

SIA “AGROCREDIT LATVIA”

Annual Accounts for 2019

**Prepared in accordance with the
International Financial Reporting Standards
as adopted by EU**

Translation from Latvian

TABLE OF CONTENTS

Management report	3 - 4
Statement of management responsibility and corporate governance	5
Financial statements	
Statement of comprehensive income	6
Statement of financial position	7
Statement of changes in equity	8
Statement of cash flows	9
Notes to the financial statements	10 – 29
Independent auditor's report	30 - 32

Management report

Type of operations

SIA AgroCredit Latvia (hereinafter – the Company) is a specialized financial services provider, offering credit services to farmers. More than half of the credit portfolio consists of short-term financing to crop farmers for the purchase of raw materials, which is repaid after the harvest sales. Also secured long-term loans are offered to the farmers as well as agri-machinery leasing services.

Credit policy of the Company is classified as a relatively conservative using basic principles characteristic to banking practice. Taking decisions on financing, the Company considers such aspects as experience of the potential client in agriculture, financial results the previous year, the cropped area, cultural and regional aspects, as well as recommendations from other companies of the industry. The amount of financing is usually no more than half of the average expected sales volume of yield, which allows customers to pay for their obligations in poor yield years.

The Company provides the necessary resources for crediting from its own funds (equity and related parties loans) as well as attracts from external sources of financing- listed bonds and other private investors.

The Company's performance during the reporting year

Year 2019 was a year of growth for the Company after slower previous year. The total financing amounts increased considerably as the market situation allowed to cover wider customer needs and product range offered to the borrowers. The Company started to sell long term secured loans and leasing services more actively alongside with its traditional seasonal financing product.

The growth was ensured by additional funds injected by related company SIA KEY Investments as well as successful cooperation with P2P platform Mintos and other private investors. Also, external market situation – financing and agricultural sector – was favourable for the Company. The bank activity in credit product sales were quite low as they paid more attention to solving the issues related to AML and overall restructure of financial sector. The availability of credit resources for Latvian entrepreneurs (including farmers) were not sufficient and the demand for the alternative financing offered by the Company grew in the market.

The grain growing sector recovered rapidly after two unfavourable years and was considered as one of the most successful during the last decade. Totally 3.2 million tons of grain was harvested in 2019, which is the highest ever result in Latvia. The grain prices kept on good level as well and the financial situation of the farmers improved and recovered after two low-harvest seasons.

The total interest income of the Company increased by 22% in 2019 and the total assets were bigger by 1/3rd in comparison to previous year. The total credit portfolio exceeded 8.5 million EUR in the end of the grain season (in July) and increased by 2 million EUR in comparison to peak of the previous season. Net margin of the company was 18%. It decreased in comparison to year 2018 as additional general provisions were made to cover the growth of the credit portfolio according to the provision policy of the Company.

Generally, the year 2019 was successful as the total amounts of financing increased as well as the infrastructure of the Company (sales organization, IT) was improved. That ensures a good foundation for the further growth customer and service range.

The Company's exposure to risks

The Company's main risks are related to its customers' ability to pay for the loans. Quality of credit granting decisions and customer solvency assessment is essential in risk management.

Borrowers' ability to repay loans influenced by external factors - yield and grain prices on the stock exchange. Therefore, the deciding on credits, it is important to provide the customer's ability to repay the loan in poor yield years and unfavourable market conditions.

Statement on internal control procedures

The Board confirms that the internal control procedures are efficient and the risk management and internal control during the whole year has been carried out in accordance with the mentioned control procedures.

Future prospects

The company plans a further growth in 2020 and has set a goal of reaching 10 million EUR portfolio by the end of the grain season. The conservative approach of the credit decisions will be remained to ensure the credit portfolio quality ratios on the previous high levels.

The marketing activities will be carried out to increase the recognition of the Company in the market. Additional investments into IT systems will increase the effectiveness of the employees as well as improve the information flow with customers and cooperation partners.

Management report (continued)

Future prospects (continued)


The current situation indicates the fall of the global economy in 2020 caused by Covid-19 crises. The management of the Company has made an analysis of the potential risks for the company caused by this issue. The agriculture (especially grain growing) has two considerable advantages in comparison to majority of other production sectors. Working in big groups is not characteristic for agriculture nowadays, so the production process is not influenced much by the current rules of self-isolation. The agriculture crops are the basic needs for humans, so the demand is not influenced considerably also during the crisis's times. Even more – the governments tend to increase grain reserves during unclear times, so that gives a positive impact on grain prices.

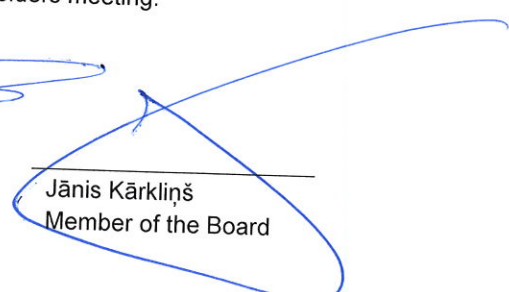
On the other hand, the Company recognizes the risk of low availability of credit resources in financial markets. The funding needed to achieve the goals of year 2020 are available for the Company. Still the further growth in 2021 can be influenced by the limited funds available in the market if the crises will have a longer run impact on the financial sector.

Distribution of the profit proposed by the Board

The Management Board proposes to the shareholders to approve the annual report of the Company and to retain the profit in amount of 161 967 EUR undivided.

The Management Board has prepared the annual report of SIA AgroCredit Latvia, including Management report, Statement of management's responsibility, Corporate Governance Report and Financial reports for 2019 and approved it for submission to Shareholders meeting.



Girts Vinters
Chairman of the Board

Jānis Kārklīšs
Member of the Board

Riga, 30 April 2020

Statement of management's responsibility

The management of SIA AgroCredit Latvia is responsible for the preparation of the financial statements for 2019.

Based on the information available to the Board of the Company, the financial statements are prepared on the basis of the relevant primary documents and in accordance with International Financial Reporting Standards as adopted by the European Union, based on a going concern basis, and present a true and fair view of the Company's assets, liabilities and financial position as at 31 December 2019 and its profit and cash flows for 2019.

The Company's management confirms that appropriate and consistent accounting policies and prudent and reasonable management estimates have been applied.


The management of the Company confirms that it is responsible for maintaining proper accounting records and for monitoring, controlling and safeguarding the Company's assets. The management of the Company is responsible for detecting and preventing errors, irregularities and/or deliberate data manipulation. The management of the Company is responsible for ensuring that the Company operates in compliance with the laws of the Republic of Latvia.

The management report presents fairly the Company's business development and operational performance.

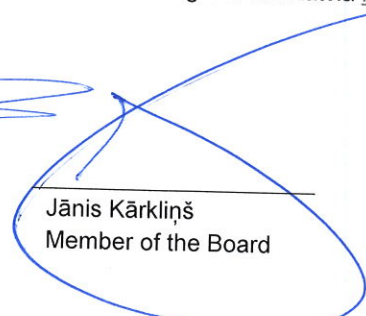
Corporate governance statement

The Corporate governance report of SIA AgroCredit Latvia for 2019 has been prepared in accordance with Section 56.2 Paragraph 3 of the Financial Instrument Market Law.

The report is submitted to AS Nasdaq Riga (hereinafter – the Stock Exchange) concurrently with the audited financial statements SIA AgroCredit Latvia for 2019 for publishing on the website of the Stock Exchange: <http://www.nasdaqbaltic.com/> and the website of SIA AgroCredit Latvia <http://www.agrocredit.lv>.



Girts Vinters
Chairman of the Board



Jānis Kārklīšs
Member of the Board

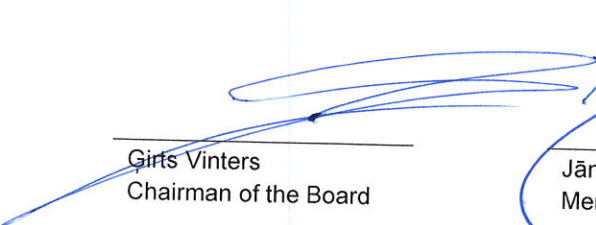
Riga, 30 April 2020


SIA „AGROCREDIT LATVIA”
ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2019
(TRANSLATION FROM LATVIAN)


Statement of comprehensive income for the year ended 31 December 2019

	Notes	2019 EUR	2018 EUR
Interest income	1	909 827	745 186
<i>out of this, income at effective interest rate</i>		909 827	745 186
Interest expense	2	(421 389)	(291 635)
Impairment	3	(70 000)	5 000
Administrative expense	4	(201 694)	(223 766)
Other operating expense	5	(54 777)	(22 185)
Profit before corporate income tax		161 967	212 600
Corporative income tax		-	-
Current year's profit		161 967	212 600
Other comprehensive income		-	-
Total comprehensive income		161 967	212 600

Notes on pages from 10 to 29 are integral part of these financial statements.


