TWINO

SIA TWINO
ANNUAL REPORT FOR 2019

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General Information

NAME OF THE COMPANY	TWINO
LEGAL STATUS OF THE COMPANY	Limited liability company
REGISTRATION NUMBER, PLACE AND DATE	40103919184, Riga, 5 August 2015
REGISTERED OFFICE AND MAILING ADDRESS	41 Mukusalas street, Riga, LV-1004
BUSINESS ACTIVITY	Other credit granting (NACE 64.92) Other monetary intermediation (NACE 64.19)
MANAGING DIRECTOR	Anastasija Oļeiņika
MEMBERS OF THE BOARD	Anastasija Oļeiņika, Chairwoman of the Board, from 18.10.2019, Member of the Board, from 30.01.2019 to 04.04.2019 Armands Broks, Chairman of the Board, till 18.10.2019 Zane Ziedone, Member of the Board, from 23.04.2018 to 31.01.2019 Roberts Bite, Member of the Board, from 18.10.2019 Roberts Lasovskis, Member of the Board, from 18.10.2019 Miks Lūsītis, Member of the Board, from 18.10.2019 Nauris Bloks, Member of the Board, from 18.10.2019 to 14.04.2020
MEMBERS OF THE COUNCIL	Armands Broks, Chairman of the Council, from 18.10.2019 Mārtiņš Mellēns, Member of the Council, from 18.10.2019 Oksana Sivokobiļska, Deputy Chairman of the Council, from 20.12.2019 to 03.02.2020 Eleonora Zelmene, Deputy Chairman of the Council, from 18.10.2019 to 20.12.2019
REPORTING PERIOD	01.01.2019 – 31.12.2019
SHAREHOLDER	Armands Broks Equity share: 100%
AUDITOR	BDO ASSURANCE SIA 15 - 3B Kaļķu street Riga, Latvia LV-1050 Licence No 182 Certified auditor in charge: Modrīte Johansone Certified Auditor's Certificate No 135

Management report

Business profile

The management of SIA TWINO (hereinafter, the Company) has prepared a financial statement for the period from 1 January 2019 to 31 December 2019. The Company offers its customers access to investment services with premium returns by registering and making investments on the peer-to-peer lending platform *twino.eu* (hereinafter, *twino.eu* platform).

The Company is also the parent company of the TWINO Group (hereinafter, the Group), which operates as a competence and fundraising centre offering participants of *twino.eu* platform to make investments in unsecured loans issued by the Group's companies and providing Group's subsidiaries with leading human resources competencies in various areas, including risk management, information technologies, etc.

The Company's operations and financial performance during the reporting period

***twino.eu* platform**

In 2019 *twino.eu* platform continued to successfully attract new participants – in total 7,600 participants registered on the platform 3,375 of whom verified themselves and started investing. As of the year-end, the number of identified platform participants had increased up to 19,683, who during the period acquired the claim rights for an amount of EUR 194 million, thus the total amount of claim rights sold to platform participants reached EUR 616 million since the beginning of operations.

During the reporting period, *twino.eu* platform became only the fourth in continental Europe which have financed loans worth at least EUR 500 million.

In May 2019, a new product was added to *twino.eu* platform – loans issued in Latvia to small and medium enterprises; and claim rights to such loans worth EUR 602,208 were financed during the reporting period.

In December 2019, *twino.eu* platform's currency exposure offering was expanded by adding Kazakhstan's loans in addition to those of Russia. The currency exposure functionality allows platform participants to gain higher yield by taking the currency risk component.

During the reporting period, the Company`s performance was recognized by various prestigious awards, among other, gaining recognition at the major competition of alternative finance and fintech industry – AltFi Award. In 2019, *twino.eu* platform also won the prestigious BankingCheck award as the top lending platform in Europe.

The Company continued to support the overall industry by taking part in the leading pan-Baltic conference for startups and technology companies – TechChill – for the fourth consecutive year. During the event, the Company`s management shared their professional experience to more than 2,000 attendees, publicly continuing to strengthen the image of the Company as the leading FinTech expert, as well as continued to financially support the leading industry event in the Baltic States. Latvian startup association ranked the Company among the top ten most successful startups in Latvia.

During the reporting period, the Company continued to strengthen corporative management principles when the Company`s sole shareholder handed over the operational management of the Company to Anastasija Oleinika, former Chief Financial Officer of the Group, who was appointed as the Group's CEO and as the Chairwoman of the Company's Board. Moreover, the Board of the Company was expanded to a total of 5 management team members to ensure a broad range of competencies.

Management report (cont'd)

Operations of the parent company

In 2019, the Company continued to show stable growth in business performance. The Company continued to focus on loan product improvement and expansion of their range, improvement of the quality of credit portfolio, increase of return on investments and research and improvement of customer's experience. The Company has closed the year 2019 with a profit of EUR 4.43 million.

The key events and performance of the Company in 2019:

- Expansion of competencies of the management board and the supervisory board, strengthening of the corporate governance system.

- Further improvement of the internal control system on *twino.eu* platform, thus supporting the financial sector's fight against money laundering and financing of terrorism and proliferation:

    - A new job position has been created with an appointment of the Head of the Anti-Money Laundering department of the Group, thus boasting a long-term experience in AML/CTPF in the finance sector specifically;

    - An internal audit of AML/CTPF has been performed at the Latvian, Russian and Polish companies of the Group to identify potential Money Laundering and Terrorism and Proliferation Financing risks and to identify tasks to be performed to mitigate the respective risks;

    - Processes of the customer due diligence, including customer risk assessment, have been enhanced to verify the conformity of the customer's profile to the Company's strategy;

    - Development of a new IT system has been launched to improve the customer and their transaction monitoring, while also preventing engagement in money laundering or financing of terrorism and proliferation at all of the Group's companies;

    - Communication between the Group's companies and the Company's management regarding AML/CTPF management.

- Introduction of a new product for Latvian market - loans issued to small and medium enterprises;

- Amendments to the law introduced in Russia also had an impact on the performance of the products offered by the Company. The Company`s management promptly responded to these amendments to the law, hence was able to adapt and restructure the products accordingly, thus increasing internal levels of return.

The Company`s management is confident about the stability of the financial situation of the Company and basis this financial statement on a going concern principle.

Financial performance

As at the end of the reporting period one of the Company`s most significant asset positions was claim rights against private individuals in the amount of EUR 12,408,082, EUR 6,034,978 of which were short-term loans and EUR 6,373,104 were long-term loans. A significant portion of the Company`s assets were loans to related parties in the amount of EUR 14,894,605 and shareholding in related parties' capital of EUR 13,730,152.

The Company closed the reporting period with a profit of EUR 4,434,859. A significant portion of the profit was comprised of intercompany debt restructuring, resulting in the Company`s claim rights against its subsidiaries in Mexico and Georgia being sold to the subsidiary in Poland, thus creating an intercompany provision reversal in the amount of EUR 6,748,112 and having a positive impact on the profit and loss account. During the reporting period, the Company received an indemnity from its subsidiary in Russia of EUR 1,507,608 for losses from acquired claim rights of lower quality than prescribed by the conditions of the cooperation.

Management report (cont'd)

Please see a more detailed explanation of both transactions in note six to this financial report. Profit of the Company will be allocated to cover losses of the previous periods. The aforementioned transactions did not affect the Group's overall financial performance.

The Company`s net turnover in the reporting period was EUR 9,154,995, 42% of which are comprised of the net turnover in Latvia, 30% in Russia, 14% in Poland, 10% in Kazakhstan, and 4% in Georgia. The Company`s operational expenses during the reporting period were EUR 7,972,792, of which cost of sale comprised EUR 3,312,265, selling expenses were EUR 216,323 and administrative expenses – EUR 4,444,204.

During the reporting period, the Company employed on average 58 employees.

Financial risk management

Due to specifics of the Company's line of business, the Company is exposed to various financial risks, including credit risk, liquidity risk and a foreign exchange risk. The Company has introduced procedures for assessment and mitigation of exposure to such risks. A detailed description of the financial risk management is provided in section "Financial Instruments and Financial Risks" of the annex to the financial statement.

Subsequent events after the reporting period

After the reporting period *twino.eu* platform retained a robust growth rate:

- By the end of August, the number of identified participants on the platform increased by 2,606 and volume of the purchased claim rights increased by EUR 89 million as well as the Company achieved one of the key development goals of more than 20 thousand active participants on the platform.
- Additionally, a new project was launched on *twino.eu* platform – TWINO Ventures. TWINO Ventures is a new investment offer by the Company which ensures investment options in secured loans in real estate industry thus far raising funding of EUR 750,000 within the scope of the first project - Hoffmann Residence in Kuģu iela 13.
- A new tool for attracting participants to *twino.eu* platform has been developed – *refer friends* – as a result of which both existing and new platform participants receive a bonus from the Company in a predefined amount for their investments, if the new participant invests a set amount in *twino.eu* platform as a result of the recommendation by the said participant.

