

JOINT STOCK COMPANY

“HIPOCREDIT”

ANNUAL REPORT

FOR THE PERIOD ENDED 31 DECEMBER 2019

**JOINT STOCK COMPANY HIPOCREDIT
(SINGLE REGISTRATION NUMBER 40103793931)**

2019 ANNUAL REPORT

(6th financial year)

**PREPARED IN ACCORDANCE WITH THE LATVIAN REPUBLIC LAW ON ANNUAL FINANCIAL STATEMENTS
AND CONSOLIDATED ANNUAL FINANCIAL STATEMENTS**

Riga, 2020

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General Information

| | | |
|-------------------------------------|---|---|
| Company Name | Hipocredit | |
| Legal status | Joint stock company | |
| Registration number, place and date | 40103793931 Riga, 28 May 2014 | |
| Registered office | Elizabetes Street 65-11, Riga, Latvia, LV-1050 | |
| Members of the Board | Solvita Caune - Chairman of the Board (from 18 May 2016) Gediminas Velicka - Member of the Board (from 22 November 2017) | |
| Council members | Ramona Miglāne - Chairman of the Council (until 06.03.2019) Mindaugas Velička - Chairman of the Council (from 07.03.2019) Mārtiņš Šulte - Deputy Chairman of the Council (from 18 May 2016) Mārtiņš Valters - Member of the Council (from 18 May 2016) | |
| Accountant | Outsourced accountant Reg.no. 19127812015 Vita Uzkalne | |
| Financial period | 1 January - 31 December 2019 | |
| Auditors | Irita Cimdare Sworn Auditor of the Republic of Latvia Certificate No. 103 | SIA BDO Assurance Kaļķu Street 15-3B, Riga Latvia, LV-1050 License No. 182 |

Management Report

Description of the company's activities

AS Hipocredit's core business is lending services. Loans are issued against real estate collateral.

Company's activity in the reporting year

Compared to 2018, the company's net turnover has increased. The company's income increased as loans began to be issued against real estate collateral located throughout Latvia. A higher loan rate is applied to loans secured outside Riga. The company has accelerated the processing and issuance of loans. Agreements with intermediary companies have been concluded to attract customers.

Financial performance indicators.

| Indicators | 2019 | 2018 | Analysis |
|-----------------------------|-----------|---------|--|
| Net turnover | 1 083 084 | 852 019 | The turnover has increased as loans began to be issued against real estate collateral throughout Latvia |
| Profitability on net profit | 25.16% | 12.25% | The increase in net profit profitability is ensured by the increased rate on loans secured by real estate outside Riga |

Future prospects and future developments

The company will continue to issue loans, but with more caution, assessing the solvency of each customer and the potential risks that would hinder the repayment of the loan.

During 2018 and 2019, AS Hipocredit did not own any shares.

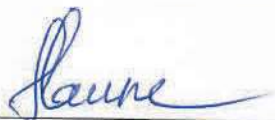
The Board of the Company recommends to cover the losses of previous years from the profit of the reporting year.

The Company's exposure to risks

See Note No. 20 to the Financial Statements attached.

Events after the balance sheet date

An analysis of the impact of the new coronavirus pandemic and the related economic crisis on the development of the Company's operations is provided in Note 21 to the Financial Statements attached.



Solvita Caune
Chairman of the Board

7 August, 2020

Profit or loss account

| | Note | 2019 EUR | 2018 EUR |
|--|------|------------------|------------------|
| Net turnover | | 1 083 084 | 852 019 |
| a) from other principal activities | 4 | 1 083 084 | 852 019 |
| Staff costs: | 5 | (78 169) | (61 669) |
| a) remuneration for work | | (62 979) | (49 755) |
| b) State mandatory social insurance contributions | | (15 172) | (11 888) |
| c) other social security costs | | (18) | (26) |
| Impairment adjustments: | 9 | (16 099) | (39 749) |
| a) impairment adjustments for fixed assets and intangible assets | | (16 099) | (39 749) |
| Other operating expenses | 6 | (115 242) | (113 806) |
| Other revenue from interest and similar revenue: | 7 | 26 | 1 282 |
| a) from related companies | | - | - |
| (b) from other persons | | 26 | 1 282 |
| Interest paid and similar charges: | 8 | (581 440) | (533 731) |
| (a) to related companies | | (232 276) | (146 549) |
| (b) to other persons | | (349 164) | (387 182) |
| Profit/ (loss) before taxes | | 292 160 | 104 346 |
| Enterprise income tax for the reporting year | | (19 646) | - |
| Profit or loss for the reporting year | | 272 514 | 104 346 |

The Annex on pages 8 to 17 forms an integral part of these financial statements.



