

SUN FINANCE TREASURY LIMITED

**ANNUAL REPORT AND
FINANCIAL STATEMENTS**

31 DECEMBER 2020

SUN FINANCE TREASURY LIMITED
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SUN FINANCE TREASURY LIMITED

DIRECTOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

Director:

Mr. Demetris Apousianas

The sole director presents herewith his annual report together with the audited financial statements of Sun Finance Treasury Limited ("the Company") for the year ended 31 December 2020.

Principal Activities

The principal activity of the Company, which has remained unchanged from the previous accounting year, is that of providing short-term financing to related companies and to other third parties.

Review of Business

During the year, the level of revenue decreased in view of decreased interest rates that were charged on loans receivable following the onset of the COVID-19 pandemic. Nonetheless, the Company also incurred reduced interest rates on funds made available by the main loan provider, thus resulting in a profit margin from loan activities. Nonetheless, coupon costs incurred outweighed the coupon revenue generated and as a result, the Company registered an operating loss for the year. After accounting for finance costs and foreign taxes, the Company again registered a loss for the year. The Company's financial position continues to be in deficiency and fully dependent on the financial support of its parent and related companies.

Principal Risks and Uncertainties

As part of the Sun Finance Group, the Company applies Group principles for overall risk management, and Group policies covering specific areas such as credit risk, liquidity risk, market risks, operational risks and reputational risks.

The principal risks and uncertainties of the Company relate to its principal business and assets, that is, loans to related parties and funding received from external parties. Recoverability of these related party loans is dependent on the performance of the underlying companies. The Company is not exposed to interest rate risk as the loans and the notes issued are at fixed rates. In addition, key uncertainty issues of the business are related to developments in the global economic environment, including recovery strategies emanating from the COVID-19 outbreak across different geographies, which can have a cascading effect on the wider debt capital markets, and the scope of the impact remains unclear.

Future Developments

During the financial year 2021, the Company is planning to attract substantial external financing in the form of the issuance of subordinated Notes. In addition, the Company is currently exploring potential strategic options in relation to new Notes issuance and repayment of the Notes.

In parallel, the Company is continuously monitoring debt capital markets, holds discussions with potential investors and advisory companies in order to assess the market environment and scope for additional Notes issuance.

The Company is expected to continue its principal activity for the foreseeable future, managing funding across related companies and attracting external funding. These activities are expected to further improve the financial position of the company in the long run, delivering profitability.

SUN FINANCE TREASURY LIMITED

DIRECTOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

COVID-19

The Coronavirus (COVID-19) pandemic is affecting economic and financial markets worldwide, and virtually all industries are facing challenges associated with the economic conditions resulting from efforts to address it.

The director has assessed the effects of COVID-19 on the Company's operations and noted that the Company has been able to continue operating through the prevalent market conditions and continues to do so without significant disruptions to date, even though there have been certain measures taken by governments which have resulted in lower interest rates being charged, but which position has however been offset through a reduction of interest charged to the Company. Furthermore, since transactions are mostly with related companies, these are overall not expected to be negatively impacted, and though the future business environment may differ from management's assessment, the director believes that the impact of such position is not at present affected by these risks.

Going Concern

The director, after due consideration of the Company's results and financial position, confirms that the Company is in a position to continue operating as a going concern for the foreseeable future.

Results, Dividends and Reserves

The results for the year and the movement on the reserves are as set out on pages 7 and 9 of the financial statements respectively. Being that the Company has accumulated losses, no dividends were recommended or paid during the year.

Director

The director listed above served in office throughout the year. In accordance with the company's Articles of Association, the director at date of this report is to remain in office.

Auditors

Baker Tilly Malta have intimated their willingness to continue in office. A proposal to reappoint Baker Tilly Malta as auditors of the Company will be put to the General Meeting.

Approved and signed by the sole director on 28 April 2021:



Mr. Demetris Apousianas
Director

SUN FINANCE TREASURY LIMITED

DIRECTOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act") requires the director to prepare financial statements for each financial period which give a true and fair view of the financial position of the Company as at the end of the financial period and of the profit or loss of the Company for that period in accordance with the requirements of International Financial Reporting Standards as adopted by the EU.

In preparing these financial statements, the director is required to:

- adopt the going concern basis unless it is inappropriate to presume that the Company will continue in business;
- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- account for income and charges relating to the accounting period on the accruals basis;
- value separately the components of asset and liability items; and
- report comparative figures corresponding to those of the preceding accounting period.

