Translation from Bulgarian

VIVA CREDIT OOD (Ltd.)

Annual Financial Statements

December 31, 2018

Contents of the Financial Statements

The Management presents its Annual Financial Statements as of December 31, 2018, prepared in accordance with the International Financial Reporting Standards (IFRS). These Statements have been certified by Moor Stephens Bulgaria – Audit OOD.

ANNUAL REPORT ON THE ACTIVITY
OF „VIVA CREDIT“ OOD (LTD.) FOR 2018

The Management of „Viva Credit“ OOD (LTD.) presents its Annual Report and Annual Financial Statements for 2018, prepared in accordance with the Accountancy Act and the International Financial Reporting Standards (IFRS).

„Viva Credit“ OOD (LTD.) was established as a business company on March 30, 2012. The Company has headquarters and management address in: city of Sofia, Sofia city region, Municipality of Sofia (Metropolitan), Lyulin Municipal District, Lyulin 7 housing estate, 28 Jawaharlal Nehru Blvd., block ATTs Silver Centre, floor 2, office 73G. „Viva Credit“ OOD (LTD.) is represented and managed by Desislava Strahilova Dimitrova.

The Company is a financial institution subject to the Credit Institutions Act, entered under number BGR00277 in the Register of Credit Institutions based on Order РД22-0857/April 27, 2012. Starting from June 01, 2012, „Viva Credit“ OOD (LTD.) has been offering on the fast credit market its financial services – cash loans. Each month witnesses growth in the number of the provided cash loan of different type and amount. The financial services of the Company are offered both on-site in various commercial objects, as well as via the Internet.

In 2018, the fixed capital of the Company was not changed compared to 2017 and it amounts to BGN 2,800 thous. It is distributed, as follows:

Desislava Strahilova Dimitrova	28 000 shares
Management Financial Group AD, UIC (Unified Identification Code) 203753425	2 772 000 shares

The equity of the Company as of December 31, 2018 amounts to BGN 8,148 thous. (as per balance sheet value). Its components are: fixed capital stock amounting to BGN 2,800 thous., undistributed profit from previous years amounting to BGN 2,274 thous., and current profit amounting to BGN 3,074 thous.

The revenue from basic activity (revenue from interests, fees and commissions) for 2018 amounts to BGN 15,551 thous., i.e. by BGN 5,423 thous. more compared to 2017. In 2018, the assets of the Company increased by BGN 3,018 thous. compared to 2017 (BGN 11,788 thous. in the end of 2018 compared to BGN 8,770 thous. in the end of 2017). This is due to the increase of receivables under extended credits, the reduction of the depreciation of receivables and the amount of unserviced credits.

As of December 31, 2018 the liabilities of the Company amount to BGN 3,640 thous. compared to BGN 3,696 thous. for 2017.

In 2018, ”Viva Credit” OOD (LTD.) consolidated its position on the market and gained a greater market share compared to the previous years. In order to meet the customers’ expectations, it expanded its staff structure whereas, as of the end of 2018 it marked growth of 22 % compared to 2017. As of the end of December 31 of the reported year 2018, the employees are 178. The Company has a well-developed and flexible commercial structure. The internal company procedures and processes required for the effective management of the activity of „Viva Credit“ OOD (LTD.) are systematically updated, so as to comply with the legal requirements. As a result of all these changes, the quality and speed of customer servicing increased.

According to the effective and actual liquidity measurement and management policy of the Company, the key used indicator is the total liquidity ratio (TLR). As of the end of 2018, TLR is 2.48%, compared to 2017 – 3.28%. The total liquidity ratio characterizes the entity’s ability to cover (pay) its liabilities under the current operations. This ratio shows the number of Levs from the short-term assets corresponding to one Lev of current liability. The higher total liquidity ratio provides to the entity better options to pay its current liabilities. The absolute liquidity ratio expresses the ratio of the most liquid part of the short-term assets to the short-term liabilities. For 2018, it is 0,22%, compared to 2017 - 0,28%.

In 2019, the major ambition of the Company will be to preserve the stability of the financial parameters, to increase the collectability of the extended credits, to improve the quality of the credit portfolio, to achieve adequate profit from the activity thereby supporting its capitalization, as well as optimal capital adequacy.

Information pursuant to Article 39, point 8 of the Accountancy Act:
„Viva Credit” OOD (LTD.) maintains positive balance with respect to its assets and liabilities payable within 1 month. It should be noted that, in order to attract new customers and stimulate the sales to old customers, the Company undertakes a number of measures, such as promotional conditions, possibility for renegotiation of the conditions (amount and term) and other.

With respect to price (interest) risk, the Company maintains a policy of assets and liabilities with fixed interest rate. Credit risk is managed by the application of strict and conservative principles of credit securing and measurement of the securities, as well as by setting aside of provisions for depreciation.

After the annual closing of the accounting, no events have occurred which might affect materially the Company's activity.

Planned development of the Company.

The strategy of the Company is to provide sustainable solutions for the respective needs of selected groups of customers. On the Bulgarian market, this means provision of only a definite number of products and services, since the needs of the local customers may be also covered by traditional credit products. The intentions for development in 2019 are aimed mainly at improvement of profitability, the market position of the Company and the quality of the credit portfolio, and staff professional growth. During the next year, „Viva Credit" OOD (LTD.) will try to consolidate and expand its positions on the credit market – mainly, retail crediting. The credit portfolio of the Company consists of duly secured credits extended to reliable borrowers after detailed and comprehensive analysis and investigation. In this aspect, the Company will preserve its orientation to search for such borrowers or putting it briefly:

In 2019, the priority for „Viva Credit" OOD (LTD.) is:

1. Consolidation of the Company as leader on the fast credit market and its positioning as a non-banking financial organization with best developed commercial network of its own;
2. Increase of the portfolio with respect to number, amount and variety of the provided financial services (cash loans);
3. Improvement of the collectability from the portfolio;
4. Designing of new programmes for attraction of more customers;
5. Searching for and offering of new products bearing higher financial results.
6. Qualification growth of the staff for more effective offering of the product.

The revenue of „Viva Credit" OOD is generated mainly by revenue from interests, fees and commissions. In 2019, moderate growth of the financial sector and, in particular, of crediting, may be expected, taking into account the real reflection of the economic conditions.

Date: April 02, 2019

Managing Director: *(Sgd. illegible)*
(Desislava Dimitrova)

Round seal of
„Viva Credit" OOD,
City of Sofia

MOORE STEPHENS BULGARIA
AUDIT

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REPORT OF THE INDEPENDENT AUDITOR

TO THE SHAREHOLDERS OF

"VIVA CREDIT" OOD (LTD)

Report regarding the audit of the Financial Statements

Opinion

We performed audit of the Financial Statements of **"VIVA CREDIT" OOD (LTD)** containing the Financial Status Report as of December 31, 2018 and the Statement of Comprehensive Income, the Statement of Changes in Equity, and the Statement of Cash Flows for the year ending on this date, as well as the clarification appendixes to the Financial Statements also containing the summarized disclosure of the essential accounting policies reflected from page 4 to page 40.

In our opinion, the enclosed Financial Statements provide a trustworthy and fair presentation of the financial status of the Company as of December 31, 2018 and of its financial results and cash flows for the year ending then, in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union (EU).

Basis for expression of an opinion

We performed our audit in accordance with the International Auditor's Standards (IAS). Our responsibilities according to these standards are described additionally in the section of our report *Auditor's Responsibilities for the Audit of the Financial Statements.* We are independent on the Company in accordance with the International Ethics Standards Board for Accountants of the International Accounting Standards Board (IESBA Code) together with the ethics requirements of the Independent Financial Audit Act (IFAA) applicable with respect to our audit of the Financial Statements in Bulgaria, whereas we also implemented the other ethic responsibilities of ours in accordance with the requirements of the IFAA and IESBA. We believe that the auditor's evidence obtained by us is sufficient and relevant to provide basis for our opinion.

Other information different from the Financial Statements and the Auditor's Report on them

The Management bears responsibility for the other information. The other information consists of Report on the Activity, prepared by the Management according to Chapter Seven of the Accountancy Act, but does not include the Financial Statements and our Auditor's Report on them.

Our opinion regarding the Financial Statements does not comprise the other information and we do not express a certainty conclusion of any form about it, except as explicitly stated in our Report and insomuch as stated.

In relation with our audit of the Financial Statements, our responsibility lies in reading the other information and thus judging whether this other information is in material discrepancy with the Financial Statements or with our knowledge acquired during the audit or in some other way seeming to contain materially incorrect reporting. If, based on the work we have done, we arrive at the conclusion that this other information contains some materially incorrect reporting, we shall be required to report this fact.

We have nothing to report in this aspect.

Report in relation with other legal and regulatory requirements

Additional issues placed for reporting by the Accountancy Act

In addition to our responsibilities and reporting according to the IAS with respect to the Report on the Activity, we also applied the procedures added to those required under IAS, according to the Instructions of the Professional Organization of Certified Expert Accountants and Registered Auditors in Bulgaria – Institute of Certified Public Accountants of Bulgaria (ICPAB) issued on November 29, 2016 and approved by its Board of Directors on November 29, 2016. These procedures refer to verification of the form and contents of this other information for the purpose of assisting us in forming opinions as to whether the other information includes the disclosures envisaged in Chapter Seven of the Accountancy Act, applicable in Bulgaria.