 Girts Vinters
 Chairman of the Board


 Jānis Kārklīš
 Member of the Board


 Evija Šverna
 Accountant


Riga, 30 April 2020


SIA „AGROCREDIT LATVIA”
ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2019
(TRANSLATION FROM LATVIAN)

Statement of financial position as at 31 December 2019

	Notes	31.12.2019. EUR	31.12.2018. EUR
<u>Assets</u>			
Long term investments			
Property, plant and equipment	6	4 837	7 081
Right-of-use assets	7	45 517	-
Loans	8	741 174	315 754
Total long-term investments:		791 528	322 835
Current assets			
Loans	8	6 880 031	5 211 262
Other debtors	9	14 234	18 985
Cash and bank	10	103 515	373 500
Total current assets:		6 997 780	5 603 747
<u>Total assets</u>		<u>7 789 308</u>	<u>5 926 582</u>
<u>Liabilities and shareholder's' funds</u>			
Shareholders' funds:			
Share capital	11	1 500 000	1 500 000
Other reserves		25	25
Retained earnings:			
- prior year's retained earnings		212 600	119 365
- current year's profit		161 967	212 600
Total shareholders' funds:		1 874 592	1 831 990
Liabilities:			
Long-term liabilities:			
Borrowings	12	4 860 000	3 100 000
Lease liabilities	7	74 782	-
Total long-term liabilities:		4 934 782	3 100 000
Short-term liabilities:			
Borrowings	12	912 459	974 805
Lease liabilities	7	56 237	-
Trade creditors and other liabilities	13	11 238	19 787
Total short-term creditors:		979 934	994 592
<u>Total liabilities and shareholders' funds</u>		<u>7 789 308</u>	<u>5 926 582</u>

Notes on pages from 10 to 29 are integral part of these financial statements.


 Ģirts Vinters
 Chairman of the Board


 Jānis Kārklīšs
 Member of the Board


 Evija Šverna
 Accountant

Riga, 30 April 2020

SIA „AGROCREDIT LATVIA”
ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2019
(TRANSLATION FROM LATVIAN)

Statement of changes in equity for the year ended 31 December 2019

	Share capital	Other reserves	Retained earnings	Total
	EUR	EUR	EUR	EUR
As at 31 December 2017	1 500 000	25	119 365	1 619 390
Profit for the year	-	-	212 600	212 600
As at 31 December 2018	1 500 000	25	331 965	1 831 990
Profit for the year	-	-	161 967	161 967
Dividends	-	-	(119 365)	(119 365)
As at 31 December 2019	1 500 000	25	374 567	1 874 592

Notes on pages from 10 to 29 are integral part of these financial statements.

SIA „AGROCREDIT LATVIA”
ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2019
(TRANSLATION FROM LATVIAN)

Statement of cash flows for the year ended 31 December 2019

	Notes	2019 EUR	2018 EUR restated
<u>Cash flow from operating activities</u>			
Profit before corporate income tax		161 967	212 600
Depreciation of plant, property and equipment	6	2 244	1 657
Depreciation of right-of-use assets	7	7 063	-
Interest and similar income	1	(909 827)	(745 186)
Interest and similar expense	2	421 389	291 635
Change in allowance for loan impairment	3, 8	70 000	(5 000)
Decrease of cash and cash equivalents from operating activities before changes in assets and liabilities		(247 164)	(244 294)
Increase of loans issued	8	(1 958 609)	(513 176)
(Increase) / decrease in trade and other debtors		441	(10 659)
Trade creditors' (decrease)		(3 323)	(15 647)
Gross cash flow from operating activities		(2 208 655)	(783 776)
Interest paid		(426 614)	(286 293)
Interest income		704 247	726 139
Corporate income tax surplus reimbursed		4 308	-
Net cash flow from operating activities		(1 926 714)	(343 930)
<u>Cash flow from investing activities</u>			
Acquisition of fixed assets and intangibles		-	(6 050)
Net cash flow from investing activities		-	(6 050)
<u>Cash flow from financing activities</u>			
Dividends paid	11	(119 365)	-
Loans received		8 186 420	5 358 200
Repaid loans and finance lease		(6 403 268)	(4 637 631)
Lease payments for right-of-use assets		(7 058)	-
Net cash flow from financing activities		1 656 729	720 569
Net cash flow of the reporting year		(269 985)	370 589
Cash and cash equivalents at the beginning of the reporting year		373 500	2 911
Cash and cash equivalents at the end of reporting year	10	103 515	373 500

Notes on pages from 10 to 29 are integral part of these financial statements.

SIA „AGROCREDIT LATVIA”
ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2019
(TRANSLATION FROM LATVIAN)

Notes to the financial statements

General information about the Company

Name of the Company	SIA AGROCREDIT LATVIA
Legal status of the Company	Limited liability company
Number, place and date of registration	40103479757 Commercial Registry, Riga, 11 November 2011
Type of operations	The Company specializes in providing financial services and offering credit services to farmers. Basically, the Company issues short-term financing to crop-farmers for the purchase of raw materials, which is repaid after the harvest sales. As classified by NACE classification code system: 64.91 – Financial leasing 64.92 – Other credit granting
Address	K.Ulmaņa gatve 119, Mārupe, Mārupe municipality, LV-2167, Latvia
Shareholders	AgroCredit Finance SIA (since 13.08.2019) 100% Reg. No. 42403046209 K.Ulmaņa gatve 119, Mārupe, Mārupe municipality, LV-2167, Latvia AgroCredit Estonia OU (till 13.8.2019) 100% Reg. No. 1000241097 Sirbi 9-2, Tallinn 11713, Estonia
Beneficial owners	Ģirts Vinters and Jānis Kārklīšs, each owning 50% of shares of the Parent Company.
The Board	Ģirts Vinters – Chairman of the Board Jānis Kārklīšs – Member of the Board
The Council	Lauris Buls – Member of the Council Silva Jeromanova- Maura – Member of the Council Edmunds Demiters – Member of the Council
Person responsible for accounting	Evija Šverna - accountant
Name and address of the auditor	SIA Potapoviča un Andersone Certified Auditors' Company Licence No. 99 Ūdens Street 12-45, Riga, LV-1007 Latvia Responsible Certified Auditor: Lolita Čapkeviča Certificate No. 120

Approval of the Financial statements

These financial statements have been approved by the Board on 30 April 2020 and are subject to approval by the shareholder.

Notes to the financial statements

Accounting policies

Basis of preparation

These financial statements for the year ended 31 December 2019 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The accounting policies of the Company have not changed in comparison to previous reporting period, except for the effects of application of IFRS 16 “Leases” which have been described in Accounting policies section (b). The Company has changed the presentation of certain items in the cash flow statement, adjusting the comparative figures accordingly. The effect of the adjustments is explained below.

The financial statements cover the period from 1 January 2019 until 31 December 2019.

The financial statements are prepared based on historic cost method.

Restatements for 2018 due to reclassification in 2019

In 2019, following the practice in the lenders' industry, the Company's management decided to reclassify cash flows from issued loans and their repayments from investing cash flows to operating cash flows, presenting the change in net loans issued as a change in assets. As a result of the reclassification, the cash flow from investing activities in 2018 increased (ie cash outflow decreased) and cash flow from operating activities decreased (ie cash outflow increased) by EUR 513,176. In addition, the corporate income tax (CIT) amount paid was also adjusted in the cash flow statement, in order to report the cash flow associated with the CIT paid solely on profit. As a result, CIT advance payments made in 2018 in the amount of EUR 11,223 were reclassified to change of other receivables.