Solvita Caune
Chairman of the Board



Vita Uzkalne
Accountant

7 August, 2020

Balance Sheet

| ASSETS | | Note | 31/12/2019 EUR | 31/12/2018 EUR |
|---|----|------|-------------------|-------------------|
| LONG-TERM INVESTMENTS | | | | |
| I Intangible assets: | | | | |
| Concessions, patents, licenses, trademarks and similar rights | 9 | | - | 9 485 |
| Other intangible assets | 9 | | 5 658 | 10 114 |
| Total I Intangible assets | | | 5 658 | 19 599 |
| II Fixed assets: | | | | |
| Other fixed assets and inventory | 9 | | 1 191 | 2 106 |
| Total II Fixed assets | | | 1 191 | 2 106 |
| III Long-term financial investments: | | | | |
| Other loans and other long-term debtors | 10 | | 5 509 007 | 4 546 009 |
| Total III Long-term financial investments | | | 5 509 007 | 4 546 009 |
| Total LONG-TERM INVESTMENTS | | | 5 515 856 | 4 567 714 |
| CURRENT ASSETS | | | | |
| I Debtors: | | | | |
| Purchasers and commissioning party debts | 10 | | 1 046 155 | 978 293 |
| Other debtors | 11 | | 39 365 | 48 460 |
| Deferred expenses | 12 | | 14 524 | 14 945 |
| Total I Debtors | | | 1 100 044 | 1 041 698 |
| II Cash | 13 | | 518 139 | 172 484 |
| Total CURRENT ASSETS | | | 1 618 183 | 1 214 182 |
| TOTAL ASSETS | | | 7 134 039 | 5 781 896 |

The Annex on pages 8 to 17 forms an integral part of these financial statements.



Solvita Caune
Chairman of the Board



Vita Uzkalne
Accountant

Balance Sheet

| LIABILITIES | | | |
|---|------|------------------|------------------|
| | Note | 31/12/2019 | 31/12/2018 |
| | | EUR | EUR |
| EQUITY | | | |
| Share capital | 14 | 500 000 | 500 000 |
| Uncovered losses from previous years | | (329 963) | (434 309) |
| Profit or (losses) for the reporting year | | 272 514 | 104 346 |
| TOTAL EQUITY | | 442 551 | 170 037 |
| LONG-TERM CREDITORS | | | |
| Debts to related undertakings | 15 | 2 055 000 | 2 460 000 |
| Other loans | 16 | 4 503 152 | 1 936 562 |
| Total LONG-TERM CREDITORS | | 6 558 152 | 4 396 562 |
| SHORT-TERM CREDITORS | | | |
| Prepayments received from purchasers | | 26 178 | 13 191 |
| Accounts payable to suppliers and contractors | | 3 125 | 4 633 |
| Debts to related undertakings | 15 | 54 539 | - |
| Other loans | 16 | 10 231 | 1 179 040 |
| Taxes and State mandatory social insurance payments | 17 | 26 968 | 11 401 |
| Other creditors | 18 | 4 101 | - |
| Accrued liabilities | 19 | 8 194 | 7 032 |
| Total SHORT-TERM CREDITORS | | 133 336 | 1 215 297 |
| TOTAL LIABILITIES | | 7 134 039 | 5 781 896 |

The Annex on pages 8 to 17 forms an integral part of these financial statements.