During 2020, the Company continued active work on obtaining a licence of an investment brokerage company (IBC) for *twino.eu* platform of the Company, as a result of which:

- The Company has submitted an official application for a licence of the investment brokerage company to the Latvian Finance and Capital Market Commission (FCMC) and is proceeding with the process by actively cooperating with FCMC to meet the conditions for obtaining the license. Application for IBC license includes a business plan and all the necessary procedures and policies;
- In 2020 the Company reduced its share capital to EUR 500,000 by allocating the decrease of the capital to cover the losses accrued during the previous periods.
- The Company has started reorganization process for distribution of assets to newly created AS TWINO Investments which after obtaining IBC license will take over the *twino.eu* platform operations.

Management report (cont'd)

In continuing to strengthen corporate governance, the Company has concurrently started another reorganization process – the transformation of SIA TWINO into AS TWINO (joint-stock company).

In 2019 the Company made updates to the VAT return for the period from June 2016 to December 2018 and as a result gained VAT overpayment of EUR 1,234 million. The State Revenue Service (SRS) initiated two VAT audit processes which included the period from June 2016 to February 2019 by paying particular attention to review the Company`s model of the economic activity. Initially, a decision of the SRS audit was negative for the Company; however, after it was challenged on 25th of August 2020 the Director-General of SRS revoked the audit's decision and approved repayment of overpaid VAT. As of the signing of this financial report, the Company has received VAT overpayment from the government budget in the amount of EUR 779,859 and plans to receive additional EUR 446,213.

Effect of Covid-19 on the Company's operations

The economic crisis caused by Covid–19 pandemic had an impact on the Company`s operations as the daily financial routine of both borrowers and participants of *twino.eu* platform saw rapid changes:

- As a result of financial sector turmoil caused by Covid-19 crisis, part of the participants of *twino.eu* platform started to disable their Auto-invest tools, which make automatic reinvestment of free funds on the platform and started to request more than two times higher money disbursements compared to previous months.

- The Company immediately developed a strategic crisis plan setting protection of the funds of every participant of the platform as their main priority during the pandemic of Covid-19. Thus, the Company continued to make disbursement of the funds requested by each and every participant no later than within two business days honoring mutual contractual obligations and respecting the rights of participants of the platform established by the contract.

- Thanks to the prompt strategic plan of Covid-19 crisis and timely marketing and communication campaigns, by prioritizing open communication with participants of the platform, the second half of May 2020 already showed positive trends of cash flow on *twino.eu* platform. Upon improvement of the platform participant sentiment with regard to the financial markets and performance of *twino.eu* platform, also customers of *twino.eu* platform started to increase their invested funds. Thus, *twino.eu* platform started to regain a part of previously withdrawn funds and had a positive cash flow in June 2020 already.

- The crisis caused by Covid-19 also affected operations of the Company's subsidiaries as the daily financial habits of the borrowers changed, including behavior caused by the reduced ability of individual borrowers to repay the loans in a timely manner. The main reason for these changes was a loss or significant drop of income, as well as restrictions set by government authorities on loan recovery processes.

- To mitigate the credit risk in the Group companies, it was decided to limit lending to those groups of customers with a lower credit score as a preventive measure. This resulted in lower sale volumes of the companies, thus potentially making an impact on the revenues of the Group in 2020.

Future prospects

In the year 2020, the Company will focus on:

- Licensing of *twino.eu* platform into an investment brokerage company as well as finalizing the reorganization required for this process;
- Closing of the reorganization processes by transforming the Company into a joint-stock company;
- Evaluating possibilities of geographical expansion and expansion in the range of lending product offering;
- Further improvement of the Corporate Governance and Compliances Practices at all companies of the Group ensuring effective resource management to meet the higher standards of the regulated environment;
- Further ensuring the financial stability and the robustness of the liquidity level management.

Anastasija Oļeiņika
Chairwoman of the Board

30 September 2020

Statement of profit or loss for 2019

	Notes	2019, EUR	2018, EUR
Net turnover	2	9 154 995	33 344 356
Cost of sales	3	(3 312 265)	(3 766 160)
Gross profit		**5 842 730**	**29 578 196**
Selling expenses	4	(216 323)	(294 748)
Administrative expenses	5	(4 444 204)	(4 343 000)
Other operating income	6	17 772 955	3 781 124
Other operating expenses	7	(17 387 363)	(26 014 009)
Income from investment in subsidiaries and associated companies		2 923 846	1 089 303
Profit or loss before corporate income tax		**4 491 641**	**3 796 866**
Corporate income tax	8	(56 782)	(133 998)
Profit or loss for the reporting period		**4 434 859**	**3 662 868**

The accompanying notes on pages 14 to 41 are an integral part of the present financial statement.

Anastasija Oļeiņika
Chairwoman of the Board

Agita Vilāne
Chief Accountant

30 September 2020

Balance sheet as of 31 December 2019

Assets	Notes	31.12.2019, EUR	31.12.2018, EUR
NON-CURRENT ASSETS			
Intangible assets			
Concessions, patents, licences, trademarks and similar rights	9	5 316	6 416
Other intangible assets	9	244 844	517 970
Total intangible assets		**250 160**	**524 386**
Property, plant and equipment			
Other fixtures and fittings, tools and equipment	10	68 774	125 955
Total property, plant and equipment		**68 774**	**125 955**
Non-current financial assets			
Investments in subsidiaries	11	13 730 152	14 554 978
Loans to related companies	13	68 297	–
Non-current claim rights against private individuals	12	6 373 104	3 806 160
Other loans and non-current receivables	14	–	15 051
Total non-current financial assets		**20 171 553**	**18 376 189**
TOTAL NON-CURRENT ASSETS		**20 490 487**	**19 026 530**
CURRENT ASSETS			
Inventories			
Finished goods and goods for sale		2 575	9 329
Investments held for sale		3 724	2 239
Total inventories		**6 299**	**11 568**
Receivables			
Current claims against private individuals	12	6 034 978	15 607 439
Receivables from related companies	13	14 826 308	11 314 551
Other receivables	14, 24	365 259	3 963 909
Loans to shareholders and management	15	1 647 084	1 576 467
Prepaid expenses		122 345	212 847
Total receivables		**22 995 974**	**32 675 213**
Cash	16	476 889	1 041 126
TOTAL CURRENT ASSETS		**23 479 162**	**33 727 907**
Total assets		**43 969 649**	**52 754 437**

The accompanying notes on pages 14 to 41 are an integral part of the present financial statement.

Balance sheet as of 31 December 2019 (cont'd)

Equity and liabilities	Notes	31.12.2019, EUR	31.12.2018, EUR
EQUITY			
Share capital	17	7 707 800	7 707 800
Non-current asset revaluation reserve	18	2 895 787	3 737 000
Other reserves		1	1
Accumulated loss:			
accumulated loss		(10 519 818)	(14 182 686)
profit for the reporting period		4 434 859	3 662 868
TOTAL EQUITY		**4 518 629**	**924 983**
	19		
LIABILITIES			
Non-current liabilities			
Payables for assignment rights	21	7 689 989	4 329 479
Other borrowings	22	286 697	4 133 598
Payables to related companies	23	5 515 220	11 212 344
Total non-current liabilities		**13 491 906**	**19 675 421**
Current liabilities			
Issued debt securities	20	–	604 800
Payables for assignment rights	21	16 666 865	19 894 304
Other borrowings	22	–	1 014 583
Trade payables		131 359	307 259
Payables to related companies	23	8 823 840	9 402 370
Taxes and statutory social insurance contributions payable	24	135 441	252 931
Other liabilities	25	857	502 667
Deferred income		–	2 276
Accrued liabilities	26	200 752	172 843
Total current liabilities		**25 959 114**	**32 154 033**
TOTAL LIABILITIES		**39 451 020**	**51 829 454**
TOTAL EQUITY AND LIABILITIES		**43 969 649**	**52 754 437**

The accompanying notes on pages 14 to 41 are an integral part of these financial statements.

Anastasija Oļeiņika
Chairwoman of the Board

Agita Vilāne
Chief Accountant

30 September 2020

Statement of cash flows for 2019

	Notes	2019, EUR	2018, EUR
Cash flows from operating activities			
1. Profit before corporate income tax		4 491 641	3 796 866
Adjustments for:			
amortisation and depreciation	9,10	347 534	373 181
other interest income and similar income	2	(509 857)	(609 681)
interest payments and similar expenses	3	914 569	1 178 414
changes in allowances	6,7	(6 531 576)	695 020
loss on disposal of property, plant and equipment		(2 084)	9 401
income from investments in subsidiaries		(2 923 846)	(1 089 303)
loss on sale of assets		–	1
loss on disposal of assets		–	759 627
other		(49 804)	(90 514)
2. Profit or loss account before adjustments for the effect of changes in current assets and current liabilities		(4 263 423)	5 023 012
Adjustments for:			
decrease or (increase) in receivables		3 595 741	(7 825 477)
increase in trade and other payables		3 601 765	591 680
3. Gross cash flows from operating activities		**2 934 083**	**(2 210 785)**
4. Interest paid		(76 740)	(414 613)
5. Corporate income tax paid	24	(214 902)	(26 218)
Net cash flows from operating activities		**2 642 441**	**(2 651 616)**
Cash flow from investing activities			
Investments in subsidiaries		(841 213)	(1 714)
Proceeds from sale of shares in related companies		–	1 713
Acquisition of property, plant and equipment and intangible assets	9, 10	(20 937)	(13 511)
Proceeds from sale of property, plant and equipment and intangible assets		6 893	14 211
Loans issued		(5 907 186)	(1 677 000)
Loans repaid		3 003 562	2 234 170
Interest received		80 541	7
Dividends received		2 316 228	1 059 849
Net cash flows from investing activities		**(1 362 112)**	**1 617 725**
Cash flows from financing activities			
Loans received		250 000	3 774 187
Repayment of borrowings		(2 094 568)	(1 813 142)
Net cash flows from financing activities		**(1 844 568)**	**1 961 045**
Net increase in cash and cash equivalents		**(564 237)**	**927 154**
Cash and cash equivalents at the beginning of the period		**1 041 126**	**113 972**
Cash and cash equivalents at the end of the period	16	**476 889**	**1 041 126**

The accompanying notes on pages 14 to 41 are an integral part of these financial statements.

