124	(11,516)
Non-controlling interests		2,616	1,658

The accompanying notes on pages 12 to 55 are an integral part of these financial statements.



Anastasija Oleinika
Chairman of the Board

Imants Baklans
Head of Finance

31 October 2019

Consolidated statement of financial position as at 31 December 2018

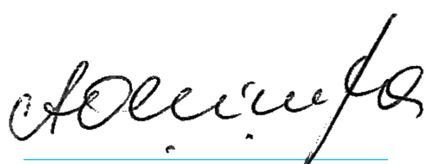
Assets	Notes	31.12.2018 EUR'000	31.12.2017 EUR'000	01.01.2017 EUR'000
NON-CURRENT ASSETS				
Intangible assets				
Concessions, patents, licenses, trademarks and similar rights		46	80	100
Goodwill		3,382	4,193	5,414
Other intangible assets		552	1,013	1,193
Advances for intangible assets		174	16	119
Total intangible assets	8	**4,154**	**5,302**	**6,826**
Property, plant and equipment				
Other fixed assets and inventory		514	903	923
Total property, plant and equipment	9	**514**	**903**	**923**
Non-current financial assets				
Other investments	21	241	294	234
Other loans and non-current receivables – non-current loans to private individuals	11	3,869	800	4,012
Deferred income tax assets	7	659	613	1,921
Total non-current financial assets		**4,769**	**1,707**	**6,167**
TOTAL NON-CURRENT ASSETS		**9,437**	**7,912**	**13,916**
Receivables				
Other receivables - current loans to private individuals	11	23,887	28,644	36,741
Receivables from related companies	12	2,184	1,532	763
Other receivables	13	21,420	10,450	2,789
Total receivables		**47,491**	**40,626**	**40,293**
Cash and cash equivalents	14	**8,108**	**3,706**	**2,851**
TOTAL CURRENT ASSETS		**55,559**	**44,332**	**43,144**
TOTAL ASSETS		**65,036**	**52,244**	**57,060**

The accompanying notes on pages 12 to 55 are an integral part of these financial statements.

Consolidated statement of financial position as at 31 December 2018 (cont'd)

Equity and liabilities	Notes	31.12.2018, EUR'000	31.12.2017, EUR'000	01.01.2017, EUR'000
EQUITY				
Share capital	15	7,708	7,708	7,708
Share premium		239	239	239
Reorganisation reserve		11,728	11,728	11,728
Foreign currency translation reserve		(2,366)	221	(180)
Accumulated loss		(14,496)	(2,966)	(1,247)
Comprehensive income/(expense) for the reporting period		**6,124**	**(11,516)**	**(1,719)**
Total equity attributable to equity holders of the Company		8,937	5,414	16,529
Non-controlling interests		6,526	5,098	3,911
TOTAL EQUITY	16	**15,463**	**10,512**	**20,440**
LIABILITIES				
Non-current liabilities				
Payables for assignment rights – other borrowings	17	4,392	1,439	–
Other borrowings	18	39	146	5,109
Deferred income tax liabilities		944	472	520
Total non-current liabilities		**5,375**	**2,057**	**5,629**
Current liabilities				
Payables for assignment rights – other borrowings	17	19,831	26,228	22,434
Trade payables		2,605	2,433	4,031
Other borrowings	18	2,064	6,812	1,610
Taxes and statutory social insurance contributions payable		1,060	461	940
Other liabilities	19	17,914	2,474	742
Accrued liabilities		724	1,267	1,234
Total current liabilities		**44,198**	**39,675**	**30,991**
TOTAL LIABILITIES		**49,573**	**41,732**	**36,620**
Total equity and liabilities		**65,036**	**52,244**	**57,060**

The accompanying notes on pages 12 to 55 are an integral part of these financial statements.



Anastasija Oleinika
Chairman of the Board

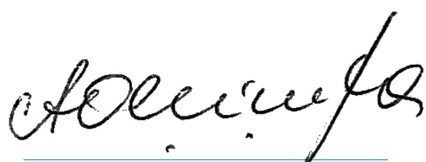
Imants Baklans
Head of Finance

31 October 2019

Consolidated statement of cash flows for 2018

	Notes	2018, EUR'000	2017, EUR'000
Cash flows from operating activities			
Profit/(loss) before corporate income tax		**12,998**	**(7,213)**
Adjustments for:			
depreciation/amortization and impairment	8,9	884	846
interest income		(96)	(282)
interest expenses		616	762
loss from fluctuations of currency exchange rates		(1,594)	(1,753)
loss on disposal of property, plant and equipment/intangible assets		319	777
Profit/(loss) before adjustments for the effect of changes in current assets and current liabilities		**13,127**	**(6,863)**
Adjustments for:			
decrease/(increase) in receivables		(10,978)	6,407
increase in trade and other payables		7,904	5,139
change in other assets		-	61
Gross cash flows from operating activities		**10,053**	**4,744**
Interest paid		(493)	(1,222)
Corporate income tax paid		(1,613)	(4,360)
Net cash flows from operating activities		**7,947**	**(838)**
Cash flows from investing activities			
Investments in subsidiaries		(1)	(61)
Income from sale of shares		46	-
Acquisition of property, equipment and intangible assets	8,9	(264)	(854)
Loans issued		(1,077)	(648)
Loans repaid		503	161
Interest received		18	-
Net cash flows from investing activities		**(775)**	**(1,402)**
Cash flows from financing activities			
Repayment of borrowings		(1,823)	(1,123)
Proceeds from borrowings		614	1,820
Dividends paid		(1,185)	(471)
Net cash flows from financing activities		**(2,394)**	**226**
Net foreign exchange difference		**(376)**	**2,869**
Net increase in cash and cash equivalents		**4,402**	**855**
Cash and cash equivalents at the beginning of the period		**3,706**	**2,851**
Cash and cash equivalents at the end of the period	14	**8,108**	**3,706**

The accompanying notes on pages 12 to 55 are an integral part of these financial statements.



Anastasija Oleinika
Chairman of the Board

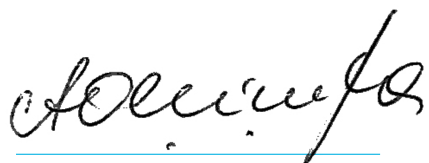
Imants Baklans
Head of Finance

31 October 2019

Consolidated statement of changes in equity for 2018

	Share capital	Reorganisation reserve	Share premium	Foreign currency translation reserve	Accumulated loss	Total equity attributable to equity holders of the Company	Non-controlling interests	Total equity
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
31.12.2016.	**7,708**	**11,728**	**239**	**(180)**	**(2,966)**	**16,529**	**3,911**	**20,440**
Other comprehensive income	–	–	–	401	–	**401**	–	**401**
Loss for the period	–	–	–	–	(11,516)	**(11,516)**	1,658	**(9,858)**
Dividends paid	–	–	–	–	–	–	(471)	**(471)**
31.12.2017.	**7,708**	**11,728**	**239**	**221**	**(14,482)**	**5,414**	**5,098**	**10,512**
Adjustment on initial application of IFRS 9, net of tax					(14)	**(14)**	(3)	**(17)**
01.01.2018. (restated)	**7,708**	**11,728**	**239**	**221**	**(14,496)**	**5,400**	**5,095**	**10,495**
Other comprehensive loss	–	–	–	(2,587)	–	**(2,587)**	–	**(2,587)**
Profit for the period	–	–	–	–	6,124	**6,124**	2,616	**8,740**
Dividends paid	–	–	–	–	–	–	(1,185)	**(1,185)**
31.12.2018.	**7,708**	**11,728**	**239**	**(2,366)**	**(8,372)**	**8,937**	**6,526**	**15,463**

The accompanying notes on pages 12 to 55 are an integral part of these financial statements.



Anastasija Oleinika
Chairman of the Board

Imants Baklans
Head of Finance

31 October 2019

Notes to the consolidated financial statements

1. Information on the Company's operations and significant accounting policies – general principles

Reporting entity

SIA "Twino" (the Company) was registered in the Republic of Latvia on 5 August 2015 as the limited liability company "TWINO" with unified registration number 40103919184. The legal address of the Company is at 41 Mukusalas street, Riga, LV-1004. The Company's Chairman of the Board is Anastasija Oleinika.

The Company together with related companies make up a Group. Companies within the Group are engaged in issuing unsecured consumer loans in different countries. The Company does not issue unsecured consumer loans, its primary function is to ensure continuous sufficiency of funds required for business development by selling claims arising from unsecured consumer loans using the *twino.eu* platform.

In 2017, the following subsidiaries were sold: Moneza Financial s.r.o. (the Czech Republic), Rapido Finance S.L. (Spain), AD Credit Sp. z o.o. (Poland), and NetCredit IFN S.A. (Romania).

The consolidated financial statements for the year ended 31 December 2018 were prepared by Head of Finance Imants Baklans. The Company's auditor is the commercial firm of certified auditors "BDO ASSURANCE" SIA, with Modrīte Johansone as the auditor in charge.

These consolidated financial statements have been authorised for issuance by the Management on 31 October 2019 and comprise the financial information of SIA "Twino" (hereinafter – the Company) and its subsidiaries (together referred to as the "Group"). The shareholder has the right to approve these financial statements, as well as have the right to make changes to these financial statements.

