MOGO IFN S. A.

FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS ADOPTED BY THE EUROPEAN UNION

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MOGO IFN S.A.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2020

(all amounts are in lei unless otherwise specified)

	Note	Year ending 31.12.2020	Year ended 31.12.2019
Interest and similar income	6	34.781.068	25.100.355
Interest and similar charges	6	(8.798.358)	(5.420.384)
Net interest income		**25.982.710**	**19.679.971**
Income from fees and commissions	7	1.678.595	1.217.896
Expenditure on fees and commissions	7	(2.597.954)	(1.984.616)
Income from penalties	7	214.456	84.989
Net income from fees and commissions		**(704.903)**	**(681.731)**
Net trading income	8	(1.102.472)	(766.058)
Other operating income	9	1.589.139	290.574
		486.667	**(475.484)**
Total operating income		**25.764.474**	**18.522.756**
Expected impairment losses	10	(8.872.229)	(5.333.243)
Staff expenditure	11	(5.306.362)	(4.810.844)
Other operating expenditure	12	(7.875.134)	(9.421.855)
		(22.053.726)	**(19.565.940)**
Profit/(loss) before tax		**3.710.748**	**(1.043.184)**
Income (expense) with corporate income tax	13	(207.957)	138.113
Net profit/(loss) for the financial year		**3.502.791**	**(905.071)**
Other comprehensive income		-	-
Total overall result		**3.502.791**	**(905.071)**

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The financial statements were approved by the Board of Directors on 31 August 2021 and signed on its behalf by:

MOGO IFN S.A.

STATEMENT OF FINANCIAL POSITION

FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2020

(all amounts are in lei unless otherwise specified)

	Note	31 December 2020	31 December 2019	1 January 2019
ACTIVE				
Cash and cash equivalents	14	11.266.591	364.967	379.522
Finance lease receivables	15, 16	63.247.940	66.197.364	38.133.748
Loans and advances to clients	15	18.058.415	760.586	545.610
Loans to related parties		14.575.690	5.927.332	-
Other assets	17	342.631	1.165.971	560.670
Assets held for sale	18	512.798	653.239	223.150
Intangible assets	19	39.332	14.561	50.675
Tangible fixed assets	20	1.486.769	714.571	532.116
Postponed income tax asset	21	617.534	825.491	687.378
TOTAL ACTIVE		**110.147.699**	**76.624.077**	**41.112.869**
DEBTS				
Loans attracted	22	83.194.012	51.711.699	15.135.000
Liabilities relating to the right of use of assets	23	1.341.537	586.247	381.402
Liabilities to affiliated parties	24	-	323.383	1.331.874
Provisions for financial guarantees	25	2.105.612	3.464.525	782.554
Other debts	26	1.845.408	2.224.998	3.099.424
TOTAL DEBTS		**88.486.569**	**58.310.852**	**20.730.254**
EQUITY				
Share capital	27	924.000	924.000	924.000
Share premium	27	28.654.000	28.654.000	28.654.000
Other reserves		(3.827.487)	(3.672.597)	(817.990)
Retained earnings		(4.089.383)	(7.592.177)	(8.377.396)
TOTAL EQUITY		**21.661.130**	**18.313.226**	**20.382.614**
TOTAL LIABILITIES AND EQUITY		**110.147.699**	**76.624.077**	**41.112.869**

The financial statements were approved by the Board of Directors on 31 August 2021 and signed on its behalf by:

MOGO IFN S.A.
CASH FLOW STATEMENT
FOR THE YEAR ENDING 31 DECEMBER 2020
(all amounts are in lei unless otherwise specified)

Cash flows from operating activities	**Year ending 31.12.2020**	**Year ended 31.12.2019**
Profit/(loss) before tax	3.710.748	(1.043.184)
Adjustments for:		
Depreciation and impairment of assets	552.881	666.455
Interest expenses	10.027.046	5.291.855
Interest income	(34.781.068)	(25.100.355)
Disposals of goods, equipment and intangible assets	97.040	78.667
Impairment charges on financial assets	8.872.229	5.333.243
Decrease/(increase) in current provisions	(1.395.041)	(1.438.060)
Adjustment of retained earnings (error correction)	-	1.690.291
Operating income before changes in operating assets and liabilities	**(12.916.164)**	**(14.521.088)**
Change in operating assets and liabilities		
Increase in loans and advances to customers, trade and other receivables	(20.099.004)	(34.647.227)
Increase in advances received, trade debts and guarantees	(821.734)	(617.491)
Cash from operational activity	**(33.836.903)**	**(49.785.806)**
Interest received	32.667.462	25.096.359
Interest paid	(8.512.180)	(4.656.578)
Income tax paid	-	-
Cash flows from operating activities	**(9.681.621)**	**(29.346.026)**
Cash flows from investing activities		
Payments for acquisition of tangible and intangible fixed assets	(1.446.891)	(891.463)
Loans to related parties	(21.853.000)	(20.665.880)
Loans repaid by related parties	13.160.400	14.782.790
Cash flows from investing activities	**(10.139.492)**	**(6.774.553)**
Cash flows from financing activities		
Receipts from loans	143.100.449	260.645.759
Loan repayments	(112.377.712)	(224.539.735)
Cash flows from financing activities	**30.722.736**	**36.106.024**
Net increase in cash and cash equivalents balance	**10.901.624**	**(14.554)**
Cash and cash items on 1 January	364.967	379.522
Cash and cash equivalents at 31 December	**11.266.591**	**364.968**

The financial statements were approved by the Board of Directors on 31 August 2021 and signed on its behalf by:

MOGO IFN S.A.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDING 31 DECEMBER 2020
(all amounts are in lei unless otherwise specified)

	Share Capital	Share premium	Other reserves (financial guarantees)	Reported result	Total
Balance on 1 January 2019	**924.000**	**28.654.000**	**(817.990)**	**(8.377.396)**	**20.382.614**
Overall result					
Net profit/(loss) for the year	-	-	-	(905.071)	(905.071)
Total overall result	**-**	**-**	**-**	**(905.071)**	**(905.071)**
Other changes (error corrections)	-	-	-	1.690.291	1.690.291
Issuance of financial guarantees	-	-	(2.854.607)	-	(2.854.607)
Balance at 31 December 2019	**924.000**	**28.654.000**	**(3.672.597)**	**(7.592.1767)**	**18.313.226**
Balance on 1 January 2020	924.000	28.654.000	(3.672.597)	(7.592.176)	18.313.227
Overall result					
Net profit/(loss) for the year	-	-	-	3.502.791	3.502.794
Total overall result	-	-		**3.502.791**	**3.502.794**
Issuance of financial guarantees			(154.890)		(154.890)
Balance at 31 December 2020	**924.000**	**28.654.000**	**(3.827.487)**	**(4.089.382)**	**21.661.131**

The financial statements were approved by the Board of Directors on 31 August 2021 and signed on its behalf by:

1. THE COMPANY AND ITS OPERATIONS

MOGO IFN joint-stock company (hereinafter referred to as the Company) was registered with the Commercial Registry Office of the Bucharest Court on 06.04.2016, with unique registration code 35917970 and number J40/5043/2016. The company is incorporated and operates for an unlimited duration, in accordance with the legal provisions in force.

In 2020, the Company carried out its activity through its registered office, established in Bucharest, sector 3, 51 Calea Moșilor Street, 2nd floor.

The company's principal activity is 'Other financial intermediation, except insurance and pension funding activities' (CAEN group 649), the company's main activity being 'Other lending activities' (financing of commercial transactions, CAEN code 6492).

The company is registered in the General Register kept by the National Bank of Romania under number RG-PJR-41-110316/ 09.11.2016. As of 16.02.2018 the Company was registered in the Special Register of the National Bank of Romania under number RS-PJR-41-110097/16.02.2018.

Until 29.06.2020 the majority shareholder with a 99.9904% ownership was Mogo Finance S.A., with registered office at 8-10, Avenue de la Gare, 1610 Luxembourg. On the basis of the AGM of 31.03.2020 it was decided to sell the entire portfolio held by Mogo Finance S.A. in favour of AS Mogo Eastern Europe with registered office at Skanstes iela, no.50, Riga, Latvia, so that as of 10.07.2020 (according to the certificate of registration of mentions) the majority shareholder becomes AS Mogo Eastern Europe.

As of 31.12.2019 the shareholding structure was as follows:

Shareholder	Country of origin	Number of shares held	Value of the action	Percentage of share capital
Mogo Finance S.A.	Luxembourg	10.499	923.912	99.9904%
AS Mogo	Latvia	1	88	0.0096%
Total		**10.500**	**924.000**	**100%**

On 31.12.2020 the shareholding structure is as follows:

Shareholder	Country of origin	Number of shares held	Value of the action	Percentage of share capital
AS Mogo Eastern Europe	Latvia	10.499	923.912	99.9904%
AS Mogo	Latvia	1	88	0.0096%
Total		**10.500**	**924.000**	**100%**

Average number of employees in the reporting year (persons):

2020	2019
48	48

AS Mogo Eastern Europe, located at Skanstes iela No. 50, Rīga, Latvia, is the company that prepares the consolidated annual financial statements of the smallest group of entities of which the Company is a part.

Mogo Finance S.A., with registered office at 8-10, Avenue de la Gare, 1610 Luxembourg, Grand Duchy of Luxembourg, registered with the Luxembourg Trade Register under number B 174.457, is the company that prepares the consolidated annual financial statements of the largest group of entities (Mogo Finance) to which the Company belongs. The consolidated annual financial statements are available on the official website of Mogo Finance SA: https://mogo.finance/results-and-reports/#el-7ccc4483.

2. THE BASIS FOR THE PREPARATION OF FINANCIAL STATEMENTS

2.1. Declaration of conformity

These financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union.
According to Order no. 8/30.10.2019 issued by the National Bank of Romania, the financial statements of the Companies in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Committee and adopted by the European Union are presented for information purposes as part of the transition to IFRS as the legal basis of accounting from 2023.
These financial statements of the Company have been approved by the Board of Directors as at 31 August 2021.
For the preparation of these Financial Statements the Company has applied IFRS 1 "First-time Adoption of IFRS". Explanations of the transition are given in Note 29.
The Company prepares statutory financial statements in accordance with the provisions of Order NBR 6/2015 for the approval of Accounting Regulations in accordance with European Directives, as subsequently amended and supplemented ("RAS Financial Statements").
The major differences from statutory financial statements prepared in accordance with Romanian legislation (Romanian Accounting Standards or "RAS"), so that they are aligned with IFRS, are:
- different methodology for calculating the depreciation of the net investment in leases;
- fair value measurements and impairment of other financial instruments in accordance with IFRS 9;
- the application of IFRS 16 'Leases' with related disclosure requirements;
- recognition and measurement of deferred income tax;
- classification of contracts following the principle of content over form;
- disclosures required under IFRS.

The Company's financial statements have been prepared in Romanian.

2.2. Basics of evaluation

This set of financial statements has been prepared on a historical cost basis, except where financial instruments are measured at fair value.

2.3. Functional and presentation currency

The Company's financial statements are prepared and presented in RON, which is the Company's functional currency. The Company's management believes that this presentation provides reliable and relevant information for users of the financial statements due to the fact that all items included in the financial statements are valued using the currency of the economic environment in which the Company operates.

2.4. Use of significant estimates and judgements

The preparation of financial statements in accordance with IFRS requires the use of accounting estimates with significant impact. It also requires management to exercise judgment in the process of applying the Company's accounting policies. The areas where a more advanced level of judgement and complexity is required and the areas where assumptions and estimates used are significant to the financial statements are described in Note 5. Although these estimates are based on management's best knowledge of current events and developments, actual results may differ from these estimates.

2.5. Business continuity principle

These financial statements have been prepared using the going concern basis, which assumes that the Company will continue in business for the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Standards issued but not yet implemented

A number of new standards in force for annual periods beginning on or after 1 January 2020 where early application is permitted.

A. Reform of the interest rate benchmark - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The amendments address issues that could affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes in contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark. The amendments provide practical exemptions from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to:

i. changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities; and

ii. hedge accounting.

i. ***Changes in the basis for determining cash flows***

The amendments will require the Company to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by the reform of the interest rate benchmark by discounting the effective interest rate of the financial asset or financial liability.

ii. ***Hedge accounting***

The amendments provide exceptions to the hedge accounting requirements in the following areas:

- Allows the designation of a coverage relationship to be changed to reflect changes that are required by the reform. This change will not result in the discontinuation of the hedging relationship or the designation of a new hedging relationship.
- When a hedged item in a cash flow hedge is modified to reflect changes that are required by the reform, the amount accumulated in the cash flow hedge reserve will be based on the alternative reference rate from which future hedged cash flows are determined.
- When a group of items is designated as a hedged item and an item in the group is modified to reflect changes required for the reform, the hedged items are allocated to subgroups based on the benchmark of the rates being hedged.
- If an entity reasonably expects that an alternative benchmark rate will be separately identifiable within 24 months, it may designate the rate as a contractually undesignated risk component if it is not separately identifiable at the date of designation.

iii. ***Presentation***

The amendments introduce a requirement for additional disclosures to enable users to understand the effect of interest rate benchmark reform on a company's financial instruments, including information about the entity's exposure to risks arising from interest rate benchmark reform and how it manages those risks.

iv. ***Transition***

The Company intends to adopt these amendments when they come into force. The Company does not expect the amendments to have a material impact on its financial statements when initially applied. Initial application will not impact the amounts reported for 2020 or prior periods.

B. Other standards

The following new standards, amendments and interpretations to those issued are not expected to have a material impact on the Company's financial statements:

- Classification of liabilities into current and non-current (amendments to IAS 1);
- Reference to the conceptual framework (amendments to IFRS 3);
- Property, Plant and Equipment - Income before Intended Use (Amendments to IAS 16);
- Onerous contracts - Cost of fulfilling a contract (Amendment to IAS 37);
- Extension of the temporary exemption from the application of IFRS 9 (Amendments to IFRS 4);
- Annual improvements to IFRS (2018-2020 cycle).