(a) Significant accounting judgements, estimates and assumptions

The Company's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements. The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the current and next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgments are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events. Accounting policies and management's judgements for certain items are especially critical for the Company's results and financial situation due to their materiality. Any effect of changes in estimates is reflected in the financial statements at the time of their determination. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ.

The most significant judgments and estimates that affect the Company's financial statements are related to the determination of expected credit losses (ECL) for issued loans and are described in Note 8.

(b) Summary of significant accounting policies

Changes in accounting principles and reporting

The following new and amended IFRS and Interpretations apply to the Company's operations and are effective for the first time in the reporting period beginning on 1 January 2019:

IFRS 16 “Leases”

The Company has opted to simplify the initial application of IFRS 16: the cumulative effect of the transition to the new standard was recognized as an adjustment to the opening balance of equity in the year of initial application of the standard, and comparatives for previous year were not restated. The changes resulting from the application of this new standard are reflected in Note 7. Other new standards and amendments did not have a material effect on the amounts recognized in previous periods, nor are they expected to have a material effect on the current or future financial statements.

Other new and amended IFRS and their interpretations that will become effective after 1 January 2020 will not have a material impact on the Company's operations and financial statements.

Functional and reporting currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). Items included in the financial statements are presented in the official currency of the Republic of Latvia, the euro (EUR), which is the Company's reporting currency.

Foreign currency translation

All foreign currency transactions are translated into euros using the exchange rates published at the morning of the dates of the transactions by the European Central Bank. Monetary assets and liabilities denominated in foreign currencies on the last day of the reporting year are translated into euros at the foreign exchange rate published by the European Central Bank ruling at the end of the reporting year.

Notes to the financial statements (continued)
Accounting policies (continued)

(b) Summary of significant accounting policies (continued)

Gains or losses arising from foreign exchange rate fluctuations are recognized in the profit or loss in the period in which they arise.

Recognition of revenue and expenses

Interest income and expense

The Company provides lending services, and interest income is the main type of income of the Company. Interest income and expense are recognized in the statement of profit or loss on an accrual basis using the effective interest method. Interest income and expense are recognized in profit or loss for all interest-bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options), but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Interest income is recognized over time.

Other income

Other income is recognized on an accrual basis when it has been earned or when there is no doubt that it will be received in due time.

Other expenses

Expenses are recognised on an accrual basis in the period in which they are incurred, regardless of when the invoice is received or paid.

Intangible assets and property, plant and equipment

All intangibles and property, plant and equipment are recorded at cost net of depreciation or amortisation. Depreciation or amortisation is calculated on a straight-line basis to write down each asset to its estimated residual value over its estimated useful life as follows:

	% per annum
Intangibles	20
Other fixed assets	20

Corporate income tax

Corporate income tax for the reporting period is included in the financial statements based on the calculations prepared in accordance with tax legislation of the Republic of Latvia. Corporate income tax is calculated on the basis of distributed profit which is subject to the tax rate of 20 % of their gross amount, or 20/80 of net amount. Corporate tax on distributed profit is recognized when the shareholders of the Company make a decision about profit distribution. Corporate income tax calculated on transactions other than profit distribution is included in the statement of profit or loss under other operating expenses.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current account balances and short-term deposits with original maturities of less than 90 days and short-term highly liquid investments that are readily convertible to known amounts of cash and which are not subject to significant changes in value.

Financial instruments

Classification

The Company's financial instruments consist of financial assets (financial assets at amortized cost and financial assets at fair value through profit or loss (FVTPL) and financial liabilities (financial liabilities at amortized cost).

The classification of debt instruments depends on the business model implemented by the Company's financial asset management, as well as on whether the contractual cash flow characteristics consist of solely payments of principal and interest (SPPI). Debt instruments are carried at amortized cost if both of the following criteria are met:

- the business model objective is to hold assets to collect contractual cash flows; and
- the contractual cash flow characteristics consist of solely payments of principal and interest.

The gross carrying amount of these assets is measured using the effective interest method and adjusted for expected credit losses. Debt instruments that meet the requirements of the SPPI and are nevertheless held in a portfolio to both hold contractual cash flows and sell, such assets may be classified as FVTPL. Financial assets whose cash flows do not meet the requirements of the SPPI should be valued at FVTPL (eg financial derivatives). Embedded derivatives are not separated from financial assets, but when included in financial assets, the requirements of SPPI are assessed.

Notes to the financial statements (continued)
Accounting policies (continued)

(b) Summary of significant accounting policies (continued)

Recognition and derecognition

Financial assets are recognized when the Company has become a party to the contractual provisions of the instrument, i.e., on the trading date.

Financial assets are derecognised when the Company's contractual obligations to receive cash flows from the financial asset expire or when the Company transfers the financial asset to another party or transfers the significant risks and rewards of ownership of the asset. Purchases and sales of financial assets in the ordinary course of business are accounted for on the trading date, i.e., the date on which the Company decides to buy or sell the asset.

A financial liability is derecognised when the obligation under the liability is withdrawn, cancelled or expires.

Measurement

At initial recognition, the Company measures a financial asset at its fair value. For financial assets and financial liabilities at amortized cost on initial recognition, fair value is adjusted for transaction costs that are directly attributable to the financial instrument.

Financial assets at amortized cost

Financial assets at amortized cost are debt instruments with fixed or determinable payments that are not held for trading and whose future cash flows consist solely of principal and interest payments. Financial assets at amortized cost include loans, trade receivables and other receivables, and cash and cash equivalents. Financial assets at amortized cost are classified as current assets if their maturity is one year or less. If the maturity is longer than one year, they are presented as non-current assets. Short-term receivables are not discounted.

Financial assets at amortized cost are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

Impairment of financial assets at amortised cost

Expected credit losses

Measurement

Impairment is measured using the expected credit loss (ECL) model. It involves monitoring the deterioration or improvement of the credit quality of financial instruments. The ECL model is applicable to all financial assets that are measured at amortized cost. The ECLs on financial assets measured at amortised cost are presented as allowances, i.e., the allowance reduces the gross carrying amount. An allowance for expected credit losses due to changes in ECL is recognized in the statement of profit or loss under "Impairment". The assessment of credit risk, and the estimation of ECL, shall be unbiased and probability-weighted, and shall incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. The ECL model has a three-stage approach based on changes in the credit risk. A 12-month ECL (Stage 1) applies to all items, unless there is a significant increase in credit risk since initial recognition. For items where there is a significant increase in credit risk (Stage 2) or in default (Stage 3), lifetime ECL applies.

When calculating impairment losses on assets due to default on principal or interest payments or other loss-making events, collateral, including real estate and commercial pledges, is taken into account, valued at market value. The value of collateral is based on independent expert valuations or the Company's assessments.

Significant increase in credit risk

At the end of each reporting period the Company performs an assessment of whether credit risk has increased significantly since initial recognition. The assessment of whether there has been a significant change in credit risk is based on quantitative and qualitative indicators. Both historic and forward-looking information shall be used in the assessment. As practically all loans reported in the balance sheet on 31 December 2019 have an initial origination date as of 1 January 2018 or later, the primary indicator is changes in lifetime probability of default (PD) by comparing the scenario-weighted annualized lifetime PD at the reporting date with the scenario-weighted annualized lifetime PD at initial recognition.

Regardless of the quantitative indicator, a significant increase in credit risk is triggered if the following back-stop indicators occur if:

- payments are past due over 30 days but less than 90 days; or
- financial assets are forbore (where due to the customer's financial difficulties the contractual terms of the loans have been revised and concessions given).

Back-stop indicators normally overlap with the quantitative indicator of significant increase in credit risk.

Notes to the financial statements (continued)
Accounting policies (continued)

(b) Summary of significant accounting policies (continued)

In case there has been a significant increase in credit risk since initial recognition, an allowance for lifetime ECL shall be recognised and the financial instrument is transferred to Stage 2. In subsequent reporting periods, if the credit quality of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the financial assets move back to Stage 1. If credit quality of financial instrument deteriorates further, the financial instrument is transferred to Stage 3.

Transfer to Stage 3 is triggered if the following indications occur:

- Payments are past due more than 90 days;
- Financial instrument is in default (PD = 100%).