The director is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable him to ensure that the financial statements comply with the Companies Act (Cap. 386) enacted in Malta. This responsibility includes designing, implementing and maintaining such internal control as the director determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The director is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed by the sole director on 28 April 2021:



Mr. Demetris Apousianas
Director

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SUN FINANCE TREASURY LIMITED

Report on the Audit of the Financial Statements

We have audited the separate financial statements set out on pages 7 to 31 of Sun Finance Treasury Limited ("the Company") which comprise the statement of financial position as at 31 December 2020, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including significant accounting policies and other explanatory information.

Opinion

In our opinion the accompanying separate financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and have been properly prepared in accordance with the Companies Act, 1995 (Chapter 386, Laws of Malta).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (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' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) in Malta*, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The director is responsible for the other information. The other information comprises the director's 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.

With respect to the director's report, we also considered whether the director's report includes the disclosures required by Article 177 of the Companies Act (Cap. 386).

Based on the work performed, in our opinion:

- the information given in the director's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the director's report has been prepared in accordance with the Companies Act (Cap. 386).

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the director's report and other information. We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SUN FINANCE TREASURY LIMITED

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as adopted by the EU, 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 Group'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.

Auditors' Responsibilities 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 auditors' 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 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 judgement 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, then we are required to draw attention in our auditors' 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 auditors' 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 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SUN FINANCE TREASURY LIMITED

Auditors' Responsibilities for the Audit of the Financial Statements (Contd.)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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 Legal and Regulatory Requirements

We also have responsibilities under the Companies Act, 1995 (Chapter 386, Laws of Malta), to report to you if, in our opinion:

- Adequate accounting records have not been kept;
- The financial statements are not in agreement with the accounting records;
- We have not received all the information and explanations we required for our audit;

We have nothing to report to you in respect of these responsibilities.



This copy of the audit report has been signed by
Donald Sant for and on behalf of

Baker Tilly Malta
Registered Auditors

28 April 2021

SUN FINANCE TREASURY LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

		<u>2020</u>	<u>2019</u>
	Note	Euro	Euro
Finance Income	4	2,408,759	2,963,894
Finance Costs	5	(2,685,995)	(3,505,166)
Net Interest Margin		(277,236)	(541,272)
Operational Overheads		(704,268)	(53,878)
Administrative Overheads		(120,747)	(61,894)
Other Operating Income	6	-	20,350
Operating Loss	7	(1,102,251)	(636,694)
Finance Income	8	-	29,899
Finance Costs	8	(93,121)	-
Net Finance Income/(Costs)	8	(93,121)	29,899
Loss before Taxation		(1,195,372)	(606,795)
Tax Expense	9	(25,207)	-
Loss for the Year		(1,220,579)	(606,795)
Total Comprehensive Loss for the Year		(1,220,579)	(606,795)

The notes on pages 11 to 31 form an integral part of these financial statements.

SUN FINANCE TREASURY LIMITED

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2020

		<u>2020</u>	<u>2019</u>
	Note	Euro	Euro
ASSETS			
Investment in Subsidiaries	10	472,093	472,093
Total Non-Current Assets		<u>472,093</u>	<u>472,093</u>
Financial Assets at Fair Value through Profit or Loss	11	782,000	3,110,000
Loans Receivable	12	40,405,230	29,656,865
Other Receivables	13	35,552	100,737
Cash and Cash Equivalents	14	1,999,196	140,197
Total Current Assets		<u>44,221,978</u>	<u>33,007,799</u>
Total Assets		<u><u>44,694,071</u></u>	<u><u>33,479,892</u></u>
EQUITY			
Share Capital	15	51,166	51,166
Accumulated Losses		(2,122,814)	(902,235)
Total Equity Deficiency		<u>(2,071,648)</u>	<u>(851,069)</u>
LIABILITIES			
Borrowings	16	3,855,623	9,754,053
Loans Payable	17	20,243,802	20,193,320
Total Non-Current Liabilities		<u>24,099,425</u>	<u>29,947,373</u>
Borrowings	16	9,880,791	-
Loans Payable	17	12,747,508	4,276,373
Other Payables	18	37,995	107,215
Total Current Liabilities		<u>22,666,294</u>	<u>4,383,588</u>
Total Liabilities		<u>44,694,071</u>	<u>34,330,961</u>
Total Equity and Liabilities		<u><u>44,694,071</u></u>	<u><u>33,479,892</u></u>

The notes on pages 11 to 31 form an integral part of these financial statements.