Amendments to IFRS 16 Leases - COVID-19 related lease arrangements (effective for annual periods beginning on or after 1 June 2020, earlier application permitted).
The Company earlier adopted "COVID-19 Lease Related Consequences" - Amendment to IFRS16 issued on May 28, 2020. The amendment introduces an optional practical expedient for leases in which the Company is a lessee - i.e. for leases to which the Company applies the appropriate practices, the Company is not required to assess whether qualifying lease concessions that are a direct consequence of the COVID-19 pandemic are lease modifications. The Company has applied the amendment retroactively.
The amendment introduces an optional practical tool that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee applying the practical expedient is not required to assess whether qualifying rent concessions are lease modifications and accounts for them in accordance with other applicable requirements.
The resulting accounting will depend on the details of the lease concession. For example, if the concession is in the form of a one-off rent reduction, this will be accounted for as a variable lease payment and recognised in profit or loss.

The practical solution will only apply if:

- the revised consideration is substantially similar to or less than the original consideration;
- the reduction in lease payments relates to payments due on or before 30 June 2021; and
- no other substantive changes were made to the terms of the lease.

This practical solution is not available to landlords. The Company expects that the changes, when initially applied, will not have a material impact on the financial statements.

3.2. Affiliated entities

An entity is affiliated with another entity when one entity, through ownership, contractual rights, family relationships, has the ability to control the other entity or to significantly influence it in making financial or operational decisions.

As defined in IAS 24 "Disclosure of Related Parties", the Company has identified the following related parties in both the current and prior periods: entities in the Mogo Group, members of the Board of Directors, the management of the Company as well as close members of their families. The composition and transactions with related parties are disclosed in Note 25.

3.3. Foreign currency conversion

Foreign currency transactions are converted into the functional currency at the exchange rates prevailing on the transaction date. Foreign exchange gains and losses arising on the completion of these transactions and on the translation of monetary assets and liabilities denominated in foreign currencies using year-end exchange rates are recognised in the income statement.

The exchange rates for the most important currencies were:

	31 December 2020	31 December 2019
EUR	4,8694	4,7793
USD	3,966	4,2608

3.4. Recording of interest income and expenditure

Interest income and expense is recognised in the income statement for all instruments measured at amortised cost using the effective interest method.

Interest income includes income from leasing activity as well as interest on secured loan agreements and is recognised in the income statement over the term of the lease, reflecting a constant periodic return on the net investment remaining under the lease, calculated using the effective interest rate method. Finance lease income and secured lending income include amortisation of capitalised grant fees at the inception of the lease and management fee income.

The interest expense shown in the income statement relates to financial liabilities measured at amortised cost.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and allocating interest income or expense over a relevant period of time. The effective interest rate is the exact rate that discounts the estimated future cash flows to be paid or received over the life of the financial instrument, or, when appropriate, a shorter period, to the reported net value of the financial asset or financial liability.

In determining the effective interest rate for financial instruments, the Company estimates future cash flows taking into account the contractual terms of the financial instruments. The calculation of the effective interest rate includes transaction costs, fe es paid or received which form an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

3.5. Income and expenditure from fees and commissions

Fee and commission income comprises net fee and commission income related to advance refunds, income received for re-invoiced services, penalties received.
Expenses on fees and commissions mainly comprise the cost of recharged services and other expenses related to lending activity.

3.6. Net trading income

Net trading income is the net foreign exchange gain/(loss) arising from the translation at the period end of foreign currency assets and liabilities and the net foreign exchange gain/(loss) arising from transactions.

3.7. Other operating income

The category 'Other operating income' mainly comprises income related to the amortisation of financial guarantees, income from compensation received from insurance companies for damage to guarantees (vehicles), interest income on bank deposits placed and other types of income not specified in other categories.

3.8. Net gain/loss on assets held for sale

Net gain/loss on assets held for sale includes: proceeds from the sale of repossessed assets, costs incurred by the Company in recovering assets arising from terminated credit agreements, and the provision for impairment to market value less costs to sell.

3.9. Financial assets

a) Financial assets - initial recognition

Date of recognition

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

Initial assessment

The classification of financial instruments on initial recognition depends on the contractual terms and the business model for managing these instruments as described in the accounting policies. Financial instruments are initially measured at fair value and, except for financial assets and financial liabilities carried at fair value through profit or loss (FVPL), transaction costs are added to or subtracted from that value. Other receivables are measured at transaction price.

b) Classification of financial assets

The Company measures loans and advances to customers, loans to related parties, cash equivalents and other loans and receivables at amortised cost only if both of the following conditions are met:

- is held within a business model whose objective is achieved by holding assets and collecting contractual cash flows; and
- its contractual terms give rise, at specified dates, to cash flows representing exclusively payments of principal and interest ("SPPI").

Reclassification of financial assets

The Company does not reclassify financial assets subsequent to initial recognition.
Financial liabilities are never reclassified. The Company did not reclassify any of its financial assets or liabilities in 2019 or 2020.

c) Derecognition of financial assets and lease receivables

The derecognition provisions below apply to all financial assets measured at amortised cost.

De-recognition due to substantial modification of terms and conditions

The Company derecognises a loan to a customer or a receivable under a finance lease when the terms and conditions have been renegotiated to the extent that they become substantially a new loan or lease, with the difference recognised as a gain or loss on derecognition, if an impairment loss has not already been recognised. Newly recognised loans are classified in Stage 1 for ECL measurement purposes, unless the new financial asset is deemed to be purchased or impaired.

In assessing whether or not to derecognise a financial asset, the Company considers, among other things, the following qualitative factors:
- Change in counterparty
- If the change is such that the instrument no longer meets the SPPI criterion
- If the legal obligations have been extinguished.

Furthermore, in the case of loans and advances to customers and finance lease receivables, the Company specifically considers the purpose of the changes. It is assessed whether the modification was introduced for commercial (business) reasons or in order to restructure the loan. Management has performed an analysis of modifications made for business reasons and has assessed that the modifications result in a material change to the terms and conditions. This is in line with the objective of this amendment, i.e. to create a new asset with substantially different terms. If the DPD (days past due) of the contract immediately before the modification is less than 5 and the characteristics of the financial asset are substantially changed, that modification is considered to be obtained for business reasons and results in derecognition of the original lease/loan receivable.

Other changes to the terms of the agreement are treated as changes that do not lead to derecognition (see section on Changes below).

De-recognition for reasons other than substantial changes

A financial asset or a receivable under a finance lease is derecognised when the rights to receive cash flows from the financial asset have expired. The Company also derecognises the financial asset when the contractual rights to receive cash flows from the financial asset have been transferred/assigned.

d) Amendments

Sometimes the Company intervenes rather with changes to the original loan/lease terms in response to financial difficulties the borrower is experiencing, but does not take possession of the collateral or enforce collection. The Company considers a lease/loan agreement restructured when these modifications are provided as a result of the borrower's present or expected financial difficulties and the Company would not have agreed to them if the borrower's financial condition were sound. Indicators of financial hardship include non-payment or increased days past due prior to modifications. Such modifications may involve extending payment terms and agreeing new loan terms.

If the change does not result in substantially different cash flows as described above, the asset will not be derecognised. Based on the change in discounted cash flows at the original effective interest rate (EIR), the Company records a gain or loss in interest income/expense calculated using the effective interest method.

3.10. Financial debts

a) Initial recognition and assessment

Financial liabilities are classified at initial recognition as financial liabilities at fair value through profit or loss, or liabilities at amortised cost, as appropriate.

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

b) Subsequent evaluation

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

- Financial liabilities at fair value through profit or loss (FVTPL)

A financial liability is classified at FVTPL if it is held for trading, is a derivative or is designated as such on initial recognition. Net gains or losses, including any interest expense, on debt held at FVTPL are recognised in the income statement.

The Company has not designated any financial liabilities measured at fair value through profit or loss.

- Financial liabilities at amortised cost (Loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the debts are derecognised, as well as by amortising effective interest.

The amortised cost is calculated taking into account any purchase discount or premium and any fees or costs that are an integral part of the effective interest. Amortisation of effective interest is included in finance costs in the statement of comprehensive income.

c) Change in financial liabilities

For financial liabilities, the Company considers a change to be significant based on qualitative factors and if it results in a difference between the present discounted value and the original carrying amount of the financial liability equal to or greater than ten percent. If the change is material, then a gain or loss on derecognition is recognised on derecognition. If the change does not result in substantially different cash flows, the change does not result in derecognition. Based on the change in discounted cash flows at the original effective interest rate, the Company records a change in the form of a gain or loss.

d) Addressing insignificant changes

If cash flow estimates for fixed rate financial liabilities are revised, then changes in future contractual cash flows are discounted at the original effective interest rate with a corresponding adjustment to the carrying amount. The difference from the previous carrying amount is recorded as a positive or negative adjustment to the carrying amount of the financial liability in the statement of financial position with a corresponding increase or decrease in interest income/expense calculated using the effective interest method.

e) Derecognition

A financial liability is derecognised when the obligation relating to the liability is discharged, cancelled or expires. When an existing financial liability is exchanged for another from the same creditor on substantially different terms, or the terms of an existing liability are materially changed, such exchange or change is treated as derecognition of the original liability and recognition of a new liability. The difference between those carrying amounts is recognised in the statement of comprehensive income.

3.11. Clearing of financial instruments

Financial assets and financial liabilities are offset and the net result is presented in the financial statements when there is a legal right of set-off and if there is an intention to settle them on a net basis or if there is an intention to realise the asset and settle the liability simultaneously.

3.12. Impairment of financial assets and net investment in finance leases

The Company recognizes adjustments for expected credit losses ("ECL") related to the following financial instruments that are not measured at FVTPL:

- Finance lease receivables;
- Loans and advances to customers;
- Trade receivables;
- Funding commitments.

The Company's core assets - finance lease receivables, i.e. loans and advances to customers are classified for the collective ECL calculation according to the number of days overdue for each of them and the presence of related collateral (for pledged products). For the purpose of determining impairment rates, finance lease receivables and secured loans are combined due to the similar nature of the products.

The company continuously monitors all assets subject to impairment (ECL). To determine whether an instrument or portfolio of instruments is subject to 12-month or lifetime ECL ("LTECL"), the Company assesses whether there has been a significant increase in credit risk since initial recognition.
Under this approach, the Company determines whether the financial asset is in one of the following three stages to determine both the amount of ECL it recognises and how to recognise interest income.

Stage 1: When loans/leases are first recognised, the Company recognises a provision under the 12-month ECL. The Company considers leases and loan contracts that are current or up to 30 days past due to be in Stage 1.
A recovery period of 2 months applies before an exposure previously classified as Stage 2 can be transferred to Stage 1 and such an exposure must meet the general DPD criteria mentioned above. The concept of recovery period does not apply to unsecured loans (i.e. those with unavailable collateral - lost or sold; "unsecured"). Exposures are no longer classified as Stage 1 if they no longer meet the above criteria.
- Stage 2:
The Company measures ECL for a financial instrument, net investment in finance lease at an amount equal to the expected lifetime credit losses if the credit risk of that financial instrument, net investment in finance lease has increased significantly since the time of initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Company measures credit losses for a financial instrument, i.e. net investment in finance lease, at an amount equal to the expected credit losses over a 12-month period from the reporting date. Accordingly, the Company should be able to measure and assess a significant increase in credit risk by comparing the risk of default at the "date of initial recognition" with the risk of default at the "reporting date".
When a loan/lease has experienced a significant increase in credit risk since initial recognition, the Company records a provision over the entire contractual term of the instrument ("LTECL"). In general, the Company considers lease/loan contracts that are 31-60 days past due to be in Stage 2. Also, unsecured loan is considered in Stage 2 if the DPD is in the range of 31 - 60 days.
- Stage 3: Leasing and borrowing contracts considered impaired due to credit risk.
At each reporting date, the Company assesses whether financial assets carried at amortised cost and finance lease receivables are impaired. A financial asset, i.e. net investment in finance lease, is impaired when one or more events have occurred that have a negative

impact on the estimated future cash flows of the financial asset, i.e. net investment in finance lease.
Evidence that a financial asset, i.e. net investment in finance lease, is impaired includes the following observable inputs:

- significant financial difficulty of the debtor;
- a breach of contract clause, such as an event of default or delay; all contracts with DPD greater than 60 days are classified as impaired;
- restructuring of a contract by the Company accepting clauses that it would not otherwise have considered;
- it becomes likely that the debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset due to financial difficulties;
- the purchase or issue of a financial asset at a significant discount reflecting credit losses incurred.

A finance lease that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be impaired unless there is evidence that the risk of not collecting the contractual cash flows has been significantly reduced and there are no other indicators of impairment.

Disclosure of adjustments for expected credit losses in the statement of financial position
Adjustments for ECL are shown in the statement of financial position as follows:

- for financial assets, i.e. net investment in finance leases measured at amortised cost: as a deduction from the gross carrying amount of assets, i.e. net investment in finance leases,
- for loan commitments and financial guarantee contracts: generally as a provision.

3.13. Provisions for financial guarantees

Where a contract meets the definition of a financial guarantee contract, the Company as issuer applies the specific accounting and valuation requirements of IFRS 9. These measurement requirements of IFRS 9 are applied to all guarantee contracts, including guarantees issued between entities under common control as well as guarantees issued by a subsidiary on behalf of a parent entity. If a parent issues a guarantee on behalf of a jointly controlled entity, a provision to that effect is recognised in the financial statements. If the transaction is conducted by the Company's shareholders in their capacity as owners, the Company treats such transactions as an increase in the provision for financial guarantees and an equal-opposite decrease in equity (distribution). Distributions of equity for the purpose of financial guarantees are recognised in 'Other reserves'.
Financial guarantees are initially recognised at fair value. Subsequently, unless the financial guarantee contract is initially designated as at fair value through comprehensive income, the Company's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of comprehensive income and provisions for expected credit losses determined in accordance with IFRS 9. Amortisation is recognised in the statement of comprehensive income on a straight-line basis over the duration of the guarantee and classified in the line "Other operating income".