Opinion in relation with Article 37, para. 6 of the Accountancy Act

Based on the implemented procedures, our opinion is that:

a) The information included in the Report on the Activity for the financial year for which the Financial Statements have been prepared, presented from page 1 to page 3, complies with the Financial Statements;

b) the Report on the Activity has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

Responsibilities of the Management for the Financial Statements

The Management is responsible for the preparation and trustworthy presentation of these Financial Statements in accordance with the IFRS applicable in EU and for such an internal control system as the Company deems to be necessary to provide for the preparation of Financial Statements which do not contain any materially incorrect reportings, regardless of whether due to fraud or mistake.

During the preparation of the Financial Statements, the Management has the responsibility to assess the Company's ability to continue functioning as a going concern while disclosing, where applicable, issues related with the going concern assumption and using the accounting basis based on the going concern assumption, except where the Management intends to liquidate the Company or terminate its activity, or the Management in practice has no other alternative, but to proceed in this way.

Responsibilities of the auditor for the audit of the Financial Statements

Our objectives are to obtain a reasonable degree of certainty as to whether the Financial Statements as a whole do not contain any materially incorrect reportings, regardless of whether due to fraud or mistake, and to issue an Auditor's Report including our auditor's opinion. The reasonable degree of certainty is a high degree of certainty but it is not a guarantee that an audit performed in accordance with IAS will always identify a materially incorrect reporting, where such one is available. Incorrect reportings might arise as a result of fraud or mistake and they are deemed material, if it may be reasonably expected that they, individually or in the aggregate, might affect the business decisions of the users taken based on these Financial Statements.

As part of the audit, in accordance with IAS, we apply professional judgment and preserve professional scepticism throughout the audit. We also:

- identify and assess the risks of materially incorrect reportings in the Financial Statements, regardless of whether due to fraud or mistake, develop and apply auditor's procedures in answer to these risks and obtain auditor's evidence which is sufficient and relevant to provide basis for our opinion. The risk of not disclosing a materially incorrect reporting which is the result of fraud is higher than it is for a materially incorrect reporting which is the result of mistake since fraud may involve secret agreement, falsification, deliberate omissions, statements intended to delude the auditor, as well as neglecting or evading internal control.

- understand internal control referring to audit in order to develop auditor's procedures which are appropriate for the specific circumstances but not for the purpose of expressing an opinion regarding the effectiveness of the Company's internal control.
- assess the relevance of the used accounting policies and the reasonableness of the accounting approximations and the disclosures related with them, made by the Management.
- arrive at a conclusion regarding the relevance of the application by the Management of the accounting basis based on the going concern assumption and based on the auditor's evidence as to whether a material uncertainty is available, concerning events or conditions which might give rise to material doubts regarding the Company's ability to continue functioning as a going concern. If we arrive at the conclusion that a material uncertainty is available, we shall be required to draw attention in our Auditor's Report to disclosures in the Financial Statements related with this uncertainty or, in case these disclosures are inadequate, to modify our opinion. Our conclusions are based on the auditor's evidence obtained up to the date of our Auditor's Report. Future events or conditions, however, may cause the Company to terminate its functioning as a going concern.
- evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements present the transactions and events which are fundamental for it in a manner achieving trustworthy presentation.

We communicate to the people responsible for the general management, among other issues, the planned scope and implementation term of the audit and the material conclusions from the audit, including material drawbacks in internal control, which we identify during the audit we perform.

The partner responsible for the auditing commitment resulting in this Report of the Independent Auditor is Ivan Simov.

Registered Auditor:	MOORE STEPHENS BULGARIA – AUDIT OOD:
(Sgd. illegible)	*(Sgd. illegible)*
Ivan Simov	Stefan Nenov
	Managing Partner, Registered Auditor

Oval seal of Moore Stephens Bulgaria – Audit OOD, Sofia, Registration No. 131

June 24, 2019
Sofia, Bulgaria

(all amounts are in BGN thous.)

	Appendix	December 31 2018	December 31 2017
ASSETS			
Non-current assets			
Credits and receivables from customers	7	3,569	3,976
Property, plant and equipment	4	96	108
Intangible assets	4	47	43
Deferred tax assets	14	16	11
Non-current assets		**3,728**	**4,138**
Current assets			
Cash	6	713	400
Credits and receivables from customers	7	6,870	4,045
Commercial and other receivables	8	262	187
Assets and groups to be released, classified as held for sale	9	215	-
Current assets total		**8,060**	**4,632**
Total assets		**11,788**	**8,770**
CAPITAL			
Capital and reserves of owners			
Fixed capital	10	2,800	2,800
Undistributed profit	10	5,348	2,274
Total equity		**8,148**	**5,074**
LIABILITIES			
Non-current liabilities			
Liabilities under obtained loans	11	389	2,282
Non-current liabilities		**389**	**2,282**
Current liabilities			
Liabilities to staff and insurance institutions	12	384	301
Commercial and other liabilities	13	2,867	1,113
Current liabilities total		**3,251**	**1,414**
Total liabilities		**3,640**	**3,696**
Total equity and liabilities		**11,788**	**8,770**

The Financial Statements from page 4 to page 40 have been approved on April 02, 2019.

Managing Director
(Sgd. illegible)
Desislava Dimitrova
Round seal of VIVA CREDIT OOD, city of Sofia

Chief Accountant
(Sgd. illegible)
Vera Slavova

Certified according to Auditor's Report by
Ivan Simov
Registered Auditor
Date: *June 24, 2019*

(all amounts are in BGN thous.)

	Appendix	December 31 2018	2017
Revenue from interests and penalties in case of failed implementation of the contractual obligations	15	15,551	10,128
Expenditure for interests	16	(300)	(234)
Net interest revenue		**15,251**	**9,894**
Other financial revenue/expenditure, net	17	(226)	(37)
Expenditure for depreciation of financial assets	7	(6,014)	(3,919)
Net interest revenue after depreciations		**9,011**	**5,938**
Other operating revenue/ expenditure, net	18	57	24
Administrative expenditure	19	(5,575)	(4,753)
Amortization	4	(77)	(83)
Loss/Profit before taxes		**3,416**	**1,126**
Expenditure for taxes	20	(342)	(114)
Profit for the year		**3,074**	**1,012**
Total comprehensive revenue		**3,074**	**1,012**

The Financial Statements from page 4 to page 40 have been approved on April 02, 2019.

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(all amounts are in BGN thous.)

		Referring to equity holders	
	Fixed capital	Undistributed profit	Total capital
Balance as of January 1, 2017	**2,800**	**1,262**	**4,062**
Profit for the year	-	1,012	1,012
Balance as of December 31, 2017	**2,800**	**2,274**	**5,074**
Balance as of January 1, 2018	**2,800**	**2,274**	**5,074**
Profit for the year	-	3,074	3,074
Balance as of December 31, 2018	**2,800**	**5,348**	**8,148**

The Financial Statements from page 4 to page 40 have been approved on April 02, 2019.

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(all amounts are in BGN thous.)

	Appendix	December 31 2018	2017
Cash flows from operating activity			
Extended credits to customers		(24,177)	(18,573)
Paid-up credits from customers, including payments under fees		29,868	22,616
Cash revenue from commercial relationships and other		2,666	1,356
Payments to providers and other counterparts, net		(2,841)	(2,235)
Payments to staff and social security institutions		(2,715)	(2,509)
Payments of taxes		(320)	(113)
Other flows from operating activity		(111)	37
Net cash flow from operating activity		**2,370**	**505**
Investment activity			
Acquisition of tangible assets		(29)	(35)
Acquisition of intangible assets		(33)	(17)
Net cash flow from investment activity		**(62)**	**(52)**
Cash flow from financial activity			
Obtained loans from non-banking financial institutions		995	1,270
Payments under obtained loans from non-banking financial institutions		(2,990)	(1,590)
Other		-	(33)
Net cash flow from financial activity		**(1,995)**	**(353)**
Net (reduction)/increase of cash		**313**	**100**
Cash in the beginning of the year		400	300
Cash in the end of the year		**713**	**400**

The Financial Statements from page 4 to page 40 have been approved on April 02, 2019.

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The Appendixes from page 8 to page 40 constitute an inseparable part of these Financial Statements.

Appendixes to the Financial Statements

1. Summary of the activity

„VIVA CREDIT“ OOD is a financial institution under the terms of the Credit Institutions Act entered under number BGR00277 in the Register of Credit Institutions based on Order No. РД22-0857/April 27, 2012. The Company has as its subject of activity: Extension of cash loans using own funds according to the Credit Institutions Act.

The Company is registered as a Limited Liability Company in the city of Sofia. The headquarters and management address of the Company are: city of Sofia, Lyulin 7 housing estate, 28 Jawaharlal Nehru Blvd., block ATTs Silver Centre, floor 2, office 73G.

The Company is represented by Desislava Dimitrova – Managing Director.

2. Accounting policy

The accounting policy applied during the preparation of the Financial Statements is described here below.

The policy has been applied consistently for all presented years, except where explicitly stated otherwise.

2.1 Basis for preparation of the Financial Statements

These Financial Statements have been prepared in accordance with the requirements of the International Financial Reporting Standards (IFRS), adopted by the European Union (IFRS, adopted by EU) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). These Financial Statements have been prepared in keeping with the principle of the historical price, except for the cases of carried out depreciation of lands and buildings, disposable financial assets for sale, and financial assets and liabilities (including derivative instruments) reported at fair value in the profit or loss.