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, International Accounting Standards as issued by the International Accounting Standards Board (IASB) and Interpretations (collectively IFRSs), on a going concern basis.

This is a first-time adoption of IFRS in the consolidated financial statements of the Group. Consolidated financial statements until 31 December 2017 were prepared according to the Laws of the Republic of Latvia on Accounting and on Annual Reports and Consolidated Annual Reports. In the preparation of these financial statements IFRS 1 First-time Adoption of International Financial Reporting Standards was applied, the application is described at the end of the *Significant accounting policies* in part *Adoption of International Financial Reporting Standard*s.

The statement of comprehensive income has been prepared according to the function of expense method. The statement of cash flows has been prepared under the indirect method. The financial statements are prepared on a historical cost basis.

Reporting period

The consolidated financial statements cover 12 months from 1 January 2018 to 31 December 2018.

Significant accounting policies

The consolidated financial statements have been prepared in accordance with the following principles:

- going concern principle;
- prudence principle:

Notes to the consolidated financial statements (cont'd)

Significant accounting policies (continued)

  - the consolidated financial statements comprise only the profit generated to the balance sheet date;
  - all expected risk amounts and losses incurred during the reporting year have been taken into consideration, even if identified during the period from the last day of the reporting year to the date of preparation of the consolidated financial statements;
  - all impairment and depreciation amounts have been calculated and considered irrespective of whether the financial result was a profit or loss;

- income and expenses incurred during the reporting year have been taken into consideration irrespective of the payment date or the date that the invoice is received or issued. Expenses have been matched with respective income in the reporting period;
- assets and liabilities have been valued separately;
- all items having a material impact on the evaluation or decision making by the users of the consolidated financial statements are presented, immaterial items are added together and their disclosure is provided in the accompanying notes;
- business transactions are recorded according to their substance and economic reality and not merely their legal form.

Changes in accounting policies

a) New standards, interpretations and amendments effective from 1 January 2018

New standards impacting the Group that will be adopted in the annual financial statements for the year ended 31 December 2018, and which have given rise to changes in the Group's accounting policies are:

- IFRS 9 Financial Instruments (IFRS 9); and
- IFRS 15 Revenue from Contracts with Customers (IFRS 15)

The Group adopted IFRS 9 and IFRS 15 with a transition date of 1 January 2018. The Group has chosen not to restate comparatives on adoption of IFRS 9 and IFRS 15 and, therefore changes are not reflected in the restated prior year financial statements. Rather, these changes have been processed at the date of initial application (i.e. 1 January 2018) and recognized in the opening equity balances. Adoption differences are disclosed at the end of the *Significant accounting policies* in part *Effects of changes in accounting policies*.

Other new and amended standards and Interpretations issued by the IASB that will apply for the first time in the next annual financial statements are not expected to impact the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies.

b) New standards, interpretations and amendments, that are published and adopted by the EU but not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early. The most significant of these is:

- IFRS 16 Leases (mandatorily effective for periods beginning on or after 1 January 2019)
- IFRIC INTERPRETATION 23: Uncertainty over Income Tax Treatments (mandatorily effective for periods beginning on or after 1 January 2019)

The Group has progressed its projects dealing with the implementation of this key new accounting standard and is able to provide the following information regarding its likely impact.

Changes in accounting policies (continued)

(i) IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognize a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options; and
- leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting shall remain largely unaffected by the introduction of the new Standard and the distinction between operating and finance leases will be retained. It is expected that the new standard, when initially applied, will have some impact on the Group's financial statements, since it will require the Group to recognize on their statement of financial position assets and liabilities relating to operating leases for which the Group acts as a lessee.

Transition to IFRS 16

The Group chose to use a modified retrospective approach in transition to IFRS 16. The Group chose to use exceptions to leases that are short term, and leases of value that is not material.

The management has preliminarily estimated that there will impact on the Group financial statements that would result from transition to IFRS 16.

Group company Incredit Sp. z o.o. is a lessee under an office lease agreement with Proximo I Sp. z o.o. sp. k. where it leases office. Duration of the office lease agreement is until 27 February 2022. According to the estimates made by the Group's management IFRS 16 will impact lease assets on the balance sheet by approximately EUR 166 thousand.

Group company Net Credit Sp. z o.o. is a lessee under an office lease agreement with Proximo I Sp. z o.o. sp. k. where it leases office. Duration of the office lease agreement is until 27 February 2022. According to the estimates made by the Group's management IFRS 16 will impact lease assets on the balance sheet by approximately EUR 332 thousand.

Group company Twino SIA is a lessee under a car lease agreement with Unicredit Leasing SIA. Duration of the car lease agreement is until 30 September 2021. According to the estimates made by the Group's management IFRS 16 will impact lease assets on the balance sheet by approximately EUR 28 thousand.

(ii) IFRIC INTERPRETATION 23: Uncertainty over Income Tax Treatments

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 Group management has not yet estimated the potential impact of this interpretation on its financial statements, but it does not expect that the amendments, when initially applied, will have material impact on the financial statements.

Notes to the consolidated financial statements (cont'd)

(iii) Other

The Group does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the financial statements.

c) New standards, interpretations and amendments, that are published but not yet adopted by the EU

(i) Annual Improvements to IFRSs 2015 – 2017 Cycle

Annual Improvements to IFRSs 2015 – 2017 Cycle published December 2017, including IFRS amendments and amendments to two IAS standards applicable to information disclosure, recognition and measurement: amendments to IFRS 3 Business Combinations and IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs are effective for annual periods beginning after 1 January 2019 with earlier application permitted.

(ii) Amendments to References to Conceptual Framework in IFRS Standards

Amendments to References to Conceptual Framework in IFRS Standards published on 29 March 2018 are effective for annual periods beginning after 1 January 2019 or later.

(iii) Amendments to IFRS 3: Business Combinations

Amendments to IFRS 3: Business Combinations published on 22 October 2018 are effective for annual periods beginning after 1 January 2019 or later.

(iv) Amendments to IAS 1 and IAS 8 regarding the definition of materiality

Amendments to IAS 1 and IAS 8 regarding the definition of materiality published on 31 October 2018 are effective for annual periods beginning after 1 January 2019 or later.

Basis of consolidation

a) Subsidiaries

Subsidiaries are entities that are controlled by the Group. Control is presumed to exist when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation begins from the date the Group obtains control of the subsidiary and ceases when the Group loses control of the subsidiary.

b) Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealized gains/losses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements.

c) Business combinations

Business combinations are accounted for using the predecessor method when control is transferred to the Group. Under predecessor accounting, no purchase price allocation is performed. The acquired net assets are included in the consolidation at their carrying value. The difference between the consideration transferred and the net assets is recognized in equity.

Basis of consolidation (continued)

d) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate/joint venture at the date of acquisition. Goodwill on the acquisition of subsidiaries is included in intangible assets. Goodwill is allocated to cash-generating units and is stated at cost less impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Negative goodwill arising on an acquisition is recognized in the consolidated statement of profit or loss.

e) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the operation at the exchange rate set by the central bank of the country of operation or the European Central Bank for euro zone countries at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in a foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognized in the statement of comprehensive income. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the euro using the following exchange rates:

31 December 2018		31 December 2017	
PLN	4.3014	PLN	4.1770
GEL	3.0701	GEL	3.1044
DKK	7.4673	DKK	7.4449
RUB	79.7153	RUB	69.3920
GBP	0.89453	GBP	0.88723
CZK	25.724	CZK	25.535
MXN	22.4921	MXN	23.6612
KZT	439.370	KZT	398.230
RON	4.6635	RON	4.6585

Notes to the consolidated financial statements (cont'd)

Basis of consolidation (continued)

(ii) Foreign operations

The assets and liabilities of foreign operations are translated into the euro, the Group's presentation currency, at exchange rates set by the European Central Bank at the reporting date. The income and expenses of foreign operations are translated into the Company's functional currency at exchange rates at the transaction date. Foreign currency translation differences are recognized in the statement total comprehensive income. Foreign exchange gains or losses arising from a monetary item receivable from, or payable to, a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized directly in the foreign currency translation reserve.

Related parties

Related parties are individuals and legal entities which are related to the Company in accordance with the rules set out below.

A person or a close member of that person's family is related to a reporting entity if that person:

- has control or joint control over the reporting entity;
- has significant influence over the reporting entity; or
- is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

An entity is related to a reporting entity if any of the following conditions applies:

- the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- both entities are joint ventures of the same third party;
- one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- the entity is controlled or jointly controlled by a person identified in (a);
- a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity);
- the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

Investments in associates

Associates are entities over which the Group has significant influence, but not control, over financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of the associated entity. The consolidated financial statements include the Group's share of the total recognized gains and losses of associates under the equity method of accounting, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the Group's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Notes to the consolidated financial statements (cont'd)

Financial Instruments

A financial instrument is a contract that simultaneously gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The most significant financial instruments of the Group are financial assets, such as unsecured consumer loans to private individuals, loans to related and non-related companies and other receivables, and financial liabilities, such as payables for assignment rights to investors of the twino.eu platform, borrowings from related and non-related companies, issued debt securities and trade payables stemming directly from its business activity.