Anastasija Oļeiņika
Chairwoman of the Board

Agita Vilāne
Chief Accountant

30 September 2020

Statement of changes in equity for 2019

	Share capital	Non-current asset revaluation reserve	Other reserves	Accumulated loss	Total equity
	EUR	EUR	EUR	EUR	EUR
31.12.2017.	**7 707 800**	**–**	**1**	**(14 182 686)**	**(6 474 885)**
Profit for the reporting year	–	–	–	3 662 868	3 662 868
Non-current asset revaluation reserve	–	3 737 000	–	–	3 737 000
31.12.2018.	**7 707 800**	**3 737 000**	**1**	**(10 519 818)**	**924 983**
Profit for the reporting year	–	–	–	4 434 859	4 434 859
Non-current asset revaluation reserve	–	(841 213)	–	–	(841 213)
31.12.2019.	**7 707 800**	**2 895 787**	**1**	**(6 084 959)**	**4 518 629**

The accompanying notes on pages 14 to 41 are an integral part of these financial statements.

Anastasija Oļeiņika
Chairwoman of the Board

Agita Vilāne
Chief Accountant

30 September 2020

Notes to the financial statements

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

Corporate information

The Company was registered in the Enterprise Register of the Republic of Latvia, on 5 August 2015 in Riga, as limited liability company TWINO with unified registration number 40103919184. The registered office of the Company is at 41 Mukusalas street, Riga, LV-1004. The chairwoman of the Company's management board is Anastasija Oļeiņika and Members of the Board are Roberts Bite, Roberts Lasovskis un Miks Lūsītis. As of 18.10.2019, the Company has registered a Council, which consists of the Chairman of the Council Armands Broks and a member of the Council Mārtiņš Mellēns.

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

The Company's auditor is the commercial firm of certified auditors BDO ASSURANCE SIA, with Modrīte Johansone as the auditor in charge.

Basis of preparation

The financial statement has been prepared in accordance with the Laws on Accounting and on Annual Reports and Consolidated Annual Reports, Cabinet Regulation No 775 on the Application of the Law on Annual Reports and Consolidated Annual Reports and other laws governing accounting and annual reports.

The Company qualifies as a medium-sized enterprise.

The statement of profit or loss has been prepared according to the function of expense method. The statement of cash flows has been prepared under the indirect method. The financial statement has been prepared on the basis of the historical cost basis.

Significant accounting policies

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

a) going concern principle;

b) prudence principle:

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

c) income and expenses incurred during the reporting year have been taken into consideration irrespective of the payment date or the date that the invoice is received or issued. Expenses have been matched with respective income in the reporting period;

Notes to the financial statements (cont'd)

Significant accounting policies (cont'd)

d) assets and liabilities have been valued separately;

e) all items having a material impact on the evaluation or decision making by the users of the financial statements are presented, and immaterial items are added together and their disclosure is provided in the accompanying notes;

f) business transactions are reflected in the financial statement according to their substance and economic reality and not merely their legal form.

Related parties

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

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

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

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

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

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

Financial instruments and financial risks

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

The most significant financial instruments of the Company are financial assets – claim rights against private individuals obtained as a result of assignment transactions, loans to related and non-related companies and other receivables, and financial liabilities, such as payables for assignment rights to participants of the *twino.eu* platform, borrowings from related and non-related companies, issued debt securities and trade payables stemming directly from its business activity.

Notes to the financial statements (cont'd)

Financial instruments and financial risks (cont'd)

Financial risks related to the Company's financial instruments, financial risk management

The key financial risks related to the Company's financial instruments include:

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

Credit risk

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

- There are established lending procedures to ensure a high-quality loan portfolio of the Group's lending companies. The procedures are continuously improved, and they include behavioural indicators and credit bureau data in order to reduce the loan principal if a potential customer has doubtful creditworthiness.
- The Company acquires claim rights, using loan selection criteria set for each individual company of the Group. If the borrower on whose debt the Company had acquired the right of claim delayed the repayment term of the loan for more than 30 days, the Company repossessed this right to the Group's company that had issued the loan. Thereby the Company takes credit risk only for the period from the moment of the claim purchase to the 30th day of delay. The exception from this procedure is Kazakhstan, where it is impossible to sell back to the Group's companies claims on agreements with past due payments.
- The Company makes allowances for doubtful loans that are 1-30 days and more past due to account for the impact of expected losses in the statement of profit or loss. Allowances for doubtful loans are based on experience of the Group's lending companies and aggregated statistics on the history of borrowers' default.

The table below shows the gross and net Company's portfolio of claims against private individuals obtained as a result of assignment by debt maturity. The repayment date of loans is assumed to be the final maturity date:

As of 31 December 2019	Days past due	EUR
Neither past due nor impaired	<=0	11 146 384
Past due and impaired	1-90	2 079 197
Past due and impaired	>=90	99 867
Gross portfolio of claims against private individuals		**13 325 448**
Allowances for the impairment of loans		(917 366)
Net portfolio of claims against private individuals:		**12 408 082**

Notes to the financial statements (cont'd)

Financial instruments and financial risks (cont'd)

Interest rate risk

In order to minimise any interest rate risk, the Company and the Group's lending companies enter into loan agreements with fixed interest rates. Given the fixed interest rates of the Company's borrowings and loans, as of 31 December 2019 the Company is not exposed to significant interest rate risk.

Country risk

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

The table below shows the split of the portfolio of claims against private individuals by the country of operation.

As of 31.12.2019	EUR	%
Latvia	8 845 252	71%
Poland	2 409 487	20%
Kazakhstan	1 153 343	9%
Total	**12 408 082**	**100%**

Currently, the legal framework and law governing peer-to-peer lending platforms at the development stage in Latvia. The current draft legislation stipulates that such business operations will require a licence on the Latvian market in future.

The Company as a member of the Alternative Financial Services Association of Latvia is involved in the development of governing legislation by communicating with the Latvian Ministry of Finance with regard to the prospective contents of the law and providing its proposals. Therefore, it is not expected that the new licensing rules will not be feasible for the Company or threaten the Company's commercial operations and going concern in any way.

Foreign exchange risk

The foreign exchange risk is a risk of fluctuations in the value of financial instruments, since fluctuations in foreign exchange rates affect the value of the Company's assets and liabilities.

The table below lists the currencies the Company has used in the reporting period and the minimum and maximum currency exchange rates, according to the maximum difference that each specific rate had in the reporting period.

As of 31.12.2019 (currency/EUR)	PLN	KZT	RUB	GBP
Foreign exchange rates	4,2568	426,85	69,9663	0,85208
Maximum difference in the reporting period	6%	4%	13%	10%
Minimum value	4.2427	419,83	68,7932	0.83415
Maximum value	4.3915	439,37	79,3589	0.9283

Notes to the financial statements (cont'd)

Financial instruments and financial risks (cont'd)

Foreign exchange rate fluctuations affect the value of the Company's assets and liabilities and financial result. During the reporting period, the Company had revenue, assets, and liabilities from assignment transactions in the following currencies: EUR, PLN, RUB and KZT. Operating expenses and liabilities towards the *twino.eu* platform users were mainly in EUR and partly in GBP. Revenue recognised in RUB currency accounted for 30% of the total net turnover for the reporting period; revenue recognised in PLN currency formed 14% and revenue recognised in KZT currency formed 10% of the total net turnover for the reporting period. During the reporting period, the Company has a gain from currency exchange rate fluctuations in the amount to EUR 29,388 due to the revaluation of balances in RUB currency. The PLN/EUR exchange rate should be regarded as stable because its fluctuations were within 6% in the reporting period. Overall, the Company manages the foreign exchange risk by trying to balance revenue and costs in the same currency. The foreign exchange risk management (hedging) instruments available on financial markets are not used.