Solvita Caune
Chairman of the Board



Vita Uzkalne
Accountant

7 August, 2020

Annex to the financial statements

1. General information about the Company

AS Hipocredit (hereinafter - the Company) was registered in the Register of Enterprises of the Republic of Latvia on 28 May 2014. The legal address of the Company is Elizabetes Street 65-11, Riga, Latvia.

The main activity of the company during the reporting period was issuing mortgage loans to consumers in Latvia (NACE code: 64.92).

The parent company of the Company from 29 October 2018 is UAB Hipotekiniai kreditai (Lithuania).

The Financial Statements of the Company for the period from 1 January 2019 to 31 December 2019 have been approved by the decision of the Board of the Company on 7 August 2020.

2. Summary of significant accounting policies

a. Guidelines for preparing financial statements

These Financial Statements have been prepared in accordance with the Law on Annual Financial Statements and Consolidated Financial Statements of the Republic of Latvia. The Financial Statements have been prepared under the historical cost convention. The Financial Statements have been prepared on going concern basis. The Profit and Loss Account is classified by type of expense.

The monetary unit used in the Financial Statements is the currency of the Republic of Latvia, the euro (EUR). The Financial Statements cover the period from 1 January 2019 to 31 December 2019.

In order to improve the comparability of the prepared Profit and Loss Account and Balance Sheet, certain items in the income statement and balance sheet for 2019 have been reclassified.

b. Financial instruments

(i) Classification

A financial asset is an asset that is cash, an equity instrument of another company, a contractual right to receive cash or another financial asset from another company or exchange financial assets or financial liabilities with another company under conditions that are potentially favourable to another company which will or may be settled with the company's own equity instruments and which is non-derivative and for which the company has or may have an obligation to receive a variable number of the company's own equity instruments, or a derivative that will or may be settled other than by exchanging a fixed cash or other financial asset amount against a fixed number of the company's equity instruments.

Financial assets are classified as investments initially recognized by the company by profit or loss at fair value, investments that are by definition loans and receivables, held-to-maturity investments and available-for-sale investments, as appropriate. Financial assets are initially recognized at fair value plus directly attributable transaction costs, unless the related investment is reported at fair value in profit or loss. After initial recognition, the Company determines the classification of its financial assets and, where appropriate, revises that classification at the end of each financial year. At present, all financial assets are classified as loans and receivables.

A financial liability is a contractual obligation to deliver cash or another financial asset to another company or to exchange financial assets or financial liabilities with another company under conditions that are potentially unfavourable to the company, or a contract that will or may be settled by the company's own equity instruments and which is non-derivative and for which the company has or may have an obligation to deliver a variable number of the company's own equity instruments, or derivative that will or may be settled otherwise than by exchanging a fixed amount of cash or another financial asset for a fixed number of equity instruments. For this purpose, a company's equity instruments are not instruments that are themselves contracts for the future receipt or delivery of the company's equity instruments.

2. Summary of significant accounting policies (continued)

(ii) Recognition

All financial assets or liabilities are initially recognized in the balance sheet only on the trade date, i.e. when the Company becomes a party to the contractual provisions of the instrument and transfers the cash.

(iii) Initial and Subsequent Accounting

Loans and receivables are non-derivative financial assets with fixed or determinable payment schedule that are not quoted in the active market, except:

- those that the Company intends to sell immediately or in the foreseeable future and those that the Company initially recognizes as financial assets at fair value through re-evaluation as profit or loss
- those that the Company initially recognizes as available for sale
- those for which the Company is unable to recover substantially all of its initial investment, unless due to a deterioration in its credit position

Such assets are carried at amortized cost using the fair value method, minus allowance for doubtful debts (impairment losses). Profit or losses are recognized in the Profit or Loss Account when the assets are derecognised or their value is diminished, as well as through the amortization process. Profit or losses arising from amortization are included in profit or losses as net turnover - interest income.

(iv) Derecognition

Financial assets are derecognised only when the contractual rights to receive cash flows from the asset have expired or the Company has transferred substantially all risks and rewards of the financial asset to the counterparty. Financial liabilities are derecognised only when they are cancelled/ repaid in accordance with the agreement, cancelled or the term specified in the agreement has expired.