The preparation of the Financial Statements in accordance with IFRS requires the use of accounting estimates. When applying the accounting policy of the entity, the Management based itself on its own judgment. The elements of the Financial Statements, the presentation of which involves higher degree of judgment or subjectivity, as well as those elements for which the assumptions and measurements have significant effect on the Financial Statements as a whole, have been disclosed separately in Appendix 3.

2.1.1. Going concern principle.

The Management has reasonable expectations that the Company avails of adequate resources to continue operating in the foreseeable future. Therefore, the Company continues to assume the going concern principle in the preparation of its Individual Financial Statements.

2.1.2. Changes in the accounting policy and disclosures

/a/ New and amended standards, adopted by the Company.

The Company applied for the first time the following standards and amendments for its annual reporting period, starting on January 1, 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Classification and assessment of the transactions with share-base payment – Amendments to IFRS 2
- Annual improvement cycle for the period 2014–2016
- Assignment of investment estates – Amendments to IAS 40
- Interpretation 22: Foreign Currency Transactions and Advance Consideration

The Company also chose to adopt earlier the following amendments: 6

- Annual improvements of the IFRS Standards 2015–2017

The Company has chosen to not recalculate comparative data during the adoption of IFRS 9 and therefore, both amendments (if any) have been processed as of the date of the initial application (January 01, 2018) and have been presented in the Statement on Changes in Equity as of December 31, 2018. Most of the remaining amendments (IFRS 15) had no effect on the amounts recognized during previous periods and are not expected to have material effect on the current or future periods.

/New standards and amendments – effective January 01, 2018/

- **IFRS 9 Financial Instruments**

IFRS 9 replaces the plural classification and measurement models in IAS 39 Financial Instruments: Recognition and measurement by a single model which initially had only two classification categories: amortized value and fair value.
The classification of the debt assets will be determined by the enterprise's business model for management of financial assets and characteristics of contractual cash flows of financial assets. Debt instruments are measured at amortized value, if: a) the objective of the business model is to hold the financial asset for the purpose of collecting the contracted cash flows, and b) the contracted cash flows under the instrument constitute only payments under the principal and the interest.
All other debt and capital instruments, including investments in complex debt instruments and capital investments, must be recognized at fair value.
All movements of the financial assets' fair value are reported on the Statement of Income, except for capital investments which are not held for trading and which may be recorded in the profit or loss or in the reserves (without subsequent transformation in the profit or loss).
For the financial liabilities which are measured by companies with fair value option, the part of the fair value which is due to changes in their own credit risk in another comprehensive income, and not in the profit or loss, will have to be recognized.
Effective date: January 1, 2018.

- **Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4**

In September 2016, the International Accounting Standards Board (IASB) published amendments to IFRS 4 which consider the concerns of insurance companies regarding the various dates of entry into effect of IFRS 9 Financial Instruments and the standards for new forthcoming contracts. The amendment envisages two different solutions for insurance companies: temporary release from IFRS 9 for companies complying with some specific requirements (applied at the level of a reporting enterprise) and "overlaying approach", both approaches not being mandatory.

IFRS 4 (amendments including) will be replaced by the forthcoming standard for new insurance contracts. Accordingly, both the temporary release, as well as the "overlaying approach", are expected to cease to be applicable when the new insurance standards become effective.
Effective date: January 1, 2018 or when the entity applies for the first time IFRS 9.

- **IFRS 15 Revenue from Contracts with Customers**

The IASB published a new standard for revenue recognition. It will replace IAS 18, which covers the contracts for goods and services, and IAS 11, which covers the building contracts. The new standard is based on the principle that the revenue is recognized when the control over the goods or services is transferred to the customer – therefore, the concept of control replaces the available concept of risks and benefits.

Before recognizing the revenue, a five-step process must be applied:
- identification of contracts with customers
- identification of the individual obligations to be implemented
- determination of the price of the transaction under the contract
- allocation of the price of transaction among the individual obligations to be implemented, and
- the recognition of the revenue for each obligation to be implemented is fulfilled

The key amendments to the current practice are:
- All groups of goods or services which are separate must be recognized separately, and all discounts or discounts under the contracted prices usually must be allocated among the individual elements.
- The revenues may be recognized earlier than with the previous standards, if the remuneration is different for reasons (such as, stimuli, discounts, bonuses, author's and license remunerations and so on) – the minimal sums must be recognized, if not exposed to material risk of being returned.
- The point at which the revenues may be recognized may change: some revenues which currently are recognized at a given moment in the end of a certain contract may now be recognized during the period of the contract and vice versa.
- New specific rules for licenses, guarantees, advance payment fees which are not restored and other are available.
- As with every new standard, enhanced disclosure is available.

These accounting changes may have effect on the business practices of the entity with

respect to the systems, processes and control, compensations and bonus plans, contracts, tax planning and investor communications.
The entities will have the option to choose between totally retrospective application and future application with additional disclosures.
Effective date: January 1, 2018.

- **Classification and evaluation of the transactions with share-based payment – Amendments to IFRS 2**

The amendments made to IFRS 2 in June 2016 clarify the basis for measurement of share-based payments made in cash and the reporting of the amendments which change the remuneration from ones settled in cash to ones settled in shares. They also introduce an exception from the classification principles in IFRS 2. When the employer is obliged to retain a sum for the tax liability of the employee related with share-based payment and pay this sum to the tax administration, the entire remuneration will be treated in such a way, as if it has been settled in shares, provided it would have been paid by capital instruments without the characteristics of a net settlement.
Subjects with the following agreements would probably be affected by these amendments:

– remunerations settled in shares which involve elements of net settlement, related with tax liabilities;
– share-based payments settled in cash which involve implementation conditions, and
– agreements settled in cash which have been changed to share-based payments settled in shares.

Effective date: January 1, 2018.

- **Annual improvements for the period 2014–2016**

The following improvements were completed in December 2016:

– IFRS 1 – the short-term exceptions, comprising the previous provisions of IFRS 7, IAS 19 and IFRS 10, which are no longer applicable, are deleted.
– IFRS 28 – clarifies that the choice of companies for risk capital, mutual funds, share trusts and the like entities to measure investments in associates and joint ventures at fair value in the profit or loss should be made separately for each associate or joint venture at the initial recognition.

Effective date: January 1, 2018.

- **Assignment of investment property – amendments to IAS 40**

The amendments clarify that assignments to or from investment property may be made only, if a change in use is available, supported by evidence. A change in use occurs when the property complies or ceases to comply with the definition for investment property. A change in intention is not sufficient to support the assignment.

In the standard, the list with proofs for change in use was re-categorized as a non-exclusive list with examples to help illustrate the principle.

The Board provided two options for transition:

- prospective, with each reflection from the pre-classification recognized as correction

for detecting of undistributed profit as of the date of the initial recognition, or
- retrospective – authorized only without the use of backward correction.

Additional disclosures are required, if the Company adopts the requirements in future.
Effective date: January 1, 2018.

- **Interpretation 22 Foreign Currency Transactions and Advance Consideration**

The interpretation clarifies how to determine the date of the transaction for the exchange rate which must be used during the initial recognition of a related asset, expenditure, or income, when the entity pays or receives advance remuneration for contracts denominated in foreign currency.

For single payment or invoice, the date of the transaction should be the date on which the entity recognizes initially the non-cash asset or liability resulting from the advance payment (the obligation for advance payment or deferred revenue/contract).

If there are several payments or invoices for one element, the date of the transaction must be determined as above for each payment or invoice.

The entities may choose to apply the interpretation:
- retrospectively, for each presented period
- prospectively, for objects within the scope which have been initially recognized on or after the beginning of the reported period in which the interpretation is applied initially, or
- prospectively, from the beginning of a previous reported period presented as comparative information.

Effective date: January 1, 2018.

/Forthcoming requirements/

As of May 31, 2018, the following standards and interpretations have been issued, but which are not mandatory for the annual reporting periods ending on December 31, 2018

- **IFRS 16 Lease**

IFRS 16 will affect mainly the accounting on the part of the Lessees and will result in recognition of nearly all leases in the balance sheet. The standard removes the current difference between operating and financial lease and requires recognition of an asset (right to use of the lease asset) and financial liability for payment of leases for nearly all lease contracts. Exception for short-term and low-effective leases is possible.

The Profit and Loss Account will also be affected, since usually the total expenditure is higher during the earlier years of the lease contract and lower during the later years. Moreover, the operating expenditure will be replaced by interests and amortization and therefore, the key indicators, such as EBITDA will change.

The operating cash flows will be higher since the payments in cash for the basic part of the lease liability are classified within the financial activities. Only the part of the payments reflecting the interest may continue to be presented as operating cash flows.

The accounting on the part of the Lessors will not change materially. Some difference may arise as a result of the new trends regarding the determination of the lease contract. According to IFRS 16, the contract contains a lease, if the contract assigns the right to controlling the use of a certain asset for a definite period of time against remuneration.

At this stage, the Company does not plan to adopt the standard before its taking effect.
Effective date: January 1, 2019. Early adoption is allowed only in case of simultaneous adoption of IFRS 15.

- **IFRS 17 Insurance Contracts**

IFRS 17 was issued in May 2017 as a substitute to IFRS 4 Insurance Contracts. It requires a current measurement model with which the forecasts are measured for each reporting period. The contracts are measured using the structural elements of:

- the cash flows discounted with probability
- explicit risk correction, and
- agreed contract service margin (CSM) representing the unrealized profit from the contract which is recognized as revenue during the coverage period.