Liquidity risk

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

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

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

a) producing intra-Group and outward cash flow forecasts;

b) managing loan structure and concentration;

c) linking maturity of investments made by the *twino.eu* platform participants to maturity of the portfolio of claims against private individuals; daily monitoring of balances of cash at bank and the amount of requests of the assignment transaction partners in order to withdraw funds from the accounts of the *twino.eu* platform;

d) estimating the necessary cash reserve and maintaining the requisite funds as cash balances in bank accounts in view of both base and stress scenarios.

The Finance Department produces the following forecasts:

a) cash flows from the portfolio of claims against private individuals, taking into account the estimated sales volumes and loan repayment schedules as well as the possibility of early or overdue settlement or extending the maturity of loans based on historical data;

b) refunds and repurchases due to participants of the *twino.eu* platform;

c) operational cash flows between the Group's related companies and external suppliers and creditors on a daily basis.

Notes to the financial statements (cont'd)

Financial instruments and financial risks (cont'd)

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

Use of derivative financial instruments

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

Fair value of financial assets and liabilities

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

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

Reporting period

The financial statement covers 12 months from 1 January 2019 to 31 December 2019.

Monetary unit and foreign currency translation

The functional and presentation currency of these financial statements is the euro (EUR). Transactions in foreign currencies are translated into the euro at the official exchange rate published by the European Central Bank at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into the euro applying the exchange rate published by the European Central Bank on the balance sheet date. Transactions and monetary assets and liabilities in foreign currencies for which the European Central Bank does not publish the euro (EUR) foreign exchange reference rate are translated using the euro exchange rate determined by the central bank of the respective country on the transaction date. Gains or losses resulting from foreign exchange rate fluctuations are netted in the statement of profit or loss for the reporting period.

Estimates and assumptions

In preparing the financial statements, the Company's management makes estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements and the reported amounts of income and expenses for the reporting period. The Company's management makes estimates and assumptions concerning the Company's future. Actual results may differ from those estimated.

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

Notes to the financial statements (cont'd)

Estimates and assumptions (cont'd)

Due to changes in estimates, the Company has made the following adjustments during the reporting period, which relate to the previous reporting period:

No	Change in estimate	Balance sheet or P&L item	Note	Balance/result before adjustment, EUR	Adjustment, EUR	Balance/result after adjustment, EUR
1	OC Finance SIA, transfer pricing adjustment*	Other operating income	6	17 440 094	332 860	17 772 954
2	OC Finance SIA, transfer pricing adjustment	Receivables from related companies	13	14 493 448	332 860	14 826 308
3	Veritas MFC LLC, bonus**	Other operating income	6	16 265 346	1 507 608	17 772 954
4	Veritas MFC LLC, bonus	Payables to related companies	23	10 331 448	(1 507 608)	8 823 840

* The above mentioned transfer pricing adjustment with OC Finance is an estimate made in the previous reporting period which was reversed in the current reporting period after implementation of necessary improvements in the accounting systems and is not considered as error that should be corrected in previous periods.

** At the end of 2019, an additional agreement on the assignment agreement was concluded with the Company's subsidiary Veritas OOO MFK on granting a bonus in the amount of RUB 105,481,741. The bonus was granted to the Assignee for the purchased amounts of the assignment rights for the period 2017-2019 and as a compensation for the acquired claim amounts arising from fraud by third parties and therefore it is not considered as error that should be corrected in previous periods.

Notes to the financial statements (cont'd)

Estimates and assumptions (cont'd)

The Company has made the following adjustments during the reporting period relating to restatements to previous reporting period bookings:

No	Change in estimate	Balance sheet or P&L item	Note	Balance/result before adjustment, EUR	Adjustment, EUR	Balance/result after adjustment, EUR
1	Restatementss to opening balances of the reporting period	Net turnover	2	9 173 588	(18 593)	9 154 995
2	Restatementss to opening balances of the reporting period	Other operating income	6	17 774 917	(1 963)	17 772 954
3	Restatementss to opening balances of the reporting period	Other operating expenses	7	16 743 726	643 637	17 387 363
4	Restatementss to opening balances of the reporting period	Non-current claims against private individuals	12	6 205 202	(170 224)	6 034 978
5	Restatementss to opening balances of the reporting period	Loans to related companies	13	15 183 719	(357 411)	14 826 308
6	Restatementss to opening balances of the reporting period	Payables for assignment rights	21	16 739 402	(72 537)	16 666 865
7	Restatementss to opening balances of the reporting period	Payables to related companies	23	8 614 745	209 095	8 823 840

Total effect of adjustments on balance sheet and the profit and loss statement items:

Balance sheet or P&L item		EUR
Net turnover		(18 593)
Other operating income		1 838 505
Other operating expenses		(643 637)
	Total increase in revenue:	**1 176 275**

Balance sheet or P&L item		EUR
Total effect on balance sheet items:		
Current claim rights against private individuals		(170 224)
Loans to related companies		(24 551)
	Total decrease in assets:	**(194 775)**
	Total effect on balance sheet items:	
Payables for assigned claim rights		(72 537)
Payables to related companies		(1 298 513)
	Total decrease in liabilities:	**(1 371 050)**

Notes to the financial statements (cont'd)

Loans and receivables

Acquired claim rights against private individuals are recognised in the balance sheet at amortised cost. The amortised cost of a loan is the cost that is determined when the loan is issued/acquired, less repayments of the loan principal, plus or minus the estimated amortisation of the difference between the initial value and the value upon maturity (using the effective interest rate method), minus partial write-off due to impairment.

Operating lease

Assets leased under operating lease terms are not treated as non-current assets. Lease payments, lease interest and similar payments are charged to the statement of profit or loss in the period when incurred.

Impairment of financial assets

At the end of the each month, the Company performs an analysis of accounts receivable in order to assess whether and to what extent an allowance for the impairment of assets needs to be established and indicated in the statement of profit or loss.

The core business purpose of the Company is to offer the participants of the *twino.eu* platform to purchase claims on loans that have been issued to solvent borrowers. The Company believes that if a borrower delays repayment of the loan for more than 30 days, the risk of the borrower's default significantly increases. For this reason, the Company sells back the claims on loans with payments that are more than 30 days overdue to its counterparties, thus fully compensating for the risk of loss to the participants of the *twino.eu* platform. Since loans that are more than 30 days overdue and redeemed loans with an increased risk of insolvency are not considered to be attractive business objects for further trade on the *twino.eu* platform, in the reporting period the Company sold these claims on loans back to the related lending companies for a price corresponding to their market value. The exception from this procedure is Kazakhstan, where it is impossible to sell back to the Group's companies claims on agreements with past due payments; in this case, the Company's subsidiary in Kazakhstan supplies debt collection services to the Company.

Based on market value estimates, loans that are more than 30 days overdue are sold by applying a discount to the remaining principal amount. Respectively, these types of transactions cause a loss to the Company. Taking into consideration the available historical and current loan portfolio data of the related lending companies, the Company estimates the share of claims that are expected to be overdue by more than 30 days. In addition, the abovementioned discount is taken into consideration in the calculation, resulting in the amount of allowances for specific asset impairment.

Intangible assets and property, plant and equipment

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

Intangible assets are disclosed at cost, less any subsequent accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method in order to write off the historical cost of an asset during its useful life. Other items of property, plant and equipment are stated at acquisition cost, less accumulated depreciation and accumulated impairment losses.

Notes to the financial statements (cont'd)

Intangible assets and property, plant and equipment (cont'd)

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

Cash

Cash and cash equivalents comprise cash on a bank account.

Derecognition of financial assets and financial liabilities

A financial asset is derecognised when:

a) the rights to receive cash flows from the specific asset have expired; or

b) the Company has transferred its rights to receive cash flows from the specific asset or has assumed an obligation of immediate transfer of the received cash flows in full to a third party under an assignment agreement; and

c) either (a) the Company has transferred substantially all the risks and rewards of the asset to a third party, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset to a third party.

The Company derecognises financial liabilities when the contractual obligations are settled, cancelled or expired.

Revenue and expense recognition

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

Accrued interest income is recognised in the statement of profit or loss if the Company does not have objective evidence that these payments will not be received on the due date.

Commissions received from customers are recognised in the statement of profit or loss on an accrual basis at the time when the service is provided or on the basis of certain important events.

Revenue from penalties is recognised on a cash basis.

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

Notes to the financial statements (cont'd)

Corporate income tax

Corporate income tax for the reporting period represents tax calculated for the reporting period. Corporate income tax is recognised in the statement of profit or loss, unless it relates to items that are recognised directly in equity.

The new Corporate Income Tax Law entered into force in the Republic of Latvia on 1 January 2018. This statutory act sets forth a conceptually new tax payment procedure. The tax rate is 20%, the tax period covers one month, and the taxable base comprises the following:

- distributed profits (declared dividends, expenses that are equivalent to dividends, deemed dividends); and
- deemed profit distribution (non-operating expenses, doubtful receivables, increased interest payments, loans to related parties, lower income or excessive expenses resulting from transactions performed at prices that are different from arm's length prices, whose calculation methods are defined by the Cabinet, benefits granted by non-residents to their employees or board (council) members regardless of whether the beneficiary is a resident or non-resident, provided those are attributed to the operations of a permanent establishment in Latvia, liquidation quotas).