Definition of default

Financial instruments in default are in Stage 3. Default and credit-impaired are triggered when an exposure (principal or interest payment) is more than 90 days past due, it becomes probable that the borrower will enter bankruptcy proceedings or will undergo or has undergone some other type of financial or legal reorganization, the borrower has been declared bankrupt or is equivalent to bankruptcy, the transaction has been restructured for economic or legal reasons related to the borrower's financial difficulties, or an assessment has been made indicating that the borrower is unlikely to be able to meet its obligations as expected.

When assessing whether a borrower is unlikely to pay its obligations, the Company takes into account both qualitative and quantitative factors including, but not limited to the overdue status or non-payment on other obligations of the same borrower, expected bankruptcy and breaches of financial covenants. An instrument is no longer considered to be in default or credit impaired when all overdue amounts are repaid, there is sufficient evidence to demonstrate that there is a significant reduction in the risk of non-payment of future cash flows and there are no other indicators of credit-impairment.

Credit loss allowances on assessed financial assets are presented in the Company's statement of financial position as a reduction in the gross carrying amount of the assets. An impairment loss is recognized in a separate allowance account and the loss is recognized in the statement of profit and loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (for example, an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in profit or loss.

Modifications

The Company may renegotiate loans and modify contractual terms. In a situation where a renegotiation is determined by the counterparty's financial difficulties and inability to make the originally agreed payments, the Company compares the initial and revised estimated cash flows with the assets and determines whether the risks and rewards of the asset have changed significantly as a result of the modified contract. If the risks and rewards do not change, the modified asset does not differ significantly from the original asset and no derecognition occurs due to the modification. The Company recalculates the gross carrying amount by discounting the changed contractual cash flows at the original effective interest rate and recognizes modification gain or loss in the statement of profit or loss.

If the amended terms differ materially, the right to cash flows expires and the Company derecognises the original financial asset and recognizes a new financial asset at its fair value. The revision date is the original date used for the subsequent calculation of the impairment of the asset, including an assessment of whether the credit risk has increased significantly. The Company also assesses whether the new loan or debt instrument meets the criteria for solely principal and interest payments (SPPI). Any difference between the carrying amount of the derecognised original asset and the fair value of the newly recognized substantially revised asset is recognized in the statement of profit or loss, unless the nature of the change is attributable to equity transactions with owners.

In cases where the restructuring is due to financial difficulties of the counterparties resulting in non-compliance with the originally agreed payment schedule, the Company compares the initially planned and renewed cash flows to assess whether the risks and rewards of the modified terms have not changed significantly. If the risks and rewards do not change, the modified asset is not materially different from the original asset and derecognition is not required as a result of the modification. The Company recalculates the gross carrying amount by discounting the modified contractual cash flows using the original effective interest rate and recognizes the gain or loss arising on the modification in the statement of profit or loss for the period.

Notes to the financial statements (continued)
Accounting policies (continued)

(b) Summary of significant accounting policies (continued)

Financial liabilities at amortized cost

The amortized cost of financial liabilities includes borrowings, including debt securities, lease liabilities, as well as payables to suppliers and contractors and other creditors. Financial liabilities at amortized cost are initially recognized at fair value. In subsequent periods, financial liabilities at amortized cost are carried at amortized cost using the effective interest method. Financial liabilities at amortized cost are classified as current liabilities if the payment term is one year or less. If the payment term is longer than one year, they are presented as long-term liabilities.

Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legal right to offset transactions and an intention to settle net or realise the asset and settle the liability simultaneously.

Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortized cost using the effective interest method. The difference between the proceeds, net of borrowing costs, and the redemption value is recognized in the income statement using the effective interest method. This difference is recognized in finance costs.

Borrowings are classified as current liabilities unless the Company has an irrevocable right to defer settlement of the liability for at least 12 months after the balance sheet date.

Issued debt securities

The Company recognises issued debt securities at the date when the respective funds are received. After initial recognition when these financial liabilities are initially recognised at fair value including direct transaction costs, those are subsequently carried at amortised cost using the effective interest method. When issued debt securities are sold at a discount or premium, the difference is amortised applying the effective interest method until the debt matures and charged to the statement of comprehensive income as interest expense.

Contingencies

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

Subsequent events

The financial statements reflect events after the balance sheet date that provide additional information about the Company's financial position at the balance sheet date (adjusting events). If the events after the end of the reporting year are not adjusting, they are reflected in the notes to the financial statements only if they are significant.

Notes to the financial statements (continued)
Accounting policies (continued)

(b) Summary of significant accounting policies (continued)

Leases

From 1 January 2019 the Company applies IFRS 16. In accordance with the transitional provisions of IFRS 16, the standard is applied retrospectively with evaluation of its cumulative effect as of 1 January 2019. Comparatives have not been restated. More detailed information has been disclosed in the section “Initial application of IFRS in reporting year”.

Classification

At the time of concluding the agreement, the Company assesses whether the contract is a lease or contains a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether the contract is a lease or contains a lease, the Company assesses whether:

- the contract provides for the use of an identified asset: the asset may be designated, directly or indirectly, and must be physically separable or represent practically full capacity of the asset from the physically separable asset. If the supplier has a significant right to replace the asset, the asset is not identifiable;
- the Company has the right to obtain all economic benefits from the use of the identifiable asset over its useful life;
- the Company has the right to determine the use of the identifiable asset. The Company has the right to determine the manner in which the asset will be used, when it can decide how and for what purpose the asset will be used. Where the relevant decisions about how and for what purpose an asset is used are predetermined, the Company should assess whether it uses the asset, or the Company has developed an asset in a manner that predetermines how and for what purpose the asset will be used.

In the case of an initial measurement or reassessment of a contract that includes a lease component or multiple lease components, the Company attributes the relative separate price to each lease component.

The Company is a lessee

Leases are recognised as right-of-use assets and the corresponding lease liabilities at the date when leased assets are available for use of the Company. The cost of the right-of-use an asset consists of:

- the amount of the initial measurement of the lease liability;
- any lease payments made before the commencement date less any lease incentives received;
- replacement costs associated with the dismantling and restoration of property, plant and equipment;
- any initial direct costs.

The right-of-use asset is amortised on a straight-line basis from the commencement date to the end of the useful life of the underlying asset or from the commencement date of the lease to the end of the lease term, unless an asset is scheduled to be redeemed. The right-of-use asset is periodically reduced for impairment losses, if any, and adjusted for any revaluation of the lease liabilities.

Assets and liabilities arising from leases at commencement date are measured at the amount equal to the present value of the remaining lease payments, discounted by the Company's incremental interest rate. Lease liabilities include the present value of the following lease payments:

- fixed lease payments (including in-substance fixed lease payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the Company under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease liabilities are subsequently measured when there is a change in future lease payments due to changes of an index or a rate, when the Company's estimate of expected payments changes, or when the Company changes its estimate of the purchase option, lease term modification due to extension or termination. When a lease liability is subsequently measured, the corresponding adjustment is made to the carrying amount of the right-of-use asset or recognised in the statement of comprehensive income if the carrying amount of the right-of-use asset decreases to zero.

Each lease payment is divided between the lease liability and the interest expense on the lease. Interest expense on lease is recognised in the statement of comprehensive income over the lease term to form a constant periodic interest rate for the remaining lease liability for each period.

Notes to the financial statements (continued)

Accounting policies (continued)

(b) Summary of significant accounting policies (continued)

Short-term leases and leases for low-value assets

Lease payments related to short-term leases and lease for low-value assets are recognised as an expense in the statement of profit or loss on a straight-line basis. Short-term leases are leases with a lease term of 12 months or less at the commencement date.

Lease accounting policy applied until 31 December 2018

The Company as a lessee - operating lease

Leases in which the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Lease payments and prepayments for the lease (net of financial incentives received from the lessor) are charged to the income statement on a straight-line basis over the lease term.

The Company as a lessee - financial lease

Where the Company is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Company, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset, and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the outstanding lease liability. The corresponding rental obligations, net of future finance charges, are included in other borrowings. The interest cost is charged to profit or loss for the year over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life, or the shorter lease term if the Company is not reasonably certain that it will obtain ownership by the end of the lease term.