Financial guarantees are derecognised if the conditions of the guarantee are significantly changed. Changes to the guarantee limit are treated as derecognition. In this case, the original guarantee is derecognised and a new guarantee is recognised at fair value. The change in fair value is recognised as a decrease or increase in provisions for financial guarantees and an equal decrease or increase in 'Other reserves'. Other reserves are transferred to the gains on extinguishment of liabilities under the financial guarantee.

3.14. Intangible assets

Recognition and evaluation
Intangible assets are software and development costs which are recognised at cost less accumulated amortisation and impairment provisions.

Depreciation
Intangible assets are amortised on a straight-line basis over the useful life of the asset. All intangible assets are classified in the following depreciation groups:

- Licences - for the duration of the licence;
- Software - 7 years;
- Other intangible assets - 5 years.

3.15. Tangible fixed assets

Recognition and evaluation

Buildings, office and other equipment and vehicles are stated at cost less accumulated depreciation and provision for impairment. Expenditure on repairs and maintenance is charged to the income statement when incurred. The cost of replacing major parts or components of buildings and equipment is capitalised and the replaced part is scrapped.

Gains and losses on the sale of fixed assets are determined by reference to their carrying amount at the date of sale and are recognised in profit and loss.

Depreciation

Land and fixed assets under construction are not subject to depreciation. Depreciation is calculated on a straight-line basis over the estimated useful life of each item of property, plant and equipment and is recognised in the income statement. Assets acquired under a lease are depreciated over the shorter of the lease term and their useful life.

	Useful life (years)
Computers	3
Furniture	5
Means of transport	7
Leased asset improvements	During the lease term
Other equipment	2

3.16. Impairment of non-financial assets

Assets with indefinite useful lives are not depreciated and are reviewed annually for impairment losses. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount.

Recoverable amount is the higher of the asset's fair value less costs to sell and value in use. In calculating this loss, assets are grouped down to the lowest level of detail for which independent cash flows (cash-generating units) can be identified. Impaired non-financial assets other than goodwill are reviewed for possible reversal of impairment at the reporting date.

Impairment losses recognised in prior periods are assessed at each reporting date for indications that the loss has decreased or no longer exists. Impairment losses are reversed if there has been a change in the estimates used to determine recoverable amount. The impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised.

3.17. Assets available for sale

Non-current assets that are expected to be recovered through sale rather than through continuing use are classified as available-for-sale assets. These assets are those assets leased by the Company which are recovered from customers in the event of termination of the lease. These assets are recognised as assets of the Company at the lower of net carrying amount and fair value less cost to resell.

3.18. Trade and other receivables

Trade and other receivables are stated at cost less impairment losses, determined in accordance with the same expected credit loss ("ECL") methodology for lease receivables and loan contracts.

3.19. Leasing

The Company has applied IFRS 16 for contracts entered into (or modified) on or after 1 January 2018 using the modified retrospective approach and therefore comparative information is presented in accordance with IFRS 16.

At the inception of a contract, the Company assesses whether a contract is or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in return for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

The company as lessor

A lease is classified as a finance lease when the terms and conditions of the lease transfer substantially all the risks and rewards of ownership to the lessee. Amounts due from lessees under a finance lease are recorded as receivables.

The company provides customers with financing for the purchase of used vehicles. Consumer credit is structured in the form of financing linked to hire purchase agreements. Specifically, the Company retains title to the vehicle and resells it at the same price to its customers under a hire purchase agreement. At the same time, the Company charges interest on the deferred price of the vehicle. Legal title to the vehicle is retained by the Company, as a form of security, until the last instalment is paid by the customer, at which point ownership of the vehicle reverts to the customer.

Recognition of a leasing contract is made at the start date of the contract. The commencement date is the date on which the lessee is entitled to exercise its right to use the asset.
In the case of finance leases, the gross investment is the sum of all minimum lease payments plus any unguaranteed residual value. The difference between the gross investment in the lease and the net acquisition cost of the leased asset (the amount financed less taxes, advances and commissions received in full at the inception of the lease) is recognised as unrealised lease income.
Finance lease income is allocated to accounting periods to reflect a constant periodic return on the remaining net investment arising from the leases entered into.

The fair value of the financial asset is determined on the basis of the amount for which the leased asset could be exchanged willingly between knowledgeable, willing parties in an objectively priced transaction.

The net investment in finance leases falls within the scope of IFRS 9 for impairment and derecognition purposes; in this regard see accounting policies 3.9 *Financial assets*, 3.10 *Financial liabilities* and 3.12 *Impairment of financial assets and net investment in finance leases.*

Moratorium

On 11 March 2020, the World Health Organization declared the coronavirus outbreak a pandemic and the Romanian government declared a state of emergency on 16 March 2020, followed by a state of alert on 15 May 2020.
In these circumstances, where the activity of many economic agents was affected by the restrictions imposed to limit the pandemic, the Company's management implemented measures with regard to its customers. In this respect, the Company has offered solutions to them through a public moratorium, based on Emergency Ordinance No. 37/2020.

The public moratorium was applied only to customers who met the conditions regulated by Government Emergency Ordinance no.37/2020 ("GEO 37/2020"):

- had entered into leases that had not matured and for which the Company had not declared early maturity prior to the entry into force of the Emergency Ordinance;

- had no arrears;
- were not in insolvency at the time of filing the request for suspension of payments;
- held an emergency certificate issued by the Ministry of Economy, Energy and Business Environment.

The public moratorium consisted of:

- suspension of principal, interest and commission payments for up to 9 months, but not more than 31.12.2020;
- capitalisation of interest calculated on the balance of the credit existing at the end of the suspension period and corresponding extension of the duration of the credit.

The company did not grant private moratorium to its clients.

Society as tenant

The Company recognises the right to use an asset and a lease liability at the inception of the lease. The right of use of the asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted by any lease payments made on or before the commencement date, plus any initial direct costs incurred and an estimate of the costs of decommissioning less any improvements to branch or office premises.

The right to use the asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right of use of the asset is reduced periodically by impairment losses, if any, and adjusted for certain revaluations of the lease liability.

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

The Company determines its incremental interest rate by analyzing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and the type of asset leased.

Lease payments included in the measurement of lease liability comprise fixed payments.

Lease liabilities are measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments resulting from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be due, if the Company changes its valuation in that it will exercise a call, extension or termination option, or if there is a material revision to lease payments.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right of use of the asset or is recognised in profit or loss if the carrying amount of the right of use of the asset has been reduced to zero.

The company discloses the right of use of assets in "Property, plant and equipment" and "Liabilities related to the right of use of assets" in the statement of financial position.

For leases related to branch office and office space, the Company has elected to separate the non-leasing components and account for them in other operating expenses. The Company has treated the VAT associated with operating lease payments as a tax charged to the Company and collected by the lessor acting as agent for the tax authority. Accordingly, VAT is neither a lease payment nor a non-lease component and is recorded by the Company as a payable to the government when the invoice containing the lease expense is received.

3.20. Cash and cash equivalents

With regard to the cash flow statement, cash and cash equivalents comprise: cash in bank accounts, highly liquid financial assets with an original maturity of less than 3 months and loans and advances granted to banks for a period of less than 3 months. The Company does not hold cash in its cash register.

3.21. Provisions

Provisions are recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be reasonably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation.

Where there are a number of similar obligations, the likelihood that an outflow of resources will be required for settlement is determined by considering the entire category of obligations.

Provisions are valued at the present value of the estimated expenditure required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

3.22. Pension and other post-retirement benefit obligations

The company, in the normal course of business, makes payments to the Romanian state pension fund, health insurance and unemployment insurance for its employees in Romania. All employees of the Company are included in the state pension system. The Company does not maintain any other pension plan and therefore has no other pension obligations. The Company has no other obligation to provide other services to former or current employees.

3.23. Corporate income tax

(a) Current income tax
Income tax for the year comprises current and deferred tax. Income tax is recognised in the profit and loss account, or in equity if the tax relates to capital items.
Current tax is the tax payable on the taxable profit for the current period, determined on the basis of the percentages applied at the balance sheet date and all prior period adjustments. The company recognises income tax on the basis of statutory financial statements prepared in accordance with Romanian accounting regulations and in accordance with relevant income tax legislation. Income tax legislation is based on a fiscal year ending 31 December. At the time of recording both corporate income tax and deferred tax for the year ended, the Company has calculated the annual corporate income tax based on the Romanian corporate income tax legislation in force (or substantially enacted) at the reporting date.

(b) Corporation tax deferred
Deferred income tax is determined using the balance sheet method for those temporary differences arising between the tax base for the calculation of tax on assets and liabilities, and the carrying amount determined for financial reporting purposes. Deferred income tax is determined using tax rates (and legislation) that are enacted or substantively enacted by the reporting date and that are expected to apply when the deferred income tax receivable to be recovered is recovered or the deferred tax liability is settled.

The deferred tax asset is reviewed at the end of each financial year and reduced to the extent that the related tax benefit is unlikely to be realised. The corporate income tax rate used in the calculation of current and deferred tax is at 31 December 2020 16% (31 December 2019: 16%).

The main timing differences result from the difference in accounting vs. tax treatment related to the calculation of depreciation as well as the difference in the specific treatment of provisions for impairment of lease receivables and loan contracts.

The deferred tax asset is recognised to the extent that it is probable that temporary differences will be deducted from future taxable profit.

Deferred tax assets and liabilities are offset if certain criteria are met.

3.24. Loans

Loans are initially recorded at fair value net of transaction costs. Loans are subsequently carried at amortised cost, any difference between the amount initially recognised and the redemption value is recognised in the income statement over the life of the loan agreement using the effective interest method.

3.25. Share capital and reserves

The share capital is equal to the nominal value of the shares, i.e. the value of the capital contribution, premiums and reserves incorporated or other elements of operations leading to its modification.

The subscribed and paid-up capital (registered capital) shall be recorded separately in the accounts on the basis of the company's memorandum of association and on the basis of supporting documents relating to the paid-up capital.

Legal reserves are established in accordance with the legal requirements in force, by allocating a minimum of 5% of the Company's profit, until the reserve fund reaches 20% of the entire subscribed and paid-up share capital. This reserve may not be distributed to shareholders. The allocation to the legal reserve is deductible in the calculation of current income tax up to a maximum of 5% of the net profit adjusted with income tax expenses.

In accordance with tax legislation, when there is a change in the destination of the legal reserve or reserves representing tax benefits, income tax, interest and penalties will be calculated from the time the tax benefits were granted to the Company.

3.26. Commitments, assets and contingent liabilities

Off-balance sheet transactions comprise commitments given and received representing rights and obligations the effects of which are conditional on the realisation of future transactions, as well as assets and transactions that cannot yet be recognised as assets or liabilities. Off-balance sheet transactions may include the following:

- Funding commitments;
- Spot exchange operations;
- Derivative financial instruments not yet due;
- Guarantees received from clients for loans granted.

Contingent assets

A contingent asset is a potential asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Company's control.

Contingent assets are not recognised in the statement of financial position, but are disclosed in the notes to the financial statements if it is probable that future economic benefits will flow to the entity

If the realisation of revenue is virtually certain, the contingent asset is an asset and will be recognised in the balance sheet. Contingent assets are reviewed at each balance sheet date to determine whether there has been a change in circumstances that would require recognition of an asset and related revenue. If the flow of economic benefits becomes certain, then the asset and related revenue will be recognised in the financial statements in the period in which the change occurred.

Contingent liabilities

A contingent liability is:

- a possible obligation arising from past events, the existence of which will be confirmed by future events not wholly within the Company's control, or
- a present obligation that arises from past events but is not recognized because:
    - it is not certain that resources incorporating economic benefits will be needed to settle its debt,

- the amount of debt cannot be measured reliably enough.

Contingent liabilities are assessed on an ongoing basis to determine whether an outflow of resources embodying economic benefits becomes probable. If an outflow of resources embodying economic benefits is probable for a previously recognised contingent liability, a provision is recognised in the financial statements of the period in which the change occurs, unless a reliable estimate cannot be made, in which case a contingent liability is disclosed.

4. RISK MANAGEMENT

4.1. General description of the risk management framework

Within the Company, risk management is a systematic, continuous and rigorous process, which includes the processes of identification, analysis, planning, control and resolution of risks, with the objective of carrying out the activity in conditions of efficiency and minimizing possible negative effects that could affect the Company's activity.
The main risks associated with the Company's activity are of a financial and operational nature, resulting from the conduct of microcredit financing activities in Romania.
The significant risks monitored within the Company are: credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk and interest rate risk.

4.2. Credit risk

Credit risk is the risk that the Company will incur a financial loss if a customer or partner in a financial instrument transaction fails to meet its contractual obligations.
In accordance with the provisions of the internal lending regulations, the Company enters into leasing contracts and loan agreements with individuals, so that the portfolio has no significant exposures and is subject to collective analysis. For the collective analysis, financial assets are grouped into groups (portfolios) with similar credit risk characteristics - the purpose of the grouping is to meet the objective of recognising expected credit losses over the lifetime when there are significant increases in credit risk. For the purpose of assessing expected loss, the Company groups portfolios into risk classes (stage 1, stage 2, stage 3) - each class having a specific way of calculating the adjustment. For the purpose of the collective assessment of impairment of credit exposures, it applies the principles for the calculation of the impairment adjustment outlined in specific internal regulations and measures expected credit losses according to the stage distribution of credit exposures.

4.2.1. Qualitative credit risk analysis

Maximum exposure to credit risk

The table below shows the Company's maximum credit risk exposure as at 31 December 2020, 31 December 2019 and 1 January 2019, excluding collateral held. For balance sheet assets, exposures are shown at net book value.