Provisions

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

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

Notes to the financial statements (cont'd)

2. Net turnover

Net turnover includes interest, commission and contractual penalty income generated during the reporting period under consumer loan agreements (with private individuals) acquired through assignments, as well as from loans issued under agreements with related and unrelated companies.

Type of activity	2019, EUR	2018, EUR
Interest and commission income under loan agreements	7 944 888*	31 624 948
Commissions for the use of the platform	461 911	390 535
Interest income under loan agreements with related companies	454 000	539 036
Penalties and fines received	238 339	719 192
Other interest income under loan agreements	55 857	70 645
Total	**9 154 995**	**33 344 356**

* Revenues from interests and commissions of issued loan agreements have significantly decreased in 2019 comparing to 2018, as consumer loans issued in Russia are not assigned to TWINO any more starting January 2019, thus significantly reducing revenues from consumer loans issued in Russia.

Net turnover by geographical regions:	2019, EUR	2018, EUR
Latvia	3 857 021	2 414 758
Russia	2 770 165	22 687 966
Poland	1 249 356	2 104 432
Kazakhstan	906 142	618 293
Georgia	372 311	5 472 766
Denmark	–	30 712
Cyprus*	–	15 429
Total	**9 154 995**	**33 344 356**

* not part of the Group at the reporting date

3. Cost of sales

	2019, EUR	2018, EUR
Premium to the *twino.eu* platform participants*	1 471 190	2 191 384
Interest on received loans	861 803	751 317
Commission for the use of attracted funding	528 903	–
Amortisation of intangible assets	274 226	285 454
Interest on loans received from related companies	52 766	427 097
Personnel expenses	83 877	85 479
Bank charges for transfers	39 500	25 429
Total	**3 312 265**	**3 766 160**

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

Notes to the financial statements (cont'd)

4. Selling expenses

	2019, EUR	2018, EUR
Advertising and marketing	211 523	277 867
Market research	2 100	11 846
Participation in exhibitions	2 700	3 954
Telecommunications	–	74
Other selling expenses	–	1 007
Total	**216 323**	**294 748**

5. Administrative expenses

	2019, EUR	2018, EUR
Employee remuneration	2 823 788	2 469 517
Software maintenance and lease	870 854	1 009 993
Legal and professional fees	180 693	218 155
Lease and maintenance of premises	145 925	171 226
Team-building and own consumption	116 833	91 711
Business trips	103 135	113 797
Depreciation	73 308	87 727
Office maintenance	49 617	51 704
Audit fee	37 202	56 144
Vehicle expenses	20 082	52 747
Donations and sponsorship	10 000	5 170
Representation expenses	1 223	1 532
Other administrative expenses	11 544	13 577
Total	**4 444 204**	**4 343 000**

In the reporting period, remuneration in the amount of EUR 108 084 was paid to the Board Members for their functions in the Board.

6. Other operating income

	2019, EUR	2018, EUR
Income from the reversal of allowances *	10 494 792	–
Income from compensation of expenses and provision of services	5 408 307	1 759 453
Income from the recovery of discounted assets**	1 507 608	217 093
Income from transfer pricing adjustments	332 860	–
Gain from currency exchange rates	29 388	–
Income from the profit-sharing agreement	–	1 304 578
Income from the release of allowances	–	500 000
Total	**17 772 955**	**3 781 124**

Notes to the financial statements (cont'd)

6. Other operating income (cont'd)

* On 01.10.2019, intercompany debt restructuring was performed among the following Group companies – Finabay Mexico S.A. de C.V. (hereinafter – MX), TWINO LLC, (hereinafter – GE), TWINO SIA and Payday Loans Sp. z o.o. SKA (hereinafter – PDL). Intercompany debt restructuring was performed with the aim to reduce intercompany balances and simplify the structure of intragroup credit lines. Historically, PDL has accumulated large amount of retained earnings that have been indirectly disbursed to the Group companies in the form of credit lines, as a result, the Company as an intermediary in these financing transactions had large liabilities to PDL and at the same time large claims against GE and MX. In order to simplify the loan structure of financial transactions, the Company transferred accrued liabilities at nominal value against GE (EUR 5.5 million) and MX (EUR 1.3 million) to PDL under the assignment agreement, resulting in a reversal of provisions (EUR 6.7 million). These transactions do not have any effect on the tax base of the companies involved in debt restructuring.

** At the end of 2019, an additional agreement to the assignment agreement was concluded with the Company's subsidiary Veritas OOO MFK on granting a bonus in the amount of RUB 105,481,741. The bonus was granted to the Assignee for the purchased amounts of the assignment rights for the period 2017-2019 and as a compensation for the acquired assignment amounts arising from fraud by third parties.

7. Other operating expenses

	2019, EUR	2018, EUR
Loss from sale of customer debts*	12 762 129	22 749 652
Allowances for doubtful receivables	3 963 215	1 195 020
Loss according to profit-split agreement	441 116	–
Loss from non-deductible VAT	113 216	–
Impairment loss on investments	101 358	–
Loss on disposal of assets	6 059	783 888
Penalties and fines paid	270	1 557
Currency exchange loss	–	1 281 905
Loss on transactions with related parties	–	1 987
Total	**17 387 363**	**26 014 009**

*the difference between the nominal value and sale price of debts

8. Current corporate income tax and deferred income tax assets

Corporate income tax recognised in the statement of profit or loss	2019, EUR	2018, EUR
Applicable to the costs of the reporting period	56 782	133 998
Tax calculated as per tax returns	**56 782**	**133 998**

Notes to the financial statements (cont'd)

9. Intangible assets

Acquisition cost	Concessions, patents, licences, trademarks and similar rights EUR	Other intangible assets EUR	Total EUR
31.12.2017	**2 942**	**1 112 059**	**1 115 001**
Additions	4 433	2 142	6 575
31.12.2018.	**7 375**	**1 114 201**	**1 121 576**
Accumulated amortisation			
31.12.2017.	**483**	**311 253**	**311 736**
Amortisation charge	476	284 978	285 454
31.12.2018.	**959**	**596 231**	**597 190**
Net book value as of 31.12.2017	**2 459**	**800 806**	**803 265**
Net book value as of 31.12.2018	**6 416**	**517 970**	**524 386**
31.12.2018	**7 375**	**1 114 201**	**1 121 576**
Additions	–	–	–
31.12.2019	**7 375**	**1 114 201**	**1 121 576**
Accumulated amortisation			
31.12.2018	**959**	**596 231**	**597 190**
Amortisation charge	1 100	273 126	274 226
31.12.2019	**2 059**	**869 357**	**871 416**
Net book value as of 31.12.2018	**6 416**	**517 970**	**524 386**
Net book value as of 31.12.2019	**5 316**	**244 844**	**250 160**

Notes to the financial statements (cont'd)

10. Property, plant and equipment

Acquisition cost	Other fixtures and fittings, tools and equipment EUR
31.12.2017	**360 989**
Additions	6 936
Disposals	(65 445)
31.12.2018	**302 480**
Accumulated depreciation	
31.12.2017	**129 898**
Depreciation charge	87 727
Depreciation of disposals	(41 100)
31.12.2018	**176 525**
Net book value as of 31.12.2017	**231 091**
Net book value as of 31.12.2018	**125 955**
31.12.2018	**302 480**
Additions	20 937
Disposals	(22 972)
31.12.2019	**300 445**
Accumulated depreciation	
31.12.2018	**176 525**
Depreciation charge	73 308
Depreciation of disposals	(18 162)
31.12.2019	**231 671**
Net book value as of 31.12.2018	**125 955**
Net book value as of 31.12.2019	**68 774**

Notes to the financial statements (cont'd)

11. Investments in subsidiaries

As of 31 December 2019, the Company had the following investments in subsidiaries:

Subsidiary	Country	Book value of the Company's investment in the subsidiary as of 31.12.2019 EUR	Equity of the subsidiary as of 31.12.2019 EUR	Total assets of the subsidiary as of 31.12.2019 EUR	Subsidiary's result for the reporting period as of 31.12.2019 EUR	Company's equity share in the subsidiary as of 31.12.2019 %
OC Finance SIA	Latvia	426 861	32 328	1 958 748	(123 833)	100%
TWINO LLC	Georgia	–	(5 728 651)	288 368	539 184	100%
Moneza LLC	Georgia	–	60 618	213 918	61 675	100%
Hub TWINO LLC	Georgia	–	17 541	23 780	17 842	100%
Incredit Sp. z o.o.	Poland	46 588	1 014 176	16 150 279	932 627	100%
Net Credit Sp. z o.o.	Poland	45 986	13 796 736	16 742 721	(4 871 559)	100%
TWINCARD Sp. z o.o.	Poland	46 744	35 028	46 984	(11 758)	100%
NetCredit Aps	Denmark	27 780	254 896	263 676	(13 478)	100%
Veritas OOO MFK	Russia	10 600 000	11 893 695	15 906 782	5 999 287	50%
Makro OOO MKK*	Russia	2 463 149	2 874 006	163 005	1 690 553	99%
Grand Invest Kapital OOO MKK	Russia	787	(4 680)	10 574	(4 691)	95%
Finabay Mexico S.A. de C.V.,	Mexico	–	(1 313 002)	5 112	–	99%
MONEZA LLP	Kazakhstan	724	(105 427)	3 263 861	(58 010)	100%
Zing Kazakhstan LLP	Kazakhstan	533	(2 115 833)	3 803 509	(483 286)	100%
OPTIMUS LLP	Kazakhstan	71 000	70 020	70 095	70	100%
Total		**13 730 152**	**20 527 555**	**58 647 735**	**3 688 102**	