The financial statements on pages 7 to 31 were approved and authorised for issue by the sole director on 28 April 2021:


Mr. Demetris Apousianas
Director

SUN FINANCE TREASURY LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

	<u>Total</u>	<u>Share Capital</u>	<u>Accumulated Losses</u>
	<u>Euro</u>	<u>Euro</u>	<u>Euro</u>
Balance 1 January 2020	(851,069)	51,166	(902,235)
Comprehensive Loss for the Year			
Loss for the Year	(1,220,579)	-	(1,220,579)
Balance at 31 December 2020	<u>(2,071,648)</u>	<u>51,166</u>	<u>(2,122,814)</u>
Balance 1 January 2019	(244,275)	51,165	(295,440)
Contributions by Owners of the Company			
Issue of Ordinary Shares	1	1	-
Comprehensive Loss for the Year			
Loss for the Year	(606,795)	-	(606,795)
Balance at 31 December 2019	<u>(851,069)</u>	<u>51,166</u>	<u>(902,235)</u>

The notes on pages 11 to 31 form an integral part of these financial statements.

SUN FINANCE TREASURY LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

		<u>2020</u>	<u>2019</u>
	Note	Euro	Euro
Cash Flows from Operating Activities			
Loss for the Year		(1,220,579)	(606,795)
<i>Adjustments for:</i>			
Expected Credit Losses		507,430	-
Unrealized Differences on Exchange		93,121	(29,899)
Profit on Disposal of Financial Assets at FVTPL		-	(20,349)
Amortisation of Bond Expenses		196,838	53,878
Income Tax Expense		25,207	-
		(397,983)	(603,165)
Changes in			
Other Receivables		65,185	(95,435)
Other Payables		19,247	4,090
Cash Lost from Operations		(313,551)	(694,510)
Final Withholding Taxes Paid		(25,207)	-
Net Cash used in Operating Activities		(338,758)	(694,510)
Cash Flows from Investing Activities			
Acquisition of Financial Assets at FVTPL		(324,000)	(4,510,000)
Sale Proceeds on Disposal of Financial Assets at FVTPL		2,652,000	1,420,349
Movement on Loans Receivable		(12,255,795)	(10,084,575)
Net Cash used in Investing Activities		(9,927,795)	(13,174,226)
Cash Flows from Financing Activities			
Issue of Share Capital		-	1
Bond Issue Proceeds		4,039,000	10,000,000
Bond Issue Costs		(253,477)	(299,825)
Movement on Third Parties Loans		4,148,287	3,354,428
Movement on Related Companies Loans		4,373,330	373,938
Movement on Related Parties' Accounts		(88,467)	84,952
Net Cash from Financing Activities		12,218,673	13,513,494
Net Movement in Cash and Cash Equivalents		1,952,120	(355,242)
Adjustment for Unrealised Exchange Fluctuations		(93,121)	29,899
Cash and Cash Equivalents at Beginning of Year		140,197	465,540
Cash and Cash Equivalents at End of Year	14	<u>1,999,196</u>	<u>140,197</u>

The notes on pages 11 to 31 form an integral part of these financial statements.

SUN FINANCE TREASURY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. Reporting Entity

Sun Finance Treasury Limited (“the Company”) is a limited liability company domiciled and incorporated in Malta. The Company’s registered office is at Suite 20, The Penthouse, 4th Floor, Ewropa Business Centre, Dun Karm Street, Birkirkara, Malta.

2. Basis of Preparation

2.1 Statement of Compliance

The separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (“the applicable framework”), which standards were issued by the International Accounting Standards Board (IASB). All references in these financial statements to IAS, IFRS or SIC/IFRIC interpretations refer to those adopted by the EU. They have been drawn up in accordance with the provisions of the Companies Act, 1995 enacted in Malta, (The Act) save insofar as such provisions remove the requirement under IAS 27 Consolidated and Separate Financial Statements, of preparing and presenting consolidated Financial Statements of the group, of which the company is parent.

The company qualifies to prepare consolidated financial statements in terms of Article 173 of the Act. However, consolidated financial statements will be prepared at the level of the Ultimate Parent Company, namely AS Sun Finance Group, a company incorporated in Latvia.

These financial statements therefore represent the separate financial statements of the company.

The Act specifies that in the event that any of one of its provisions is in conflict or not comparable with IFRSs or its application is incompatible with the obligation for financial statements to give a true and fair view, that provision shall be departed from in order to give a true and fair view.

2.2 Basis of Measurement

The financial statements have been prepared on the historical cost basis, except for financial instruments at fair value through profit or loss.

2.3 Functional and Presentation Currency

These financial statements are presented in Euro (€), which is the Company’s functional currency.