(v) Impairment of loans and receivables (provisions)

The Company's management assesses at each balance sheet date whether there is objective evidence that a loan or loan portfolio is impaired. A loan or loan portfolio is impaired and an impairment loss is incurred only if there is significant objective evidence that such an impairment loss has occurred as a result of one or more events that occurred after the initial recognition of the loan (loss event), and if in the effect of the loss event (or several events) the present value of the estimated future cash flows has become less than the carrying amount of the loan or loan portfolio and if the effect can be measured reliably.

The Company first assesses whether objective evidence of impairment exists individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. If the Company determines that no objective evidence of impairment exists for each individually assessed loan, whether significant or not, it includes the asset with similar credit risk characteristics in the group and assesses them collectively for impairment. Financial assets that are individually assessed for impairment or for which an impairment loss has already been identified are excluded from the group of financial assets that are tested for impairment risk.

Impairment losses on a loan are determined as the difference between the present value of estimated future cash flows, discounted at the loan's original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure minus costs for obtaining and selling the collateral, whether or not foreclosure is probable. Losses are recognized in the Profit and Loss Account.

If the issued loans cannot be recovered and all collateral has been realized, they are written off at the same time reducing the amount of provisions for doubtful debts. Loans are not written off until all necessary legal measures have been taken and the final amount of losses has been determined.

c. Intangible assets

Intangible assets are stated at the initial cost minus accumulated amortization and impairment losses. Depreciation is calculated with the straight line method for the estimation of the useful lives of the assets over a 5 year period. Depreciation is calculated starting from the month following the involvement of the intangible asset in the economic activity.

2. Summary of significant accounting policies (continued)

d. Fixed assets

Fixed assets are stated at their initial cost minus accumulated depreciation and impairment losses. Depreciation is calculated with the straight line method over the estimated useful life of the specific asset:

| | |
|--------------------|-------------|
| Other fixed assets | 3 - 5 years |
|--------------------|-------------|

Depreciation is calculated starting from the month following the commissioning of fixed assets or involvement in economic activity.

The carrying value of an item of fixed assets is derecognized when the asset is disposed of or when no future economic benefits are expected from its use. Any profit or loss incurred on derecognition of an item of fixed assets (calculated as the difference between the net disposal proceeds and the carrying value of the item) is recognized in the income statement in the period in which the item is derecognised.

e. Impairment of non-financial assets

An assessment is made at each reporting date to determine whether there is any indication that a non-financial asset may be impaired. This assessment is made more frequently when changes or other events occur that may lead to a decrease in the value of non-financial assets. If any such indication exists, the recoverable amount of the non-financial asset is determined. The carrying amount of an asset is reduced to its recoverable amount only if the asset's recoverable amount is less than its carrying amount. This decrease is an impairment loss.

For non-financial assets, an assessment is made at each reporting date to determine whether there is any indication that previously recognized impairment losses may have decreased or no longer exist. If any such indication exists, the asset's recoverable amount is determined.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If a change is made, the carrying amount of the non-financial asset is increased to its recoverable amount. This increase is an estimate of the impairment loss.

f. Cash

Cash and cash equivalents consist of cash at bank.

g. Recognition of income and expenses

All significant income and expenses are accounted for on an accrual basis. Interest income/expense on financial assets/liabilities measured at amortized cost is recognized in the income statement using the fair value method.

Commission income from loan origination is recognized immediately as profit to cover loan origination expenses, which is in accordance with Article 14 (1) of the Annual Financial Statement and Consolidated Annual Financial Statements Law i.e. costs are reconciled with revenue in the relevant reporting periods.

h. Contingent liabilities and assets

Contingent liabilities have not been recognized in these Financial Statements. They are recognized as a liability only when it is probable that an outflow of resources will be required to settle the obligation. Contingent assets are not recognized in these Financial statements but are disclosed only when it is probable enough that the economic benefits associated with the transaction will flow to the Company.

Loans issued are recorded in the Balance Sheet as non-assigned loans. Loans with an assignment agreement are not included in the company's balance sheet, as their risks and rewards are also transferred.