*In 2019, the Company reorganized Makro OOO MCC by adding Startup OOO MCC to it

Notes to the financial statements (cont'd)

11. Investments in subsidiaries (cont'd)

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

Subsidiary	Country	Book value of the Company's investment in the subsidiary as of 31.12.2018 EUR	Equity of the subsidiary as of 31.12.2018 EUR	Total assets of the subsidiary as of 31.12.2018 EUR	Subsidiary's result for the reporting period as of 31.12.2018 EUR	Company's equity share in the subsidiary as of 31.12.2018 %
OC Finance SIA	Latvia	426 861	156 161	796 753	81 326	100%
TWINO LLC	Georgia	101 357	(6 359 171)	1 055 030	(607 438)	100%
Moneza LLC	Georgia	–	(25)	10 350	(25)	100%
NetCredit Aps*	Denmark	27 780	273 462	284 115	60 476	100%
Incredit Sp. z o.o.	Poland	46 588	510 685	5 708 376	1 134 224	100%
Net Credit Sp. z o.o.	Poland	45 986	18 690 235	21 329 740	2 657 124	100%
E-Zajom OOO MFK**	Russia	11 442 000	12 525 458	13 176 179	7 057 502	50%
Startup OOO MKK*** (previously OOO MKK (1167746297762))	Russia	2 461 472	1 241 574	3 466 144	(502 347)	99%
Makro OOO MKK (previously Moneza OOO (1167746181790))	Russia	1 677	(56 359)	67 300	(43 752)	99%
Finabay Mexico S.A. de C.V.	Mexico	–	(1 313 002)	5 112	91 703	99%
MONEZA LLP	Kazakhstan	724	(31 536)	566 634	(9 501)	100%
Zing Kazakhstan LLP	Kazakhstan	533	(814 356)	2 354 069	192 523	100%
Total		**14 554 978**	**24 823 126**	**48 819 802**	**10 111 815**	

12. Claims against private individuals

	31.12.2019, EUR	31.12.2018, EUR
Loan principal	13 202 416	21 299 238
Accrued interest	255 545	2 855 596
Accrued commissions	328 207	242 376
Deferred interest income	(141 924)	(1 091 670)
Deferred commission income	(318 796)	(332 959)
Gross receivables from customers	**13 325 448**	**22 972 581**
Allowances for impairment of receivables from customers	(917 366)	(3 558 982)
Net receivables from customers	**12 408 082**	**19 413 599**
Of which:		
Non-current claims against private individuals	6 373 104	3 806 160
Current claims against private individuals	6 034 978	15 607 439
Total	**12 408 082**	**19 413 599**

Changes in allowances for impairment of receivables from customers:	**2019, EUR**	**2018, EUR**
Allowances at the beginning of the reporting period	**3 558 982**	**2 363 962**
Increase in allowances	7 642 733	20 721 623
Decrease in allowances as a result of the sale of receivables from customers	(10 284 349)	(19 526 603)
Total change for the reporting period	**(2 641 616)**	**1 195 020**
Allowances at the end of the reporting period	**917 366**	**3 558 982**

As a result of the Group's assignment transactions, portfolio assets and related credit risks are transferred to the Company. The weighted average effective interest rate on issued customer loans was 220.80% in the reporting period.

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

	Book value as of 31.12.2019 EUR	Allowances as of 31.12.2019 EUR	Net book value as of 31.12.2019 EUR
Not overdue	11 146 384	(234 613)	10 911 771
1-90 days overdue	2 079 197	(588 764)	1 490 433
More than 90 days overdue	99 867	(93 989)	5 878
Total	**13 325 448**	**(917 366)**	**12 408 082**

Notes to the financial statements (cont'd)

13. Receivables from related companies

	31.12.2019, EUR	31.12.2018, EUR
Balances due from related companies for the buyback of assigned claims	2 638 144	10 821 269
Principal amounts of loans due from related companies	4 536 301	2 572 441
Other related company receivables	6 859 597	1 134 840
Accrued loan interest due from related companies	860 563	711 458
Allowances for balances due from related companies	–	(3 925 457)
Total	**14 894 605**	**11 314 551**
Of which:		
Non-current receivables from related companies	68 297	–
Current receivables from related companies	14 826 308	11 314 551
Total	**14 894 605**	**11 314 551**

14. Other receivables

	31.12.2019, EUR	31.12.2018, EUR
Principal amounts of loans due from other companies	–	2 225 079
Accrued loan interest due from other companies	–	1 136 408
Balances due from other companies for the sale of subsidiaries	–	499 958
Taxes	123 246	–
Other receivables	242 013	117 515
Total	**365 259**	**3 978 960**
Of which:		
Other non-current receivables	–	15 051
Other current receivables	365 259	3 963 909
Total	**365 259**	**3 978 960**

15. Loans to shareholders and management

	31.12.2019, EUR	31.12.2018, EUR
Current loans to shareholders	1 647 084	1 576 467
Total	**1 647 084**	**1 576 467**

Loans represent two unsecured loans issued to the shareholder, which mature on 31 December 2020 and whose interest rate is set from 3% to 3.75% + 12-month Euribor per annum.

Notes to the financial statements (cont'd)

16. Cash

	31.12.2019, EUR	31.12.2018, EUR
Current accounts, EUR	448 375	1 018 449
Current accounts, GBP	28 514	22 677
Total	**476 889**	**1 041 126**

Funds are held in current accounts with credit institutions registered in the Republic of Latvia and accounts with foreign payment institutions, without any limitations being imposed on their use.

17. Share capital

As of 31 December 2019, the registered and paid share capital of the Company amounted to EUR 7,707,800 and consisted of 7,707,800 shares with a nominal value of EUR 1.00 per share.

18. Non-current asset revaluation reserve

In 2019, the Company has recognized the impairment of non-current investments in the amount of EUR 842,000 in its Russian subsidiary Veritas OOO MFK where the Company owns 50% of total shares and reduced non-current investment revaluation reserves by this amount. The increase in the non-current investment reserves occurred due to the free receipt of shares of Russian subsidiary Grand Invest Kapital MCC LLC in amount of EUR 787.

19. Equity

Over the reporting period, the Company's business generated a profit of EUR 4,434,859, and its equity is EUR 4,518,629.

20. Issued debt securities

Over the reporting period, the Company has settled all its liabilities related to issued bonds.

21. Payables for assignment rights

	31.12.2019, EUR	31.12.2018, EUR
Current liabilities	16 666 865	19 894 304
Non-current liabilities	7 689 989	4 392 479
Total	**24 356 854**	**24 286 783**

This caption reflects settlements with Latvian and foreign individuals for assignment rights on consumer loans. As of 31 December 2019, the weighted average effective interest rate for balances of these rights was 9.93%.

Notes to the financial statements (cont'd)

21. Payables for assignment rights (cont'd)

	31.12.2019, EUR	31.12.2018, EUR
Payables for assignment rights – invested principal	19 942 849	21 299 238
Claims against private individuals – loan principal	(13 202 416)	(19 814 560)
Total	**6 740 433***	**1 484 678**

* At the end of the reporting period payables for assignment rights exceeded current claims against private individuals. One of the reasons for that difference is platform participants investments in loans with a payment guarantee due to which the settlement for assignment rights are repaid in a longer term while the claims against private individuals are resold back to the loan originator. At the end of 2019, the total amount of such platform participant claims reached EUR 3.41 million. The residual difference arises from cooperation and loan facility agreement signed with Russian subsidiary Macro MCC LLC. Parts of the business loan issued to the subsidiary are assigned to the platform participants. At the end of 2019, the total amount of such loans are EUR 3.47 million.