2.4 Use of Estimates and Judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In the opinion of the directors, the accounting estimates and judgments made in the course of preparing these financial statements are not difficult to reach, subjective or complex to a degree which would warrant their description as significant and critical in terms of the requirements of IAS 1 (revised).

SUN FINANCE TREASURY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

2. Basis of Preparation (*Contd.*)

2.5 Measurement of Fair Values

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data.

If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The company measures financial instruments at fair value through profit or loss.

2.6 New Standards and Interpretations Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted, however the company has not early adopted the new or amended standards in preparing these financial statements.

Standards and amendments that are effective for the first time in 2020 and could be applicable to the Company are:

- *Amendments to References to Conceptual Framework in IFRS Standards*
- *Definition of Material (Amendments to IAS 1 and IAS 8)*
- *Definition of a Business (Amendments to IFRS 3)*
- *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)*
- *COVID-19 Related Rent Concessions (Amendment to IFRS 16) – Effective 1 June 2020*

Other Standards and amendments that are not yet effective and have not been adopted early by the Company include:

- *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IFRS 7, IFRS 4 and IFRS 16) – Effective 1 January 2021*
- *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37) – Effective 1 January 2022*
- *Annual Improvements to IFRS Standards 2018–2020 – Effective 1 January 2022*
- *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16) – Effective 1 January 2022*
- *Reference to the Conceptual Framework (Amendments to IFRS 3) – Effective 1 January 2022*
- *Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) – Effective 1 January 2023*
- *IFRS 17 Insurance Contracts – Effective 1 January 2023*

SUN FINANCE TREASURY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

3. Significant Accounting Policies

The accounting policies set out below have been applied throughout the period presented in these financial statements.

3.1 Foreign Currency Transactions

Transactions in foreign currencies are translated to the Company's functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Foreign currency differences arising on retranslation are recognised in profit or loss.

3.2 Revenue

Dividend Income

Dividends received from financial assets are measured at fair value through profit or loss and at fair value through other comprehensive income. Dividends are recognised in profit or loss when the right to receive payment is established.

Finance Income

Finance income comprises interest receivable from short-term lines of credit and other investments in the ordinary course of business. Interest receivable is recognised in the income statement on the date of the company's right to receive payment is established.

3.3 Finance Costs

Finance costs represent loan interest payable and interest payable on the bond in issue as set out in the notes to these financial statements. Finance costs are recognised as an expense in profit and loss in the period in which they are incurred.

3.4 Bond Costs

Bond costs represent fees and other costs incurred in connection with the issuance of the bonds by the company to investors. The cost of issuing bonds is recorded in a contra liability account and off-set from the nominal value of the bond in order to systematically move the bond issue costs from the balance sheet to the income statement over the term of the bond. As a result, the company matches the cost of the bond to accounting periods that are benefitting from the bond being issued. The cost of the bond is amortised over the duration of the bond, being 24 months.

3.5 Financial Assets at Fair Value through Profit or Loss

The company classifies financial assets through the profit or loss consists of equity investments that are held for trading, debt securities that do not qualify for measurement at either amortised costs or securities which qualify to be measured at fair value through other comprehensive income and equity investments for which the company has not elected to recognize fair value gains and losses through other comprehensive income.

On disposal of any of the above investments, any gains or losses have to be recognized in the profit and loss.

SUN FINANCE TREASURY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

3. Significant Accounting Policies (*Contd.*)

3.6 Investments in Subsidiaries

A subsidiary is an entity which is controlled by the Company. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

An investment in a subsidiary is initially measured at cost. After initial recognition, an investment in subsidiaries may be carried either under the cost method, that is at cost less any impairment losses or under the equity method. The company is measuring investments in subsidiaries after initial recognition at cost.

Loans advanced by the Company to its subsidiaries for which settlement is neither planned nor likely to occur in the foreseeable future, are treated as an extension to the Company's net investment in those subsidiaries and included as part of the carrying amount of investments in subsidiaries.

3.7 Loans Receivable

Debt instruments representing financial assets where the contractual cash flows are solely principal and interest and the objective of the company's business model is achieved both by collecting contractual cash flows and where these give rise to cash flows that are solely payments of principal and interest on the principal amounts outstanding are measured at amortised cost using the effective interest method, less any loss allowance. In view the nature of receivable balances arising from credit lines, the carrying amount of receivables is considered to be the same as their fair values due to their short-term nature.

On derecognition, impairment or disposal of debt instruments, any gains or losses are recognised within profit or loss.

3.8 Receivables

Receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components when they are recognised at fair value. They are subsequently measured at amortised cost using the effective interest method, less impairment losses.