	31 December 2020	31 December 2019	1 January 2019
Cash and cash equivalents	11.266.591	364.967	379.522
Finance lease receivables	63.247.940	66.197.364	38.133.748
Loans and advances to clients	18.058.415	760.586	545.610
Loans to related parties	14.575.690	5.927.332	-
Other assets (trade receivables)	266.066	679.672	117.318
Provisions for financial guarantees	(2.105.612)	(3.464.525)	(782.554)
Total	**105.309.090**	**70.465.396**	**38.393.644**

Notional group guarantees (see note 24) 486,940,000 477,930,000 349,792,500

The following tables present information on the quality of financial assets measured at amortised cost and Net investment in finance leases from a credit risk perspective. Except where otherwise specified, for all financial asset positions mentioned, the exposures in the tables below are shown at net carrying amount.

The classification categories for credit risk analysis are as follows:

- Nerest
- Overdue up to 30 days
- Remaining 31 to 60 days
- Remaining over 60 days
- Unsecured (general definition: days over 90 or collateral unavailable - lost or sold).

Loans and advances to customers :

- Nerest
- Overdue up to 30 days
- Remaining 31 to 60 days
- Remaining over 60 days

The explanation of the terms " Stage 1", "Stage 2" and "Stage 3" is included in Note 3.12.
The following tables provide information on the state of arrears of leasing receivables at amortised cost divided into the 3 stages:

	31 December 2020			
Finance lease receivables	**Stage 1**	**Stage 2**	**Stage 3**	**TOTAL**
Nerest	39.100.391	2.887.629	758	41.988.778
Remaining 1-30 days	8.198.994	7.689.813	77.387	15.966.194
Remaining 31-60 days	175.213	-	2.950.880	3.126.093
Remaining >60 days	588.245	-	18.662.858	19.251.103
Expected credit losses	(1.570.976)	(1.620.466)	(13.892.786)	(17.084.228)
Net value	**46.491.867**	**8.956.976**	**7.799.097**	**63.247.940**

	31 December 2019			
Finance lease receivables	**Stage 1**	**Stage 2**	**Stage 3**	**TOTAL**
Nerest	45.505.260	1.287.025	-	46.792.285
Remaining 1-30 days	9.176.621	5.918.618	-	15.095.239
Remaining 31-60 days	-	-	2.162.825	2.162.825
Remaining >60 days	-	-	11.166.186	11.166.186
Expected credit losses	(851.860)	(685.613)	(7.481.698)	(9.019.171)
Net value	**53.830.021**	**6.520.031**	**5.847.313**	**66.197.364**

	31 December 2020			
Claims from loans and advances to customers	**Stage 1**	**Stage 2**	**Stage 3**	**TOTAL**
Nerest	16.487.226	77.408	53	16.564.687
Remaining 1-30 days	1.577.331	255.237	27.223	1.859.791
Remaining 31-60 days	-	-	130.087	130.087

Remaining >60 days	-	-	327.967	327.967
Expected credit losses	(495.472)	(51.603)	(277.042)	(824.117)
Net value	**17.569.085**	**281.042**	**208.288**	**18.058.415**

	31 December 2019			
Claims from loans and advances to customers	**Stage 1**	**Stage 2**	**Stage 3**	**TOTAL**
Nerest	378.923	121.838	-	500.761
Remaining 1-30 days	98.142	101.914	-	200.057
Remaining 31-60 days	-	-	57.128	57.128
Remaining >60 days	-	-	103.738	103.738
Expected credit losses	(6.663)	(16.674)	(77.761)	(101.098)
Net value	**470.402**	**207.078**	**83.106**	**760.586**

4.2.2. Guarantees related to leasing receivables

The quality of finance lease receivables is determined by looking at the overall creditworthiness of the customer and the assets financed, which represent intrinsic collateral. The Company holds collateral related to finance lease receivables at amortised cost in the form of financed assets, which are objects of leases, over which the Company holds title until the end of the lease.

As at 31 December 2020 the net book value of lease receivables was RON 63,247,940 (2019: RON 66,197,364) and the value of identifiable guarantees (vehicles) related to these lease receivables was RON 118,837,430 (2019: RON 129,407,073).

Assets obtained by taking possession of collateral
Details of the assets obtained by the Company by taking possession of collateral relating to lease receivables and held at year end are disclosed in Note 17.
The Company's policy is to seek solutions to sell repossessed assets in a timely and efficient manner. The Company does not use repossessed assets for its own operations.

4.2.3. Amounts resulting from expected credit losses

The Company discloses below the assumptions and techniques used to estimate impairment.

Significant increase in credit risk
When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes quantitative and qualitative information and analysis based on the Company's historical experience and the assessment of credit risk experts using a forward-looking manner of analyzing available information.

Incorporating forward-looking information
The Company includes forward-looking information both in assessing the credit risk of an instrument that has increased significantly since initial recognition and in measuring ECL.

The economic scenarios used on 31 December 2020 included the following key indicators for the years 2020 to 2022. The figures below show the result of combining the macroeconomic scenarios (optimistic, baseline, pessimistic) into a single expected value.

Indicator	2020	2021	2022
Unemployment rate	8,3%	6,9%	4,2%
Inflation rate	2,5%	3,1%	2,8%

GDP index	8,8%	3,8%

The economic scenarios used on 31 December 2019 included the following key indicators for the years 2020 to 2022:

Indicator	2020	2021	2022
Unemployment rate	4%	3.8%	4%
Inflation rate	3.4%	4.08%	3.71%
GDP index	3.6%	3.8%	3.6%

For 2019, the Society has applied the *Hierarchical Bayes* model. Like any statistical model, the Bayes model constructs a relationship between the input variables and the modeled variable based on statistical correlation. Overall, the model demonstrated good stability. The model is also sensitive to severe changes in the input variables and reacts adequately to pessimistic scenarios.

The Company evaluates forward-looking information and incorporates it into the impairment model. Impairment fluctuation is modelled taking into account future changes in macro-economic factors. Prior to January 2020 the *Hierarchical Bayes* model was applied, but given the unprecedented impact of Covid-19 on the global economy and the uncertainties created in all markets, the approach has been changed to a linear relationship between changes in input variables and changes in PD, so that the model applied from January 2020 uses expected changes in macroeconomic indicators from year to year and assumes the same or similar change to stage 1 PD. All input variables are weighted according to their significance to the default rates of the Company's customers and summed to give the base case result.

The weights assigned to each macroeconomic variable in the construction of the baseline scenario, for 2020 and each relevant forecast year, are as follows:

Indicator	2020	2021	2022
Unemployment rate	80%	33.4%	33.4%
Inflation rate	10%	33.4%	33.4%
GDP index	10%	33.3%	33.6%

ECL measurement

The key inputs in measuring ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure in the event of default (EAD)

The ECL for Stage 1 exposures is calculated by multiplying the 12-month PD by the LGD and EAD. The whole life ECL is calculated by multiplying the whole life PD of the loan/lease by the LGD and EAD.

Probability of default (PD)

PD - probability of default is an estimate of the probability of default over a 12-month period or lifetime (the time horizon depends on the type of ECL - 12mECL or LTECL). The Default Distribution Vector (DDV) is the estimate of the time to default, it provides the distribution of PDs over a 12-month period or lifetime.

Probability of default is an estimate of the likelihood of default in a given period of time, defined as 61 DPD.

To estimate PD, the Company uses Markov chain methodology, which involves a statistical analysis of historical transitions between delinquent receivables to estimate the probability that the loan will eventually default.

The company uses a continuous transition period of 12 months (or less if the actual product lifetime is shorter or if representative historical data is available for a shorter period), and the lifetime estimate has been defined as the "n"-power of the 12-month matrix (n-depends on

the estimated lifetime, e.g. if the lifetime is 36 months, then n = 3).
Exposures are grouped into groups according to (DPD) days past due on loans/leases.

The company uses the transition period of 6 months (continuous horizon) and the lifetime estimate is defined as the power of "n"-of the 6-month matrix. The calculations are applied at portfolio level (i.e. leasing portfolio and loan portfolio).

Model of forward-looking macroeconomic indicators for assessing portfolio impairment

In accordance with IFRS 9, the Company assesses forward-looking information and incorporates it into an impairment model. Changes in impairment are calculated taking into account expected future changes in macroeconomic factors. Prior to December 2020, the Society used the Hierarchical Bayes model, but given the unprecedented impact of the Covid-19 pandemic on the economy worldwide and uncertainty in all markets, the approach has been changed to a linear relationship between changes in input variables and changes in PD.

The macro model uses expected changes in macroeconomic indicators from year to year and assumes the same or similar change to Stage 1 PD.

The following variables are used:

1. GDP growth (GDP)
2. Change in the unemployment rate (UR);
3. Change in inflation rate (IR)

These variables were found to have a significant correlation with PD.

In the first step, the weighted average of all initial variables (baseline scenario) is calculated. Since all variables are changes, then the result is the expected average change of stage 1 PD. The input variables are weighted according to their significance to the default rates of the company's customers: UR = 60%, GDP = 30%, IR = 10%.
In the second stage, the input variables are worsened by 15% and the worst-case scenario is obtained using the same weights as in the baseline scenario (average expected change of stage 1 PD in the worst-case scenario).
In the third step, the weights of the baseline and worst-case scenarios are determined, resulting in a weighted average scenario. The weight of the baseline scenario can vary, it is 75% , the weight of the worst case scenario is 1 - the weight of the baseline scenario.
In the fourth step - the weighted average scenario result is multiplied by the relationship coefficient, which was determined to be equal to 0.5. The relationship coefficient shows whether the UR changes during the first Covid wave involved the same scale of PD changes. It is calculated as follows: the maximum increase in PD in 2020 vs 2019 December PD is compared to the maximum increase in UR in 2020 vs 2019 December.
The macro model output is then applied to the Stage 1 PDs for each monthly closing starting in December 2020. The macro outlook is consistently updated once per quarter; thus, the macro model is expected to be updated once per quarter in 2021.

Loss in case of non-payment

LGD represents the probable loss in the event of default. The Company estimates LGD parameters based on historical recovery rates of receivables from the counterparties involved. LGD models take into account the structure, collateral and recovery costs of any collateral that is part of the financial asset. They are calculated on a cash flow basis using the effective interest rate as a discount factor.
The Company closely monitors recoveries on finance lease receivables and defaulted loans and revises LGD rates each month for portfolios based on actual recoveries received.
The sample used to calculate LGD consists of all finance lease receivables that have been historically unpaid. If the termination of the contract occurs before the default status is reached, then the loan is considered defaulted (prepaid) and is included in the LGD sample. Subsequent recoveries on such loans are monitored monthly. They are followed by recoveries from the regular collection process, car sales, assignments and the judgment process.

Restructured leases (payment capacity restored after termination) also affect the LGD rate by incorporating the cash recovered after renewal and comparing it to the default exposure of subsequently renewed agreements, implying the cure rate. The cure rate from renewals is calculated over a four-year period.

The LGD rate described above is used for all groups in the portfolio except the unsecured portfolio. For the unsecured portfolio, LGD is estimated using the triangular recovery matrix. The recovery received is discounted by an effective interest rate based on the number of months between the date the account obtains unsecured status and the date the recovery was received. Given that the majority of car sales occur prior to receiving unsecured status, the LGD for the unsecured portfolio is significantly higher than for other portfolio groups.

Loans and advances to customers (unsecured loans)

For unsecured loans LGD is determined on the basis of debt sales market activity and prices offered. For all contracts where the DPD is greater than 360, the LGD is set to 100%.

Exposure in case of default (EAD)

EAD is the expected exposure in the event of default. In the Company's procedures, EAD is derived from the counterparty's current exposure and the potential changes to that exposure permitted under the contract arising from amortisation. The EAD of a financial asset is the gross carrying amount at the time of default.

Exposure to default is modelled by adjusting the outstanding balance of lease receivables and receivables on loans and advances granted at the reporting date by expected future repayments over the next 12 months. As at 31 December 2020 it is applied to Stage 1 exposures only. This is based on contractual repayment schedules adjusted for the observed prepayment rate. Historical prepayment patterns are considered to be a reliable estimate of future prepayment activity.

Lease receivables with modified terms

The contractual terms of a lease may be modified for a number of reasons, including changing market conditions, customer retention and other factors unrelated to an actual or potential deterioration in the customer's creditworthiness.

Sometimes the Company intervenes rather with modifications to the original loan/lease terms in response to financial difficulties the borrower is experiencing, but does not take possession and enforce collection of collateral. The Company considers a lease/loan agreement restructured when these changes are provided as a result of the borrower's present or expected financial difficulties and the Company would not have agreed to them if the borrower's financial condition were sound. Indicators of financial difficulty include defaults or DPDs prior to modifications. Such modifications may involve extending payment terms and agreeing new loan terms .

If the change does not result in substantially different cash flows as described above, the change does not result in derecognition. Based on the change in discounted cash flows at the original effective interest rate (EIR), the Company records a gain or loss in interest income/expense calculated using the effective interest method to the extent that an impairment loss has not already been recognised.

The table below shows the balance of lease receivables for which the contractual terms have been amended:

	31 December 2020	31 December 2019	1 January 2019
Lease receivables with modified terms	10.506.973	2.802.865	1.948.355
Expected credit losses	(1.186.143)	(142.604)	(77.600)
Net balance of lease receivables with modified terms	**9.320.830**	**2.660.261**	**1.870.755**

Contracts restructured through moratoria

The conditions for granting moratoriums to the Company's customers are described in Note 3.19.

Balance of lease receivables for customers who have benefited from the moratorium as at 31 December 2020:

	31 December 2020
Leasing claims with moratorium	1.351.841
Expected credit losses	(63.730)
Net balance of leasing receivables with moratorium	**1.288.112**

A total of 87 clients benefited from the active moratorium at the end of December 2020 under GEO 37/2020, representing a proportion of approximately 1.74% of the number of active clients, a percentage considered to have no significant impact in relation to the entire portfolio.

The public moratorium ended at the end of March 2021.

4.3. Market risk

The Company is exposed to market risk, which is the risk that the fair value or future cash inflows of a financial instrument will fluctuate as a result of changes in market prices. Market risk arises from open interest rate and foreign exchange rate positions, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices, such as interest rates, credit spreads and foreign exchange rates.