The standard allows a choice between recognition of the changes in the discount percents either in the Profit and Loss Account or directly in some other comprehensive income. The choice will probably reflect the manner in which insurers will report their financial assets according to IFRS 9.
Effective date: January 1, 2021.

- **Long-Term Interests in Associates and Joint Ventures - Amendments to IAS 28**

The amendments clarify the reporting of long-term interests in associates and joint ventures which, in their essence, constitute a part of the net investment in the associate or joint venture but, with respect to which accounting of equity is not applied. The subjects must report these interests according to AASB 9 *Financial Instruments* before applying the requirements for allocation of losses and depreciation in AASB 128 *Investments in Associates and Joint Ventures.*
Effective date: January 1, 2019.

- **Annual improvement of the standards for IFRS 2015–2017**

The following improvements were completed in December 2017:

- IFRS 3 – clarified that the acquisition of control over an entity which is a joint operation is a business combination achieved in stages.
- IFRS 11 – clarified that the party which acquires joint control over an entity which is a joint operation should not depreciate its former interest in the respective operation.
- IFRS 12 – clarifies that the tax consequences of dividends on financial instruments classified as equity should be recognized depending on the fact where the former transactions or events generating distributable profits have been recognized.

– IFRS 23 – clarifies that, if a specific borrowing remains incompleted after the respective complying-with-the-conditions asset is ready for its intended use or sale, it becomes a part of the total loans.

Effective date: January 1, 2019.

- **Sale or participation of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28**

The International Accounting Standards Board (IASB) made restricted amendments to the scope of IFRS 10 *Consolidated Financial Reports* and IAS 28 *Investments in Associates and Joint Ventures.*

The amendments clarify the accounting treatment of sales or the contribution of assets between an investor and its associates and joint ventures. They confirm that the accounting treatment depends on the fact whether the non-cash assets sold or invested in an associate or joint venture constitute "business" (as defined in IFRS 3 *Business Combinations*).

When the non-cash assets constitute business activity, the investor shall recognize the complete profit or loss from the sale or from the asset contribution. If the assets do not comply with the definition for business, the profit or loss shall be recognized by the investor only up to the amount of the investments of the other investor in the associate or joint venture. The amendments shall be applied prospectively.
** In December, the IASB decided to postpone the effective date of this amendment until the point in which the IASB will conclude its research project after the equity method.

2.2 Transactions in foreign currency

(a) Functional currency and presentation currency

The individual elements of the Financial Statements of the Company are measured in the currency of the basic economic environment in which the entity carries out its business ("functional currency").

The Annual Financial Statements are presented in thousands of Bulgarian Lev (BGN), which is the functional currency and the presentation currency.

Bulgarian Lev is fixed to the Euro (EUR) through the mechanism of the currency board introduced in the Republic of Bulgaria since January 1, 1999.

(b) Transactions and balances

The transactions in foreign currency are transformed into functional currency, applying the official exchange rate for the respective date. The profits and losses from currency rate changes arisen as a result of settlements under transactions in foreign currency, as well as of depreciation under conclusive currency rate of assets and liabilities denominated in foreign currency are recognized in the Statement of Income.

The profit and loss from transactions in foreign currency, which refer to receivables and cash on hand, are presented in the Statement of Income as Financial Revenue or Expenditure. All other profits and losses are presented in the Statement of Income as Other (Losses)/Profits – Net.

The monetary assets and liabilities in foreign currency are reported at the conclusive exchange rate of the Bulgarian National Bank as of the date of the Balance Sheet.

Significant exchange rates:

	December 31, 2018 BGN	**December 31, 2017 BGN**
1 US dollar equals	1.70815	1.63081
1 Euro equals	1.95583	1.95583

2.3. Property, plant and equipment

Property, plant and equipment are recognized and initially measured at acquisition price which includes the purchase price, customs duties and unreturnable taxes, as well as all direct expenditure for bringing the asset to operating condition and to the place of its use as intended by the Management. After their initial recognition, property, plant and equipment are reported at acquisition price reduced by the amount of the accumulated amortization and possible losses from depreciations.

The expenditure related with maintenance, repair and replacement of insignificant components of property, plant and equipment are charged on a current basis as maintenance expenditure. The expenditure for improvement and modernization are capitalized. At sale or discarding, the reported value and the respective accumulated amortization are stricken-off.

The amortization of assets is calculated applying the linear method on the measured useful life of the separate groups of assets, as follows:

- Buildings 25 years
- Plant 3.3 years
- Vehicles 4 years
- Fixtures and fittings 6.7 years
- Computers 2 years
- Other 6.7 years

Property, plant or equipment is stricken-off at its sale or when no future economic benefits from its use are expected or in case of its release. The profits or losses arising at striking-off of the asset (representing the difference between the net revenue from sale, if any, and the balance sheet value of the asset), are included in the Statement of Comprehensive Income in the year when the asset is stricken-off.

In the end of each financial year, the residual values, useful life and applied asset amortization methods are inspected and, if necessary, the last ones are changed.

2.4.Intangible assets

Intangible assets are reported at acquisition price which includes the purchase price or the acquisition value, reduced by the accumulated amortization and the reported depreciation of the assets. The intangible assets of the Company are amortized applying the linear amortization method. The useful life of the main classes of assets as of December 31, 2018 and 2017 is, as follows:

Asset	Useful life (years)
Program products	2
Other intangible assets	3

2.4 Depreciation of non-financial assets

Assets which have undefined useful life are not amortized, but are inspected for depreciation on an annual basis. Assets which are amortized are inspected for available depreciation, when there are events or change of circumstances which make a hint that the balance sheet value of the assets is unreturnable. The sum by which the balance sheet value exceeds the returnable value is recognized as loss from depreciation. The returnable value is the higher of the net sales value and the value in use. To determine the value in use, assets are grouped into the smallest possible discernible cash flow generating units. Non-financial assets different from positive reputation, which are subject to depreciation, are reviewed for available signs of the need of depreciation as of each reporting date.
As of each balance sheet date, the non-financial assets depreciated in previous periods, different from positive commercial reputation, are reviewed for possible reintegration of the losses from depreciation.
For the needs of the depreciation test, assets are grouped at the lowest levels, for which a cash flow generating unit may be identified.

2.5. Inventories

Inventories are initially recognized at acquisition price, which is formed by the purchase value, import customs duties and fees, as well as other expenditure, directly related with the delivery. The resulting measure is the higher of the acquisition price and the net realizable value. The net realizable value is formed by the sales price with normal course of activity, reduced by the sale-related expenditure. The consumption of inventories is made at specifically determined price for each delivery.

2.6. Financial assets and liabilities

2.6.1. Financial assets

The Company categorizes its financial assets in the category Credits and Receivables.

Categorization depends on the objective for which the financial asset has been acquired. The Management determines the categorization of financial assets at their initial acquisition and makes subsequent assessment of the classification as of the end of each reporting period.

Credits and receivables

Credits and receivables are non-derivative financial assets with fixed or determined payments which are not quoted on the active market. They are included in short-term assets, except for those with payment date later than 12 months after the balance sheet date, which are classified as long-term ones.
a) credits which the Company intends to sell immediately, which are classified as held for trading, and those which, after the initial recognition, are qualified as reported at fair value in the profit or loss;
b) credits which the Company, after the initial recognition, has classified as available for sale; or
c) credits for which the Company may not restore to a significant degree the entire initial investment for a reason different from deterioration of the borrower's status.

These financial assets are initially reported at fair value and subsequently, at amortized value, using the effective interest rate method, reduced by losses from depreciation and non-collectability.

The amortized value is calculated taking into account all provided discounts or premiums at acquisition and it includes fees which are an inseparable part of the valid interest rate, as well as the expenditure related with the transaction. The credits and receivables are indicated in the Financial Status Report as Credits and Receivables from Customers. The accrued interest is included in the Statement of Profit or Loss and Other Comprehensive Income as Revenues from Interests, Fees and Penalties in Case of Failed Implementation of Contractual Obligations. In case of depreciation, the loss from depreciation is reported as withholding from the balance sheet value of the investment and is recognized in the Statement of Profit or Loss and Other Comprehensive Income as Expenditure for Depreciation of Financial Assets. The amortized part included in the calculations of the effective interest for the period is indicated as correction of the interest revenue in the Statement of Profit or Loss and Other Comprehensive Income. The losses from depreciation are included in the Statement of Profit or Loss and Other Comprehensive Income for the period of effecting the depreciation.

The Company may undertake commitments for crediting where the loans are classified as held for trading since the intention is to sell the credits in the short run. These undertaken commitments for crediting are indicated as derivatives and are measured at fair value in the profit or loss for the period.

The credit commitments which are expected to be held by the Company after they have been extended are indicated as liability only in the cases where an encumbering contract is available, which will possibly result in loss.

2.6.2. Financial liabilities

Financial instruments issued by the Company which do not constitute equity elements in their essence and which are not reported at fair value in the profit or loss for the period are classified as liabilities („attracted funds"), if the contractual agreement results in arising of an obligation for the Company to either provide cash on hand or some other asset to the holder or to implement the obligation in some other way – through exchange of a fixed amount in cash or some other financial asset for part of the equity. Financial liabilities are initially recognized at fair value, net of the direct expenditure related with their arising.