2. Summary of significant accounting policies (continued)**i. Income taxes**

Income taxes consist of enterprise income tax calculated for the reporting year. Enterprise income tax for the reporting year is calculated by applying the tax rate in force.

As of 1 January 2018, in accordance with the amendments to the Enterprise Income Tax Law of the Republic of Latvia, legal entities do not have to pay income tax on the earned profit. Enterprise income tax is paid on distributed profits and conditionally distributed profits. As of 1 January 2018, distributed and conditionally distributed profit is subject to a tax rate of 20 percent of the gross amount or 20/80 of net costs. Enterprise income tax on dividends is recognized in the income statement as an expense in the period in which the dividends are declared, and for other contingent items in the period in which the expenses are incurred during the reporting year.

j. Events after the balance sheet date

The financial statements reflect events after the reporting period 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 period are not adjusting, they are reflected in the notes to the financial statements only if they are significant.

3. Key estimates and assumptions

In preparing the financial statements, the Company's management is required to make certain estimates and assumptions that affect the reported amounts of items shown in the balance sheet and income statement, as well as the amount of contingent liabilities. Future events may affect the assumptions on which the estimates are based. Such estimates and assumptions are based on the most reliable information available to management about relevant events and activities. Any effect of changes in estimates is reflected in the financial statements at the time of their determination.

The most significant estimates and assumptions relate to:

- determining the useful lives of fixed assets and intangible assets (Note 2 c-d)
- determining the amount of provisions for loan impairment (Note 20)

4. From other principal activities

| | 2019 | 2018 |
|-------------------------------|------------------|----------------|
| Interest revenue | 885 040 | 698 368 |
| Revenue from loan commissions | 155 563 | 127 980 |
| Fines received | 42 481 | 25 671 |
| TOTAL: | 1 083 084 | 852 019 |

5. Staff costs

| | 2019 | 2018 |
|--|---------------|---------------|
| Remuneration for work | 62 979 | 47 755 |
| State mandatory social insurance contributions | 15 172 | 11 888 |
| State risk fee for business activity | 18 | 26 |
| TOTAL: | 78 169 | 61 669 |

The average number of employees of the Company in the reporting year is 4 employees (in 2018: 5 employees).

6. Other operating expenses

| | 2019 | 2018 |
|---|----------------|----------------|
| Loan security costs | 34 135 | 33 361 |
| Marketing and PR costs | 21 067 | 24 953 |
| State fee for supervision of a credit service provider* | 14 225 | - |
| Legal costs | 8 725 | 12 501 |
| Premises rent and related costs | 11 373 | 11 331 |
| IT and communication costs | 8 148 | 10 968 |
| Other payments | 17 569 | 20 692 |
| TOTAL: | 115 242 | 113 806 |

*In the Annual Report for 2018, the amount is indicated in the item "Impairment adjustments for fixed assets and intangible assets" (see Note 10).

7. Other revenue from interest and similar revenue

Other revenue from interest of 26 EUR is calculated from loans to other persons (1 282 EUR - in 2018).

8. Interest paid and similar charges

| | 2019 | 2018 |
|-------------------------------------|----------------|----------------|
| Other interest costs* | 306 761 | 189 070 |
| Commission for raising funding | 42 403 | 124 679 |
| Interest on bank loan | - | 73 433 |
| Interest on loans from shareholders | 232 276 | 146 549 |
| TOTAL: | 581 440 | 533 731 |