22. Other borrowings

	31.12.2019, EUR	31.12.2018, EUR
Principal amounts of loans payable to other companies	286 697	5 129 008
Accrued loan interest payable to other companies	–	19 173
Total	**286 697**	**5 148 181**
Of which:		
Other non-current borrowings	286 697	4 133 598
Other current borrowings	–	1 014 583
Total	**286 697**	**5 148 181**

23. Payables to related companies

	31.12.2019, EUR	31.12.2018, EUR
Balances due for acquired claims against private individuals	7 711 671	9 260 677
Principal amounts of loans payable to related companies	3 272 456	9 841 888
Accrued loan interest payable to related companies	2 242 764	1 370 456
Other payables to related companies	1 112 169	141 693
Total	**14 339 060**	**20 614 714**
Of which:		
Non-current payables to related companies	5 515 220	11 212 344
Current payables to related companies	8 823 840	9 402 370
Total	**14 339 060**	**20 614 714**

24. Taxes and statutory social insurance contributions payable

Tax	Balance as of 31.12.2018 EUR	Calculated in 2019 EUR	Paid in 2019 EUR	Penalties for 2019 EUR	Balance as of 31.12.2019 EUR
Corporate income tax	113 126	56 782	(134 744)	37	**35 201**
Corporate income tax paid abroad	(555)	–	(80 195)	–	**(80 750)**
Value added tax	47 066	(21 708)	(67 890)	36	**(42 496)**
Statutory social insurance contributions	59 004	788 721	(782 749)	–	**64 976**
Personal income tax	34 269		(429 070)	18	**35 242**
Unemployment risk duty	21		(250)	–	**22**
Total	**252 931**		**(1 494 898)**	**91**	**12 195**
				Including:	
				debt	**135 441**
				overpayment	**(123 246)**

25. Other liabilities

	31.12.2019, EUR	31.12.2018, EUR
Acquisition of claims	–	502 665
Salary	855	–
Amounts overpaid by customers	2	2
Total	**857**	**502 667**

26. Accrued liabilities

	31.12.2019, EUR	31.12.2018, EUR
Accrued liabilities for unused vacation pay	128 024	96 973
Accrued liabilities for received services	50 098	75 870
Accrued liabilities for bonuses	22 630	–
Total	**200 752**	**172 843**

Notes to the financial statements (cont'd)

27. Related party disclosures

In the course of its business activity, the Company entered into transactions with related parties during the reporting period. At the end of the reporting period, the list of the Company's related parties includes the following entities:

Subsidiaries and related companies	Status	Address	Country
Zing Kazakhstan LLP, reg. No 1167746297762	Subsidiary	78 Masanchi Str., 050012, Almaty	Kazakhstan
MONEZA LLP, reg. No 170240008382	Subsidiary	78 Masanchi Str., 050012, Almaty	Kazakhstan
OPTIMUS LLP, reg. No 191140029912	Subsidiary	78 Masanchi Str., 050012, Almaty	Kazakhstan
NetCredit ApS, reg. No 36421509	Subsidiary	18 Kronprinsessgade Str., DK-1306 Copenhagen	Denmark
TWINO LLC, reg. No 401993606	Subsidiary	118 Tsereteli ave, Pavilion 10, 0119 Tbilisi	Georgia
Moneza LLC, reg. No 405305860	Subsidiary	34 Al. Kazbegi ave., plot N17, Apt. 1, Tbilisi, Saburtalo District, Tbilisi	Georgia
IT Hub TWINO LLC, reg. No 402148528	Subsidiary	M.Chiaureli lane N7, 0159 Tbilisi	Georgia
OC Finance SIA, reg. No 40103203191	Subsidiary	41 Mukusalas street, Riga LV-1004	Latvia
Incredit Sp. z o.o., reg. No 0000604092	Subsidiary	27 aleja Jana Pawla II, 00-876 Warsaw	Poland
Net Credit Sp. z o.o., reg. No 0000401570	Subsidiary	68 Prosta Str., 00-838 Warsaw	Poland
TWINCARD Sp. z o.o., reg. No 0000803716	Subsidiary	68 Prosta Str., 00-838 Warsaw	Poland
Macro MCC LLC, reg. No 1167746181790	Subsidiary	10 Letnikovskaya St., room I, office 15, 115114 Moscow	Russia
Grand Invest Kapital MCC LLC, reg. No 5187746012020	Subsidiary	3 Malaya Sukharevskaya Ploshchad, 129090 Moscow	Russia
Finabay Mexico S.A. de C.V., reg. No FME151012AWZ	Subsidiary	Calle Montecito No 38, piso 8, oficina 28, colonia Nápoles, C.P.03810, Mexico City	Mexico
Payday Loans Sp. z o.o. SKA, reg. No 0000424914	Related company	ul. Prosta 68, 00-838 Warsaw	Poland
E-Zaem MFC LLC, reg. No 1127746672130	Related company	10 Letnikovskaya St., room I, office 15, 115114 Moscow	Russia
Kuģu 13 SIA, reg. No 40103744480	Related company	41 Mukusalas street, Riga LV-1004	Latvia
TWINO Finance SIA, reg. No 50203107171	Related company	46 Mukusalas street, Riga LV-1004	Latvia
TWINO Holding SIA, reg. No 40203110574	Related company	46 Mukusalas street, Riga LV-1004	Latvia
Kerdos Holding SIA, reg. No 40203070835	Related company	46 Mukusalas street, Riga LV-1004	Latvia
DZ31 SIA, reg. No 40203167234	Related company	Dzirnavu street 31-1A, Riga LV-1010	Latvia
Upgrade MFC LLC, reg. No 1145749003542	Related company	36 Saltykova-Shchedrina St., 302028 Orla	Russia
Aktiv Mani Grupp MCC LLC, reg. No 1197746024057	Related company	3 Malaya Sukharevskaya Ploshchad, 129090 Moscow	Russia

Notes to the financial statements (cont'd)

27. Related party disclosures (cont'd)

Company's related party transactions:

Income	2019, EUR	2018, EUR
Income from expense compensation and provision of services	5 395 844	2 061 751
Income from the reversal of allowances	3 925 457	500 000
Income from dividends	2 923 846	1 089 303
Income from the recovery of discounted assets	1 507 608	217 093
Income from commissions	461 911	390 535
Interest income from loans	454 000	539 036
Income from transfer pricing adjustments	332 860	–
Income from the profit-sharing agreement	–	1 304 578
Total	**15 001 526**	**6 102 296**

Expenses	2019, EUR	2018, EUR
Loss on sale of claims	13 937 818	22 859 347
Interest on loans from related company	861 803	751 317
Commission for the use of attracted funding	528 903	–
Loss from the profit-sharing agreement	441 116	–
Lease and maintenance of premises	127 641	147 438
Transfer pricing adjustments	–	332 860
Loss on disposal of assets	–	259 543
Software maintenance and lease	–	55
Other expenses	–	1 987
Total	**15 897 281**	**24 352 547**

Assets	31.12.2019, EUR	31.12.2018, EUR
Investments in subsidiaries	14 673 510	14 554 978
Other receivables from related companies	6 859 596	2 974 655
Principal amounts of loans due from related companies	4 536 301	1 495 161
Payments for assignment transactions	2 638 145	6 372 294
Loans to shareholders and management	1 647 084	1 576 467
Accrued loan interest due from related companies	860 563	472 441
Total	**31 215 199**	**27 445 996**

Notes to the financial statements (cont'd)

27. Related party disclosures (cont'd)

Liabilities	31.12.2019, EUR	31.12.2018, EUR
Payments for assignment transactions	7 711 672	9 256 461
Principal amount of loans payable to related companies	3 272 456	9 841 888
Accrued loan interest payable to related companies	2 242 764	1 370 455
Accrued liabilities	10 374	10 763
Other payables to related companies	1 112 168	141 693
Total	**14 349 434**	**20 621 260**

In the reporting period, the balance of the loan portfolio received from related companies together with the accrued loan interest was EUR 5,515,220 and its weighted average effective interest rate was 9.6%.

28. Average number of employees

	2019	2018
Average number of employees	58	54
Total	**58**	**54**

Average number of employees, by category		
Board Members	2	1
Other	57	53
Total	**58**	**54**

29. Personnel expenses

Type of expenses	2019, EUR	2018, EUR
Salaries	2 247 411	1 983 429
Statutory social insurance contributions	541 401	477 808
Other social security contributions	21 229	19 474
Total	**2 810 041**	**2 480 711**

Notes to the financial statements (cont'd)

30. Off-balance sheet liabilities and pledged assets

As of 31 December 2019, the Company had no off-balance sheet liabilities or pledged assets.

31. Events after the reporting date

In January 2020, the Company established a subsidiary Vamo Inc. In the Philippines. In February 2020, the Company completed the liquidation process of its subsidiary NetCredit Aps. in Denmark. In May 2020, the reorganization of the Company's subsidiaries in Poland was completed, as a result the company Payday Loans Sp. z o.o. S.K.A. was merged into NET CREDIT Sp. z o.o. In April 2020, the Company redeemed 7,207,800 shares reducing the share capital to EUR 500,000. The funds from the reduced share capital in the amount of EUR 6,084,958 were used to cover the losses of previous periods, while the remaining funds of the reduced share capital in the amount of EUR 1,122,842 were used to partially settle the credit lines issued to the Company's Shareholder. In August 2020, the Group's intercompany debt was restructured, as a result TWINO's debt to its subsidiaries Zing Kazakhstan in the amount of EUR 780,950 and Moneza LLP's in the amount EUR 1,713,381 was assigned to Net Credit Sp. z o.o.