For the year ended 31 December 2018, the Group has adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

IFRS 9 contains three principal classification categories for financial assets:

- measured at amortized cost,
- fair value through other comprehensive income (FVOCI) and
- fair value through profit or loss (FVTPL).

IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

Initial recognition of financial instruments

Financial assets and financial liabilities are recognized in the Group's financial position when the Group becomes a party to the contractual provisions of the instrument.

Recognized financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Use of derivative financial instruments

To date, no derivative financial instruments have been used for hedging risks.

Financial assets

a) Classification and subsequent measurement

On initial recognition, a financial asset is classified into one of the following measurement categories:

- amortized cost;
- fair value through other comprehensive income (FVOCI); or
- fair value through profit or loss (FVTPL).

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- 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.

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The measurement category of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

	IAS 39	IFRS 9
Financial assets	**Measurement category**	**Measurement category**
Cash balances in banks	Amortized Cost	Amortized Cost
Loans to private individuals	Amortized Cost	Amortized Cost
Receivables from related parties	Amortized Cost	Amortized Cost
Other assets	Amortized Cost	Amortized Cost

Business model assessment – The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Group's management;

Financial assets (continued)

- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Assessment whether contractual cash flows are solely payments of principal and interest - For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- Contingent events that would change the amount or timing of cash flows;
- Terms that may adjust the contractual coupon rate, including variable rate features;
- Prepayment and extension features; and
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

b) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and unrestricted balances in banks with original maturity of less or equal to 90 days and are free from contractual encumbrances. Cash and cash equivalents are carried at amortized cost.

c) Loans to customers and other receivables

Loans to customers and other receivables included in other assets in the statement of financial position are non-derivative financial assets measured at amortized cost. Loans to customers and other receivables are initially measured at fair value and subsequently at their amortized cost using the effective interest method.

d) Impairment

The Group recognizes loss allowances for expected credit losses (ECLs) on the financial assets that are not measured at FVTPL.

ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

Financial assets (continued)

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

Loss allowances for other receivables are always measured at an amount equal to lifetime ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

The Group measures ECL on a collective basis for portfolios of loans that share similar economic risk characteristics. For all financial assets that are not measured at FVTPL the Group estimates full lifetime ECL, because major part of financial assets is with one month maturity and 12-month ECL equals to lifetime ECL.

Credit-impaired financial assets - A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets.

The definition of default includes unlikeliness to pay indicators and a back-stop if amounts are overdue for 90 days or more.

Purchased financial assets – At initial recognition purchased financial assets are measured at fair value plus or minus transactions costs that are directly attributable to the acquisition or issue of the financial asset. After initial recognition, an entity measures purchased financial asset in amortized cost. For these assets, the Group recognizes all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognized in profit or loss.

Definition of default - Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Group considers the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Group; or
- the borrower is unlikely to pay its credit obligations to the Group in full.

Significant increase in credit risk - The Group monitors all financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL

The Group's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result, the Group monitors all financial assets that are subject to impairment for significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognized.

Financial assets (continued)

The Group allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- the remaining lifetime PD at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The PDs used are forward looking and the Group uses the same methodologies and data used to measure the loss allowance for ECL.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

As a back-stop when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

Presentation of allowance for ECL in the statement of financial position - Loss allowances for ECL are presented in the statement of financial position as follows:

for financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;

e) Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

The Group renegotiates loans to customers in financial difficulty to maximize collection and minimize the risk of default. A loan terms is modified in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to other terms.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition.

For financial assets modified as part of the Group's restructuring policy, where modification did not result in derecognition, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience of similar restructuring action, as well as various behavioral indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behavior following modification leading to a reversal of the previous significant increase in credit risk.

Financial assets (continued)

Where a modification does not lead to derecognition the Group calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Group derecognizes a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset.

f) Write-off

Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains.

Financial liabilities

Financial liabilities are initially recognized at fair value.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. Where 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 a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts, and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

Fair value of financial assets and liabilities

Fair value of financial assets and liabilities is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Upon recognition, the Group measures financial assets and liabilities at cost, which, according to the Group's management, corresponds to their fair value at the time of acquisition plus any relevant additional expenses.

Notes to the consolidated financial statements (cont'd)

Fair value measurement principles

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 in the principal, or in its absence, the most advantageous market to which the Group has access at that date.

Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received.

IFRS 13 fair value measurement hierarchy

IFRS 13 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

Intangible assets and property, plant and equipment

Intangible assets are disclosed at cost, less any subsequent accumulated amortization and accumulated impairment losses. Amortization is calculated using the straight-line method in order to write off the historical cost of an asset during its useful life.

The Group recognizes the cost of an item of property, plant and equipment as an asset if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The cost of an item of property, plant and equipment comprises the purchase price, transportation costs, installation, and other directly attributable expenses related to acquisition or implementation.

Other items of property, plant and equipment are stated at acquisition cost, less accumulated depreciation and accumulated impairment losses.

Intangible assets:	**Estimated useful life**
Licences	2 to 5 years
Software	2 to 5 years
Property, plant and equipment:	
Furniture	5 years
Computers and office equipment	3 to 4 years
Other	3 to 10 years

Notes to the consolidated financial statements (cont'd)

Revenue and expense recognition

Interest, commission and penalty income and expenses are recognized on an accrual basis, applying the effective interest rate.

Revenue and expenses relating to the reporting period are stated in the consolidated statement of profit or loss, regardless of the receipt or payment date.

Finance costs are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, finance income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Corporate income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the consolidated statement of profit or loss except to the extent that it relates to items recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the likelihood that the present obligation will be settled at the end of the reporting period, taking into account risks and uncertainties relating to this obligation. In cases where the amount of provisions is determined on the basis of cash flows necessary to cover the obligation, the carrying amount of provisions is determined on the basis of the present value of expected cash flows.

Equity and reserves

Equity includes share capital, retained earnings, foreign currency translation reserve and reorganisation reserve. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorized for issue, are disclosed in the subsequent events note.

a) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations into the presentation currency.

b) Reorganisation reserve

The reorganisation reserve relates to the reorganisation that took place on 12 October 2016. The Company has recognized this reorganisation as a common control transaction, using net asset values. This reserve arises on consolidation and is not distributable to shareholders.

Financial risks

a) Financial risks related to the Group’s financial instruments, financial risk management

The key financial risks related to the Group’s financial instruments include:

- Credit risk – a risk that the Group will incur financial losses if a party to the transaction is unable to meet its contractual obligations; credit risk is mainly related to the borrowers – private individuals;
- Market risk, including:
- Interest rate risk – a risk that movements in interest rates will affect the Group’s income or the value of its portfolios of financial instruments;
- Currency risk - a risk that the Group will incur unexpected losses due to foreign exchange rate fluctuations;
- Country risk – a risk related to changes in legislation, which can adversely impact the Group’s transactions affected by respective changes of national legislation;
- Liquidity risk – a risk that the Group will be unable to settle its current and future cash flow and provide collateral for borrowing needs in order to prevent any jeopardy to the Group’s daily operations or overall financial position.

b) Credit risk

Credit risk is a risk that the Group will incur financial losses if the borrower for whose loan the Group has purchased the underlying claim is unable to comply with the obligations that are set out in the agreement. Credit risk is reduced in the following ways:

- There are established lending procedures to ensure a high-quality loan portfolio of the Group’s lending companies. The procedures are continuously improved, and they include behavioral indicators and credit bureau data in order to reduce the loan principal if a potential customer has doubtful creditworthiness;
- The Group makes allowances for doubtful loans to account for the impact of expected credit losses on the consolidated statement of profit or loss. Provisions for doubtful loans are calculated based on the experience of the Group’s lending companies and compiled statistics on borrowers’ default history. The Group applies a provisioning methodology based on the probability of default of a loan portfolio, analyzing the breakdown by default (unpaid, 1-30 days overdue, 31-60 days overdue, 61-90 days overdue,> 90 days overdue) defined in each bucket. A loan overdue for more than 90 days is considered as defaulted.

Notes to the consolidated financial statements (cont'd)

Financial risks (continued)

The table below shows movement of allowances for the impairment of loans between stages.

	Stage 1 EUR'000	Stage 2 EUR'000	Stage 3 EUR'000	Total EUR'000
Allowances for the impairment of loans 01.01.2017	**4,350**	**3,089**	**13,674**	**21,113**
Issued, purchased or transferred from previous stage	28,862	13,100	13,725	**55,687**
Written-off, repaid or transferred to next stage	(27,490)	(14,373)	(19,411)	**(61,274)**
Effect of foreign currency translation	(297)	(138)	(594)	**(1,029)**
Allowances for the impairment of loans 31.12.2017	**5,425**	**1,678**	**7,394**	**14,497**
Issued, purchased or transferred from previous stage	43,460	17,349	16,397	**77,206**
Written-off, repaid or transferred to next stage	(40,860)	(15,619)	(15,234)	**(71,713)**
Effect of foreign currency translation	(661)	(305)	(575)	**(1,541)**
Allowances for the impairment of loans 31.12.2017	**7,364**	**3,103**	**7,982**	**18,449**

The table below shows gross book value of loan portfolio.