* See Note 16

9. Intangible assets and other fixed assets and inventory

| | Concessions, patents, licenses, trademarks and similar rights | Other Intangible Assets | TOTAL Intangible Assets | Other fixed Assets and Inventory | TOTAL Fixed Assets and Intangible Assets |
|---|---|----------------------------|-------------------------------|--|--|
| 2018 | | | | | |
| Purchase | - | 11 912 | 11 912 | 467 | 12 379 |
| Exclusion | - | - | - | - | - |
| Depreciation* | (14 228) | (9 517) | (23 745) | (1 779) | (25 524) |
| 31 December 2018 | | | | | |
| Initial value | 71 140 | 21 840 | 92 980 | 15 071 | 108 051 |
| Accumulated depreciation | (61 655) | (11 726) | (73 381) | (12 965) | (86 346) |
| Balance sheet value as at 31 December 2018 | 9 485 | 10 114 | 19 599 | 2 106 | 21 705 |
| 2019 | | | | | |
| Purchase | - | 450 | 450 | 793 | 1 243 |
| Exclusion | - | - | - | (4 939) | (4 939) |
| Depreciation* | (9 485) | (4 906) | (14 391) | (1 628) | (16 019) |
| Exclusion depreciation | - | - | - | 4 859 | 4 859 |
| 31 December 2019 | | | | | |
| Initial value | 71 140 | 22 290 | 93 430 | 10 925 | 104 355 |
| Accumulated depreciation | (71 140) | (16 632) | (87 772) | (9 734) | (97 506) |
| Balance sheet value as at 31 December 2019 | - | 5 658 | 5 658 | 1 191 | 5 849 |

*In addition to intangible investments, an annual state fee has also been paid for the supervision of a credit service provider for 2018, for the total value of EUR 14 225, which makes the depreciation of intangible investments in 2018 equal to EUR 39 749. The amount attributable to the supervision of the credit service provider for 2019 has been reclassified in 2019 to the item "Other operating expenses" (see Note 6).

10. Other loans and other long-term debtors

| | 31/12/2019 | 31/12/2018 |
|-------------------------|------------------|------------------|
| <i>Long-term assets</i> | | |
| Loans | 5 509 007 | 4 546 009 |
| Total | 5 509 007 | 4 546 009 |
| <i>Current assets</i> | | |
| Loans | 1 025 664 | 931 941 |
| Accrued interest | 20 491 | 46 352 |
| Total | 1 046 155 | 978 293 |
| TOTAL: | 6 555 162 | 5 524 302 |

In order to provide additional financing opportunities for the loan portfolio, the Mintos Loan Platform is used, where investors are provided with investment opportunities in loans issued by the Company as mortgage loans. These loans, which are transferred to Mintos investors, are not included in the Company's balance sheet, because with the transfer of the loan, all risks and rewards are transferred to the investors. The Company continues to service these transferred loans with interest on it.

Investments made by investors in corporate loans can be reflected as follows:

| | 31/12/2019 | 31/12/2018 |
|---|------------|------------|
| The remaining amount of loans shown in the balance sheet without accrued interest | 6 534 671 | 5 477 950 |
| Transferred loans | 63 977 | 363 574 |
| Total outstanding amount of loans (portfolio) | 6 598 648 | 5 841 524 |

11. Other debtors

| | 31/12/2019 | 31/12/2018 |
|---------------------------|---------------|---------------|
| Advance payments on loans | 29 072 | 26 317 |
| Other debtors | 10 293 | 22 143 |
| TOTAL: | 39 365 | 48 460 |

12. Deferred expenses

| | 31/12/2019 | 31/12/2018 |
|-----------------------------|---------------|---------------|
| State fees* | 14 226 | 14 226 |
| Other costs of next periods | 298 | 719 |
| TOTAL: | 14 524 | 14 945 |

* incl. Annual State Fee to the Consumer Rights Protection Centre for supervision of activities.

13. Cash

Cash consists of current account balances in Latvian commercial banks.

14. Equity:

As at 31 December 2018, the share capital is EUR 500 thousand, consisting of 500 thousand shares with a par value of EUR 1 per share. All share capital is fully paid in 2014.

15. Debts to related undertakings

Related parties of the Company are shareholders who can control the Company or have significant influence over the Company in making business decisions, senior management of the Company and its shareholders, as well as close family members of all the above natural persons, as well as those companies in which the above natural persons have control or significant influence over them.

| | 31/12/2019 | 31/12/2018 |
|-------------------------------|------------------|------------------|
| Long-term liabilities | | |
| Shareholder* | 2 055 000 | 2 460 000 |
| Short-term liabilities | | |
| Shareholder* | 54 539 | - |
| TOTAL: | 2 109 539 | 2 460 000 |

* In the reporting year, the long-term loan from the company's shareholder UAB Hipotekiniai kreditai in the amount of EUR 405 000 was partially repaid, for which the accrued interest in the amount of EUR 54,539 has not been paid. Interest has been paid in full in January 2020.