Trade receivables are written off or provided for where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure by the debtor to abide by the credit terms or failure to engage in a repayment programme with the company for the settlement of amounts due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off or provided for are credited against the same line item.

3.9 Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, deposits at call with financial institutions, other short-term liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

SUN FINANCE TREASURY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

3. Significant Accounting Policies (*Contd.*)

3.10 Impairment of Financial Assets

The Company recognises loss allowances for Expected Credit Losses (ECLs) on financial assets at amortised cost, namely loans and other receivables, short-term investments and cash at bank.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit plant,(i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The Company measures loss allowances for loans receivables without a significant financing component and contract assets at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset. In the case of interest-free short-term financial assets, such as trade receivables, ECLs are not discounted.

SUN FINANCE TREASURY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

3. Significant Accounting Policies (*Contd.*)

3.10 Impairment of Financial Assets (*Contd.*)

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. Impairment losses related to trade and other receivables, including contract assets, are presented separately in the statement of comprehensive income.

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Company individually makes an assessment with respect to the timing and amount of write-off on its financial assets based on whether there is a reasonable expectation of recovery and with reference to its historical experience of recoveries.

The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

3.11 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless has an unconditional right to defer settlement of the liability for at least one year after the reporting date.

Borrowing costs are recognised as an expense in the year to which they relate.

3.12 Other Payables

Other payables comprise obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities, if payment is due within one year or less.

3.13 Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probably that an outflow of economic benefit will be required to settle the obligation.

SUN FINANCE TREASURY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

3. Significant Accounting Policies (*Contd.*)

3.14 Share Capital

Ordinary shares are classified as equity.

3.15 Employee Benefits

The company contributes towards the state pension in accordance with local legislation. The only obligation of the company is to make the required contributions. Costs are expensed in the period in which they are incurred.

3.16 Finance Income and Finance Costs

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

3.17 Tax

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- (a) temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and
- (b) temporary differences relating to investments in subsidiaries, associates and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be recognized simultaneously.

4. Finance Income

	<u>2020</u>	<u>2019</u>
	Euro	Euro
Loan Interest Income	2,247,528	2,832,970
Coupon Notes Income	161,231	130,924
	<u>2,408,759</u>	<u>2,963,894</u>

SUN FINANCE TREASURY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

5. Finance Costs

	<u>2020</u>	<u>2019</u>
	Euro	Euro
Loan Interest Expense	1,520,969	3,114,055
Coupon Notes Costs	1,165,026	391,111
	<u>2,685,995</u>	<u>3,505,166</u>

6. Other Operating Income

Other operating income in the comparative period arose mainly from the sale of debt instruments that the company maintained. Since this was not considered to be part of the main revenue generating activities, the company presented this income separately from revenue.

	<u>2020</u>	<u>2019</u>
	Euro	Euro
Profit from Sale of Debt Instruments	<u>-</u>	<u>20,350</u>

7. Operating Loss

The results from operating activities are stated after charging the following:

	<u>2020</u>	<u>2019</u>
	Euro	Euro
Auditors' Remuneration	6,490	6,490
Director's Remuneration	4,282	-
	<u>10,772</u>	<u>6,490</u>

7.1 Employee Information

The average weekly number of persons employed by the company during the year, except for the working director, was 1 (2019 – Nil). Staff costs for the year comprised:

	<u>2020</u>	<u>2019</u>
	Euro	Euro
Salaries	9,728	-
Social Costs	712	-
	<u>10,440</u>	<u>-</u>

SUN FINANCE TREASURY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

8. Finance Income and Finance Costs

	<u>2020</u>	<u>2019</u>
	Euro	Euro
Unrealised Foreign Exchange Gains	-	29,899
Finance Income	-	29,899
Unrealized Foreign Exchange Loss	(93,121)	-
Finance Costs	(93,121)	-
Net Finance Income/(Costs)	(93,121)	29,899

9. Tax Expense

	<u>2020</u>	<u>2019</u>
	Euro	Euro
Current Taxation	25,207	-
Total Tax Charge	25,207	-

Current taxation is made up entirely of foreign final withholding taxes paid.

9.1 Reconciliation of Effective Tax Rate

The tax expense and the result of the accounting loss multiplied by the applicable tax rate in Malta, the Company's country of incorporation, are reconciled as follows:

	<u>2020</u>	<u>2019</u>
	Euro	Euro
Loss before Taxation	(1,195,372)	(606,795)
Tax Using the Company's Domestic Tax Rate of 35%	(418,380)	(212,378)
Tax Effect of Non-Allowable Expenses	213,643	-
Tax Effect of Non-Chargeable Income	-	(10,465)
Tax Effect of Tax Losses Carried Forward	204,737	222,843
Foreign Tax Paid	25,207	-
Tax Expense for the Year	25,207	-

9.2 Deferred Tax

The company has unconfirmed unrelieved tax losses available giving rise to a deferred tax asset, but which asset has not been recognized in these financial statements, because the probability that future taxable profits will be available for set-off against the deferred tax asset is not assured.