	01.01.2017 EUR'000	31.12.2017 EUR'000	31.12.2018 EUR'000
Not overdue	35,965	25,372	23,745
Less than 31 days overdue	5,209	6,138	6,695
31-90 days overdue	3,776	3,345	5,012
More than 90 days overdue	16,915	9,086	10,753
Total	**61,865**	**43,941**	**46,205**

The table below shows the gross and net customer loan portfolio of the Group obtained as result of assignment by debt maturity. The repayment date of loans is assumed to be the final maturity date.

As of 31 December 2017	**Loans, EUR'000**
Not past due	25,373
Past due	18,568
Gross loan portfolio	**43,941**
Allowances for the impairment of loans	(14,497)
Net loan portfolio:	**29,444**

As of 31 December 2018	**Loans, EUR'000**
Not past due	23,798
Past due	22,407
Gross loan portfolio	**46,205**
Allowances for the impairment of loans	(18,449)
Net loan portfolio:	**27,756**

Notes to the consolidated financial statements (cont'd)

Financial risks (continued)

The table below shows split of gross portfolio by score group.

SCORE	31.12.2018 EUR'000	31.12.2017 EUR'000
<200	40	263
200–400	21,288	21,725
401–600	12,014	12,287
601–800	1,368	1,066
801–1000	125	63
No Score	11,370	8,537
Gross receivables from customers	**46,205**	**43,941**
Allowances for the impairment of loans	(18,449)	(14,497)
Net receivables from customers	**27,756**	**29,444**

To classify risk for granted loans to private individuals scoring models are used to evaluate credit risk level of each consumer. Score is calculated in range from 0, being the lowest, to 1000 being the highest.

The table below presents an analysis of cash and cash equivalents at 31 December 2018 based on criteria set by rating agencies as a result of their credit assessments.

Rating	Agency	31.12.2018 EUR'000	31.12.2017 EUR'000
Aa2	Moody's	1,079	7
Aa3	Moody's	30	155
A2	Moody's	80	72
A3	Moody's	36	22
Baa1	Moody's	486	121
BBB+	S&P/ Fitch	51	15
BBB-	S&P/ Fitch	–	3
Ba1	Moody's	594	12
Ba2	Moody's	46	165
BB	S&P/ Fitch	39	26
Ba3	Moody's	110	200
BB-	S&P/ Fitch	1,875	447
B1	Moody's	22	2
B2	Moody's	27	3
B3	Moody's	88	109
n/a	Unrated	3,545	2,347
Total		**8,108**	**3,706**

Notes to the consolidated financial statements (cont'd)

Financial risks (continued)

The unrated cash and cash equivalents are rated internally based on an analysis of quantitative and qualitative factors of the institutions where the cash is placed.

c) Market risk

Market risk is a risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices, will affect the Group's income or the value of its portfolios. The Group's market risk arises from open positions in interest rate and currency financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices. The objective of market risk management is to minimize and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

d) Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect the Group's income or the value of its portfolios of financial assets. In order to minimize any interest rate risk, the Group and the Group's lending companies enter into loan agreements with fixed interest rates. Given the fixed interest rates of the Group's borrowings and loans, as of 31 December 2018 the Group is not exposed to significant interest rate risk.

e) Currency risk

Currency risk arises when individual Group entities enter into transactions denominated in a currency other than their functional currency. It is a risk of fluctuations in the value of financial instruments, since fluctuations in foreign exchange rates affect the value of the Group's assets and liabilities. The Group's management has assumed that the exchange rate in countries whose economics is pegged to EUR (Denmark) according to their legislation could fluctuate up to 8%, but, as regards the other currencies, the difference between the historical minimum and maximum rate of the previous year is accepted.

Foreign exchange rate fluctuations affect the value of the Group's assets and liabilities and financial result. During the reporting period, the Group had revenue, assets, and liabilities in EUR, PLN, GEL, KZT, CZK, MXN, RUB, and DKK. Operating expenses and liabilities towards the *twino.eu* platform users were mainly in EUR and non-essential part in GBP. Revenue recognized in GEL accounted for 8% of the total net turnover for the reporting period, and revenue recognized in PLN and RUB formed 14% and 69% of the total net turnover for the reporting period respectively. During the reporting period, the Group suffered a currency exchange loss amounting to EUR 1,594 thousand, which mostly relates to the revaluation of balance sheet items in GEL, RUB and PLN. Other foreign currencies accounted for a non-essential part of the total turnover in the reporting period. Overall, the Group manages currency risk by trying to balance revenue and costs in the same currency. Currency risk management (hedging) instruments available on financial markets are not used.

Notes to the consolidated financial statements (cont'd)

Financial risks (continued)

An analysis of sensitivity of the Group's net income for the year and equity to changes in foreign currency exchange rates based on positions existing as at 31 December 2018 and 31 December 2017 and a simplified scenario of a 10% change in PLN, KZT, GEL, RUB, DKK and GBP to EUR exchange rates is as follows:

	31.12.2018		31.12.2017	
	Net Income EUR'000	Equity EUR'000	Net Income EUR'000	Equity EUR'000
Appreciation of PLN against EUR	1,360	1,360	1,167	1,167
Depreciation of PLN against EUR	(1,360)	(1,360)	(1,167)	(1,167)
Appreciation of KZT against EUR	102	102	(13)	(13)
Depreciation of KZT against EUR	(102)	(102)	13	13
Appreciation of GEL against EUR	257	257	314	314
Depreciation of GEL against EUR	(257)	(257)	(314)	(314)
Appreciation of RUB against EUR	1,358	1,358	1,133	1,133
Depreciation of RUB against EUR	(1,358)	(1,358)	(1,133)	(1,133)
Appreciation of GBP against EUR	(270)	(270)	(241)	(241)
Depreciation of GBP against EUR	270	270	241	241
Appreciation of DKK against EUR	–	–	7	7
Depreciation of DKK against EUR	–	–	(7)	(7)

The currency risk analysis above illustrates the effect of an isolated appreciation/depreciation of each significant operating currency at 10% change. The above analysis does not include any assumptions about correlation between these currencies.

Notes to the consolidated financial statements (cont'd)

Financial risks (continued)

f) Country risk

Country risk is being decreased by means of control performed by the Group's company management in each separate country following changes in legislation and by regular assessment of the situation within each individual country.

The table below shows the split of the customer loan portfolio by the country of operation.

As of 31.12.2017

	EUR'000	%
Poland	12,575	42.7%
Russia	9,934	33.7%
Georgia	3,446	11.7%
Latvia	2,145	7.3%
Kazakhstan	1,240	4.2%
Denmark	104	0.4%
Total	**29,444**	**100%**

As of 31.12.2018

	EUR'000	%
Russia	13,053	47.0%
Latvia	6,301	22.7%
Poland	4,121	14.8%
Georgia	2,407	8.7%
Kazakhstan	1,874	6.8%
Total	**27,756**	**100%**

Currently, Latvian peer-to-peer lending platform regulations and legislation are at the development stage. The current draft legislation stipulates that the Latvian market for this type of commercial activity will require a license in the future. The Company as a member of the Alternative Financial Services Association of Latvia is involved in the development of legislation, and the potential contents of the legislation and suggestions are being communicated with the Latvian Ministry of Finance. It is not expected that the new licensing rules will not be feasible for the Company or threaten the Company's commercial operations and going concern in any other way.

Financial risks (continued)

g) Liquidity risk

One of the cornerstones of the Group's activities is to maintain sufficient level of liquidity. Liquidity risk is, on the one hand, maintaining sufficient liquidity at lending company level to ensure that loans can be provided to borrowers on a continuous basis, and, on the other hand, the ability of the Group to settle payments related to the rights of claim acquired by participants via the *twino.eu* platform at the request of investors.

In order to manage liquidity risk, the Group`s management closely follows the maturity structure of assets and liabilities. It is important for the Group to monitor the liquidity position to third parties, in particular to the investors of the ***twino.eu*** platform, as receivables and payables of related companies are settled by assessing the overall liquidity demands by the Group as a whole and individual Group's companies, based on their operational needs.

Liquidity risk is controlled by the Company's Finance Department. Liquidity management ensures continuous availability of funds to settle any liabilities as they fall due. The Company's liquidity management procedures include:

- producing intra-Group and outward cash flow forecasts;
- managing loan structure and concentration;
- linking maturity of investments made by the *twino.eu* platform investors to maturity of the loan portfolio;
- daily monitoring of balances of cash at bank and the number of requests of the assignment transaction partners in order to withdraw funds from the accounts of the twino.eu platform;
- estimating the necessary cash reserve and maintaining the requisite funds as cash balances in bank accounts in view of both base and stress scenarios.

The Finance Department produces the following forecasts:

- cash flows from the loan portfolio, taking into account the estimated sales volumes and loan repayment schedules as well as the possibility of early or overdue settlement or extending the maturity of loans based on historical data;
- refunds and repurchases due to the *twino.eu* platform investors;
- operational cash flows between the Group's related companies and external suppliers and creditors on a daily basis.

The Finance Department manages daily and long-term liquidity based on forecasts and plans. The Group`s management is continuously monitoring bank account balances and daily cash withdrawal requests by the twino.eu platform investors from the *twino.eu* platform accounts. The cash reserve required to ensure continuous liquidity is estimated and maintained by the Group based on cash withdrawal requests by the twino.eu platform investors and taking into account the amount that is raised from the assignment transaction parties each day.