16. Other loans

At the end of the reporting year, the Company had received four loans from its cooperation partners with the total balance of EUR 4 503 152 and for which the accrued interest in the amount of EUR 10 231 had not been paid at the end of the year. Accordingly, the distribution of loans between the short-term and long-term part, as indicated in the balance sheet, is based on the repayment schedules of the loans issued by the Company.

Loan No. 1 consists of several separate loans on the Mintos Co-financing Platform, where each individual loan is issued as a pledge in favour of a claim on a loan issued by the Company to its customers. The repayment schedule of the principal amount of each individual loan is equal to the respective payment schedule of the loan principal issued by the Company, as well as the payment is made only when the Company has received the payment from its borrower. Loan No.1 is subject to an interest rate ranging from 7-19.9 (8 - 16.5: 2017) per annum. A commercial pledge on individual claims with a total limit of EUR 3.10 million has been registered in favour of the loan received. The outstanding amount of pledged loan claims at the end of the reporting year was EUR 2.65 million. The loan has a buy-back guarantee, automatic payment is made after 60 days.

Loan No. 2 consists of a long-term loan for which all accrued interest has been paid by the end of the year. No commercial pledge has been registered in favour of Loan No. 2 received.

Loan No.4 is a long-term loan, for which all accrued interest has been paid by the end of the year, with an interest rate of 8% per annum. A commercial pledge on certain claim rights with a total limit of EUR 500 thousand and a guarantee from Hipotekiniai Kreditai UAB have been registered in favour of the received Loan No. 4.

Loan No.5 is a long-term loan, for which all accrued interest has been paid by the end of the year, with an interest rate of 8% per annum. A commercial pledge on individual claim rights with a total limit of 540 thousand EUR has been registered in favour of the received loan No. 5.

| | 31/12/2019 | 31/12/2018 |
|---|------------------|------------------|
| Liabilities with a maturity of more than one year: | 4 503 152 | 1 936 562 |
| Loan No.1 | 2 653 152 | 1 536 562 |
| Loan No.2 | 1 000 000 | 400 000 |
| Loan No.4 | 400 000 | - |
| Loan No.5 | 450 000 | - |
| Liabilities with a maturity of one year, including: | 10 231 | 1 179 040 |
| - Liability principal: | 10 231 | 1 143 788 |
| Loan No.1 | - | 343 788 |
| Loan No.2 | - | - |
| Loan No.3 | - | 800 000 |
| - Accrued interest: | 10 231 | 35 252 |
| Loan No.1 | 10 231 | 8 802 |
| Loan No.2 | - | - |
| Loan No.3 | - | 26 450 |
| TOTAL: | 4 513 383 | 3 115 602 |

17. Taxes and State mandatory social insurance payments

| | 31/12/2019 | 31/12/2018 |
|--|---------------|---------------|
| Enterprise income tax | 19 487 | 9 834 |
| Personal income tax | 5 764 | 814 |
| State mandatory social insurance contributions | 872 | 313 |
| Value-added tax | 852 | 445 |
| State risk fee for business activity | (7) | (5) |
| TOTAL: | 26 968 | 11 401 |

18. Other creditors

| | 31/12/2019 | 31/12/2018 |
|-----------------|--------------|------------|
| Salary payments | 3 604 | - |
| Other creditors | 497 | - |
| TOTAL: | 4 101 | 0 |

19. Accrued liabilities

| | 31/12/2019 | 31/12/2018 |
|----------------------------------|--------------|--------------|
| Accrued costs for commission | 3 313 | 2 695 |
| Accrued charges for unused leave | 3 090 | 3 045 |
| Provisions for other expenses | 1 791 | 1 292 |
| TOTAL: | 8 194 | 7 032 |

20. Risk management

The Company's main financial instruments are loans issued that are related to the Company's operating activities and money that is used to finance the Company's operating activities. The Company also has a number of other financial instruments, such as other debtors and other liabilities related to the Company's core business, but these instruments are generally not important to the Company. The main financial risks are credit risk and liquidity risk. The Company is not exposed to significant currency risk as all transactions are performed in EUR. Also, the Company is not exposed to significant interest rate risk, as all issued and received loans have a fixed interest rate.