A designed financial instrument, which contains both debt and capital component, is divided on the issue date. The part of the net revenue from the instrument, allocated to the debt component on the issue date is calculated based on the fair value (determined based on a quoted market price for similar debt instruments). The part of the revenue, allocated to the capital component, is equal to the residual sum upon withholding of the sum attributed to the debt component. The value of all embedded derivatives (such as, call options), which are different from the capital component, is included in the debt component.

2.6.3. Striking-off of financial assets and liabilities

A financial asset (or in the cases where applicable, a part of a financial asset or a part of a group of similar financial assets) is stricken-off when the rights to obtain cash flows from this asset have expired, or the Company has transferred its right to obtain cash flows from the asset, or has undertaken a commitment to pay the obtained cash flows in full and with no material delay to a third party under a transfer agreement, and the Company has transferred to a material degree all risks and benefits related with the asset, or the Company has neither received, nor retained to a material degree all risks and benefits from the asset, but has transferred the control over the asset.

In the cases where the Company has transferred its rights to obtain cash flows from the asset or has concluded a transfer agreement but has neither transferred nor retained to a material degree all risks and benefits from the asset or has not transferred the control over the asset, the asset is recognized up to the degree of the Company's continuing interest in it. In this case, the Company also recognizes the liability related with the asset. The transferred asset and the liability related with it are measured in a way which reflects the rights and obligations preserved by the Company.

The continuing interest in the form of guarantee over the transferred asset is measured by the smaller of the original balance sheet value of the asset and the maximal value of the remuneration which might be required from the Company as redemption payment.

A financial asset is stricken-off in the cases where the liability is paid-up, cancelled or expires. In the cases where an available financial liability is replaced by another liability with the same creditor under materially different conditions or the conditions of the available liabilities are changed materially, this change or modification is treated as termination of the recognition of the initial liability and recognition of a new one. The difference between the balance sheet value of the original financial liability and the paid remuneration is indicated in the profit or loss for the period.

2.6.4. Measurement of the fair value

For financial instruments which are traded on active markets, the measurement of the fair value is based on market prices or dealer price quotes. A financial instrument is deemed to be traded on an active market, if the quoted prices are regularly available with a stock exchange, dealer, broker, company from the respective industry or regulatory agency, and these prices represent actual and regularly effected transactions on the market. If the above-mentioned criteria are not satisfied, the market is deemed to be inactive.

For all other financial instruments, the fair value is measured using measurement models. The fair values of credits and receivables, as well as liabilities to third parties are determined using the current value model based on agreed cash flows, taking into account the quality of the credit, the liquidity and expenditure; their fair value does not differ materially from their balance sheet value. The fair values of contingent liabilities and irrevocable liabilities under loans correspond to their balance sheet values.

For financial assets and financial liabilities with short-term payment date (less than three months), it is assumed that the balance sheet value is close to their fair value. This assumption is also applied with respect to demand deposits and termless savings deposits.

IFRS 7 Financial Instruments: Disclosure requires the clarification appendixes to the Financial Statements to contain information about the measurement of the fair value in accordance with IFRS 13 Fair Value Measurement of the financial assets and liabilities which have not been presented at fair value in the Financial Status Report. IFRS 13 defines a hierarchy of the measurement methods depending on the degree to which the models' input data may be observed or not. Input data which may be observed include market information obtained from external information sources; input data which may not be observed include assumptions and estimates of the Company.

These two types of input information define the following fair value measurement hierarchy:

- Level 1 – quotes from active markets for identical financial instruments. This includes listed capital and debt instruments.
- Level 2 – input data different from the data of Level 1, which may be observed directly or indirectly (i.e. may be derived from market prices).
- Level 3 – input data which may not be observed and/or based on external market information. This group includes instruments the significant components of which may not be observed.

The above-mentioned hierarchy of the measurement methods requires the use of market information wherever possible. When performing the measurements, the Company takes into account the respective possible-for-observation market prices in the cases where this is possible.

Fair value of the financial instruments:

	As of December 31, 2018		As of December 31, 2017	
Financial assets	Balance sheet value	Fair value	Balance sheet value	Fair value
Cash and cash equivalents	713	713	400	400
Credits and receivables	10,439	10,439	8,021	8,021
Commercial and other receivables	262	262	187	187
Total assets	11,414	11,414	8,608	8,608
Financial liabilities				
Liabilities under obtained loans and other non-current liabilities	389	389	2,282	2,282
Liabilities to staff and social security institutions	384	384	301	301
Commercial and other liabilities	2,867	2,867	1,113	1,113
Total liabilities	3,640	3,640	3,696	3,696

The following table provides information about the financial instruments as of December 31, 2018, for which disclosure of fair value is required in accordance with IFRS 7, distributed depending on the used measurement methods:

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	713	-	-	713
Credits and receivables	-	-	10,439	10,439
Commercial and other receivables	-	-	262	262
Financial liabilities				
Liabilities under obtained loans	-	-	389	389
Liabilities to staff and social security institutions	-	-	384	384
Commercial and other liabilities	-	-	2,867	2,867

The table provides information about the financial instruments for which disclosure of fair value is required in accordance with IFRS 7, distributed according to the used measurement methods as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	400	-	-	400

Credits and receivables	-	-	8,021	8,021
Commercial and other receivables	-	-	187	187
Financial liabilities				
Liabilities under obtained loans	-	-	2,282	2,282
Liabilities to staff and social security institutions	-	-	301	301
Commercial and other liabilities	-	-	1,113	1,113

2.6.5. Compensation of financial instruments

Financial assets and liabilities are netted and the net amount is indicated in the Financial Status Report in the cases where there is executable right to compensation of the recognized sums and there is intention to achieve agreement on net basis or to simultaneously realize the asset and settle the liability.

2.6.6. Depreciation of financial assets

a) Depreciation of assets reported at amortized value

The Company determines at each reporting date whether objective evidence is available that a financial asset or a group of financial assets have been depreciated. A financial asset or a group of financial assets are depreciated only in the cases where objective evidence of depreciation is available, resulting from one or more events which have occurred after the initial recognition of the asset („event of loss”) and this event (or events) of loss has had negative effect on the expected future cash flows from the financial asset or group of financial assets of the Company, which may be measured reliably. The criteria used by the Company to determine whether objective evidence of loss from depreciation is available include:
(a) material financial difficulties of the obligated person;
(b) violation of a contract, such as failed implementation or delay of interest or principal payment instalments;
(c) available objective data pointing out that a measurable reduction of the expected future cash flows from a financial asset portfolio is available after the time of the initial recognition of these assets in spite of the fact that the reduction with respect to the individual financial assets in this portfolio may not be identified yet;
(d) unfavourable changes in the payment status of the borrowers in the portfolio.

Other circumstances may also exist (such as, fraud, unfavourable changes in the unemployment rate and so on), which are assumed as indication of the credits' depreciation.

The sum of the loss is measured as the difference between the balance sheet value of the asset or group of assets and its/their restorable value which is the current value of the expected future cash flows (except for the future credit losses which have not occurred).

The balance sheet value of the loans is reduced by the amount of the depreciation and the sum of the loss is recognized in the Profit or Loss Account and Other Comprehensive Income for the period during which the loss has occurred.

The future cash flows of a group of financial assets which are examined for depreciation on a portfolio basis are calculated based on the contractual cash flows, taking also into account historical losses from assets with similar credit risk characteristics. The methodology and the assumptions used to measure future cash flows are re-reviewed on a regular basis to reduce the differences between the expected values of the losses and the actual losses. In the cases where a certain loan may not be paid-up, it is stricken-off against the accumulated depreciation. These loans are stricken-off after all required procedures have been completed and the sum of the loss has been measured. If, during a next period, the sum of the loss for depreciation is reduced and the reduction is objectively related with an event which occurs after the depreciation's recognition, the loss from depreciation which has been recognized before is restored in the Profit or Loss Account and Other Comprehensive Income.

b) Depreciation of assets classified as available for sale

The Company determines as of each date of the Financial Status Report whether objective evidence is available that a financial asset or a group of financial assets have been depreciated. The material or continuous reduction of the fair value of a financial asset available for sale constitutes objective evidence for depreciation which results in recognition of loss from depreciation. If such evidence exists with respect to assets held for sale, the cumulative loss measured as the difference between the value at acquisition and the current fair value is transferred from the capital and is indicated in the profit or loss for the period.

If, during a subsequent period, the fair value of a debt instrument classified as available for sale is increased and the increase is due to an event which has occurred after the period when the depreciation has been recognized in profit or loss, the depreciation is restored through the Profit or Loss Account and Other Comprehensive Income.

Losses from depreciation recognized in the profit or loss as investments in capital instruments, classified as „available for sale", are not restored in the profit or loss.

2.7. Commercial receivables

Commercial receivables are initially recognized at fair value and subsequently, at amortized value (using the effective interest rate method), reduced by possible provision for depreciation based on inspection, made by the Management, of the balances in the end of each month. Provision for depreciation is made in case objective evidence is available that the Company will not be able to collect all due sums according to the initial conditions with respect to the respective calculation. The following are considered to be indicators of available grounds for depreciation: material financial difficulties of a customer or declaring them insolvent, delay in payment or failed payment. The sum of the depreciation is equal to the difference between the balance sheet value and the returnable value. The latter constitutes the current value of the cash flows, discounted by the effective interest rate. The amount of the provision for depreciation is recognized in the Statement of Income.