The tables below show information about the Group's liquidity - asset and liability maturity structure based on their contractual maturity for year ended December 31, 2017 and December 31, 2018 respectively.

Notes to the consolidated financial statements (cont'd)

Financial risks (continued)

As of December 31, 2017	On demand/ less than 1 month EUR'000	From 1 to 3 months EUR'000	From 3 to 6 months EUR'000	From 6 months to 1 year EUR'000	More than 1 year EUR'000	No maturity EUR'000	Total EUR'000
Assets							
Fixed and intangible assets	–	–	–	–	–	6,205	**6,205**
Deferred income tax asset	–	–	–	–	–	613	**613**
Other investments	–	–	–	–	–	294	**294**
Loans to private individuals	23,470	1,651	1,698	1,825	800	–	**29,444**
Receivables from and loans to related parties	309	–	8	1,215	–	–	**1,532**
Other receivables	10,450	–	–	–	–	–	**10,450**
Cash and cash equivalents	3,706	–	-	-	-	-	**3,706**
Total	**37,935**	**1,651**	**1,706**	**3,040**	**800**	**7,112**	**52,244**
Equity and liabilities							
Total equity	–	–	–	–	–	10,512	**10,512**
Deferred income tax liability	–	–	–	–	–	472	**472**
Payables for assignment rights – other borrowings	17,769	2,797	2,709	2,953	1,439	–	**27,667**
Loans and borrowings	5,730	200	200	682	146	–	**6,958**
Other liabilities	6,635	–	–	–	–	–	**6,635**
Total	**30,134**	**2,997**	**2,909**	**3,635**	**1,585**	**10,984**	**52,244**

Notes to the consolidated financial statements (cont'd)

Financial risks (continued)

As of December 31, 2018	On demand/ less than 1 month EUR'000	From 1 to 3 months EUR'000	From 3 to 6 months EUR'000	From 6 months to 1 year EUR'000	More than 1 year EUR'000	No maturity EUR'000	Total EUR'000
Assets							
Fixed and intangible assets	–	–	–	–	–	4,668	**4,668**
Deferred income tax asset	–	–	–	–	–	659	**659**
Other investments	–	–	–	–	–	241	**241**
Loans to private individuals	20,372	1,168	1,047	1300	3,869	–	**27,756**
Receivables from and loans to related parties	320	–	–	1,864	–	–	**2,184**
Other receivables	15,423	1,669	1,718	2,610	–	–	**21,420**
Cash and cash equivalents	8,108	–	–	–	–	–	**8,108**
Total	**44,223**	**2,837**	**2,765**	**5,774**	**3,869**	**5,568**	**65,036**
Equity and liabilities							
Total equity	–	–	–	–	–	15,463	**15,463**
Deferred income tax liability	–	–	–	–	–	944	**944**
Payables for assignment rights – other borrowings	15,309	1,477	1,499	1,546	4,392	–	**24,223**
Loans and borrowings	1,015	–	445	604	39	–	**2,103**
Other liabilities	22,297	1	–	5	–	–	**22,303**
Total	**38,621**	**1,478**	**1,944**	**2,155**	**4,431**	**16,407**	**65,036**

As at the end of the reporting period, the Group's liquidity position can be considered stable. The balance of the Group's cash and cash equivalents at the end of reporting period was EUR 8,108 thousand (as at 31.12.2017 EUR 3,706 thousand). Current assets as at 31.12.2018 (up to 1 year) in total were EUR 55,599 thousand (as at 31.12.2017 – EUR 44,332 thousand) and exceeded current liabilities, which in total were EUR 44,198 thousand (as at 31.12.2017 – EUR 39,675 thousand), by EUR 11,401 thousand (as at 31.12.2017 current liabilities exceeded current assets (up to 1 year) by EUR 4,657 thousand). Net volume of the loan portfolio (including expected bad credit amount) was EUR 29,444 thousand (as at 31.12.2017 EUR 27,756 thousand), which was sufficient to cover payments due for the assignment rights (settling with investors of twino.eu platform) at amount of EUR 24,223 thousand (as at 31.12.2017 EUR 27,667 thousand), when they become due. At the end of reporting period non-current liabilities above 1 year exceeded non-current asset value. The plan is to settle difference in the future through the realization of long-term investments and from the payments of dividends from subsidiaries of the Company.

Notes to the consolidated financial statements (cont'd)

Estimates and assumptions

In preparing the consolidated financial statements, the Group's management makes estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the consolidated financial statements and the reported amounts of income and expenses for the reporting period. Actual results could differ from those estimates.

Estimates and assumptions are constantly reviewed. Changes in accounting estimates are recognized in the period in which estimates are reviewed if these changes only affect that period or in the period in which estimates are reviewed and subsequent periods if changes affect current and subsequent periods.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Loss allowances for expected credit losses

The following are key estimations that the management have used in the process of applying the Group's accounting policies and that have the most significant effect on the loss allowances for expected credit losses:

Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive.

Effects of changes in accounting policies

The Group adopted IFRS 9 and IFRS 15 with a transition date of 1 January 2018. The Group has chosen not to restate comparatives on adoption of IFRS 9 and IFRS 15 and, therefore changes are not reflected in the restated prior year financial statements. Rather, these changes have been processed at the date of initial application (i.e. 1 January 2018) and recognized in the opening equity balances.

The Group has not made any adjustments for adopting IFRS 15, as the new standards had no significant impact on the opening equity balances.

Adoption of IFRS 9 had the effect with total amount of EUR 17 thousand, out of which EUR 14 thousand applied for the equity holders of the parent company. These changes are recognized in the opening equity balances as at 1 January 2018.

Notes to the consolidated financial statements (cont'd)

Effects of changes in accounting policies (continued)

Transition effects are as follows:

	IAS 39		Transition adjustments	IFRS 9	
	31.12.2017	Amortized costs		01.01.2018	Amortized costs
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Financial assets					
Loans and receivables from private individuals	29,444	29,444	40	29,484	29,484
Receivables from related parties	1,532	1,532	–	1,532	1,532
Other receivables	10,450	10,450	(52)	10,398	10,398
Cash and cash equivalents	3,706	3,706	(5)	3,701	3,701
Total financial assets	**45,132**	**45,132**	**(17)**	**45,115**	**45,115**
Financial liabilities					
Payables for assignment rights	27,667	27,667	–	27,667	27,667
Other borrowings	6,958	6,958	–	6,958	6,958
Trade payables	2,433	2,433	–	2,433	2,433
Other liabilities	2,474	2,474	–	2,474	2,474
Total financial liabilities	**39,532**	**39,532**	**–**	**39,532**	**39,532**

Notes to the consolidated financial statements (cont'd)

Adoption of International Financial Reporting Standards

a) IFRS first-time adoption impact on financial statements

These are first consolidated financial statements of the Group which are prepared in accordance with IFRS.

Accounting policies described in the paragraphs before were used to prepared financial statements for the year ending as at 31 December 2018 and for the preparation of comparative data as at 31 December 2017.

According to IFRS 1, when adopting IFRS, the Group can to use one or more exemptions in the preparation of the starting balances. In the preparation of these financial statements the Group has use the following exemptions.

Exemptions for business combinations were applied for all business combinations that occurred before 31 December 2016. As a result, the carrying amount of goodwill in the opening IFRS statement of financial position is in its carrying amount in accordance with previous GAAP at the date of transition to IFRSs, after it has been tested for impairment in accordance with IAS 36.

b) Comparison between the Group's financial statements prepared according to the Laws of the Republic of Latvia and IFRS

IFRS 1 determines that the Group should disclose the corrections in the respective periods that were made in the consolidated statement of changes in equity, consolidated statement of comprehensive income, consolidated statement of financial position and consolidated statement of cash flows. In the first-time adoption of IFRS Group recognized accrued penalty in amount of EUR 785 thousand and EUR 468 thousand in reporting periods 2017 and 2018 respectively. No other significant changes in the beforementioned statements, thus the comparative statements were prepared. As required by the standard the Group provides three statements of financial position.

2. Interest expense

	2018	2017
	EUR'000	EUR'000
Interest expenses on bonds (issued debt securities)	427	437
Interest expenses on other loans	198	325
Other interest expense	51	–
	676	**762**

3. Fee and commission income

	2018	2017
	EUR'000	EUR'000
Income from commissions	42,841	26,513
Income from the buyback of claims	5,368	4,463
Penalty income	3,824	3,623
Insurance income	8	39
Other income	21	49
	52,062	**34,687**

Fee and commission income includes commission and contractual penalty income generated during the reporting period under consumer loan agreements (with private individuals) acquired through assignments, as well as from loans issued under agreements with related and unrelated companies. Commission income also includes commissions from brokerage activities.