32. Argument with the State Revenue Service about the rights to deduct input VAT

Over the period from 2016 – 2018 the Company had an insignificant amount of taxable transactions and, thus, it did not deduct any input VAT, as well as did not calculate the proportion of taxable and non-taxable transactions to deduct the input VAT in proportion. Instead the input VAT was fully paid to the budget. In the beginning of 2019 the Company obtained an opinion by an independent expert about its VAT accounting, where it was identified that the Company was not using its rights to deduct input VAT in proportion based on Section 92, Paragraph 2, Clause 1 of the VAT Law. The particular Section of the VAT Law allows to treat interest and commission income received from third country residents as taxable income for the purposes of input VAT deduction. The Company made adjustments to its VAT declarations for the period from June 2016 to December 2018, as a result of which it had a VAT overpayment of EUR 1.234 million. The State Revenue Service (SRS) initiated two VAT audit processes covering the period from June 2016 up to February 2019, with a particular attention to the analysis of the Company's operational model. Initially, the opinion of the SRS audit was negative for the Company. It denied the Company's rights to deduct input VAT in proportion based on the Section 92, Paragraph 2, Clause 1 of the VAT Law. The Company challenged this opinion, and it was reviewed for the second time by the SRS together with experts from the Ministry of Finance, Consumer Rights Protection Centre, the Financial and Capital Market Commission this time. On 25th of August 2020 the SRS General Director cancelled the previous negative audit opinion and approved the refund of the overpaid VAT amount to the Company. On the date of signing of the Financial Statement the Company has received EUR 779,859 from the budget and it is expecting to receive additional EUR 446,213.

33. COVID 19 impact on the Company's operations

In March the Company experienced a substantial cash withdraw by platform participants of the investment platform *twino.eu* as well as significant decrease in the usage of Auto-invest function. That considerably reduced the reinvested portfolio amount stimulating the demand for money withdrawal. In March and April, the amount of money paid to the platform participants exceeded the received cash funds by EUR 4.2 million. It is essential to note that Company managed to pay each demanded cash amount during two working days taking into account the terms and conditions of the mutual agreement. In May cash flow considerably improved and the withdrawals exceeded the inflows by EUR 0.2 million. In June, the cash flow became positive and reached net amount EUR 0.3 million. In July and August, the total net cash flow was positive and exceeded EUR 1.2 million. On the Financial Statements preparation date, the positive trend of cash flow continues.

The pandemic caused by Covid-19 also affected the operational activities of the Company's subsidiaries. The deterioration of the overall economic situation affected the borrowers' ability to repay their loans in timely manner due to the loss or decline of borrowers' incomes. In addition to the negative economic situation, the countries imposed restrictions on the recovery processes of issued loans, which also affected the short-term cash flow of the TWINO Group companies. In order to mitigate the potentially increasing credit risk, lending to the individuals with lower credit ratings was preventively reduced in the TWINO Group companies. In the period from March to June 2020, compared to January and February 2019, the amount of issued loans decreased by 32%. Therefore the total net turnover of the TWINO Group companies in 2020 will be lower comparing to 2019. Consequently, the received dividends which the Company will receive from TWINO Group companies for 2020 also will be lower comparing to previous reporting period. The company anticipates that the lending amounts of the TWINO Group companies will return to 90% in the 4th quarter of 2020 comparing to the lending amounts at the beginning of 2020.

34. Going concern

Over the reporting period, the Company operated with a net profit of EUR 4,434,859 which included revenue from the Group debt restructuring process of EUR 6,748,112 arising from the intercompany debt provision reversal against subsidiaries TWINO LLC and Moneza LLC. The company's loss for the period would reach EUR 2,313,253 without this one-off transaction.

In 2019, the Company's financial performance indicators which are used in going concern assumptions, have deteriorated comparing to the results of 2018. Compared to balances as of 31 December 2018, when the Company's current assets exceeded its current liabilities by EUR 1,573,874, the Company's current liabilities as of 31 December 2019 exceeded its current assets by EUR 2,479,951. As of 31 December 2019, the Company's liquidity ratio was 0.90 (2018: 1.05). Although the liquidity ratio has deteriorated, the liquidity risk is controlled because in July 2020 dividend payments were received from TWINO's subsidiaries in Poland Incredit Sp. z o.o. and Net Credit Sp. z o.o., totalling PLN 9,793 thousand (EUR 2,301 thousand). It increased the Company's current assets to such an extent that they exceeded current liabilities. As of 31 December 2019, the Company's equity is positive and amounts to EUR 4,518,629 (2018: EUR 924,983). The Company's management regularly supervises liquidity ratio and monitors the investment platform operations, which directly influences the Company's liquidity. The Company also expects to receive regular dividends from the subsidiaries in Russia therefore the Company's management believes that the going concern assumption is appropriate in the preparation of these financial statement.

Anastasija Oļeiņika
Chairwoman of the Board

Agita Vilāne
Chief Accountant

30 September 2020

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Translation from original in Latvian

Independent Auditor's Report

To the shareholders of SIA "TWINO"

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of SIA "TWINO" (the Company) set out on pages 9 to 41 of the accompanying annual report, which comprise:

- balance sheet as at 31 December 2019;
- profit and loss statement for the year end 31 December 2019;
- statement of changes in equity for the year end 31 December 2019,
- a cash flow statement for the year end 31 December 2019; and
- The notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of SIA "TWINO" as at 31 December 2019 and the financial results and cash flows of its operations for the year ended 31 December 2019 in accordance with the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Basis for Opinion

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

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

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

Emphasis of Matter

We draw attention to Note 34 of the financial statements, which describes that in the year end 31 December 2019, the Company's operating result was a profit of 4,435 thousand euros. As indicated in Note 34 to the financial statements, the result of the income statement for 2019 was significantly affected by non-recurring income in the amount of 8,256 thousand, the recurrence of which is not expected in the foreseeable future. Also, the Company's current liabilities as at 31 December 2019 exceed its current assets by 2,480 thousand euros.

We also draw attention to the uncertainty of the economic environment related to the spread of the new coronavirus described in Note 33 of the financial statements. The scale of uncertainty, as well as the described in the previous paragraph, makes it difficult for the Company's management to forecast the development of the Company's operations in the near future.

These circumstances indicate that there is significant uncertainty that could cast doubt upon the Company's ability to continue as a going concern. Our opinion is not modified in respect to these matters.

Reporting on Other information

Other information is the responsibility of the Company's management. Other information includes:

- general information about the Company, provided on page 3 of the attached annual report,
- the management report provided on pages 4 to 8 of the attached annual report.

Our opinion on the financial statements does not relate to other information included in the annual report, and we do not provide any assurance other than as stated in the Other Reporting Requirements section of our report in accordance with the requirements of the legislation of the Republic of Latvia.

In connection with the audit of the financial statements, we are required to review other information and, in doing so, to assess whether that other information differs materially from the information in the financial statements or our knowledge gained during the audit and whether it contains any other material inconsistencies.

If, based on the work performed and taking into account the information obtained during the audit and the understanding of the Company and its operating environment, we conclude that there are significant inconsistencies in other information, we are obliged to report such circumstances. We have not become aware of any reportable circumstances.

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia

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

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

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

Responsibility of management and those charged with governance for the financial statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

The persons charged with overseeing the Company are responsible for overseeing the process of preparation of the Company's financial statements.

Auditor's responsibility for auditing the financial statements

Our objective is to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and to provide an audit report. Sufficient assurance is a high level of assurance, but it does not guarantee that an audit performed in accordance with the ISA will always reveal a material misstatement, if any. Discrepancies may arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

When conducting an audit in accordance with ISAs, we make professional judgments and maintain professional skepticism throughout the audit process. We also:

• Identify and evaluate risks of material misstatement of the financial statements due to fraud or error, develop and perform audit procedures to mitigate those risks, and obtain audit evidence that provides a reasonable and appropriate basis for our opinion. The risk of non-detection of material misstatements due to fraud is higher than the risk of non-detection of non-compliance due to error, as fraud may involve collusion, falsification of documents, non-disclosure of information, misrepresentation or breaches of internal control;

• Gaining an understanding of internal control relevant to the audit to develop audit procedures that are appropriate in the circumstances, but not to provide an opinion on the effectiveness of the Company's internal control.

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

• We conclude on the appropriateness of management's going concern basis and, based on the audit evidence obtained, whether there is significant uncertainty about events or circumstances that may cast significant doubt upon the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, the auditor's report draws attention to the information provided in the financial statements about those circumstances or, if no such information is provided, we issue a modified opinion. Our conclusions are based on audit evidence obtained up to the date of the auditor's report. However, due to future events or circumstances, the Company may cease its operations;

• Evaluate the overall structure and content of the financial statements, including the disclosures and explanations in the notes, and whether the financial statements give a true and fair view of the underlying transactions and events.

We communicate with those charged with governance of the Company and provide, among other things, information about the planned scope and timing of the audit, as well as significant audit observations, including significant internal control deficiencies that we identify during the audit.

"BDO ASSURANCE" SIA
License No. 182

Modrīte Johansone
Responsible sworn auditor
Certificate No. 135
Member of the Board

Riga, Latvia
September 30, 2020