The Company is a lessor - financial lease (policy valid in both 2018 and 2019)

Receivables from finance leases are recognized at the net present value of the minimum lease payments, less any principal payments received and plus any unguaranteed residual value at the end of the lease term. The lease payments received are allocated between the repayment of principal and the finance income. Finance income is recognized over the lease term to reflect a constant periodic rate of return on the lessor's net investment in the lease. Initial service charges levied at the commencement of a lease are taken into account in calculating the effective interest rate and the lessor's net investment. The lessor's direct costs associated with the contract are included in the effective interest rate and are reported as a reduction of lease income over the term of the lease.

Lease payments receivable from customers are recognized in the statement of financial position when the related assets that are the subject of the contract with the customer are transferred to the customer.

SIA „AGROCREDIT LATVIA”
ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2019
(TRANSLATION FROM LATVIAN)

Notes to the financial statements (continued)
Accounting policies (continued)

(b) Summary of significant accounting policies (continued)

Initial application of IFRS in reporting year

From 1 January 2019 the Company applies IFRS 16. In accordance with the transitional provisions of IFRS 16, the standard is applied retrospectively with evaluation of its cumulative effect as of 1 January 2019. Comparatives have not been restated.

Implementation of IFRS 16 had the following effect on the financial statement items:

Statement of financial position as at 1 January 2019

	Initial balance 31.12.2018	Effect of IFRS 16	Balance (restated) 01.01.2019
	EUR		EUR
<u>Assets</u>			
Long term investments			
Property, plant and equipment	7 081	-	7 081
Right-of-use assets	-	12 891	12 891
Loans and receivables	321 752	-	321 752
Total long-term investments:	328 833	12 891	341 724
Current assets			
Loans and receivables	5 205 264	-	5 205 264
Other debtors	18 985	-	18 985
Cash and bank	373 500	-	373 500
Total current assets:	5 597 749	-	5 597 749
Total assets	5 926 582	12 891	5 939 473
<u>Liabilities and shareholders' funds</u>			
Shareholders' funds:			
Share capital	1 500 000	-	1 500 000
Other reserves	25	-	25
Retained earnings:			
- prior year's retained earnings	119 365	-	119 365
- current year's profit	212 600	-	212 600
Total shareholders' funds:	1 831 990	-	1 831 990
Liabilities:			
Long-term liabilities:			
Borrowings	3 100 000	(24 805)	3 075 195
Lease liabilities	-	34 744	34 744
Total long-term liabilities:	3 100 000	9 939	3 109 939
Short-term liabilities:			
Borrowings	974 805	-	974 805
Lease liabilities	-	2 952	2 952
Trade creditors and other liabilities	19 787	-	19 787
Total short-term liabilities:	994 592	2 952	997 544
Total liabilities and shareholders' funds	5 926 582	12 891	5 939 473

Notes to the financial statements (continued)

Accounting policies (continued)

(b) Summary of significant accounting policies (continued)

At the time of initial application of the standards, the main consequences are: an increase in total assets associated with the right to capitalize the assets and the recognition of the related lease liabilities. Reclassifications and adjustments related to the transition to the new standard are described in detail below.

IFRS 16 is mandatory for annual periods beginning on or after 1 January 2019. The Company has applied IFRS 16 retrospectively but has chosen not to adjust the comparative information. As a result, comparative information is presented in accordance with the Company's previous accounting policy.

At the date of initial application of IFRS 16, the Company recognized lease liabilities that were previously classified as operating leases based on IAS 17. The Company has elected not to apply IFRS 16 to contracts that were not previously designated as involving a lease when applying IAS 17 and IFRIC 4. The Company has previously classified leases as operating or finance leases based on the assessment of whether they transfer all the risks and rewards of ownership of the asset. In accordance with IFRS 16, lease liabilities are measured at the present value of the remaining lease payments, discounted at the lessee's incremental interest rate on 1 January 2019.

Each lease payment is allocated between the lease liability and interest expense on the lease liability. Interest expense on the lease liability is recognized in the statement of profit or loss over the lease term in order to generate a constant periodic rate of interest on the remaining lease liability for each period. The right-of-use asset is depreciated on a straight-line basis from the inception date to the end of the useful life of the underlying asset.

The Company has entered into an agreement for the lease of office space and vehicles and rent. As the office lease is essentially a 1-year sublease and is extended for another year if the parties do not give notice of termination two weeks before the expiry date, the Company's management has classified it as a short-term lease, where lease costs are recognized in the statement of profit or loss on a straight-line basis over the term of the lease. In 2019, such recognized short-term rental expenses amounted to EUR 9,328. As at 31 December 2018, the approximate amount of one month's car rental to the Company was EUR 278. The Company has used a flat discount rate equal to 3.00% for the entire lease agreement portfolio. The total non-discounted lease liabilities to the Company on 1 January 2019 amounted to EUR 13,912.

The right-to-use the asset is measured at the amount of the lease liability and adjusted for the prepaid lease payments. The Company has used the hindsight in determining the lease terms if the contract includes an option to extend the lease and if management has reasonable assurance that this option will be exercised. Leases are usually for a fixed period of 1 to 5 years, but may include options to extend the lease. In determining the lease term, management takes into account the facts and circumstances that may affect the lease term. The valuation is reviewed when a significant event or change in circumstances occurs that is under the control of the lessee.

As at 1 January 2019, the Company has recognized the right-to-use assets and lease liabilities in the amount of EUR 12,891. In 2019, the depreciation of the right-to-use assets amounted to EUR 7,063 (Note 7).

Financial risk management

The activities of the Company are exposed to different financial risks: credit risk, liquidity risk, market risk, cash flow and interest rate risk, operational risk and foreign currency risk. The Board is responsible for risk management. The Board identifies, assesses and seeks to find solutions to avoid financial risks.

Credit risk

The credit risk is a risk that a borrower of the Company is unable or unwilling to meet its liabilities towards the Company in full and within the established term as a part of the Company's main activity – lending. Credit risk also includes concentration risk in transactions groups of customers or cooperation partners.

The Company's policies are developed in order to ensure maximum control procedures in the process of loan issuance, timely identification of bad and doubtful debts and adequate provisioning for expected credit losses. The Company has no concentration of credit risk related to the loan issued to any one borrower.

The Company specializes in the financing of one sector of the economy - agriculture - which increases the risks associated with the market situation of the particular sector. However, agriculture has several sub-sectors – namely, cereals, dairy farming, livestock agriculture, vegetable growing, etc., whose market situations develop in an unrelated way. The Company also ensures geographical diversification by financing customers from various regions of Latvia.

Notes to the financial statements (continued)

Accounting policies (continued)

(b) Summary of significant accounting policies (continued)
Financial risk management (continued)

The core principle of the Company's credit risk management is the ability of borrowers to meet their obligations to the Company, which is ensured by evaluating business partners before the start of the transaction, as well as through further continuous monitoring and evaluation. In order to make high-quality and balanced credit decisions, the Company monitors local and global trends in agricultural markets, as well as the impact of each season's weather on the expected local harvest. It also gets to know each specific borrower, analyzes his financial data and ability to repay the loan.

In order to maintain a sufficiently diversified loan portfolio with a low risk profile and to find a favourable balance between risk and return, the Company constantly strives to understand customers and their market conditions. When reviewing a loan application, the Company thoroughly analyses the cooperation partner's ability and willingness to repay the new as well as previous loans.

The cash flow and solvency of the business partner are the main variables when deciding on a loan, and the Company seeks to obtain sufficient collateral. The Company issues secured loans and unsecured loans. Most unsecured loans are seasonal financing for farmers secured by grain contracts.

Company's exposure to credit risk (excluding available collateral or other security):

	31.12.2019	%	31.12.2018	%
	EUR		EUR	
Loans with collateral	3 568 215	45	2 028 584	34
Loans without collateral	3 527 644	45	3 138 809	52
Financial lease receivables	700 346	9	464 624	8
Cash in bank	103 515	1	373 500	6
Maximum credit risk	7 899 720	100	6 005 516	100

The main part of non-secured loans is seasonal financing, which is secured by harvest sales agreements.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet the legally substantiated claims from securities holders and other creditors or for contingent liabilities on time and in full, or will not be able to provide pre-planned asset growth with funding sources in a timely and appropriate and reasonable manner. The purpose of liquidity risk management is to maintain a sufficient amount and appropriate quality of liquid assets, as well as to attract financing with an appropriate term structure, which allows to ensure timely fulfilment of liabilities, as well as pre-planned growth of assets.