Interest income and fee and commission income by geographical regions:

	2018	2017
	EUR'000	EUR'000
Russia	63,073	25,440
Poland	12,346	14,365
Georgia	6,551	11,937
Kazakhstan	5,955	2,246
Latvia	2,470	1,532
Denmark	69	518
Mexico	1	365
Spain	–	1,925
Czech Republic	–	112
Total	**90,464**	**58,440**

Notes to the consolidated financial statements (cont'd)

4. Fee and commission expense

	2018 EUR'000	2017 EUR'000
Premium to the *twino.eu* platform investors*	2,192	2,865
Total	**2,192**	**2,865**

* The premium to the investors of the *twino.eu* platform results from the difference between the price at which the investors of the *twino.eu* platform acquire loan claims and the value of expected cash flows from the acquired claims. It is recognized in the consolidated statement of profit or loss on an accrual basis.

5. Other operating expenses

	2018 EUR'000	2017 EUR'000
Loss from sale of loan portfolios	36,880	32,639
Provisions for contingent liabilities*	1,811	–
(Gain) loss from sale of subsidiaries	760	(4,881)
(Recoveries) Write-offs of assets	(510)	1,516
Other expense	114	2,276
Other income	(98)	(155)
Total	**38,957**	**31,395**

*Provisions for contingent liabilities created in OOO MFK Veritas, where Russian tax authorities might raise doubts about some transactions between OOO MFK Veritas and SIA Twino.

Notes to the consolidated financial statements (cont'd)

6. Operating costs

	2018 EUR'000	2017 EUR'000
Marketing and advertising costs	8,512	7,240
Employee remuneration	5,918	7,574
Bank charges	4,266	2,549
IT costs	2,171	3,196
Lease of premises and office maintenance expenses	1,756	2,321
Professional service fees	1,754	2,396
Debt collection costs	1,222	2,010
Payroll taxes on employee and Board remuneration	1,220	1,607
Amortization	477	472
Depreciation	386	375
Transportation and business trip expenses	281	375
Representation expenses	232	283
Board remuneration	53	67
Market research expenses	12	107
Donations	5	22
Other expenses	537	876
Total	**28,802**	**31,470**

7. Current corporate income tax and deferred income tax

a) Corporate income tax recognized in the statement of profit or loss

	2018 EUR'000	2017 EUR'000
Tax calculated in the tax return	3,865	1,440
Changes in deferred tax	393	1,205
Total	**4,258**	**2,645**

7. Current corporate income tax and deferred income tax (continued)

b) Comparison of the effective corporate income tax rate

The amount of the reported corporate income tax expenses for the year ended 31 December 2018 differs from the amount calculated by applying the statutory tax rate to the Company's profit before tax, as demonstrated in the table below:

	2018 EUR'000	2017 EUR'000
Profit/ (loss) before corporate income tax	13,295	(7,998)
Tax at the applicable rate	970	(1,854)
Impact of non-deductible expenses	(836)	854
Changes in deferred tax assets	393	2,247
Corporate income tax paid abroad	3,731	1,398
Corporate income tax for the reporting period	**4,258**	**2,645**

Corporate income tax rates by geographical regions:

	2018	2017
Latvia	0% or 25%	15%
Poland	19%	19%
Georgia	15%	15%
Russia	20%	20%
Mexico	30%	30%
Czech Republic	19%	19%
Denmark	22%	22%
Romania	16%	16%
Spain	25%	25%
Kazakhstan	20%	20%

c) Deferred tax (assets)/liabilities

Deferred tax relates to temporary differences and tax losses carried forward. Movements in temporary differences and tax losses carried forward during the year ended 31 December 2017 and 31 December 2018:

7. Current corporate income tax and deferred income tax (continued)

Temporary differences

	Deferred tax (assets)/ liabilities as of 01.01.2017	Recognized profit or loss	Effect of exchange rate fluctuations	Balance as of 31.12.2017	Deferred tax assets	Deferred tax liabilities
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Loans to private individuals	(1,696)	1,123	36	(537)	(537)	–
Property, plant and equipment	194	(166)	(2)	26	25	1
Other assets	(325)	(48)	(18)	(391)	(365)	(26)
Other borrowings	(6)	–	–	(6)	(6)	–
Other liabilities	473	309	39	821	324	497
Tax loss carry-forwards	(41)	(13)	–	(54)	(54)	–
Deferred tax (assets) / liabilities	**(1,401)**	**1,205**	**55**	**(141)**	**(613)**	**472**

	Deferred tax (assets)/ liabilities as of 31.12.2017	Recognized profit or loss	Effect of exchange rate fluctuations	Balance as of 31.12.2018	Deferred tax assets	Deferred tax liabilities
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Loans to private individuals	(537)	144	40	(353)	(353)	–
Loans to related parties	–	(49)	3	(46)	(46)	–
Property, plant and equipment	26	–	(3)	23	23	–
Intangible assets	–	(2)	–	(2)	9	(11)
Other assets	(391)	325	11	(55)	(55)	–
Payables for assignment rights	–	122	(8)	114	114	–
Other borrowings	(6)	(174)	2	(178)	(178)	–
Other liabilities	821	163	(25)	959	4	955
Tax loss carry-forwards	(54)	(136)	13	(177)	(177)	–
Deferred tax (assets)/liabilities	**(141)**	**393**	**33**	**285**	**(659)**	**944**

The Group has recognized deferred tax assets of EUR 659 thousand (31 December 2017: EUR 613 thousand, 1 January 2017: EUR 1,921 thousand) in Russia. The Group has recognized deferred tax liabilities of EUR 944 thousand (31 December 2017: EUR 472 thousand, 1 January 2017: EUR 520 thousand) in Poland and Kazakhstan.

8. Intangible assets

	Goodwill EUR'000	Concessions, patents, licenses, trademarks and similar rights EUR'000	Other intangible assets EUR'000	Advances for intangible assets EUR'000	Total EUR'000
Acquisition cost					
01.01.2017	**5,414**	**106**	**1,235**	**119**	**6,874**
Additions	–	38	277	5	**320**
Disposals	(601)	(24)	(2)	(109)	**(736)**
Sale of subsidiaries	–	(14)	–	–	**(14)**
Reclassification	-	(2)	2	–	-
Effect of foreign currency translation	(620)	(5)	(18)	1	**(642)**
31.12.2017	**4,193**	**99**	**1,494**	**16**	**5,802**
Accumulated amortization					
01.01.2017	**-**	**6**	**42**	**–**	**48**
Amortization charge	–	25	447	-	**472**
Disposals	–	(9)	–	–	**(9)**
Sale of subsidiaries	–	(7)	–	–	**(7)**
Reclassification	–	4	–	–	**4**
Effect of foreign currency translation	**-**	**-**	**(8)**	**-**	**(8)**
31.12.2017	-	**19**	**481**	**–**	**500**
Net book value as of 01.01.2017	**5,414**	**100**	**1,193**	**119**	**6,826**
Net book value as of 31.12.2017	**4,193**	**80**	**1,013**	**16**	**5,302**

Notes to the consolidated financial statements (cont'd)

8. Intangible assets (continued)

Acquisition cost	Goodwill EUR'000	Concessions, patents, licenses, trademarks and similar rights EUR'000	Other intangible assets EUR'000	Advances for intangible assets EUR'000	Total EUR'000
31.12.2017	**4,193**	**99**	**1,494**	**16**	**5,802**
Additions	–	19	2	155	**176**
Disposals	(229)	(12)	(259)	–	**(500)**
Reclassification	–	(18)	–	18	**–**
Effect of foreign currency translation	(582)	(2)	(25)	(13)	**(622)**
31.12.2018	**3,382**	**86**	**1,212**	**176**	**4,856**
Accumulated amortization					
31.12.2017	–	**19**	**481**	–	**500**
Amortization charge	–	30	445	2	**477**
Disposals	–	(8)	(255)	–	**(263)**
Effect of foreign currency translation	–	(1)	(11)	–	**(12)**
31.12.2018	–	**40**	**660**	**2**	**702**
Net book value as of 31.12.2017	**4,193**	**80**	**1,013**	**16**	**5,302**
Net book value as of 31.12.2018	**3,382**	**46**	**552**	**174**	**4,154**

The group tests whether goodwill has suffered any impairment on an annual basis. For the 2018 and 2017 reporting period, the recoverable amount was determined based on net asset value calculations. At the end reporting period 2017 net goodwill consisted of EUR 3,919 thousand, EUR 46 thousand and EUR 228 thousand attributable to Veritas OOO MFK, Incredit Sp. z o.o. and NetCredit Aps correspondingly. At the end of reporting period 2018 net goodwill consisted of EUR 3,337 thousand and EUR 45 thousand attributable to Veritas OOO MFK and Incredit Sp. z o.o. respectively. In the 2017 and 2018 reporting period goowill impairment was not identified.