2.8. Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash on bank accounts, other high-liquid short-term investments with initial date of payment of three months or less, as well as bank overdrafts. In the balance sheet, overdrafts are included as short-term liability in the category of short-term loans.

2.9. Equity

Company shares are categorized as fixed capital. The Company capital is presented in an amount corresponding to the amount registered by the Court.

2.10. Current and deferred taxes

The expenditure for tax for the period consists of current and deferred tax. Tax is recognized in the Statement of Income, except for the cases of transactions recognized directly in the equity. In these cases, tax is also recognized in the equity.

The expenditure for current tax recognized in the Statement of Income is determined according to the applicable tax law in effect in the country as of the preparation date of the Annual Financial Statements.

Deferred tax is calculated after the balance sheet method for all provisional differences appearing between the tax basis of the assets and liabilities and their balance sheet value in the Financial Statements. If, however, provisional tax differences arise from the initial recognition of an asset or liability with a transaction different from business combination, which has not affected the accounting or tax profit (loss) during the transaction, then this difference is not accounted for.

In calculating deferred taxes, the tax tariffs and the regulation applicable as of the preparation date of the balance sheet are used, which refer to the periods of the expected reverse manifestation of the provisional tax differences.

Deferred tax is recognized only in case a sufficient amount of future taxable profits is available against which these assets may be used.

2.11. Revenue of hired persons

Liabilities at retirement

The Company has an approved plan for additional pension insurance. According to the Labour Code, at termination of the employment relationship, after the worker or employee has acquired the right to pension for achieved insured length of service and due age, the Company is obliged to pay them a compensation amounting to two gross monthly salaries as of the date of termination of the employment relationship. If the worker or employee has worked for the Company during the last 10 years, the sum of the remuneration amounts to six gross monthly salaries.

The liability for payment of defined revenue is calculated on an annual basis by independent actuaries using the forecast unit credit method. The current value of the liability for payment of defined revenue is determined by discounting the expected future output cash flows by the interest rates of high-quality governmental securities, which have a payment date close to that of the respective liability and in the currency in which the payments are denominated.

Actuary profits and losses arisen as a result of practical corrections and changes of actuary assumptions are recognized in the Statement of Income based on the remaining average term of service of the respective employees. The expenditure for previous length of service is recognized in the Statement of Income at the time of their arising, except for the cases where the pension plan has been created under the condition that the employees must stay at work for a definite period of time. In such case, the expenditure for previous length of service is amortized after the linear method for the „period of acquisition".

2.12. Provisions

Provisions are recognized when a current judicial, constructive or regulatory liability for the Company arises as a result of past events, when output cash flows for payment of the liability are expected to arise and when the sum of the liability itself may be determined with sufficient precision. No provisions for future loss from the activity are recognized.

When there are several liabilities of this sort, the possibility for arising of output cash flows for their payment is measured taking into account the whole class of liabilities. A provision is recognized even in the cases where the possibility for arising of an output cash flow for a given liability in the class is small.

Provisions are measured at the current value of the expenditures which are expected to be required to pay the liabilities using discount percent before taxes which reflects the current market measure of the risks associated with the liability.

2.13. Commercial liabilities

Commercial liabilities are initially recognized at fair price and subsequently, at amortized value, using the effective interest rate method.

2.14. Recognition of revenue

Revenue includes the fair price of sold goods and services, net of value added taxes and provided discounts.

The Company recognizes a revenue when it may be measured reliably, it is certain that future benefits for the Company will arise and the specific conditions mentioned here below are observed for each sale made by the Company. It is not believed that a reliable measurement of some revenue is made where conventions with respect to its arising are available. After these conditions are removed, it is possible to reliably measure the revenue.

Revenue from interests
Revenue is recognized when the interests are charged using the effective interest rate method (EIR – the norm which most precisely discounts the expected future payments or revenue during the expected useful life of a financial instrument or a shorter period, as appropriate, to the net balance sheet value of the financial asset or liability). The revenue from interests is included as financial revenue in the Statement of Comprehensive Income.

2.15. Recognition of expenditure

Financial expenditure
The revenue from interests on loans is charged in the Statement of Comprehensive Income for all instruments measured at amortized value using the effective interest rate method

2.16. Related entities

For the purposes of these Financial Statements, the Company presents as related entities the partners, their subsidiaries and associated companies, company officers, as well as close members of their families, including the companies controlled by all above-mentioned entities, are considered and treated as related entities.

2.17. Allocation of dividends

The allocation of dividends among the Company partners is recognized as liability in the Financial Statements of the Company during the period in which it has been approved at a General Meeting of the shareholders of the Company.

2.18. Financial and operating lease

Lease contracts

Lease contracts for property, plant and equipment where the Company as a Lessee holds all material risks and benefits associated with the ownership are classified as financial leases. Financial leases are capitalized in the beginning of the lease contract at fair value of the lease property or, if lower, at the current value of the minimal lease payments. The corresponding lease liabilities, net of financial expenditure, are included in other short-term and long-term liabilities. Each lease payment is distributed between liability and financial expenditure. Financial expenditure is referred to the profit or loss during the period of the lease contract, so as to produce a constant periodic interest on the remaining balance under the liability for each period. Property, plant and equipment acquired with financial lease are amortized based on the useful life of the asset or based on the shorter of the useful life of the asset and the lease contract, if there is no reasonable certainty that the Company will obtain its property in the end of the lease contract.

Lease contracts where not a material part of the risks and benefits associated with the ownership of the asset are not transferred to the Lessee are classified as operating lease. The payments under operating lease are referred to the profit or loss after the linear method during the lease period. Revenue from lease contracts from operating leases where the Company is a Lessor are recognized in the profit based on the linear method for the lease period. The respective leased assets are included in the Balance Sheet based on their nature.

3. Significant accounting approximations and estimates

The presentation of the Financial Statements according to IFRS requires of the Management to make the best approximations and reasonably grounded assumptions which affect the reported values of the assets and liabilities and the disclosure of contingent receivables and liabilities as of the date of the report, and accordingly, on the values of the revenue and expenditure for the reporting period.

The estimates and the related assumptions are based on the historical experience and other factors which are reasonable under these circumstances and the results of which form the basis for estimates regarding the balance sheet value of the assets and liabilities, which are not evident from other sources. The actual results may differ from the preliminary estimates made.

Accounting estimates and basic assumptions are reviewed on a regular basis. Correction of accounting estimates is made in the year of the second reviewing of estimates, if the correction refers to the current year and the future years. The estimates of the Management in applying IFRS, which have material effect on the financial reports, and the accounting estimates with material risk of material correction during the next year are presented here below.

(in all Appendixes the amounts are indicated in BGN thous., except where stated otherwise)

4. Property, plant, equipment and intangible assets

	Computer equipment	Fixtures and fittings and other assets	Intangible assets	Total
January 01, 2017				
Balance sheet value	29	85	68	182
Acquired	32	2	18	52
Amortization expenditure	(22)	(18)	(43)	(83)
Balance sheet value in the end of the period	**39**	**69**	**43**	**151**
December 31, 2017				
Reporting value	124	132	316	572
Accumulated amortization	(85)	(63)	(273)	(421)
Balance sheet value	**39**	**69**	**43**	**151**
January 01, 2018				
Balance sheet value	39	69	43	151
Acquired	31	5	33	69
Stricken-off assets	-	(1)	-	(1)
Amortization expenditure	(28)	(20)	(29)	(77)
Stricken-off amortization	-	1	-	1
Balance sheet value in the end of the period	**42**	**54**	**47**	**143**
December 31, 2018				
Reporting value	155	136	349	640
Accumulated amortization	113	(82)	(302)	(497)
Balance sheet value	**42**	**54**	**47**	**143**

5. Lease

5.1. Operating lease as a Lessee

The future minimal payments under operating lease contracts of the Company are presented, as follows:

	Due minimal lease payments		
	Up to 1 year	**Between 1 and 5 years**	**Total**
As of December 31, 2018	516	1,031	1,547

6. Cash and cash equivalents

	2018	**2017**
Cash in banks and on hand	713	400
	713	**400**

For the purposes of the Statement of Cash Flows cash includes

	2018	2017
Cash on hand	115	96
Cash on bank accounts	598	304
	713	**400**

7. Credits and receivables

	2018	**2017**
Principals and charged interests	15,584	11,062
Minus: charged losses from depreciation	(5,145)	(3,041)
	10,439	**8,021**

All credits are with fixed interest rate.

The change of the losses from depreciation of credits to customers is, as follows:

	2018	**2017**
In the beginning of the period	**3,041**	**1,802**
Charged during the year, net of reintegrated depreciations	6,014	3,919
Stricken-off against provisions and other corrections	(3,910)	(2,680)
In the end of the period	**5,145**	**3,041**

For its internal needs, the Company uses its own models to measure and analyse credit risk. These rating and measurement models are used during the analysis of the credit portfolio and serve as a basis in the calculation of the loss from non-returnable credits.

8. Commercial and other receivables

	2018	2017
Extended advance payments	-	8
Guarantees	60	51
Receivables from commercial counterparts	-	121
Other receivables	202	7
	262	**187**

9. Assets and groups for release classified as held for sale

The assets classified as held for sale are:

- Land property located in the town of Sozopol, Municipality of Sozopol, Burgas region, Postal Code 8130, Misarya, with area of 1,207 sq.m., with balance sheet value of BGN 142 thous.
- Land property located in the town of Sozopol, Municipality of Sozopol, Burgas region, Postal Code 8130, Misarya, with area of 580 sq.m., with balance sheet value of BGN 73 thous.