Credit risk

Credit risk is the probability of incurring a loss if the Company's counterparty or debtor defaults on a contractual obligation with the Company that could result in an impairment loss. The Company is exposed to credit risk through its core business (lending) and financing activities, which include cash balances with banks.

Loans issued

The Company manages its credit risk in connection with issued loans by evaluating loan applications and issuing loans to customers who will be able to repay them from their income. The Company also regularly monitors loans to reduce potential impairment losses due to credit risk.

As at 31 December 2019 and 31 December 2018, the maximum credit risk is equal to the carrying amount of loans issued (see Note 10). Each issued loan is secured by real estate collateral. The pledge is registered in the Land Register for the benefit of the Company. The main objects of collateral are apartments, as well as, to a lesser extent, residential houses and commercial objects. The Company's management has estimated that the average loan-to-value ratio (LTV) is about 35% (In 2018 - 35%). Additional information on average and maximum LTV is provided in the following table.

| Property type | The average LTV | Maximum LTV |
|---------------------|-----------------|-------------|
| Apartment | 36% | 50% |
| House | 30% | 39% |
| Commercial premises | 23% | 38% |

Until now, the real estate mortgage has been realized in the debt collection process, in no case have losses been incurred from the principal amount of the issued loan.

In view of all the above, the Company's management believes that as at 31 December 2019 no significant provisions for impairment are required.

The Company believes that the concentration of credit risk on issued loans is low, as borrowers are from different parts of Latvia, as well as the average loan amount is small - 12.6 thousand EUR.

21. Events after the balance sheet date

After the end of the financial year, in March 2020, restrictions related to the spread of the coronavirus have entered into force in the Republic of Latvia and many other countries, which significantly reduce the economic development in the country and in the world. It is not known how the situation will develop in the future, and therefore there is uncertainty about economic development. The Company's management is constantly evaluating the situation and currently its operations are not significantly affected.

The Company's management has taken the necessary measures to ensure the stability of the Company's operations in the uncertain economic environment, including measures to maintain a high liquidity position. The client's solvency and the value of collateral are assessed. The company's management believes that these measures will allow to overcome the emergency situation and the related economic crisis. However, this conclusion is based on information available at the time of signing these financial statements and the impact of future events on the overall economic situation is not known, therefore there is a possibility that the Company's loan portfolio will decrease but credit risk will increase to a larger extent and funding availability may decrease more than the Company has predicted, which will adversely affect its results of operations.



Solvita Caune
Chairman of the Board



Vita Uzkalne
Accountant

7 August, 2020

Independent Auditor's Report

To the shareholders of JSC "HIPOCREDIT"

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of JSC "HIPOCREDIT" (the Company) set out on pages 5 to 17 of the accompanying annual report, which comprise:

- the balance sheet as at 31 December 2019,
- the profit and loss statement for the year then ended,
- the Annex 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 JSC "HIPOCREDIT" as at 31 December 2019, and of its financial performance 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.

Other Circumstances

The Company's financial statements for 2018 have not been audited.

We have obtained sufficient and appropriate audit evidence that certifies compliance of the comparative financial statements with the requirements of the "Law on the Annual Reports and Consolidated Annual Reports" of the Republic of Latvia.

We have assessed that (a) the accounting principles used for the corrections and explanations made are consistent with the accounting principles used in the audited period and (b) the information presented about the prior period coincides with the amounts and explanations provided in the prior period.

Reporting on Other Information

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

- Company Information as set out on page 3 of the accompanying Annual Report,
- the Management Report, as set out on page 4 of the accompanying Annual Report.

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.

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.

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 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.

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.

BDO ASSURANCE SIA
Kalku street 15-3B, Riga, LV1050
License No 182



Irita Cimdare
Certified auditor
Certificate No 103
Member of the Board

Riga, Latvia
7 of August, 2020