Interest rate risk

Sensitivity of assets, liabilities and off-balance sheet items to changes in interest rates - analysis of changes in interest rates

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.
The Company's exposure to the risk of changes in market interest rates is mainly related to long-term obligations bearing variable interest rates. Borrowings are drawn down to refinance leases. In general, the Company grants and receives loans at a fixed interest rate, which minimises interest rate risk. Due to this, the Company's interest rate risk position is equal to the liquidity position disclosed in Note 4.4.

Currency risk

The Company is subject to the risk of the effects of exchange rate fluctuations on its financial position and cash flows. The Company manages currency risk by continuously reviewing its funding requirements and avoiding excessive conversion transactions. The tables below present the Company's exposure to foreign currency risk as of December 31, 2020, December 31, 2019 and January 1, 2019. Included in the tables are the Company's assets and liabilities at net book values, classified by currency.

On 31 December 2020

Active	RON	EUR	TOTAL
Number	378.832	10.887.759	11.266.591
Trade and other receivables	266.066	-	266.066
Loans to affiliated parties	-	14.575.690	14.575.690
Finance lease receivables	63.250.087	-	63.250.087
Loans and advances to clients	18.010.810	-	18.010.810
Total assets	**82.146.380**	**25.463.449**	**107.609.829**
Debts			
Loans attracted	-	83.194.012	83.194.012
Lease liabilities	-	1.341.537	1.341.537
Total debts	**-**	**84.535.549**	**84.535.549**

Balance sheet net position	**82.146.380**	**(59.072.100)**	**23.074.280**

On 31 December 2019

Active	**RON**	**EUR**	**TOTAL**
Number	364.967	-	364.967
Trade and other receivables	417.902	-	417.902
Loans to affiliated parties	-	5.927.332	5.927.332
Finance lease receivables	66.202.732	-	66.202.732
Loans and advances to clients	759.630	-	759.630
Total assets	**67.745.231**	**5.927.332**	**73.672.563**
Debts			
Loans attracted	-	51.711.699	51.711.699
Lease liabilities	-	586.247	586.247
Liabilities to related parties	-	323.383	323.383
Total debts	**-**	**52.621.329**	**52.621.329**
Balance sheet net position	**67.745.231**	**(46.693.997)**	**21.051.234**

On 1 December 2019

Active	**RON**	**EUR**	**TOTAL**
Number	224.183	155.339	379.522
Trade and other receivables	458.703	-	458.703
Loans to affiliated parties	-	-	-
Finance lease receivables	38.133.749	-	38.133.749
Loans and advances to clients	545.610	-	545.610
Total assets	**39.362.245**	**155.339**	**39.517.584**
Debts			
Loans attracted	-	15.135.000	15.135.000
Lease liabilities	-	381.402	381.402
Liabilities to related parties	-	1.331.874	1.331.874
Total debts	**-**	**16.848.276**	**16.848.276**
Balance sheet net position	**39.362.245**	**(16.692.937)**	**22.669.308**

4.4. Liquidity risk

Liquidity risk is associated with either an entity's difficulty in raising the funds necessary to meet its obligations or the inability of the same entity to sell a financial asset quickly at an amount close to its fair value.
Monitoring and ensuring liquidity is one of the important concerns of the Company's management. Analysis of liquidity indicators is carried out on a monthly basis by ensuring optimal cash flow planning, taking into account maturing liabilities.

The table below shows the Company's payable and receivable cash flows for its debt and financial assets, classified by the minimum of the remaining contractual maturities at the reporting date and the expected payment date.

31 December 2020	Book value	Contractual cash flows				
		on request	up to 1 year	1-5 years	more than 5 years	Total
Active						
Cash and cash equivalents	11.266.591	11.266.591	-	-	-	**11.266.591**
Finance lease receivables	63.247.940	-	18.983.284	44.264.656	-	**63.247.940**
Loans and advances to customers	18.058.415	-	3.180.052	14.878.363	-	**18.058.415**
Loans to affiliated parties	14.575.690	-	-	14.575.690	-	**14.575.690**
Trade receivables (other assets)	266.066	-	266.066	-	-	**266.066**
Total assets	**107.414.702**	**11.266.591**	**22.429.403**	**73.718.708**	**-**	**107.414.702**
Debts						
Loans attracted	83.194.012	-	-	83.194.012	-	**83.194.012**
Liabilities relating to the right of use of assets	1.341.537	-	421.934	968.455	-	**1.390.389**
Liabilities to affiliated parties	-	-	-	-	-	**-**
Provisions for financial guarantees	2.105.612	-	-	2.105.612	-	**2.105.612**
Total debts	**86.641.161**	**-**	**2.267.343**	**86.268.079**	**-**	**86.690.013**
Net liquidity	**20.773.541**	**11.266.591**	**20.162.060**	**(12.549.371)**	**-**	**20.724.689**

	Book value	Contractual cash flows				
on 31 December 2019		**on request**	**up to 1 year**	**1-5 years**	**more than 5 years**	**Total**
Active						
Cash and cash equivalents	364.967	364.967	-	-	-	**364.967**
Finance lease receivables	66.197.364	-	17.304.985	48.892.379	-	**66.197.364**
Loans and advances to customers	760.586	-	262.495	498.091	-	**760.586**
Loans to related parties	5.927.332	-	-	5.927.332	-	**5.927.332**
Other assets (trade receivables)	679.672	-	679.672	-	-	**679.672**
Total assets	**73.929.921**	**364.967**	**18.278.181**	**55.317.802**	**-**	**73.929.921**
Debts						
Loans attracted	51.711.699	-	-	51.711.699	-	**51.711.699**
Liabilities relating to the right of use of assets	586.247	-	277.750	330.179	-	**607.929**
Liabilities to related parties	323.383	-	323.383	-	-	**323.383**
Provisions for financial guarantees	3.464.525	-	-	3.464.525	-	**3.464.525**
Total debts	**56.085.854**	**-**	**2.826.131**	**55.506.403**	**-**	**56.107.536**
Net liquidity	**17.844.067**	**364.967**	**15.421.021**	**(188.601)**	**-**	**17.822.385**

	Book value	Contractual cash flows				
on 1 January 2019		**on request**	**up to 1 year**	**1-5 years**	**more than 5 years**	**Total**
Active						
Cash and cash equivalents	379.522	379.522	-	-	-	**379.522**
Finance lease receivables	38.133.748	-	5.157.781	32.975.967	-	**38.133.748**
Loans and advances to customers	545.610	-	113.771	431.839	-	**545.610**
Loans to related parties	-	-	-	-	-	**-**
Other assets (trade receivables)	117.318	-	117.318	-	-	**117.318**
Total assets	**39.176.198**	**379.522**	**5.388.870**	**33.407.806**	**-**	**39.176.198**
Debts						
Loans attracted	15.135.000	-	-	15.135.000	-	**15.135.000**
Liabilities relating to the right of use of assets	381.402	-	292.342	128.692	-	**421.034**
Liabilities to related parties	1.331.874	-	-	1.331.874	-	**1.331.874**
Provisions for financial guarantees	782.554	-	-	782.554	-	**782.554**
Total debts	**17.630.830**	**-**	**3.391.766**	**17.378.120**	**-**	**17.670.462**
Net liquidity	**21.545.368**	**379.522**	**1.997.104**	**16.029.686**	**-**	**21.505.736**

4.5. Fair values of financial assets and liabilities

Fair value is the price that would have been received for the sale of an asset or paid for the transfer of a liability in an arm's length transaction between participants at the measurement date. The determination of fair value is based on the presumption that the transaction to sell the asset or transfer the liability occurs either:

- in the main market of the asset or debt, or
- in the absence of a principal market, in the most advantageous market for the asset or debt.

The table below summarises the carrying amounts and fair values of those financial assets and liabilities that have not been disclosed at fair value in the Company's financial statements.

Fair value

	31 December 2020	31 December 2019	31 December 2020	31 December 2019	Fair value hierarchy
Active					
Cash and cash equivalents	11.266.591	364.967	11.266.591	364.967	1
Finance lease receivables	63.247.940	66.197.364	82.831.099	94.405.450	3
Loans and advances to clients	18.058.415	760.586	27.520.244	783.166	3
Loans to affiliated parties	14.575.690	5.927.332	14.575.690	5.927.332	3
Other assets (trade receivables)	266.066	679.672	266.066	679.672	3
Total assets at fair value	**107.544.133**	**73.965.358**	**136.193.624**	**102.191.616**	
Debts					
Loans attracted	83.194.012	51.711.699	83.194.011	51.711.698	3
Liabilities relating to the right of use of assets	1.341.537	586.247	1.341.537	586.247	3
Other debts	1.845.409	2.224.998	1.845.409	2.224.998	3
Total liabilities at fair value	**85.122.721**	**53.595.323**	**85.122.721**	**53.595.323**	

All assets and liabilities for which fair value is measured or disclosed in the financial statements are classified in the fair value hierarchy, described as follows, based on the lowest level of value that is significant to the overall fair value measurement:

Level 1 - Unadjusted quoted market prices in active markets for identical assets or liabilities
Level 2 - Valuation techniques for which the lowest level directly or indirectly observable that is significant to the fair value measurement can be observed
Level 3 - Valuation techniques for the lowest level input that is meaningful for measuring fair value is unobservable.

Level 1 includes highly liquid assets such as cash or cash equivalents. Management recognizes that the fair value of cash and cash equivalents is the same as their carrying amount and therefore the risk of changes in fair value is immaterial.
Tier 2 instruments include assets for which there is no active market, such as financial instruments that are traded over-the-counter, bonds. The Company has no assets or liabilities classified in Level 2.

Level 3 instruments include Finance lease receivables, Loans and advances to customers, Long-term and current loans, Trade payables, Trade receivables.

(a) Finance lease receivables. Loans and advances to customers

Finance lease receivables and loans to customers are shown net of expected credit losses. Their estimated fair value represents the present value of future cash flows expected to be received from active contracts. Expected cash flows are discounted using current market rates differentiated by product type.

b) Loans attracted, debts related to the right of use of assets

The Company has approximated the fair value of these interest-bearing items to be equal to their carrying amount at the reporting date.

4.6. Fiscal risk

Romania's tax legislation provides detailed and complex rules that have undergone various changes in recent years. Interpretation of the text and practical procedures for implementing the tax legislation may vary and there is a risk that certain transactions, for example, may be interpreted differently by the tax authorities compared to the treatment of the Company. The Company's management believes that the tax liabilities included in these financial statements are correct.

The Romanian government has a number of agencies that are authorised to carry out audits of companies operating in Romania. These audits are similar in nature to tax audits conducted by tax authorities in many other countries, and may extend not only to tax issues, but also to other legal and regulatory issues that the applicable agency may be interested in. The Company may continue to be subject to regular audits as new laws and regulations are issued. The Company's management believes that the Company will not be materially adversely affected by a tax audit. However, the impact of different interpretations by the tax authorities cannot be accurately estimated.

4.7. Operational risks

Operational risk refers to the risk of losses or failure to realise expected profits, which may be caused by internal factors (inadequate internal operations, inadequate staffing, inadequate systems, etc.) or external factors (economic conditions, changes in the banking environment, technological developments, etc.). Operational risk could arise from sources such as the following:

- Use of computer systems;
- Implementation of processes and procedures;
- Adequacy of human resources;
- Information security incidents;
- Fraud incidents;
- Outsourcing services;
- Aspects of non-compliance.

Operational risk management involves the following:

- Implement processes and procedures that take into account the business model;
- Processes are appropriate to the volume of work;
- Processes are documented through procedures and include pre-defined limits of competences;
- Activities are supported by a team of employees with relevant skills and experience;
- The IT systems used are adequate and controls are in place to ensure the traceability of the information processed and the quality of the data.

Operational risk during a pandemic

In order to mitigate the economic impact of the COVID-19 outbreak and strengthen the Company's liquidity, ensure positive cash balances and ultimately cash accumulation, the Company's management has implemented measures that include:

- Crisis management team training;
- Limiting new lending during the emergency;
- Review the existing debt collection strategy by adding additional collection tools;
- Implement telework for employees while ensuring continuity of core processes;
- Review and renegotiate payment terms with suppliers;
- Cost optimisation and other activities.

Society has successfully weathered the pandemic crisis. The company had a stable portfolio quality and even an increase in sales due to the optimisation of operational processes and the implementation of the new auto collateral loan product.

4.8. Capital management

The National Bank of Romania ("NBR") regulates and monitors the Company's capital requirements.

For the implementation of the current capital requirements, the NBR requires the Company to maintain a certain ratio of total risk-bearing assets to total capital (referred to as aggregate exposure ratio), which is a maximum of 1500%. The Company complies with the capital requirements imposed by the NBR both as at 31 December 2020 and 31 December 2019.

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS USED IN APPLYING ACCOUNTING POLICIES

The Company applies certain estimates and makes certain assumptions that affect the amounts at which assets and liabilities are recorded in the next financial year. Estimates and judgments are evaluated on an ongoing basis and are based on past experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In addition to past experience, the Company has also considered the effects of current financial industry conditions and forward-looking information, including macroeconomic factors, in evaluating these estimates and judgments.

Expected loss on impairment of net investment in finance leases and loans and advances to customers

The Company applies the principles for calculating the impairment adjustment defined in the internal methodology and measures expected credit losses based on the stage distribution of credit exposures. The methodology and assumptions used to estimate expected credit losses are reviewed regularly to reduce the gaps between estimates and actual values, including to assess the effects of uncertainties in the local financial markets with respect to asset valuation and the borrowers' operating economic environment.

In accordance with the requirements of IFRS 9 *Financial Instruments*, impairment of assets is classified into three stages:

- If the credit risk has not increased significantly, the impairment is equal to the expected loss from possible default events over the next 12 months (stage 1).
- If the risk has increased significantly since origination, the impairment is equal to the expected credit risk loss over the life of the loan and the loan is classified as stage 2;
- If it is in default or otherwise impaired, the impairment is equal to the expected loss of credit risk over the life of the credit (lifetime), and the credit is considered stage 3.