The balance sheet value of the assets and liabilities intended for sale may be presented, as follows:

	2018 BGN thous.
Non-current assets	
Land	215
Assets classified as held for sale	**215**

10. Equity

- **Fixed capital**

The registered capital of the Company consists of 2,800,000 pieces of shares of face value of BGN 1 per share. All shares have the right to obtain dividend and a liquidation share and represent one vote at the General Meeting of the shareholders of the Company.

	2018 Pcs.	2017 Pcs.
Shares issued and paid-up in full as of December 31	2,800,000	2,800,000
Total shares authorized as of December 31	2,800,000	2,800,000

- **Undistributed profit**

The undistributed profit of the Company amounts to BGN 5,348 thous., whereas the generated profit during the current year amounts to BGN 3,074 thous.

11. Liabilities under obtained loans

The liability under obtained commercial loan is not secured.

	Effective interest rate	Term	2018	2017
Easy Asset Management AD	9%	August 2022	389	2,282
Total			**389**	**2,282**

12. Liabilities to staff and social security institutions

	2018	2017
Staff-related liabilities	166	140
Social security liabilities	70	55
Unused leave and other staff income	148	106
Total	**384**	**301**

Long-term staff revenue

According to the Labour Code of the Republic of Bulgaria, the Company is obliged to pay between two and six gross monthly working remunerations to its employees at retirement, whereas the amount depends on the length of service, as follows:

Length of service	Number of monthly working remunerations
Working for the Company during the last 10 years	2
Working for the Company for more than 10 years	6

The basic assumptions as of the date of the Report are the following:

	As of December 31, 2018	As of December 31, 2017
Discount interest rate	0,72%	1,02%
Future salary growth	2,00%	2,00%

As of December 31, 2018, the provisions for liabilities at retirement amount to BGN 48 thous. (as of December 31, 2017: BGN 32 thous.), which are included above in the total liability to staff.

13. Commercial and other liabilities

	2018	2017
Liabilities to providers and counterparts	2,791	1,073
Tax liabilities	76	40
Total	**2,867**	**1,113**

14. Deferred tax assets:

The movements of the account for tax provisional differences are, as follows:

	2018	2017
In the beginning of the year:	**11**	**7**
(Expenditure)/Revenue in the Statement of	5	4
In the end of the year	**16**	**11**

The movement of the tax provisional differences (before compensation of the sum in the respective tax jurisdiction) during the period is, as follows:

14. Deferred tax assets	Pension and other liabilities to staff	Total
As of January 01, 2017	7	7
(Expenditure)/Revenue in the Statement of Income	4	4
As of December 31, 2017	**11**	**11**
(Expenditure)/Revenue in the Statement of Income	5	5
As of December 31, 2018	**16**	**16**

15. Revenue from interests, fees and penalties in case of failed implementation of the contractual obligations

	2018	2017
Revenue from interest, fees and penalties in case of failed implementation of the contractual obligations	15,551	10,128
Total	**15,551**	**10,128**

16. Revenue for interests

	2018	2017
Revenue under financings and financial lease	300	234
Total	**300**	**234**

17. Other financial revenue/(expenditure), net

Revenue:	**2018**	**2017**
Revenue from ceded receivables	1,035	543
Total	**1,035**	**543**
Expenditure:		
Expenditure for ceded receivables	1,125	546
Expenditure for fees and commissions and other	36	
Total	**1,261**	**580**

18.Other operating income

	2018	2017
Revenue from services	16	20
Other operating revenue	41	4
Total	**57**	**24**

19.Administrative expenditure

	2018	2017
Expenditure for materials	120	99
Expenditure for hired services	2,456	1,956
Expenditure for staff	2,812	2,518
Other expenditure	187	180
Total	**5,575**	**4,753**

19.1. Expenditure for materials

The expenditure for materials include:

	2018	2017
Expenditure for energy products for transport vehicles	48	38
Other	72	61
Total	**120**	**99**

19.2. Expenditure for hired services and other expenditure

	2018	2017
Office rents	583	492
Operating lease	78	84
Advertising and marketing	1,153	782
Telecommunication and postal expenditure	133	150
Transport and business trips	24	24
Advisory, legal services	59	45
Consumables, including electricity	76	83
Office security	33	35
Insurances	13	8
Repair and technical maintenance	30	47
Representative and not activity-related	26	23
Other operating expenditure	435	363
Total	**2,643**	**2,136**

19.3. Expenditure for staff

	2018	2017
Salaries and remunerations	2,377	2,152
Social security	435	366
Total	**2,812**	**2,518**

20. Taxation

Expenditure for taxes are based on the effective tax rate, which as of the end of 2018 and 2017 amounts to 10%.

	2018	2017
(Expenditure) economy from deferred taxes	5	4
Total	**5**	4

The tax due by the Company on the taxable profit differs from the theoretical amount which is obtained using the basic tax tariff, as follows :

	2018	2017
Profit/Loss before taxes	3,416	1,126
Expected expenditure for income taxes at tax tariff of 10% (2017: 10%)	(342)	(113)
Expenditure not recognized for tax purposes	215	207
Non-taxable revenue	(156)	(154)
Current (expenditure for)/revenue from income taxes	**(347)**	**(118)**
Deferred tax (expenditures)/revenue	5	4
Expenditure for income taxes	**(342)**	**(114)**

21. Transactions between related entities

Name of company	Type of connectivity
Management Financial Group AD – parent company;	parent company
EASY ASSET MANAGEMENT AD	under common control
FINTRADE FINANCE AD	under common control
FINANCIAL BULGARIA EOOD	under common control
AGENCY FOR CONTROL OF DELAYED RECEIVABLES OOD	under common control
ACCESS FINANCE OOD – UNDER COMMON CONTROL;	under common control
EXPRESS PAY EOOD – UNDER COMMON CONTROL;	under common control
PROSPECT CAPITAL AD	under common control
EASY PAYMENT SERVICES OOD	under common control
PIONEER CAPITAL AD – in liquidation	under common control
DYNAMIC INVESTMENT AD – in liquidation	under common control
PROSPECT CAPITAL AD	under common control
MFG INVESTMENTS EOOD	under common control
MFG PARTNERS EOOD	under common control
AXI FINANCE IFN S.A. - Romania	under common control
EASY CREDIT LLK - Ukraine	under common control
EASY ASSET MANAGEMENT IFN S.A. - Romania	under common control
I CREDIT sp.z.o.o. - Poland	under common control
M CASH DOOEL - Macedonia	under common control
EASY ASSET MANAGEMENT ASIA - Mianmar	under common control
EASY ASSET MANAGEMENT MICROCREDIT	under common control
GHANA LIMITED - Ghana	under common control
MFG AB - Lithuania	under common control
Flexible Financial Solutions LLC	under common control
AGENCY FOR CONTROL OF OUTSTANING DEBTS SRL - Romania	under common control
Nedelcho Yordanov Spasov	ultimate owner
Stanimir Svetoslavov Vasilev	ultimate owner
LIQUID DREAMS OOD	another type of connectivity
SEAWINES AD	another type of connectivity
SEAWINES LOGISTICS EOOD	another type of connectivity
SEAWINES SPIRIT AD	another type of connectivity
LUCENT INVESTMENTS AD	another type of connectivity
SEAWINES TUSCANY S.R.L.	another type of connectivity
HIRON MANAGEMENT AD	another type of connectivity
ARMADDA CAPITAL AD	another type of connectivity
ELEVEN INVESTMENTS KDA	another type of connectivity

ORBISE BULGARIA OOD	another type of connectivity
YUVO GROUP OU - Estonia	another type of connectivity
OÜ ORBISE Corp - Estonia	another type of connectivity

Insomuch as not stated otherwise, the transactions with related entities have not been concluded under special conditions

Transactions between related entities:

	2018	2017
• **Obtained loan**		
Easy Asset Management AD		
- principal	-	1,481
- interests	389	801
	389	**2,282**

22. Objectives and policy of the Management with respect to risk management

Risk management in the Company is subject to the principle of central organization and it is structured according to the competence levels, as follows:

- Managing Director – determines the admissible risk levels within the adopted development strategy;
- Internal control unit – controls the process of approval and application of adequate policies and procedures within the adopted risk management strategy;

The activity related with risk management is carried out on a daily basis, observing all regulatory requirements and internal risk management rules. During risk management appropriate measures are applied, whereas their values are analysed on a daily basis and the restrictions and applicable limits are monitored.

The most essential financial risks the Company is exposed to are described here below.

22.1. Management of financial risk
22.1.1. Credit risk

Credit risk is related with the suffering of financial losses because of failed implementation of the obligations of the Company customers, providers and creditors. Credit risk is related most of all with the credits extended to Company customers.

On account of the nature of the Company activity, the risks of major importance are the related with the credit expositions of third parties to the Company. The credit risk for the ɔlio of microcredits is measured on a portfolio basis and it requires making additional lations of the probability for failed payment on the date of payment, as well as the percent s and correlation relationships in the portfolio of assets and other, related therewith.