SUN FINANCE TREASURY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

10. Investment in Subsidiaries

	<u>2020</u>	<u>2019</u>
	Euro	Euro
Equity Investments:		
Investment in Subsidiary Companies at Cost	472,093	472,093
Net Investment in Subsidiaries	<u>472,093</u>	<u>472,093</u>

- 10.1 The Company's principal subsidiaries as at 31 December 2020 are set out below. The share capital consists solely of ordinary shares that are held directly by the Company and the proportion of ownership interests held equals the voting rights held by the Company.

<u>Subsidiaries</u>	<u>Incorp. In</u>	<u>% Holding</u>	<u>% Holding</u>	<u>Nature of Business</u>
		<u>2020</u>	<u>2019</u>	
Primastar Sp. Z.O.O.	Poland	100%	100%	Short-Term Lending
SIA LTF2018	Latvia	100%	100%	Business Funding

- 10.2 At the end of 2020, a subsidiary had a deficient equity position of € 2,134,177 however, the 2021 first quarter results showed the said company generating profits and envisages returning to a positive equity position during the year 2022. Hence, the director is of the opinion that no impairment loss is required on such investment.

11. Financial Assets at Fair Value through Profit or Loss

	<u>2020</u>	<u>2019</u>
	Euro	Euro
Notes Held for Trading:		
Balance at Beginning of Year	3,110,000	-
Additions	324,000	4,510,000
Disposals	(2,652,000)	(1,400,000)
Balance at End of Year	<u>782,000</u>	<u>3,110,000</u>

- 11.1 The Company subscribes to its own Notes in order to trade these in a secondary market. Since the Notes are being traded privately, the nominal value is considered to be the fair value of such Notes.

12. Loans Receivable

	<u>2020</u>	<u>2019</u>
	Euro	Euro
Current:		
Loans and Interest Receivable from Third Parties	2,643,935	3,649,973
Loans and Interest Receivable from Related Companies	21,857,648	14,864,466
Loans and Interest Receivable from Subsidiary Company	5,069,749	3,536,350
Loans and Interest Receivable from Joint Parent Companies	5,559,100	3,680,363
Loans and Interest Receivable from Ultimate Parent Company	6,782,228	3,925,713
Expected Credit Loss Provisions on Related Companies Loans	(507,430)	-
Net Loans Receivable	<u>41,405,230</u>	<u>29,656,865</u>

SUN FINANCE TREASURY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

12. Loans Receivable (Contd.)

12.1 The loans and interest balances receivable are made up as follows:

	<u>2020</u>	<u>2019</u>	Latest Settlement Date
	Euro	Euro	
Third Parties:			
Loan 1	-	253,092	20.02.2020
Interest Thereon	4,727	93,173	
Loan 2	1,922,147	2,679,898	03.11.2021
Interest Thereon	717,061	623,830	
Related Companies:			
Loan 3	5,214,559	4,522,000	17.10.2021
Interest Thereon	559,383	222,015	
Loan 4	934,500	928,500	26.10.2021
Interest Thereon	75,599	35,008	
Loan 6	8,000	8,000	05.02.2021
Interest Thereon	2,072	1,512	
Loan 7	3,941,000	200,000	01.08.2021
Interest Thereon	124,398	9,091	
Loan 8	-	897,000	26.09.2021
Interest Thereon	-	9,551	
Loan 9	927,000	461,000	28.09.2021
Interest Thereon	11,705	22,534	
Loan 10	1,727,544	3,012,544	01.08.2022
Interest Thereon	444,082	270,204	
Loan 11	3,850,000	1,286,816	01.08.2022
Interest Thereon	20,133	485,294	
Loan 12	-	2,450,000	01.08.2022
Interest Thereon	-	43,378	
Loan 17	10,000	-	18.12.2023
Interest Thereon	18	-	
Loan 18	25,000	-	12.11.2023
Interest Thereon	97	-	
Loan 19	200,000	-	09.01.2023
Interest Thereon	4,044	-	
Loan 20	180,000	-	09.01.2023
Interest Thereon	3,597	-	
Loan 21	130,000	-	14.08.2023
Interest Thereon	1,857	-	
Loan 22	1,348,000	-	17.04.2023
Interest Thereon	10,236	-	
Loan 23	203,000	-	16.12.2022
Interest Thereon	10,780	-	
Loan 24	101,000	-	03.03.2023
Interest Thereon	2,390	-	
Loan 25	841,000	-	06.12.2022
Interest Thereon	10,243	-	
Loan 26	935,000	-	01.08.2022
Interest Thereon	1,411	-	
Subsidiary Company:			
Loan 13	4,769,000	3,375,000	13.03.2021
Interest Thereon	300,749	161,350	