In determining impairments for credit risk, the Company's management considers incorporating macroeconomic parameters, exercises professional judgment and uses estimates and assumptions - see note *4 Risk management, 4.2.3.*

The legislative framework was regulated in 2020 by the provisions of the Emergency Ordinance no. 37/2020 on the granting of certain facilities for loans granted by credit institutions and non-bank financial institutions to certain categories of debtors as well as by the Emergency Ordinance no. 227/2020 amending and supplementing the Government Emergency Ordinance no. 37/2020, and by various communications from the NBR on the deferment of payment of loans to any individual affected by the COVID-19 pandemic, and their classification in terms of credit risk. In addition, the non-legislative moratorium on loans in the non-bank financial market in the context of the Covid-19 pandemic - adopted at the level of the Association of Financial Companies in Romania (ALB), date of approval 29/06/2020 ("Private Moratorium") together with the subsequent additions extending the provisions of the non-legislative moratorium from 22 December 2020, completed the legislative framework with additional criteria on the basis of which deferment measures could be granted to borrowers.

In 2020, the Company made every effort to implement the deferment measures allowed by the adoption of the legislative moratorium, which allows customers to request the suspension of payment of overdue installments on loans representing principal, interest and fees for up to 9 months. This facility was available to borrowers with outstanding loans that had not been declared to be past due and who were not in insolvency at the time of application.
In 2021, the moratoriums were extended (OUG 227/2020), with the government granting the possibility of accessing a deferment facility until 15 March 2021, but with the maximum total deferment period limited to 9 months for each loan.
For details on exposures that have benefited from the moratorium in 2020, see note 4 *4 Risk management, 4.2.3. Amounts resulting from expected credit losses,* section *Contracts restructured through moratoria.*

Financial guarantees

Determining fair value and initial recognition
The Company has elected to determine the fair value of the collateral using the expected loss approach valuation. The fair value of collateral is calculated as the product of the exposure at default (EAD), the probability of default (PD) and the loss given default (LGD). The EAD is determined based on the contractual amount guaranteed in the guarantee agreement and taking into account the Company's proportionate share of the estimated guaranteed amount taking into account the total assets of the guarantors (the Company and other subsidiaries of Mogo Finance SA) at the end of the reporting period included in the respective guarantee agreement.

The guarantee is issued to secure the bond issue of the Company's related party - Mogo Finance S.A. The Company would incur losses if Mogo Finance S.A. defaults on its obligations to bondholders. Accordingly, the PD of Mogo Finance S.A. is determined on the basis of Mogo Finance S.A.'s credit rating as determined by the rating agency Fitch Ratings and historical statistical data of the average implied values for companies with the respective credit rating.

Determination of expected credit loss for subsequent assessment
For the purpose of estimating fair value, the Company uses the latest credit rating of Mogo Finance S.A., as determined by the rating agency Fitch Ratings. Since initial recognition, the Company has assessed that the Parent Company's credit risk has not increased and therefore the guarantee liability is considered as a Stage 1 exposure.

6. NET INTEREST INCOME

	2020	2019
Interest and similar income		
Interest income on finance leases	31.496.570	24.352.723
Interest income on loans and advances to customers	1.410.197	-
Interest income on loans to affiliated parties	1.874.301	747.632
	34.781.068	**25.100.355**
Interest and similar charges		
Interest expense on loans from unrelated parties	5.022.796	3.588.710
Interest expense on leasing debt	47.226	27.537
Interest expense on related party liabilities	3.728.336	1.804.138
	8.798.358	**5.420.384**
Net interest income	**25.982.710**	**19.679.970**

7. NET INCOME/(EXPENSES) FROM FEES AND COMMISSIONS

	2020	2019
Early repayment charge revenue	110.420	87.576
Penalty income received	214.456	84.989
Revenue from re-invoiced services	1.568.175	1.130.320
Expenditure on re-invoiced services	(2.597.954)	(1.984.616)
Net income/(expenses) from fees and commissions	**(704.903)**	**(681.731)**

8. NET TRADING INCOME

	2020	2019
Net result on revaluation of monetary assets and liabilities	(1.005.832)	(676.222)
Net result on foreign exchange transactions	(96.641)	(89.836)
Foreign exchange losses	**(1.102.472)**	**(766.058)**

9. OTHER OPERATING INCOME

	2020	2019
Income related to the amortisation of the financial guarantee	1.569.816	210.884
Other income	19.323	79.690
Other operating income	**1.589.139**	**290.574**

10. EXPECTED IMPAIRMENT LOSSES

	2020	2019

Net impairment charges on investment in finance leases (note 4.2.3)	(8.065.057)	(4.802.990)
Net impairment charges on loans and advances to customers (note 4.2.3)	(723.019)	(77.695)
Net impairment charges on other receivables	(165.628)	-
Net impairment income/(expense) on available-for-sale assets (note 17)	151.741	(437.906)
Matched claims	(70.266)	(14.652)
Total expected impairment losses	**(8.872.229)**	**(5.333.243)**

11. STAFF COSTS

	2020	2019
Allowances and salaries	(5.162.527)	(4.704.484)
Expenditure on social contributions	(143.835)	(106.361)
	(5.306.362)	**(4.810.844)**

12. OTHER OPERATING EXPENSES

	2020	2019
Penalties paid	(13.616)	(48.117)
Management services	(3.888.505)	(4.807.421)
Expenditure on provisions for unused leave	(99.391)	(18.246)
Expenditure on recruitment and. a.staff expenditure	(73.912)	(165.305)
Postage, rent, utilities	(282.559)	(369.413)
Depreciation expenses	(550.380)	(541.676)
Communication and internet expenditure	(338.192)	(233.099)
Expenditure on maintenance of IT equipment, server hosting	(140.744)	(119.020)
Car registration/registration expenses	(91.563)	(764.189)
Non-deductible value added tax	(643.326)	(406.663)
Travel expenses	(14.127)	(51.452)
Expenditure on professional services	(674.259)	(891.173)
Expenditure on insurance cases	(18.999)	(27.368)
Insurance and vignette expenses	(3.913)	(18.774)
Advertising expenditure	(240.744)	(320.953)
Distribution expenses	(204.146)	(302.856)
Other expenses	(596.758)	(336.130)
	(7.875.134)	**(9.421.855)**

13. CORPORATION TAX

	2020	2019
Current income tax expense	-	-
Deferred tax income/(expense)	(207.957)	138.113
Total income/(expenditure) on corporation tax	**(207.957)**	**138.113**

A reconciliation between the actual corporate tax expense and the theoretical tax rate is shown below:

Pre-tax profit/(loss)	2.196.944	474.471
Theoretical corporate income tax calculated at 16% (2019: 16%)	351.511	75.915
Permanent differences	58.747	134.208
Permanent differences adjustments previous year	202.301	348.236
Income tax expense for the year	**207.957**	**138.113**

Differences between the regulations issued by the Romanian Ministry of Public Finance and the accounting regulations applied in the preparation of these financial statements give rise to temporary differences between the carrying amount of certain assets and liabilities and their tax base.

The current tax is calculated by applying a rate of 16% (2019: 16%). Deferred income tax is calculated on temporary differences using the balance sheet method using a rate of 16% (2019: 16%). The deferred income tax position is disclosed in Note 22.

14. CASH AND CASH EQUIVALENTS

Reconciliation of cash and cash equivalents to the statement of financial position:

	2020	2019
Current accounts with banks in foreign currency	10.887.759	-
Current accounts with banks in RON	378.832	364.966
Total cash and cash equivalents	**11.266.591**	**364.966**

Cash and cash equivalents in cash flow statement 11,266,591 364,966

The current accounts are at the free disposal of the Company and are not encumbered.

15. CLAIMS RELATING TO FINANCE LEASES AND LOANS AND ADVANCES TO CUSTOMERS

The net book value of the categories of loans granted by the Company is shown below:

	31 December 2020			
Finance lease receivables	**Stage 1**	**Stage 2**	**Stage 3**	**TOTAL**
Gross exposure	48.062.843	10.577.442	21.691.883	80.332.168
Expected credit losses	(1.570.976)	(1.620.466)	(13.892.786)	(17.084.228)
Net value	**46.491.867**	**8.956.976**	**7.799.097**	**63.247.940**

	31 December 2019			
Finance lease receivables	**Stage 1**	**Stage 2**	**Stage 3**	**TOTAL**
Gross exposure	54.681.881	7.205.643	13.329.011	75.216.535
Expected credit losses	(851.860)	(685.613)	(7.481.698)	(9.019.171)
Net value	**53.830.021**	**6.520.031**	**5.847.313**	**66.197.364**

31 December 2020

Claims from loans and advances to customers	Stage 1	Stage 2	Stage 3	TOTAL
Gross exposure	18.064.557	332.645	485.330	18.882.532
Expected credit losses	(495.472)	(51.603)	(277.042)	(824.117)
Net value	**17.569.085**	**281.042**	**208.288**	**18.058.415**

	31 December 2019			
Claims from loans and advances to customers	**Stage 1**	**Stage 2**	**Stage 3**	**TOTAL**
Gross exposure	477.065	223.752	160.866	861.6844
Expected credit losses	(6.663)	(16.674)	(77.761)	(101.098)
Net value	**470.402**	**207.078**	**83.106**	**760.586**

Adjustments for expected credit losses

The following tables show the expected credit loss movement notes.

Impairment losses on lease receivables	Stage 1	Stage 2	Stage 3	Total
Sold out on 1 January 2019	673.435	226.720	3.316.026	4.216.181
Transfers to Stage 1	79.769	(43.035)	(36.734)	-
Transfers to Stage 2	(68.116)	152.331	(84.215)	-
Transfers to Stage 3	(111.619)	(103.535)	215.154	-
Impairment losses on new lease receivables	559.009	350.553	2.495.783	3.405.345
Reversal of provision for paid claims	(112.016)	(15.973)	(128.618)	(256.607)
Provision in period	(168.602)	118.552	1.704.302	1.654.252
Balance at 31 December 2019	**851.860**	**685.613**	**7.481.698**	**9.019.171**

Impairment losses on lease receivables	Stage 1	Stage 2	Stage 3	Total
Sold out on 01 January 2020	851.860	685.613	7.481.698	9.019.171
Transfers to Stage 1	261.254	(149.681)	(111.573)	-
Transfers to Stage 2	(130.465)	322.259	(191.794)	-
Transfers to Stage 3	(135.673)	(262.960)	398.633	-
Impairment losses on new lease receivables	548.133	419.365	1.308.557	2.276.055
Reversal of provision for paid claims	(352.531)	-	(82.410)	(434.941)
Provision in period	528.398	605.872	5.089.673	6.223.942
Balance at 31 December 2020	**1.570.977**	**1.620.467**	**13.892.784**	**17.084.227**

Impairment losses on loan claims	Stage 1	Stage 2	Stage 3	Total
Sold out on 01 January 2019	9.708	1.786	11.909	23.403
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(2.131)	3.378	(1.247)	-
Transfers to Stage 3	(2.233)	(765)	2.999	1
Impairment losses on new lease receivables	5.123	5.316	-	10.439
Reversal of provision for paid claims	(2.703)	-	-	(2.703)
Provision in period	(1.101)	6.959	64.100	69.958
Balance at 31 December 2019	**6.663**	**16.674**	**77.761**	**101.098**

Impairment losses on loan claims	Stage 1	Stage 2	Stage 3	Total
Sold out on 01 January 2020	6.663	16.674	77.761	101.098
Transfers to Stage 1	2.376	(2.376)	-	-
Transfers to Stage 2	(84)	19.514	(19.430)	-

Transfers to Stage 3	(666)	(3.495)	4.160	-
Impairment losses on new lease receivables	479.832	32.478	139.374	651.685
Reversal of provision for paid claims	(3.709)	-	(1.363)	(5.072)
Provision in period	11.060	(11.193)	76.539	76.406
Balance at 31 December 2020	**495.472**	**51.603**	**277.042**	**824.117**

16. LEASING

i) Leasing activity as lessor

Net investment in financial leasing

	31 December 2020	31 December 2019	1 January 2019
Gross investment in financial leasing	**80.332.168**	**75.216.535**	**42.349.929**
Less than 1 year	31.109.380	19.322.949	9.373.962
Between 1 and 5 years	49.222.788	55.893.586	32.975.967
Older than 5 years	-	-	-
Unrealised financial income	59.479.384	68.401.482	43.444.632
Gross investment in financial leasing	80.332.168	75.216.535	42.349.929
Less: Expected credit losses on lease receivables	(17.084.228)	(9.019.171)	(4.216.181)
Net investment in leasing	**63.247.940**	**66.197.364**	**38.133.748**

The net investment in leasing can be analysed as follows:

	31 December 2020	31 December 2019	1 January 2019
Less than 1 year	18.983.284	17.304.986	5.157.781
Between 1 and 5 years	44.264.656	48.892.379	32.975.967
Older than 5 years	-	-	-
	63.247.940	**66.197.364**	**38.133.748**

ii) Leasing activity as lessee (IFRS 16)

Below is information about the leases for which the Company is a lessee.

a) Right of use of assets

The right of use of assets relates to leased space for leased branch and head office activity and leased vehicles and are shown under Property, plant and equipment (see note 19).