The Company complies with the prudence principle in the management of its liquidity risk and maintains sufficient funds. The management of the Company has an oversight responsibility of the liquidity reserves and it makes current forecasts based on anticipated cash flows. Most of the Company's liabilities are short-term liabilities. The management is of the opinion that the Company will be able to secure sufficient liquidity by its operating activities.

The total liabilities of the Company by term is reflected in the following table. The amounts disclosed in the table are contractual undiscounted cash flow.

Borrowings (excluding lease liabilities)	Less than 3 months	3 months to 1 year	From 1 to 5 years	Total
31 December 2018, EUR	-	1 022 750	3 317 000	4 339 750
31 December 2019, EUR	-	1 114 099	5 200 200	6 314 299
Lease liabilities	Less than 3 months	3 months to 1 year	From 1 to 5 years	Total
31 December 2018, EUR	25 038	-	-	25 038
31 December 2019, EUR	15 189	46 934	80 241	142 364

Market risk

The Company is exposed to market risks, mostly related to the fluctuations of interest rates between the loans granted and funding received, as well as demand for the Company's services fluctuations. The Company attempts to limit market risks, adequately planning the expected cash flows, diversifying the product range and fixing funding resource interest rates.

Notes to the financial statements (continued)

Accounting policies (continued)

(b) Summary of significant accounting policies (continued)

Financial risk management (continued)

Cash flow and interest rate risk

Interest rate risk is related to the possible impact of general changes in market interest rates on the Company's interest income and expenses.

Loans issued by the Company are with a fixed interest rate, similarly as LCD Bonds and other short-term loans received. At the end of the reporting year, interest rate risk applies only to finance lease liabilities with interest rates applied consisting of base rate and variable rate (6M Euribor, 3M Euribor), however the balance of these liabilities compared to other liabilities is not particularly significant.

Management of the Company monitors fluctuations of % rates on regular basis and, if necessary, takes measures in order to minimize negative impact of % rate fluctuations on Company's operations.

Operational risk

Operational risk is a loss risk due to external factors namely (natural disasters, pandemic, crimes, etc) or internal ones (IT system crash, fraud, violation of laws or internal regulations, insufficient internal control). Operation of the Company carries a certain operational risk which can be managed using several methods including methods to identify, analyse, report and reduce the operational risk.

Foreign exchange risk

The Company's financial assets and liabilities are not exposed to foreign currency risk. All transactions are concluded in euros.

Management of the capital structure

In order to ensure the continuation of the Company's activities, while maximizing the return to stakeholder's capital management, optimization of the debt and equity balance is performed. The Company's capital structure consists of borrowings from related persons, third party loans and loans from credit institutions and finance lease liabilities, cash and equity, comprising issued share capital, other reserves and retained earnings.

At year-end the ratios were as follows:

	31.12.2019	31.12.2018
	EUR	EUR
Liabilities, gross	5 914 716	4 094 592
Cash and bank	103 515	373 500
Net debts	5 811 201	3 721 092
Equity	1 874 592	1 831 990
Liabilities / equity ratio	3.17	2.24
Net liabilities / equity ratio	3.32	2.03

The change in the ratios as at 31 December 2019 is related to the increase in the loan portfolio in accordance with the Company's development plan, as a result of which the amount of attracted financing (debt) has also increased.

Fair value considerations for assets and liabilities

Financial instruments by category

The Company's principal financial instruments are issued loans, cash and cash equivalents, issued bonds and other borrowings, payables to suppliers and other creditors. These financial instruments ensure day-to-day operations of the Company.

	31.12.2019	31.12.2018
	EUR	EUR
Assets carried at amortized cost		
Issued loans	7 635 439	5 919 501
Cash and cash equivalents	103 515	373 500
Total	7 738 954	6 293 001
Liabilities at amortized cost		
Issued debt securities (bonds)	4 860 000	2 750 000
Other borrowings	912 459	1 300 000
Lease liabilities, trade creditors and other payables	142 257	44 592
Total	5 914 716	4 094 592

Notes to the financial statements (continued)

Accounting policies (continued)

(b) Summary of significant accounting policies (continued)

Financial risk management (continued)

Fair value hierarchy of assets and liabilities

In order to estimate the financial assets and liabilities fair value, the three-level fair value hierarchy is used.

Level 1: active market published price quotations;

Level 2: other methods that use data, all of which are directly or indirectly observable and have a significant impact on the recognized fair value;

Level 3: other techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

No financial assets or liabilities of the Company are attributed to Level 1. Included in Level 2 are cash and cash equivalents and debt securities (bonds). Level 3 includes issued loans and other debts, other financial assets, payables and other liabilities.

The Company's management has determined that the carrying amounts of the Company's financial assets and liabilities carried at amortized cost as at 31 December 2019 and 2018 approximate their fair values, as explained below:

- the amortized cost of loans granted, net of provisions for the ECL, approximates their fair value, taking into account the short-term nature of these assets and the fact that their interest rate is similar to the average market interest rate for similar financial assets;
- the carrying amount of the issued bonds approximates their fair value, given that the rate of return quoted on the securities market is similar to the coupon rate of these bonds;
- the fair value of variable interest rate leases is similar to their carrying amount, as their actual variable interest rates approximate the market price of similar financial instruments available to the Company, ie the variable interest rate corresponds to the market price, while the added part of the interest rate corresponds to the risk premium charged by lenders in the financial and capital markets to companies with a similar credit rating level;
- the rate applied to loans received at fixed interest rates does not differ significantly from the comparable variable rate that the Company could receive from market lenders.

SIA „AGROCREDIT LATVIA”
ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2019
(TRANSLATION FROM LATVIAN)

Notes to the financial statements (continued)

(1) Interest income

	2019 EUR	2018 EUR
Interest income from issued loans	794 080	684 287
Other interest income	115 747	60 899
	<u>909 827</u>	<u>745 186</u>

All interest income is recognized at the effective interest rate and includes amortized commissions (2019: EUR 76,636 and 2018: EUR 63,880). All of the Company's revenues are generated in Latvia.

(2) Interest expense

LCD bonds' coupon expense	278 246	192 500
Interest on other loans received	68 082	20 054
Interest on loans received – Mintos Marketplace AS	56 982	-
Leverage expenditure	9 498	8 692
Interest on loans received from related companies	5 600	8 450
Interest on loans received – Citadele Banka AS	-	58 935
Interest on loans received – Luminor Līzings SIA	1 999	3 004
Interest on Financial lease liabilities	982	-
	<u>421 389</u>	<u>291 635</u>

(3) Impairment

Change of impairment allowance for issued loans (see Note 8)	70 000	(5 000)
	<u>70 000</u>	<u>(5 000)</u>

(4) Administrative expense

Staff costs	59 076	52 928
Legal services, including debt collection costs	43 381	64 662
IT costs	21 120	31 706
Accounting services and professional fees	19 061	15 934
Social insurance	14 200	12 750
Transportation expenses	12 387	19 450
Office rent	9 327	9 321
Depreciation of right-of-use assets	7 063	-
Office expenses	5 533	6 575
Communication expenses	3 624	3 349
Decrease of fixed assets value	2 244	1 657
Insurance	1 276	3 574
Bank commission	545	412
Risk duty	14	13
Other administrative expenses	2 843	1 435
	<u>201 694</u>	<u>223 766</u>

(5) Other operating expenses

Debt recovery costs	28 936	6 230
Marketing and advertising costs	17 518	8 718
Sales promotion costs	4 834	4 730
Donations	3 300	4 000
Membership fees	3 176	4 812
Other operating expenses	547	505
Adjustment of prior period expenses	(7)	(15)
Reimbursement of expenses	(3 527)	(6 795)
Other operating expenses	547	505
	<u>54 777</u>	<u>22 185</u>

Notes to the financial statements (continued)

(6) Property, plant and equipment

	Other fixed assets EUR	Total EUR
Cost		
31.12.2018.	11 513	11 513
Additions	-	-
31.12.2019.	11 513	11 513
Depreciation		
31.12.2018.	4 432	4 432
Charge for 2019	2 244	2 244
31.12.2019.	6 676	6 676
Net book value 31.12.2018.	7 081	7 081
Net book value 31.12.2019.	4 837	4 837

(7) Leases

Company as a lessee:

Right-of-use assets:

Net book value

EUR

31.12.2018.