SUN FINANCE TREASURY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

12. Loans Receivable (Contd.)

12.1 The loans and interest balances receivable are made up as follows (Contd.):

	<u>2020</u>	<u>2019</u>	Latest Settlement Date
	Euro	Euro	
Joint Parent Companies:			
Loan 14	2,673,000	1,237,000	26.09.2021
Interest Thereon	247,178	66,242	
Loan 15	2,410,000	2,312,000	14.10.2022
Interest Thereon	228,922	65,121	
Ultimate Parent Company:			
Loan 16	6,226,000	3,851,000	16.05.2022
Interest Thereon	556,228	74,713	
Total Loans and Interest Receivable	41,912,660	29,656,865	

12.2 The loans receivable bear interest at rates ranging from 12% p.a. to 14.5% p.a. however, in view of the onset of the COVID-19 pandemic, the interest rates charged were reduced to 7% p.a. for the year ended 31 December 2020.

12.3 The balances due on the said loans are unsecured and repayable on the earlier of the above-mentioned maturity dates or any accelerated date. The parties are to pay interest at the stated rates per annum on the principal amount due, both before and after maturity, default and judgement. Interest is payable monthly in arrears.

12.4 Loans receivable are stated net of expected credit loss allowances amounting to € 507,430 (2019 – Nil). The expected loss rates are based on the historical payment profiles of the Company's customers. History shows that the Company rarely suffered credit losses. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Company's history, existing market conditions, as well as forward looking estimates at the end of each reporting period.

12.5 The Company's exposure to credit risk related to loans receivable is disclosed in Note 20.3. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all loans receivable. To measure the expected credit losses, loans receivable are grouped based on shared credit risk characteristics.

13. Other Receivables

	<u>2020</u>	<u>2019</u>
	Euro	Euro
Accrued Coupon Receivable	21,505	85,525
Other Receivables	532	1,697
Prepaid Expenses	10,000	10,000
Amounts Due from Related Company	3,515	3,515
	35,552	100,737

13.1 The balance due from the related company is unsecured, interest free and repayable on demand.

13.2 No expected credit loss allowance is considered necessary by the director on the other receivables and related company balances.

SUN FINANCE TREASURY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

14. Cash and Cash Equivalents

	<u>2020</u>	<u>2019</u>
	Euro	Euro
Bank Balances	1,999,196	140,197
Cash and Cash Equivalents	<u>1,999,196</u>	<u>140,197</u>

15. Share Capital

	<u>2020</u>	<u>2019</u>
	Euro	Euro
Authorised		
51,166 Ordinary Shares of € 1 each	<u>51,166</u>	<u>51,165</u>
Issued and Fully Paid Up		
51,166 Ordinary Shares of € 1 each	<u>51,166</u>	<u>51,165</u>

The holders of Ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

16. Borrowings

	<u>2020</u>	<u>2019</u>
	Euro	Euro
Non-Current:		
11% Notes 2022	<u>4,039,000</u>	-
Bond Costs	198,957	-
Amortisation of Bond Costs	<u>(15,580)</u>	-
Net Bond Costs	<u>183,377</u>	-
Total Non-Current Borrowings	<u>3,855,623</u>	-
Current:		
11% Notes 2021	<u>10,000,000</u>	<u>10,000,000</u>
Bond Costs	354,345	299,825
Amortisation of Bond Costs	<u>(235,136)</u>	<u>(53,878)</u>
Net Bond Costs	<u>119,209</u>	<u>245,947</u>
Total Current Borrowings	<u>9,880,791</u>	<u>9,754,053</u>
Total Borrowings	<u>13,736,414</u>	<u>9,754,053</u>

SUN FINANCE TREASURY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

16. Borrowings (Contd.)

- 16.1** In the comparative period, the Company issued a private placement in Latvia of Unsecured Notes with a nominal value of € 10,000,000 which mature in August 2021. The related issue costs amounting to € 299,825 are being amortised over the 2-year term of the Notes.
- 16.2** During 2020, the company issued another private placement in Latvia of Unsecured Notes with a nominal value of € 15,000,000 which mature in September 2022. The related issue costs amounting to € 198,957 are being amortised over the 2-year term of the Notes.
- 16.3** All Notes in issue are guaranteed directly and indirectly by subsidiaries of the AS Sun Finance Group, the ultimate parent company.