For its internal needs, the Company uses its own models to measure and analyse credit risk. These rating and measurement models are used in the analysis of credit portfolios. When measuring credit risk, the Company analyses the following key components:

- Probability for customer insolvency in relation with contractual relations;
- The current expositions to these third parties, as well as their expected future development;
- The possible percent of restoration of the Company receivables (so-called „loss in case of failed implementation").

These models are subject to periodic review and comparison of their behaviour with the real quantities, and corrections of the basic variables are made to optimise the model's effectiveness. These credit risk measurement procedures are part of the routine operating activity of the Company.

The Company analyses the portfolio of microcredits, using internal ratings depending on the customer's behaviour and other factors combining statistical analysis and analysis of the credit advisors.

The data are checked and validated by comparison with data from external sources. The credit risk measurement methods are subject to periodic revaluation, which provides for their compliance with the recent developments of the risks in the portfolio.

- Exposition in case of failed implementation

The exposition in case of failed implementation is the sum which the Company expects to be due at the time of the failed implementation's occurrence (for instance, with credits, this is the sum under the credit contract). With the undertaken credit commitments, the Company includes both the sums already extended, as well as the sums which may be extended as of the time of the failed implementation's occurrence.

- Loss in case of failed implementation

The loss in case of failed implementation is defined as the expected amount of the loss at the time of the failure's occurrence, and it is indicated as a percent of the exposition. The loss in case of failed implementation varies widely depending on the characteristics of the counterpart, the type and structural specifics of the credit, the available securities or credit support of the debtor. The exposition in case of failed implementation and the loss in case of failed implementation are measured on a portfolio basis for the major pool of microcredits.

The Company manages credit risk level by limiting the total risk exposition to one borrower or group of borrowers. Regular monitoring of the credit expositions is made. Credit limits are subject to periodic review depending on the changes of the market conditions and the probabilities for failed implementation.

- Depreciations

The risk measurement models described above are used to measure expected losses, i.e. they take into account the risks of occurrence of future events which result in occurrence of losses from certain positions in the portfolio. On the other hand, the expenditure for depreciation and non-collectability are recognized in the Financial Statements only to the extent to which they have occurred, whereas the measurements of the occurred losses from depreciation and non-collectability are based on objective criteria. The Management of the Company believes that, in the future, it will continue to be able to control and minimize the expositions related with credit risk in the portfolio.

For the individually significant credit receivables, credit risk is managed and the losses from depreciation are measured on an individual basis, depending on the characteristics of the receivable.

- Concentration of risks related with financial instruments

The Management of the Company believes that the portfolio of microcredits and receivables is well diversified, as well as that there are no significant concentrations of credit risk.

Renegotiated credits and receivables

The activities related with the loans' restructuring include extension of the payment terms and other modifications of the contract conditions. They are implemented in case of available indications that the payments will be continued.

The exposition of the Company is limited up to the amount of the balance sheet value of the following financial assets:

Financial assets	December 31, 2018		December 31, 2017	
	Balance sheet value	Maximal risk	Balance sheet value	Maximal risk
Credits and receivables from customers	10,439	10,439	8,021	8,021
Commercial and other receivables	262	262	187	187
Total	**10,701**	**10,701**	**8,208**	**8,208**

The Company policy is to sell credits with delay of over 360 days with entire transfer of the risk over the sold receivables.

The Company has used no derivatives to manage credit risk.

	December 31, 2018	December 31, 2017
Sum of delayed and depreciated credits and receivables		
Measured on a portfolio basis	12,361	7,318
Charged depreciation	(5,145)	(3,041)
Total	**7,216**	**4,227**

22.1.2. Market risk

The Company is exposed to market risk which represents the probability for the fair value or the cash flows related with the financial instruments to vary on account of changes in the market prices. Market risks result mainly from positions in interest, currency and capital products which are exposed to general and specific market movements and changes of the dynamics level of market rates or prices. On account of the specifics of the financial instruments of the Company, the same is exposed mostly to interest risk.

- Interest risk

Interest risk related with cash flows is related with the fact that the future cash flows from financial instruments are affected by changes of the market interest rates. Interest risk related with the fair value is related with the fact that the value of a given financial instrument varies as a result of changes in market interest rates.

The Company is exposed to both risks: the risk related with fair value and the risk related with cash flow. Interest margins may increase as a result of these changes which, on its part, would restrict the possible losses for the Company resulting from the changes of market interest rates. The table below presents the structure of the interest-bearing financial assets and liabilities of the Company:

As of December 31, 2018	Variable interest	Fixed fee	No interest	Total
Credits and receivables from customers	-	10,439	-	10,439
Commercial and other receivables	-	-	262	262
Total Assets	**-**	**10,439**	**262**	**10,701**

As of December 31, 2018	Variable interest	Fixed interest	No interest	Total
Liabilities for financings	-	389	-	389
Liabilities to staff and social security institutions	-	-	384	384
Commercial and other liabilities		-	2,867	2,867
Total Liabilities	**-**	**389**	**3,251**	**3,640**

As of December 31, 2017	Variable interest	Fixed fee	No interest	Total
Credits and receivables from customers	-	8,021	-	8,021
Commercial and other receivables	-	-	187	187
Total Assets	**-**	8,021	**187**	**8,208**

As of December 31, 2017	Variable interest	Fixed interest	No interest	Total
Liabilities for financings	-	2,282	-	2,282
Liabilities to staff and social security institutions	-	-	301	301
Commercial and other liabilities		-	1,113	1,113
Total Liabilities	**-**	**2,282**	**1,414**	**3,696**

- Currency risk

Currency risk arises as a result of financial assets and liabilities the currency of which is different from the functional currency of the Company (Bulgarian Lev). As a result of the currency board, Bulgarian Lev is fixed to the Euro in Lev-to-Euro ratio of BGN 1.95583 = EUR 1, which means that positions in this currency do not result in significant currency risk, except in case this ratio is changed in the future.

Financial assets and liabilities as of December 31, 2018 are in the functional currency of the Company (Bulgarian Lev).

22.1.3. Liquidity risk

Liquidity risk is related with the Company's inability to pay-up its liabilities when they fall due. The net outgoing cash flows would result in reduction of the available cash resources, which play an important role in the crediting process of the Company and the meeting of its liabilities. Under certain circumstances, the lack of liquidity may result in sale of assets or potential inability to implement the credit commitments to previously approved customers. The risk for the Company to not be able to pay-up its cash liabilities is characteristic for the activity and it may be caused by a wide spectrum of institution-specific and market events, such as activities related with merging and acquisition, system shocks, natural disasters and more.

The management of the Company's liquidity is performed by a separate team within the Accounting and Control Department and it includes monitoring of the future cash flows. This includes maintenance of a portfolio of highly liquid assets; monitoring of the liquidity ratios from the Financial Status Report; management of the concentration and payment date structure of liabilities and more. Cash flows are measured and forecast for the next day, week and month, since these are key periods for liquidity management. The contracted payment dates of the financial liabilities and financial assets are analysed.

The Company possesses a diversified portfolio of cash funds and high-quality, high-liquidity assets to meet its current liabilities.

The table below contains analysis of the assets and liabilities according to the period in which they are expected to be restored or settled.

22.1.4. Operating risk

Operating risk is the risk of losses because of system failure, human mistakes, fraud or external events. When the constructed control systems and activities do not prevent such events, operating risks may damage the reputation, may have legal or regulatory consequences or may result in financial losses for the Company. The Company does not expect to eliminate all operating risks, but it tries to manage these risks by developing good controlling medium, as well as by monitoring and management of potential risks. The controlling measures include effective allocation of liabilities, defining of access rights, authorization of transactions, and coordination of the information from various sources, training and assessment of staff and other types of control, such as, for instance, the activity of the internal aUdit department.

23. Capital management

The major objectives of the Company in relation with capital management are to preserve the Company's ability to continue functioning as a going concern, so that it may continue to provide rate of return to the shareholders and benefits to other stakeholders, and to maintain strong capital basis in support of the activity's development.

Capital adequacy is monitored by the Company Management. Since the Company is in the process of growth, the Management believes that optimal capital structure has not been achieved yet.

The remunerations of the key officers for 2018 amount to BGN 82 thous.

24. Legal claims

The Company has formal procedures for control, as well as policies for management of legal risks. In case a current liability as a result of past events has arisen for the settlement of which it is possible that an outgoing cash flow will be required and the value of the possible losses may be measured reliably, the Company charges provisions to account for the unfavourable effects the claims might have on its financial status. In the end of the reporting period, the Company has a number of unresolved legal claims the effects of which are not expected to be material (jointly or separately). Accordingly, no provisions for these claims have been made in the current Financial Statements.

25. Contingent liabilities

The tax authorities may at any time inspect the accounting documents and records for five tax periods, starting from the period following the year of issuing of the respective accounting documents.

The Management of the Company has no information about any circumstances which might result in potential tax liabilities of significant amount.

26. Events which have occurred after the balance sheet date

There are no events after the balance sheet date which should be disclosed or reflected in the Financial Statements.

27. Approval of the Financial Statements

The Financial Statements as of December 31, 2018 have been approved and adopted by the General Meeting of the shareholders on April 02, 2019.

I, the undersigned Lubomira Hristova Kraleva certify hereby that this is a true and correct translation performed by me from Bulgarian into English language of the document attached hereto (Annual Financial Statements of Viva Credit OOD for the year ending on December 31, 2018). The translation consists of 49 (forty-nine) pages.

Sworn translator: ______________________________

Lubomira Hristova Kraleva