Initial recognition amount

1.1.2019.

New lease contracts during the year

Depreciation of right-of-use assets

31.12.2019.

Lease liabilities:

Net book value

31.12.2018

Initial recognition value of lease obligations in respect of right-of-use assets

Reclassified financial lease liabilities (from borrowings)

1.1.2019

incl. long-term

short-term

New lease contracts during the year

Interest expenses on lease liabilities

Interest paid on lease liabilities

Decrease of lease liabilities

31.12.2019

incl. long-term

short-term

Assets received under finance leases are leased under finance leases to the Company's customers.

Company as a lessor:

Financial lease

Undiscounted lease payments expected after reporting date and with in:

1 year

2-5 years

Total undiscounted lease payments receivable

Discounted unguaranteed residual value

Unearned finance income

Net investment leasing

Interest income on the net investment

31.12.2019

EUR

475 830

357 183

833 013

-

(132 667)

700 346

76 411

31.12.2018

EUR

252 863

314 585

567 448

-

(102 824)

464 624

59 651

The lessor's portfolio mainly includes agricultural machinery and equipment. Residual value risk is not significant as there is a secondary market.

SIA „AGROCREDIT LATVIA”
ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2019
(TRANSLATION FROM LATVIAN)

Notes to the financial statements (continued)

(8) Loans issued

	31.12.2019. EUR	31.12.2018. EUR
Loans issued – long-term	741 174	321 752
Loans issued – short-term	6 880 031	5 205 264
Total	7 621 205	5 527 016
<i>Including:</i>		
Issued loan portfolio - long-term portion	748 674	321 752
Issued loan portfolio - short-term portion	7 047 531	5 310 264
Total issued loan portfolio, gross	7 796 205	5 632 016
Allowance for expected credit losses	(175 000)	(105 000)
Total issued loan portfolio, net	7 621 205	5 527 016
Loans issued – movement during the year		
	2019 EUR	2018 EUR
Net book value as at 1 January	5 527 016	4 989 793
Loans issued	8 185 623	5 858 367
Loans repaid	(6 163 279)	(5 345 191)
Interest charge 2019	909 827	745 186
Interest payments received	(767 982)	(726 139)
Write-offs	-	-
Change in impairment allowance	(70 000)	5 000
Net book value as at 31 December	7 621 205	5 527 016

As at 31 December 2019 the Company has no credit risk concentration for loans issued to one major customer or group of partners.

Company's maximum exposure to credit risk on finance leases and loans issued against the pledge is the loan/finance lease amount decreased by the value of the pledge. Loans are usually issued in amount of 70-80% of the pledge value.

Company's maximum exposure to credit risk on unsecured loans is the remaining amount of the loans issued. The risk is compensated by the concluded grain contracts.

Loan (gross) age analysis:

	31.12.2019. EUR	31.12.2018. EUR
Not overdue	6 930 842	5 286 703
Overdue for 1 - 30 days	131 613	3 419
Overdue for 31 - 90 days	546 264	189 788
Overdue for 91 - 180 days	55 130	41 694
Overdue for more than 180 days	132 356	110 412
	7 796 205	5 632 016

Movement of impairment allowance:

	2019 EUR	2018 EUR
Allowance at the beginning of the year	105 000	110 000
Additional allowance	155 000	110 000
Recovered debts	(30 000)	(50 000)
Reversed allowance during the year	(55 000)	(65 000)
Allowance at the end of the year	175 000	105 000

Notes to the financial statements (continued)

(8) Loans issued (continued)

Breakdown of loans issued according to their qualitative assessment

	Stage 1 (12 month ECL)	Stage 2 (lifetime ECL)	Stage 3 (impaired/ life-time ECL)	Total
	EUR	EUR	EUR	
31.12.2019.				
Gross carrying amounts	7 062 455	439 650	294 100	7 796 205
ECL allowances	(70 625)	(7 390)	(96 985)	(175 000)
Net carrying amounts	6 991 830	432 260	197 115	7 621 205
ECL coverage ratio	0,01	0,02	0,33	0,02
31.12.2018.				
Gross carrying amounts	5 290 122	189 788	152 106	5 632 016
ECL allowances	(52 901)	(8 365)	(43 734)	(105 000)
Net carrying amounts	5 237 221	181 423	108 372	5 527 016
ECL coverage ratio	0,01	0,04	0,29	0,02

Gross carrying amounts and ECL allowances for credit-impaired loans allocated to stage 3 and the fair value of collaterals for these assets

	Stage 3 (impaired/ life-time ECL)	Gross carrying amounts	ECL allowances	Net carrying amounts	Fair value of collateral held
31.12.2019.		294 100	(96 985)	197 115	95 000
31.12.2018.		152 106	(43 734)	108 372	139 000

(9) Other debtors

CIT and other taxes overpaid	17	15 024
Prepaid expenses	1 267	1 265
Advance payments received	-	2 696
LCD bonds' coupon	12 950	-
	14 234	18 985

(10) Cash and bank

Cash at bank	103 515	373 500
--------------	----------------	----------------

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, since cash at bank are held in Range A banks (Moody's rating), the identified impairment loss is immaterial and allowance was not recognised.

(11) Share capital

As at 31 December 2019 the subscribed and fully paid share capital the Company is EUR 1 500 000 that consists of 50 000 ordinary shares with a nominal value of EUR 30 each.

As at 1 August 2019, the shareholders of the Company made a decision on the distribution of profit, distributing the retained earnings accumulated by 31 December 2017 in the total amount of EUR 119,365 or approximately EUR 2,39 per share (rounded).

SIA „AGROCREDIT LATVIA”
ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2019
(TRANSLATION FROM LATVIAN)

Notes to the financial statements (continued)

(12) Borrowings

		31.12.2019	31.12.2018
		EUR	EUR
Loan – AgroCredit Estonia OU	(12a)	-	350 000
Bonds issued	(12b)	4 860 000	2 750 000
Total long-term part		4 860 000	3 100 000
Loans	(12a)	739 000	950 000
Finance lease - SIA Luminor Līzings	(12a)	-	24 805
Mintos Marketplace AS	(12a)	173 459	-
Total short-term part		912 459	974 805
Total borrowings		5 772 459	4 074 805

(12a) Other borrowings

		31.12.2019.	31.12.2018.
		EUR	EUR
Loan – AgroCredit Estonia OU		-	350 000
Other borrowings' long-term part		-	350 000
Loan – SIA VIAREK		-	250 000
Loan – SIA KEY INVESTMENT		540 000	700 000
Loan – AgroCredit Finance SIA		199 000	-
Lease – SIA Luminor Līzings		-	24 805
Mintos Marketplace AS		173 459	-
Other borrowings' short-term part		912 459	974 805
Total other borrowings		912 459	1 324 805

As at 31 December 2019 the Company has the following borrowings:

- unsecured loan from AgroCredit Finance SIA, according to the loan agreement from 12 December 2019 in amount of EUR 200 000 with annual interest rate of 7%, repayment date 15 January 2020.
- unsecured loan from SIA KEY INVESTMENT according to the loan agreement from 21 December 2018 and the amendments during year 2019, total amount of the loan received is EUR 950 000 with the annual interest rate of 7% and repayment date 30 September 2020.
- an agreement was signed on 25 January 2019 with AS Mintos Marketplace whereas AgroCredit uses the Mintos internet platform to attract funds from investors to provide credit resources. For borrowed funds, AgroCredit pays investors the interest rate indicated on the platform (normally 6-7% per annum), as well as fee to Mintos (depending on the total amount financed, 1.3-2% per annum).

The repayment term for the borrowing is related to the grain season and is set at 31.10.2020.

(12b) Bonds issued

	31.12.2019	31.12.2018
	EUR	EUR
LCD Bonds issued	4 860 000	2 750 000
	4 860 000	2 750 000

The Company has issued bonds (ISIN LV0000802106, registered in Latvian Central Depository, listed in AS Nasdaq Riga). As at the end of reporting year total amount of bonds listed in AS Nasdaq Riga is 700 bonds, 5 000 EUR nominal value each (total nominal value 3 500 000 EUR) (31.12.2018: 700 bonds, 5 000 EUR nominal value each). As at 31 December 2019, 28 bonds are held by the Company itself (31.12.2018: 150 bonds). The coupon rate is 7% and it is paid once a year – on December 31. The nominal value of the bonds will be redeemed in one payment on the redemption date of the bonds. The expiry date of the bonds is 31 December 2026. Most of the holders (excluding bonds for amount EUR 300 000) have an option to sell-back the bonds in the end of each calendar year, with a prior 1-month notice. No such requests have been received so far.