9. Property, plant and equipment

Acquisition cost	Other fixtures and fittings, tools and equipment, EUR'000
01.01.2017	**1,010**
Additions	534
Disposals	(159)
Sale of subsidiaries	(72)
Revaluation	(151)
Reclassification	165
Effect of foreign currency translation	(64)
31.12.2017	**1,263**
Accumulated depreciation	
01.01.2017	**87**
Depreciation charge	374
Disposals	(108)
Sale of subsidiaries	(18)
Reclassification	45
Effect of foreign currency translation	(20)
31.12.2017	**360**
Net book value as of 01.01.2017	**923**
Net book value as of 31.12.2017	**903**

Acquisition cost	Other fixtures and fittings, tools and equipment, EUR'000
31.12.2017	**1,263**
Additions	88
Disposals	(150)
Reclassification	20
Effect of foreign currency translation	(55)
31.12.2018	**1,166**
Accumulated depreciation	
31.12.2017	**360**
Depreciation charge	386
Disposals	(67)
Reclassification	–
Effect of foreign currency translation	(27)
31.12.2018	**652**
Net book value as of 31.12.2017	**903**
Net book value as of 31.12.2018	**514**

10. Investments in subsidiaries

As of 31 December 2018, the Company had the following investments in subsidiaries:

Subsidiary	Country	Book value of the Company's investment in the subsidiary as of 01.01.2017 EUR'000	Book value of the Company's investment in the subsidiary as of 31.12.2017 EUR'000	Book value of the Company's investment in the subsidiary as of 31.12.2018 EUR'000
OC Finance SIA	Latvia	427	427	427
TWINO LLC	Georgia	101	101	101
Moneza LLC	Georgia	–	–	–
NetCredit Aps*	Denmark	7	7	28
Incredit Sp. z o.o.	Poland	47	47	47
Net Credit Sp. z o.o.	Poland	46	46	46
Veritas OOO MFK** (previously E-Zajom OOO MFK)	Russia	7,705	7,705	11,442
Startup OOO MKK*** (previously Moneza OOO MKK 1167746297762)	Russia	1	1	2,461
Makro OOO MKK (previously Moneza OOO 1167746181790)	Russia	2	2	2
Finabay Mexico S.A. de C.V.	Mexico	–	–	–
Moneza LLP	Kazakhstan	–	1	1
Zing Kazakhstan LLP	Kazakhstan	1	1	1
Total		**8,337**	**8,338**	**14,556**

10. Investments in subsidiaries (continued)

Subsidiary	Equity of the subsidiary as of 31.12.2018 EUR'000	Subsidiary's book value as of 31.12.2018 EUR'000	Subsidiary's result for the reporting period for 2018 EUR'000	Company's equity share in the subsidiary as of 31.12.2018 %
OC Finance SIA	156	797	81	100%
TWINO LLC	(6,543)	870	(796)	100%
Moneza LLC	–	10	0	100%
NetCredit Aps*	268	284	55	100%
Incredit Sp. z o.o.	(6)	13,914	613	100%
Net Credit Sp. z o.o.	18,520	21,402	2,577	100%
Veritas OOO MFK** (previously E-Zajom OOO MFK)	12,218	12,794	6,732	50%
Startup OOO MKK*** (previously Moneza OOO MKK 1167746297762)	1,234	3,458	(511)	99%
Makro OOO MKK (previously Moneza OOO 1167746181790)	(56)	67	(44)	99%
Finabay Mexico S.A. de C.V.	(1,313)	12	57	99%
Moneza LLP	(46)	565	(25)	100%
Zing Kazakhstan LLP	(1,584)	2,354	(639)	100%
Total	**22,848**	**56,527**	**8,100**	

* In 2018, the Company increased its investment in NetCredit Aps by EUR 21 thousand.

**Considering that during the period from 1 December 2017 to 31 December 2018 the holders of 30% and 20% minority interests in Veritas OOO MFK transferred to the Company control over management, operating and financial decisions and authorized Company's representatives to make decisions on the routine management of Veritas OOO MFK, this entity is consolidated as a controlled subsidiary. In 2018, the Company revalued its investment in Veritas OOO MFK, with the result that the investment grew by EUR 3,737 thousand.

*** In 2018, the Company increased its investment in Startup OOO MKK (previously Moneza OOO MKK) by EUR 2,461 thousand.

11. Other loans and non-current receivables – loans to private individuals

	31.12.2018	31.12.2017	01.01.2017
	EUR'000	EUR'000	EUR'000
Loan principal	40,161	39,074	56,662
Accrued interest	6,150	3,602	6,640
Accrued commissions	(82)	1,776	1,097
Accrued penalty	468	785	–
Other accrued income	31	34	–
Deferred interest income	–	(9)	(1,753)
Deferred commission income	(523)	(1,321)	(781)
Gross receivables from customers	**46,205**	**43,941**	**61,865**
Allowances for the impairment of receivables from customers	(18,449)	(14,497)	(21,112)
Net receivables from customers	**27,756**	**29,444**	**40,753**
Including:			
Non-current portion	3,869	800	4,012
Current portion	23,887	28,644	36,741
Total	**27,756**	**29,444**	**40,753**

As a result of the Group`s assignment transactions, portfolio assets and related credit risks are transferred to the Company. The weighted average effective interest rate on issued customer loans was 414.73% in the reporting period. At the end of the reporting period, the balance of the loan portfolio acquired by investors of the *twino.eu* platform was EUR 27,223 thousand.

11. Other loans and non-current receivables – loans to private individuals (continued)

The age structure of customer debts and allowances for doubtful customer debts:

	Book value as of 01.01.2017 EUR'000	Allowances as of 01.01.2017 EUR'000	Net book value as of 01.01.2017 EUR'000
Not overdue	35,965	(2,153)	33,812
Less than 31 days overdue	5,209	(2,184)	3,025
31-90 days overdue	3,776	(2,058)	1,718
More than 90 days overdue	16,915	(14,717)	2,198
Total	**61,865**	**(21,112)**	**40,753**

	Book value as of 31.12.2017 EUR'000	Allowances as of 31.12.2017 EUR'000	Net book value as of 31.12.2017 EUR'000
Not overdue	25,372	(1,840)	23,532
Less than 31 days overdue	6,138	(2,050)	4,088
31-90 days overdue	3,345	(1,743)	1,602
More than 90 days overdue	9,086	(8,864)	222
Total	**43,941**	**(14,497)**	**29,444**

	Book value as of 31.12.2018 EUR'000	Allowances as of 31.12.2018 EUR'000	Net book value as of 31.12.2018 EUR'000
Not past due	23,745	(2,715)	21,030
Less than 31 days overdue	6,695	(3,166)	3,529
31-90 days overdue	5,012	(3,454)	1,558
More than 90 days overdue	10,753	(9,114)	1,639
Total	**46,205**	**(18,449)**	**27,756**

Notes to the consolidated financial statements (cont'd)

12. Receivables from related companies

	31.12.2018 EUR'000	31.12.2017 EUR'000	01.01.2017 EUR'000
Current loans to related parties*	2,089	1,516	720
Accrued loan interest due from related parties	95	16	43
Total	**2,184**	**1,532**	**763**

*Unsecured loans issued to management and shareholders in form of credit line consisted of EUR 1 890 thousand and EUR 804 thousand at the end of reporting periods 2018 and 2017 respectively. Annual Interest rates for these credit lines are 3.75% including 12-month Euribor rate. Maximums credit line limit is EUR 2 379 thousand and credit line due date is 31 December 2019. At the end of reporting period 2017 most part of loan balance to related companies consisted of unsecured loan to Twino Finance SIA and Kerdos Holding SIA EUR 239 thousand and EUR 490 thousand with fixed annual interest rates of 12% and 8% respectively. At the end of reporting period 2018 largest part of issued loans to related parties consisted of loan to Twino finance amounting to EUR 268 thousand with no changes in interest rates.

13. Other receivables

	31.12.2018 EUR'000	31.12.2017 EUR'000	01.01.2017 EUR'000
Receivables for CDS fees	8,203	–	–
Short term loans to third parties	4,328	4,420	677
Receivables for platform services	2,716	–	–
Receivables for brokerage fee	2,359	–	–
Overpayment of corporate income tax and tax advances	1,798	3,429	670
Deferred expenses	344	306	329
Accrued income	25	30	35
Receivables for sold assignment rights	1	–	165
Allowances	(483)	(453)	(30)
Other receivables	2,129	2,718	943
Total	**21,420**	**10,450**	**2,789**

14. Cash and cash equivalents

	31.12.2018 EUR'000	31.12.2017 EUR'000	01.01.2017 EUR'000
Cash at bank	8,108	3,706	2,851

15. Share capital

As of 31 December 2018, the registered and paid share capital of the Group amounted to EUR 7,708 thousand (31 December 2017: EUR 7,708 thousand) and consisted of 7,708 thousand shares with a nominal value of EUR 1.00 per share.

16. Equity

Over the reporting period, the Group's business generated a profit of EUR 8,740 thousand, of which the amount of EUR 6,124 thousand is attributable to the equity holder of the Parent Company (31 December 2017: EUR -11,516 thousand). The Group's equity is positive and amounts to EUR 15,463 thousand, of which the amount of EUR 8,937 thousand is attributable to the equity holder of the Parent Company (31 December 2017: equity of EUR 5,414 thousand).

The equity includes a positive reorganisation reserve of EUR 11,728 thousand, which was established in 2016 as the difference between net assets taken over as a result of the reorganisation and the Company's share in the capital of companies taken over during the reorganisation. The foreign currency translation reserve is EUR -2,366 thousand, which comprises foreign currency exchange differences arising from the translation of the financial statements of foreign operations into the presentation currency. The Group's Board believes that there are no circumstances that could cast doubts on the Group's ability to continue as a going concern.