Leased space for branches and headquarters	2020	2019
Sold out on 1 January	**385.149**	**350.888**
Purchasing	1.314.384	457.176
Depreciation expense	(391.475)	(397.573)

Outputs	(463.321)	(486.141)
Accumulated depreciation for outflows	366.281	460.799
Balance at 31 December	**1.211.018**	**385.149**

Means of transport used in operational activity		
Sold out on 1 January	**179.479**	**24.899**
Purchasing	-	302.348
Depreciation expense	(70.119)	(147.768)
Outputs	(42.475)	-
Accumulated depreciation for outflows	42.475	-
Balance at 31 December	**109.359**	**179.479**

See note 4.4 Liquidity risk for maturity analysis of lease liabilities at 31 December 2020, 31 December 2019 and 1 January 2019.

b) Amounts recognised in the income statement

	2020	2019
Leases under IFRS 16		
Interest expense on lease liabilities	(47.226)	(27.537)
Depreciation expense	(461.594)	(422.085)
	(508.820)	**(449.622)**

17. ALTE ACTIVE

	31 December 2020	31 December 2019	1 January 2019
Receivables related to re-invoiced services	372.550	226.232	3.919
Impairment losses on trade receivables	(165.628)	-	-
Claims from affiliated parties	-	36.121	-
Advances granted	53.242	232.094	49.883
Other claims	5.902	185.226	63.516
Other assets	76.565	486.299	443.352
	342.631	**1.165.971**	**560.670**

Expected loss on impairment of trade receivables	31 December 2020	31 December 2019
Sold out on 1 January		
Net increase in provision	-	-
Provisions for trade receivables written off the balance sheet	165.628	-
Balance at 31 December	**165.628**	**-**

18. ASSETS HELD FOR SALE

	31 December 2020	31 December 2019	1 January 2019

Assets held for sale	1.550.168	1.842.349	974.353
Impairment of assets held for sale	(1.037.370)	(1.189.110)	(751.204)
	512.798	**653.239**	**223.150**

19. INTANGIBLE FIXED ASSETS

	Intangible assets	Intangible assets in progress	Total
Year ended 31 December 2020			
Initial net book value	14.561	-	14.561
Purchasing	4.193	-	4.193
Outputs	-	-	-
Depreciation expenses	20.578	-	20.578
Net book value	**39.332**	**-**	**39.332**

	Intangible assets	Intangible assets in progress	Total
Year ended 31 December 2019			
Initial net book value	(1.847)	52.522	50.675
Purchasing	46.771	-	46.771
Outputs	-	(52.522)	(52.522)
Depreciation expenses	(30.364)	-	(30.364)
Net book value	**14.561**	**-**	**14.561**

20. TANGIBLE FIXED ASSETS

	Means of transport	IT equipment and furniture	Construction (Landscaping)	Rights of use of assets	Other tangible fixed assets	Total
Year ended 31 December 2020						
Initial net book value	-	87.043	-	564.628	62.900	**714.571**
Purchasing	63.343	46.891	12.028	1.314.384	6.052	**1.442.698**
Outputs	-	(86.327)	-	(505.796)	(29.238)	**(621.361)**
Depreciation expenses	(6.666)	(65.146)	(2.238)	(461.594)	(37.815)	**(573.459)**
Accumulated depreciation for disposals	-	86.327	-	408.756	29.238	**524.320**
Net book value	**56.677**	**68.789**	**9.790**	**1.320.377**	**31.136**	**1.486.769**

	Means of transport	IT equipment and furniture	Construction (Landscaping)	Rights of use of assets	Other tangible fixed assets	Total
Year ended 31 December 2019						
Initial net book value	-	130.160	-	375.787	26.168	**532.116**
Purchasing	-	27.596	-	759.524	56.049	**843.169**
Outputs	-	-	-	(486.141)	(1.096)	**(487.237)**
Depreciation expenses	-	(70.713)	-	(545.342)	(18.514)	**(634.568)**

Accumulated depreciation for disposals	-	-	-	460.799	292	**461.092**
Net book value	**-**	**87.043**	**-**	**564.628**	**62.900**	**714.571**

21. DEFERRED INCOME TAX ASSET

	31 December 2020	Tax recognised in the Profit and Loss Account	31 December 2019
Tax effects of deductible temporary differences			
Tax loss carry forward adjustment	14.473	(501.310)	515.783
Allowance for impairment of lease and loan receivables	233.232	228.138	5.094
Operating lease adjustment	11.202	7.743	3.459
Effective interest rate adjustment	(113.497)	(76.714)	(36.783)
Adjustment for customer receivables for re-invoiced services	409.333	187.384	221.949
Other differences	62.792	(53.198)	115.990
	617.535	**(207.957)**	**825.491**

	31 December 2019	Tax recognised in the Profit and Loss Account	1 January 2019
Tax effects of deductible temporary differences			
Tax loss carry forward adjustment	515.783	(18.672)	**534.454**
Allowance for impairment of lease and loan receivables	5.094	5.094	-
Operating lease adjustment	3.459	3.459	-
Effective interest rate adjustment	(36.783)	(36.783)	-
Adjustment for customer receivables for re-invoiced services	221.949	221.948	-
Other differences	115.990	(36.933)	152.923
	825.491	**138.113**	**687.377**

22. LOANS ATTRACTED

	31 December 2020	31 December 2019	1 January 2019
Loans from:			
Mogo Eastern Europe AS	(35.884.012)	(23.675.850)	-
Mogo Finance AS	-	(580.465)	-
Mintos Finance AS	(47.310.000)	(27.455.384)	(15.135.000)
	(83.194.012)	**(51.711.699)**	**(15.135.000)**

23. LIABILITIES RELATING TO THE RIGHT OF USE OF ASSETS

	31 December 2020	31 December 2019	1 January 2019
Guarantees granted	48.853	-	-
Debts relating to the right of use of premises	(1.271.841)	(396.002)	(356.195)
Debts relating to the right of use of vehicles	(118.549)	(190.245)	(25.207)

(1.341.537)	**(586.247)**	**(381.402)**

24. TRANSACTIONS WITH RELATED PARTIES

	2020			2019		
	Management	**Shareholders**	**Other group entities**	**Management**	**Shareholders**	**Other group entities**
Active						
Loans granted	-	-	14.575.690	-	-	5.927.332
Trade and other receivables	-	-	-	-	-	-
Debts			-	-	-	-
Primate loans	-	46.195.448	-	-	24.256.315	-
Debts for goods and services	-	-	-	-	-	323.383
Profit and loss						
Interest income	-	-	1.874.301	-	-	747.632
Interest expenditure	-	3.728.336	-	-	1.804.138	-
Expenditure on management services	-	3.888.505	-	-	-	4.807.418
Expenditure on remuneration of work	726.746	-	-	502.989	-	-

25. PROVISIONS FOR FINANCIAL GUARANTEES

On 13 November 2018, Mogo Finance S.A., as issuer, on the one hand, and its subsidiaries as guarantors, on the other hand, signed a guarantee agreement. It is dated 09 July 2018, amended and adjusted on 13 November 2019. Pursuant to this agreement, the guarantors unconditionally and irrevocably guarantee, to each Mogo Finance SA bondholder, by means of an independent payment obligation, the timely payment of the principal and interest due and any other amounts payable under the Mogo Finance SA bond prospectus.
The company did not receive compensation for the guarantee. The fair value of the financial guarantee is recognised as a liability and as a distribution of equity in "Other reserves". Income from the amortisation of the guarantee is recognised on a straight-line basis until the maturity of the obligation.
Mogo IFN SA is one of the guarantors under the guarantee agreement dated 9 July 2018, amended and adjusted on 13 November 2019. Based on the provisions of Annex 2 of the Agreement, Mogo IFN SA's guarantee is limited at any time to a total amount not exceeding EUR 75,000,000. In September 2020, the guarantee limit was increased to EUR 100,000,000.

After initial recognition, the warranty liability is measured at the higher of the amount initially recognised less cumulative amortisation recognised through straight-line amortisation and the related provision. The guarantee exposure and related provision are classified in stage 1 as described in Note 3.

Movement in the reserve for financial guarantees (capital)	**2020**	**2019**
Sold out on 1 January	**3.672.597**	**817.990**
Impact of non-substantial changes	154.890	2.854.607
Balance at 31 December	**3.827.487**	**3.672.597**

Movement in provision for financial guarantees (liabilities)		
Sold out on 1 January	**(3.464.525)**	**(782.554)**
Depreciation	1.569.816	210.884
Revaluation of the financial guarantee	(154.890)	(2.854.607)
Impact of exchange rate fluctuations	(56.013)	(38.249)
Balance at 31 December	**(2.105.612)**	**(3.464.525)**

26. OTHER DEBTS

	31 December 2020	31 December 2019	1 January 2019
Debts to employees	(169)	(88)	1.053
Social security contributions and payroll tax debts	(204.962)	(199.669)	(121.336)
Income tax liabilities	(47.683)	(29.256)	(83.262)
VAT debts	(133.297)	(86.260)	40.348
Debts for goods and services purchased	(84.536)	(658.720)	(415.387)
Other debts	(583)	4.409	-
Provision for untaken leave	(196.796)	(97.403)	(79.157)
Provision for management services	(451.700)	(636.792)	(550.190)
Provisions for bonuses	(222.471)	(124.689)	(11.271)
Provisions - fiscal risks	-	-	(1.690.291)
Other provisions	(503.211)	(396.530)	(189.931)
	(1.845.408)	**(2.224.998)**	**(3.099.424)**

27. SHARE CAPITAL

	31 December 2020	31 December 2019	1 January 2019
Share capital	924.000	924.000	924.000
Share premium	28.654.000	28.654.000	28.654.000
	29.578.000	**29.578.000**	**29.578.000**

	31 December 2020	31 December 2019	1 January 2019
Shareholder structure			
Mogo Finance S.A.	-	923.912	923.912
Mogo AS	88	88	88
Mogo Eastern Europe AS	923.912		
	924.000	**924.000**	**924.000**

28. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the reporting date, the following significant events occurred:

1) On 26 March 2021, the Loan Agreement was concluded between AS Mogo Eastern Europe - Borrower and Mogo IFN SA - Borrower, regarding the granting of a subordinated loan in the amount of EUR 600,000 (six hundred thousand) for a period of 6 years, starting from 26.03.2021, at an annual interest rate of 12%.
2) On 18 June 2021, the Loan Agreement was concluded between AS Mogo Eastern Europe - Borrower and Mogo IFN SA - Borrower for a subordinated loan in the amount of EUR 200,000,000 (two million) for a period of 6 years, starting 18.06.2021, at

an annual interest rate of 12%.

3) On 18 June 2021 it was agreed to amend the term of the subordinated loan granted under the Loan Agreement of 14.01.2020 to 6 years, until 18 June 2027. (Additional Act No. 1 to the Agreement of 14.01.2020)

29. EXPLANATIONS OF THE TRANSITION TO IFRS IN THE FINANCIAL STATEMENTS

The accounting policies disclosed in note 3 have been applied in the preparation of the financial statements for the year ended 31 December 2020, the comparative information presented in these financial statements for the year ended 31 December 2019 and the preparation of the opening IFRS statement of financial position as at 1 January 2019 (the Company's transition date).

In preparing the opening IFRS statement of financial position, the Company has adjusted the amounts previously reported in the financial statements prepared in accordance with Order No 6/2015 of the National Bank of Romania. An explanation of how the transition affected the Company's financial position from its previous legal status to IFRS is presented in the following tables.
This set of financial statements prepared in accordance with the International Financial Reporting Standards adopted by the European Union has been prepared by restating and adjusting the information presented in the financial statements prepared in accordance with the Order of the President of the Board of Directors of the National Bank of Romania no. 6/2015 for the approval of the Accounting Regulations in compliance with the European Directives, applicable to Non-Bank Financial Institutions.

Restatement of items in the Statement of Profit or Loss

IFRS 2019	RAS 2019	IFRS sum	Sum RAS	IFRS-RAS difference
Interest and similar income	Interest receivable and similar income	25.100.355	25.172.449	(72.094)
Interest and similar charges	Interest payable and similar charges	(5.420.384)	(5.395.533)	(24.851)
Net interest income		**19.679.971**	**19.776.916**	**(96.945)**
Income from fees and commissions	Commission income	1.217.896	92.771	1.125.125
Expenditure on fees and commissions	Commission expenses	(1.984.616)	(600.489)	(1.384.127)
Income from penalties		84.989	105.314	(20.325)
Net income from fees and commissions		**(681.731)**	**(402.404)**	**(279.327)**
Net trading income		(766.058)	(694.199)	(71.859)
Other operating income		290.574	18.284	272.290
		(475.484)	**(675.915)**	**200.431**
Total operating income		**18.522.756**	**18.698.597**	**(175.841)**
Expected impairment losses		(5.333.243)	(7.522.864)	2.189.621
Commercial expenses		(623.808)	(717.827)	94.019
Administrative expenditure		(13.510.801)	(12.368.923)	(1.141.878)
Other operating expenditure		1.592.202	(122.982)	1.715.184
		(17.875.650)	**(20.732.596)**	**2.856.946**
Profit/(loss) before tax	Gross result	**647.106**	**(2.033.999)**	**2.681.105**
Income tax expenses	Corporate income tax	138.113	-	138.113
Net profit/(loss)(a)	Net result for the financial year	**785.219**	**(2.033.999)**	**2.819.218**

Restatement of items in the statement of financial position

IFRS 2019 / RAS 2019	IFRS sum	Sum RAS	IFRS-RAS difference
ACTIVE			
Cash and cash equivalents	364.967	364.967	-
Finance lease receivables	66.197.364	65.843.455	353.909
Loans and advances to clients	760.586		760.586
Loans to related parties	5.927.332	5.922.746	4.586
Trade and other receivables	679.672	2.188.648	(1.508.976)
Other current assets	1.139.534	1.180.182	(40.648)
Intangible assets	14.561	88.236	(73.675)
Tangible fixed assets	714.571	110.516	604.055
Postponed income tax asset	825.491	-	825.491
TOTAL ACTIVE	**76.624.078**	**75.698.750**	**925.328**
DEBTS			
Loans attracted	51.711.699	51.805.025	(93.326)
Liabilities relating to the right of use of assets	586.247	-	586.247
Liabilities to related parties	323.383	323.383	-
Provisions for financial guarantees	3.464.525	-	3.464.525
Other debts	2.224.998	2.207.130	17.868
TOTAL DEBTS	**58.310.852**	**54.335.538**	**3.975.314**
EQUITY			
Share capital	924.000	924.000	-
Share premium	28.654.000	28.654.000	-
Other reserves	(3.672.597)	-	(3.672.597)
Retained earnings	(7.592.177)	(8.214.788)	622.611
TOTAL CAPITAL	**18.313.226**	**21.363.212**	**(3.049.986)**
TOTAL DEBT AND EQUITY	**76.624.078**	**75.698.750**	**925.328**

Explanations on the transition to IFRS

The main adjustments to the statement of financial position are:

1. **Loans and advances to customers**: revaluation of impairment adjustments on loans and advances to customers. In contrast to the statutory accounting records, under which loan impairment adjustments are determined on the basis of predetermined coefficients depending on the classification category of credit risk exposure (according to NBR Regulation No 5/2012 on the classification of loans and the establishment, regularisation and use of specific credit risk provisions applicable to entities supervised by the National Bank of Romania other than credit institutions), IFRS accounting principles provide for the classification of the loan portfolio into three performance categories, depending on the significant increase in credit risk for a loan since the time of origination. For each performance category, a number of indicators (PD, LGD, EAD) are defined and calculated, which are used to determine the amount of impairment adjustments. The indicators are defined using statistical models, based on historical data and forecasted information linked to macro-economic indicators. The methodology for calculating impairment adjustments for loans and advances to customers under IFRS is described in detail in Note 3.12.