SIA „AGROCREDIT LATVIA”
ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2019
(TRANSLATION FROM LATVIAN)

Notes to the financial statements (continued)

(12) Borrowings (continued)

(12c) Loans received – movement during the year

	2019	2018
	EUR	EUR
Net book value as at 1 January	4 074 805	3 354 236
Reclassified to lease liabilities	(24 805)	-
Loans received	8 086 420	5 358 200
Loans repaid	(6 363 962)	(4 637 631)
Interest charge	351 929	282 943
Interest paid	(357 153)	(277 601)
Change in accrued interest	5 225	(5 342)
Net book value as at 31 December	5 772 459	4 074 805

(13) Trade creditors and other liabilities

	31.12.2019	31.12.2018
	EUR	EUR
Debt for goods and services received	3 813	7 429
Accrued liabilities	5 233	5 175
Corporate income tax liabilities	234	-
Other liabilities	1 958	7 183
	11 238	19 787

(14) Related party transactions

Payables and receivables from related parties and the transactions performed during reporting period

Related party	Type of transaction	Transaction value 2019 EUR	Payables outstanding as at 31.12.2019. EUR
Loan received from shareholder (till 13.08.2019)	Loan received	86 100	-
	Loan repaid	(436 100)	-
	Interest charge	5 600	-
	Outstanding balance	-	-
Loan received from related parties	Loan received	2 043 000	-
	Loan repaid	(2 203 000)	-
	Interest charge	18 323	-
	Outstanding balance	-	540 000
Loan received from shareholder (since 13.08.2019)	Loan received	199 000	-
	Interest charge	764	-
	Outstanding balance	-	199 000

Except for the above transactions, the Company has not performed any other related party transactions during the reporting year.

(15) Average number of the Company's employees

	2019	2018
Average number of employees during the reporting year:	<u>3</u>	<u>3</u>

SIA „AGROCREDIT LATVIA”
ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2019
(TRANSLATION FROM LATVIAN)

Notes to the financial statements (continued)

(16) Personnel costs

	2019 EUR	2018 EUR
Salary expenses	33 812	27 737
Social insurance	8 161	6 681
	<u>41 973</u>	<u>34 418</u>

(17) Management remuneration

	2019 EUR	2018 EUR
Salary expenses	25 264	25 191
Social insurance	6 039	6 069
	<u>31 303</u>	<u>31 260</u>

(18) Subsequent events

There are no subsequent events since the last date of the reporting year, which would have a significant effect on the financial position of the Company as at 31 December 2019.

The current situation indicates the fall of the global economy in 2020 caused by Covid-19 crises. The management of the Company has made an analysis of the potential risks for the company caused by this issue. The recent outbreak of the new coronavirus Covid-19 pandemic and the measures taken by the government to limit its spread have affected all economic and social sectors. Given that the Company's core business is lending to farmers and that the current emergency has hardest hit other sectors, such as hotels and restaurants, transport and tourism, the impact of the current situation on the Company can be described as limited. The agriculture (especially cereal farming) has two considerable advantages in comparison to majority of other production sectors. Working in big groups is not characteristic for agriculture nowadays, so the production process is not influenced much by the current rules of self-isolation. The agriculture crops and products made from them represent the basic needs for humans, so the demand is not influenced considerably also during the crisis's times. Even more – the governments tend to increase grain reserves during uncertain times, so that gives a positive impact on grain prices.

On the other hand, the Company recognizes the risk of low availability of credit resources in financial markets. The funding needed to achieve the goals of year 2020 are available for the Company. Still the further growth in 2021 can be influenced by the limited funds available in the market if the crises will have a longer run impact on the financial sector.

(19) Distribution of the profit proposed by the Board

The Management Board proposes to retain the profit in amount of 161 967 EUR undivided.

 Girts Vinters
 Chairman of the Board

 Jānis Kārklīš
 Member of the Board

 Evija Šverna
 Accountant

Riga, 30 April 2020

Independent Auditor's Report

To the shareholders of SIA AgroCredit Latvia

Report on the audit of financial statements

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of SIA AgroCredit Latvia ("the Company") set out on pages 6 to 29 of the accompanying annual accounts, which comprise:

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

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

Our opinion is consistent with our additional report to the Council (body equivalent to the Audit Committee) dated 30 April 2020.

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

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.

Key Audit Matters

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

Key audit matter

How our audit addressed the key audit matter

Expected credit losses on loans issued

Refer to Section "Impairment of financial assets at amortised cost. Expected credit losses" on pages 13, 14 and 15 of the financial statements and Note 8 on pages 25 and 26 respectively.

We focused on this area because loans issued represent a significant part of the Company's assets and application of IFRS 9 "Financial instruments" expected credit loss (ECL) model for loans impairment losses requires subjective judgements over both timing of recognition of impairment and the size of any such impairment.

As disclosed in Note 8 to the Financial statements, the net balance sheet value of loans issued as at 31 December 2019 amount to EUR 7 621 205. As at 31 December 2019 expected credit losses for loans issued amounted to EUR 175 000 and net loss for 2019 from the impairment allowance amounted to EUR 70 000.

Our audit procedures, amongst others, included the following:

- meeting with the financial management of the Company in order to discuss the specifics of the current market situation, expected profit levels and ratios of asset return;
- obtaining understanding of general principles applied to loan issuance and the adequacy of control procedures applied for the monitoring of borrowers;
- assessing whether the Company's accounting policies in relation to the ECL of issued loans are in compliance with IFRS 9 by assessing each significant model component.
- review of adequacy of ageing analysis of loans issued on a random selection basis, as ageing analysis is one of the ECL components;

Key audit matter

ECL rate is affected by the carrying value of defaulted asset, the probability of default and other risk factors known, as well as expected cash flows from loan repayment or pledge realisation, as well as modifications of ECL model in the result of microeconomic scenarios. For determination of components for ECL calculation, the management of the Company applies a number of significant assessments and judgements.

How our audit addressed the key audit matter

- in accordance with the ECL model developed by the Company, as well as our test results, identified accounts receivable with the highest risk level and substantively tested ECL recognition;
- evaluating the adequacy and sufficiency of provisions made in prior periods with the actual repayment data for the loans provided for;
- analytical tests of consistency and adequacy of ECL model application;
- evaluating the loan repayment dynamics after the balance sheet date;
- we have reviewed the disclosures to the financial statements.

Reporting on Other Information

Management is responsible for the other information. The other information comprises:

- the Management report, as set out on pages 3 to 4 of the accompanying annual accounts,
- the Statement of Management's Responsibility and Corporate governance statement, as set out on page 5 of the accompanying annual accounts,
- the Statement of Corporate Governance, set out in separate statement prepared by the Company's management and at the date of this auditor's report available on the Company's website <http://www.agrocredit.lv/>.

Our opinion on the financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

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

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

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS as adopted by the European Union 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.

Auditor's Responsibility for the Audit of the Financial Statements

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

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

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

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

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.

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in Article 56.2 section 3 of the Financial Instruments Market Law.

In our opinion, the Statement of Corporate Governance available on the Company's website <http://www.agrocredit.lv/> at the date of this auditor's report includes the information required in Article 56.2 section 3 of the Financial Instruments Market Law.

To the best of our knowledge and belief, we declare that we have not provided to the Company any non-audit services prohibited in accordance with Article 37.⁶ of the Law on Audit Services of the Republic of Latvia.

Appointment

We were first appointed as auditors for the Company's financial statements for the year ended 31 December 2016. This is the fourth consecutive year of our appointment as auditors.

The responsible certified auditor on the audit resulting in this independent auditor's report is Lolita Čapkeviča.

On behalf of
SIA Potapoviča un Andersone,
Ūdens street 12-45, Riga, LV-1007
Certified Auditors Company licence No. 99

Lolita Čapkeviča
Responsible Certified Auditor
Certificate No. 120
Member of the Board

Riga, 30 April 2020