17. Payables for assignment rights – other borrowings

	31.12.2018 EUR'000	31.12.2017 EUR'000	01.01.2017 EUR'000
Current liabilities	19,831	26,228	22,434
Non-current liabilities	4,392	1,439	–
Total	**24,223**	**27,667**	**22,434**

This caption reflects settlements with Latvian and foreign individuals for assignment of claim rights on consumer loans. As of 31 December 2018, the weighted average effective interest rate for balances of these rights was 10.9%.

18. Other borrowings

	31.12.2018 EUR'000	31.12.2017 EUR'000	01.01.2017 EUR'000
Loans from companies	1,459	6,353	6,518
Issued debt securities	605	605	201
Loans from private individuals	39	–	–
Total	**2,103**	**6,958**	**6,719**
Including:			
non-current portion	39	146	5,109
current portion	2,064	6,812	1,610
Total	**2,103**	**6,958**	**6,719**

As a result of the reorganisation, on 12 October 2016, the Group took over private placement bonds amounting to EUR 10,000 thousand with the maturity on 10 September 2019 (ISIN: LV0000801884) and a fixed interest (coupon) rate of 12.00 % per annum. At the end of the reporting period, the total nominal value of bonds issued and sold by the Company was EUR 600,000. At the end of the reporting period, issued debt securities consisted of the nominal value of sold bonds and calculated bond coupon (after tax) amounting to EUR 4,800.

Notes to the consolidated financial statements (cont'd)

19. Other liabilities

	31.12.2018 EUR'000	31.12.2017 EUR'000	01.01.2017 EUR'000
Payables for consumer loans acquired through CDS	11,495	–	–
Payables for acquisition of third party loan claims	3,715	689	–
Contingent liabilities	1,682	–	–
Payables for acquisition of consumer loan claims	882	877	363
Other liabilities	140	908	379
	17,914	**2,474**	**742**

20. Group's companies

As of 31 December 2018, the Group consisted of the following companies:

Subsidiaries and related companies	Status	Country
MONEZA LLP, reg. No 170240008382	Subsidiary	Kazakhstan
Zing Kazakhstan LLP, reg. No 160240000960	Subsidiary	Kazakhstan
NetCredit ApS, reg. No 36421509	Subsidiary	Denmark
TWINO LLC, reg. No 401993606	Subsidiary	Georgia
Moneza LLC, reg. No. 405305860	Subsidiary	Georgia
OC Finance SIA, reg. No 40103203191	Subsidiary	Latvia
Incredit Sp. z o.o., reg. No 0000604092	Subsidiary	Poland
Net Credit Sp. z o.o., reg. No 0000401570	Subsidiary	Poland
Payday Loans Sp. z o.o. SKA, reg. No 0000424914	Subsidiary	Poland
Startup OOO (before Moneza OOO MKK), reg. No 1167746297762	Subsidiary	Russia
Macro OOO MKK (before Moneza OOO), reg. No 1167746181790	Subsidiary	Russia
Veritas OOO MFK, reg. No 1127746672130	Subsidiary	Russia
Finabay Mexico S.A. de C.V., reg. No FME151012AWZ	Subsidiary	Mexico
Affiliate Solutions SIA, reg. No 40103744480	Related company	Latvia
TWINO Finance SIA, reg. No 50203107171	Related company	Latvia
TWINO Holding SIA, reg. No 40203110574	Related company	Latvia
Kerdos Holding SIA, reg. No 40203070835	Related company	Latvia
Start MFC LLC, reg. No. 1145749003542	Related company	Russia
Grand Invest Kapital MCC LLC, reg. No. 5187746012020	Related company	Russia

21. Other investments

	31.12.2018 EUR'000	31.12.2017 EUR'000	01.01.2017 EUR'000
Investments in companies	241	294	234

Investments of Payday Loans Sp. Z o.o. SKA consist of an equity interest (95%) amounting to EUR 240 thousand (PLN 1,030 thousand) in Parway Sp.z.o.o S.K.A, a non-listed Polish company.

22. Related party disclosures

Company's related party transactions:

Income	2018 EUR'000	2017 EUR'000
Income from commissions for platform services	197	–
Interest income from loans issued to related companies	96	55
Income from general administrative expenses	4	–
Total	**297**	**55**

Expenses	2018 EUR'000	2017 EUR'000
Donations to the related parties	2	–
Total	**2**	**–**

Assets	31.12.2018 EUR'000	31.12.2017 EUR'000	01.01.2017 EUR'000
Receivables from related companies	295	725	–
Current loans to shareholders and management	1,889	807	763
Investments in associates	241	294	234
Other receivables	2,725	–	–
Total	**5,150**	**1,826**	**997**

Liabilities	31.12.2018 EUR'000	31.12.2017 EUR'000	01.01.2017 EUR'000
Other borrowings	39	–	–
Total	**39**	**–**	**–**

23. Average number of employees

	2018	2017
Average number of employees	543	472

Average number of employees, by category

	2018	2017
Board Members	12	6
Other	531	466
Total	**543**	**472**

24. Personnel expenses

Type of expenses	2018 EUR'000	2017 EUR'000
Salaries	5,971	7,640
Statutory social insurance contributions	1,220	1,608
Total	**7,191**	**9,248**

25. Off-balance sheet liabilities and pledged assets

As of 31 December 2018, the Group had no off-balance sheet liabilities or pledged assets.

26. Legislation

As part of an audit carried out by the Central Bank of the Russian Federation, on December 10, 2018, Veritas OOO MFK, which has a significant contribution to the Group's consolidated result (EUR 8,702 thousand of assets and EUR 36,084 thousand of turnover), was informed about certain mismatches between the Company's internal control systems and the requirements of the law of the Russian Federation No.115-ФЗ regarding anti-money laundering and terrorist financing. By the end of 2018, the management of the Group eliminated the identified mismatches, as well as made the necessary improvements to customer identification systems and submitted a report to the Central Bank of the Russian Federation regarding the aforementioned. As at the date of approval of this report, the Central Bank of the Russian Federation has neither provided any confirmation that the identified mismatches have been eliminated, nor has it provided any other information or requirements to implement any further changes in this respect. As a result, the Company has not received any indications towards potential sanctions or penalties regarding the previously identified mismatches or restrictions with respect to further operations of the Company. No fines or penalties were imposed as a result of the audit. The management of the Group believes that the above circumstances do not have a material impact on these financial statements.

Notes to the consolidated financial statements (cont'd)

27. Events after the reporting date

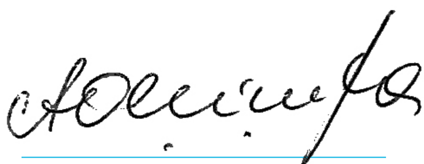
In April 2019, the Company fully repurchased bonds.

In June 2019, the Group has decided to stop loan issuing process in Georgia and to transfer the entity to in-house IT service support centre. Georgian entity total comprehensive loss in reporting year 2018 was EUR 742 thousand with negative net assets in amount of EUR 6,542 thousand.

In September 2019 merger of Group companies Startup OOO and Macro OOO MKK was completed.

28. Going concern

Compared to 2017 results, the Group has improved its performance supporting the going concern assumption. The Group's current assets exceed its current liabilities by EUR 11,401 thousand, which is a threefold increase in comparison with year end of 2017, when the Group's current assets exceeded current liabilities by EUR 4,657 thousand. At the end of year 2018, the Group's liquidity ratio was 1.26 (a year earlier it was- 1.12); therefore, liquidity risk is controlled. The Group earned a net profit of EUR 8,740 thousand during the reporting period of which EUR 6,124 is attributable to the equity holders of the Group. It is a strong performance indicator and a significant improvement over the previous year, when a net loss of EUR 10,643 thousand was incurred, of which EUR 12,227 is attributable to equity holders of the Group. As of 31st December 2018, the Group's equity was positive and amounted to EUR 15,463 thousand, of which EUR 8,937 is attributable to the equity holders of the Group (2017: EUR 10,512 thousand, of which EUR 5,414 was attributable to the equity holders of the Group). The Group's management believes that the going concern assumption is appropriate in the preparation of these financial statements.



Anastasija Oleinika
Chairman of the Board

Imants Baklans
Head of Finance

31 October 2019

BDO

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Independent Auditor's Report

To the shareholder of TWINO SIA

Our Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of TWINO SIA ("the Company") and its subsidiaries ("the Group") set out on pages 7 to 55 of the accompanying consolidated Annual Report, which comprise:

- the consolidated balance sheet as at 31 December 2018,
- the consolidated profit and loss statement for the year ended 31 December 2018,
- the consolidated statement of changes in equity for the year ended 31 December 2018,
- the consolidated statement of cash flows for the year ended 31 December 2018, and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of TWINO SIA and its subsidiaries as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year ended 31 December **2018** in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS").

Basis for Opinion

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

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

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

Reporting on Other Information

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

- General information, as set out on page 3 of the accompanying consolidated Annual Report,
- the Management Report, as set out on page 4 to 6 of the accompanying consolidated Annual Report.

Our opinion on the consolidated financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon.

BDO

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

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

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

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

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

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

Auditor's Responsibility for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

BDO ASSURANCE SIA
License Nr.182

Modrīte Johansone
Member of the Board
Responsible certified auditor
Certificate No 135

Riga, Latvia
25 October 2019