2. **Right of use of assets and lease liabilities**: the recognition of these balance sheet items is due to the application of IFRS 16. IFRS 16 accounting principles apply to all leases that meet the definition of a lease and the distinction between operating and finance leases from the perspective of the lessee is eliminated. Thus, at the date of transition to IFRS, the Company recognised a lease liability and a right of use of the underlying asset in its capacity as lessee in the lease of the office space in which it operates. The accounting principles relating to the recognition and measurement of assets and liabilities arising from leases are described in detail in Note 3.19.

3. **Deferred tax** was calculated in accordance with IAS 12 and resulted in "*Deferred tax receivables*" of 617,534 lei (2019: 825,491 lei, 2018: 687,378 lei). The accounting principles related to the recognition of deferred taxes are described in detail in Note 3.23.

4. **Application of effective interest** - is due to the application of IFRS 9. The effective interest method has been applied to lease receivables and loans granted, and in calculating it has taken into account all fees related to the issuance of each loan, as well as the types of modifications existing during the term of the loan. The accounting principles relating to the calculation of effective interest are described in Note 3.4.

5. **Financial guarantees** have been recognised in the Statement of Financial Position under "Liabilities" and "Capital - Other reserves". At the same time, the amortisation of the guarantee was recorded as an increase in Other operating income and the revaluation of the guarantee in Net trading income in the Statement of Profit and Loss. The accounting principles relating to the measurement and recognition of financial collateral are described in Note 3.13.

The main adjustments to the profit or loss statement are:

1. **Net expense on impairment adjustments for financial assets**: represents the effect of changes in impairment adjustments for loans and advances to customers prepared in accordance with IFRS 9 in the reporting periods. The methodology for calculating impairment adjustments for loans and advances to customers under IFRS is described in detail in Note 3.12.

2. The application of IFRS 16 impacted the following items:
   - "*Interest expenses"* 47,226 lei (2019: 27,537 lei);
   - "*Depreciation expenses*" 461,594 lei (2019: 422,085 lei);

3. "Income tax expense" was impacted by the application of IAS 12 with the amount of 207,957 lei - expense (2019: 138,113 lei - income).

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Independent auditor's report

To the Shareholders of Mogo IFN SA

Calea Mosilor, no. 51, floor 2, sector 3, Bucharest
Unique registration code: 35917970

Report on the audit of financial statements

Opinion

1. We have audited the financial statements of Mogo IFN SA ("the Company") which include the statement of financial position as of December 31, 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the financial year concluded at this date, and notes, including significant accounting policies and other explanatory notes.
2. The financial statements as of and for the financial year ended December 31, 2020 are identified as follows:

   - Total equity: 21,661,130 lei
   - Net profit for the financial year: 3,502,791 lei

3. In our opinion, the accompanying financial statements provide a true and fair view of the Company's financial position as at 31 December 2020 as well as its financial performance and cash flows for the financial year ended, in accordance with International Financial Statements. Financial Reporting adopted

   by the European Union.

4. We conducted our audit in accordance with International Standards on Auditing ("ISA"), EU Regulation no. 537 of the European Parliament and of the Council ("Regulation") and Law no. 162/2017 ("Law"). Our responsibilities under these standards and regulations are described in detail in the section**Auditor's responsibilities in an audit of financial statements** from our report. We are independent of the Company, according to **International Code of Ethics for Professional Accountants (including International Standards on Independence) issued by the Council for International Standards of Ethics for Accountants ("IESBA Code")** and in accordance with the requirements of professional ethics relevant to the audit of financial statements in Romania, including the Regulations and the Law, and we have fulfilled our other professional ethics responsibilities, in accordance with these requirements and in accordance with the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit issues

5. The key aspects of the audit are those aspects that, based on our professional reasoning, have had the greatest importance in performing the audit of the financial statements of the current period. These issues have been addressed in the context of the audit of the financial statements as a whole and in forming our opinion on these financial statements and we do not provide a separate opinion on these key audit issues.

Expected losses regarding financial leasing and loans and advances granted to customers

As of December 31, 2020, the financial statements present:

- receivables from financial leasing contracts (gross amounts): 80,332,168 lei (December 31, 2019: 66,197,364 lei; January 1, 2019: 42,349,930 lei);
- loans and advances granted to customers (gross amounts): 18,058,415 (31 December 2019: 760,586 lei; 1 January 2019: 569,013 lei);
- adjustments for expected losses from the impairment of receivables from financial leasing contracts in the amount of 17,084,228 lei (December 31, 2019: RON 9,019,171, January 1, 2019: RON 4,216,181);
- adjustments for expected losses from the depreciation of loans and advances granted to customers in the amount of 824,117 lei (December 31, 2019: 101,098 lei; January 1, 2019: 23,403 lei);
- net expenses with adjustments for expected losses from the impairment of receivables from financial leasing contracts recognized in the statement of profit or loss and other elements of the overall result in the amount of 8,065,057 lei (2019: 4,802,990 lei);
- net expenses with adjustments for expected losses from the depreciation of loans and advances granted to customers recognized in the situation of profit or loss and other elements of the overall result in the amount of 723,019 lei (2019: 77,695 lei).

See notes 3.9. Accounting policies - financial assets, 3.12. Accounting policies - impairment of financial assets, 4.2 Risk management - credit risk, 10 Expected impairment losses, 15 Receivables regarding financial leasing and loans and advances granted to clients.

Key audit aspect	The approach in the audit mission

As described in Note 3.12 to the financial statements, the expected losses on receivables from finance leases and loans and advances to customers (“ECL”) are	Our audit procedures performed by involving, as appropriate, our specialists in financial risk management and information technology (IT) included, among others:
determined by the Company in accordance with accounting policies based on the provisions of IFRS 9 Financial Instruments (“IFRS 9” or “Standard”). Impairment adjustments represent management's best estimate of expected losses on receivables from finance leases and loans and advances to customers (generically referred to as "exposures") measured at amortized cost at the reporting date. IFRS 9 provides for the assessment of the existence of a significant increase in credit risk from initial recognition ("SICR"), an assessment based on the analysis of the debt service recorded by borrowers and future cash flows. expected. In accordance with the respectively credit and advance granted is allocated in one of the three stages for the purpose of estimating the impairment adjustment, where stage 1 and 2 refer to high-performance exposures, and stage 3 to nonperforming exposures. The Company determines adjustments for all exposures based on modeling techniques that are based on key parameters such as probability of default ("PD"), exposure to default ("EAD") and loss in default ("LGD"). taking into account historical experience, identifying exposures with a significant increase in credit risk (“SICR”) and anticipatory information. As a result of the COVID-19 pandemic, as well as the measures applied by the Romanian Government to mitigate its effects, the ECL measurement was associated with additional complexities and increased estimation uncertainty. Considering the complex judgments made by management on the value of impairment losses and related parameters, we have considered as the related expected losses receivables from financial leasing and loans and advances granted to customers are associated with a	• Assessing the adequacy of the accounting policies regarding the expected credit losses, of the risk modeling techniques and methodologies with the requirements of the relevant financial reporting framework, with our understanding regarding the Company and with the practices specific to the activity sector; • Evaluation and testing of the design, implementation and effectiveness of the selected controls of the Company regarding the process of calculating the expected losses related to the credit risk. These included testing the controls on the configuration of the system regarding the allocation of loan repayments and the calculation of the debt service; • Assessing the consistent Standard, application each leasing of the standard contract, definition of the non-repayment, of the criteria regarding the significant increase of the credit risk and of the allocation criteria in stages of depreciation, as well as of their degree of adequacy in accordance with the requirements of the standard; • Critical evaluation of the macroeconomic forecasts used in the models in terms of their relevance and accuracy of their source, by comparing them with publicly available forecasts. As part of this procedure, we critically assessed the reasonableness of the economic uncertainty considerations regarding COVID-19, by corroborating the interviews with the management and by inspecting the publicly available information; • Testing, based on the sample, the accuracy and relevance of the data used in the calculation process of the parameters PD, EAD and LGD, by referring to the supporting documents such as: maturity, the situation of recoveries after entering the non-reimbursement state; • Based on the previously mentioned procedures, the critical analysis of the key parameters and the recalculation of the expected losses from the credits at the reporting date.

significant needed risk of distortion in situations increased attention in our audit and we considered it to be a key aspect of the audit.	• Assessing the adequacy of financial reporting. Therefore, this area qualitative and quantitative statements in the financial statements regarding expected credit losses and credit risk, in accordance with the requirements of the relevant financial reporting standards.

Responsibilities of management and persons responsible for governance for financial statements

6. The Company's management is responsible for the preparation of financial statements that provide a true and fair view in accordance with International Financial Reporting Standards adopted by the European Union and for the internal control that management deems necessary to enable the preparation of financial statements without significant misstatement. caused by either fraud or error.
7. In preparing the financial statements, management is responsible for assessing the Company's ability to continue its business, for presenting, where appropriate, aspects relating to business continuity and for using accounting based on business continuity, unless management is intends to liquidate the Company or to cease operations, or has no realistic alternative outside of them.

8. The persons responsible for governance are responsible for supervising the financial reporting process of the Company.

Auditor's responsibilities in an audit of financial statements

9. Our objectives are to obtain reasonable assurance as to the extent to which the financial statements, as a whole, are free from material misstatement, whether caused by fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but there is no guarantee that an audit conducted in accordance with the ISA will always detect a significant misstatement, if any. Distortions may be caused by fraud or error and are considered significant if it can reasonably be expected that they, individually or cumulatively, will influence users' economic decisions made on the basis of these financial statements.

10. As part of an audit conducted in accordance with the ISA, we exercise professional judgment and maintain professional skepticism during the audit. Also:
    - We identify and evaluate the risks of material misstatement of the financial statements, caused by either fraud or error, design and perform audit procedures in response to those risks and obtain sufficient and appropriate audit evidence to provide a basis for our opinion. The risk of not detecting a significant misstatement caused by fraud is higher than the risk of not detecting a significant misstatement caused by error, because fraud can involve complicity, forgery, intentional omissions, false statements and circumvention of internal control.
    - We obtain an understanding of the internal control relevant to the audit, in order to design audit procedures appropriate to the circumstances, but without the purpose of expressing an opinion on the effectiveness of the Company's internal control.
    - We evaluate the adequacy of the accounting policies used and the reasonableness of the accounting estimates and the related information presentations made by the management.
    - We conclude on the adequacy of management's use of accounting based on business continuity and, based on the audit evidence obtained, whether there is significant uncertainty about events or conditions that could significantly cast doubt on the Company's ability to to continue its activity. If we conclude that there is significant uncertainty, we must draw attention in the auditor's report to disclosures in the financial statements or, if such disclosures are inadequate, change our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However,

- We generally evaluate the presentation, structure and content of the financial statements, including disclosures, and the extent to which the financial statements reflect the underlying transactions and events in a manner that results in a fair presentation.

11. We communicate with those responsible for governance, among other things, regarding the planned area and timing of the audit, as well as the main findings of the audit, including any significant deficiencies in internal control, which we identify during the audit.

12. We also provide the persons responsible for governance with a statement that we have complied with the relevant requirements of professional ethics regarding independence and that we have communicated to them all relationships and other matters that could reasonably be assumed that we could affect independence and, where appropriate, measures taken to eliminate threats to independence or protective measures applied.

13. Among the aspects communicated with the persons responsible for governance, we establish which are the most important aspects for the audit of the financial statements of the current period and which represent, therefore, key audit aspects. We describe these issues in the auditor's report, unless laws or regulations prevent the public presentation of the issue or the case where, in extremely rare circumstances, we believe that an issue should not be disclosed in our report because it is reasonably expected to the benefits to the public interest are outweighed by the negative consequences of this communication.

Report on other legal and regulatory provisions

14. We were appointed by the General Meeting of Shareholders on October 2, 2020 to audit the financial statements of Mogo IFN SA for the financial year ended December 31, 2020. The total uninterrupted duration of our commitment is 2 years, covering the financial years ended December 31, 2020. December 2019 until December 31, 2020.

15. We confirm that:

- Our audit opinion is in accordance with the additional report submitted to the Company's Audit Committee, which we issued on August 31, 2021. Also, in conducting our audit, we maintained our independence from the audited entity.
- We have not provided for the Company the prohibited non-audit services (SNA) mentioned in article 5 par. (1) of EU Regulation no. 537/2014.

Bucharest, September 1, 2021

Autoritatea pentru Supravegherea Publică a Activității de Audit Statutar (ASPAAS)

Auditor financiar: RUBELI IRINA

Registrul Public Electronic: AF4092

KPMG Audit SRL

For and on behalf of KPMG Audit SRL:

RUBELI IRINA

registered in the electronic public register of financial auditors and audit firms with number AF4092

registered in the electronic public register of financial auditors and audit firms with number FA9

Autoritatea pentru Supravegherea Publică a Activității de Audit Statutar (ASPAAS)

Firma de audit: **KPMG AUDIT S.R.L.**

Registrul Public Electronic: **FA9**