17. Loans Payable

	<u>2020</u>	<u>2019</u>
	Euro	Euro
Non-Current:		
Loan and Interest Payable to Third Party	<u>20,243,802</u>	<u>20,193,320</u>
Current:		
Loans and Interest Payable to Third Parties	6,385,493	2,287,688
Loans and Interest Payable to Related Companies	<u>6,362,015</u>	<u>1,988,685</u>
	<u>12,747,508</u>	<u>4,276,373</u>
Total Loans Payable	<u><u>32,991,310</u></u>	<u><u>24,469,693</u></u>

- 17.1** The non-current loan and interest thereon amounting to € 20,243,802 (2019 - € 20,193,320) payable to a third party represents a subordinated loan. This subordinated loan is unsecured and is subject to be repaid after all senior liabilities have been paid. Furthermore, the lender cannot take any encumbrance to secure the repayment of the subordinated liabilities and cannot commence any proceedings against the company or take any action for or in respect of the recovery of any of the subordinated liabilities or part thereof.

- 17.2** The loans and interest balances payable are made up as follows:

	<u>2020</u>	<u>2019</u>	Latest Settlement Date
	Euro	Euro	
Third Parties:			
Loan 2	-	828,276	07.06.2022
Interest Thereon	-	12,417	
Loan 3	20,193,319	19,960,448	31.07.2022
Interest Thereon	50,483	232,871	
Loan 4	1,893,502	1,426,220	21.08.2023
Interest Thereon	27,949	20,776	
Loan 7	4,460,000	-	16.12.2023
Interest Thereon	4,042	-	

SUN FINANCE TREASURY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

17. Loans Payable (Contd.)

17.2 The loans and interest balances payable are made up as follows (Contd.):

	<u>2020</u>	<u>2019</u>	Latest Settlement Date
	Euro	Euro	
Related Companies:			
Loan 2	3,320,436	828,276	07.06.2022
Interest Thereon	-	12,417	
Loan 5	-	1,745,500	25.01.2021
Interest Thereon	-	243,185	
Loan 8	100,000	-	24.11.2023
Interest Thereon	1,000	-	
Loan 9	400,000	-	21.12.2021
Interest Thereon	50,799	-	
Loan 10	2,175,000	-	25.05.2021
Interest Thereon	120,220	-	
Loan 11	192,022	-	07.04.2023
Interest Thereon	2,538	-	
Total Loans and Interest Payable	32,991,310	24,469,693	

17.3 The loan payable balances bear interest at rates ranging from 12% p.a. to 17.72% p.a. however, in view of the onset of the COVID-19 pandemic, the interest rates charged for the year ended 31 December 2020, were reduced to 3% p.a. for loan 3, whilst interest on loans 7, 9 and 10 were reduced to 7% p.a. The interest rates chargeable to the Company are to revert to the original contracted rates during 2021. No discounting was considered necessary in view that there was no substantial modification to the terms and agreements.

17.4 The balances due on the said loans are unsecured and repayable on the earlier of the above-mentioned maturity dates or any accelerated date. The company is to pay interest at the stated rates per annum on the principal amount due, both before and after maturity, default and judgement. Interest is payable monthly in arrears.

18. Other Payables

	<u>2020</u>	<u>2019</u>
	Euro	Euro
Accrued Expenses	26,093	8,890
Other Social Taxes	2,044	-
Amounts due to Related Company	-	88,467
Amounts due to Ultimate Beneficial Owners	9,858	9,858
	37,995	107,215

18.1 Amounts due to the related company and the ultimate beneficial owners are unsecured, interest free and repayable on demand.

SUN FINANCE TREASURY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

19. Fair Value Hierarchy

The following table shows financial instruments recognized at fair value for the year ended 31 December 2020, analysed between those whose fair value is based on:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

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

The following table presents the company's assets and liabilities that are not measured at fair value but for which the fair value is disclosed.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	<u>Euro</u>	<u>Euro</u>	<u>Euro</u>	<u>Euro</u>
31 December 2020				
Financial Assets				
Investment in Subsidiaries	472,093	-	-	472,093
Financial Assets at Fair Value through P/L	782,000	-	782,000	-
Loans Receivable	40,405,230	-	-	40,405,230
Other Receivables	35,552	-	-	35,552
Cash and Cash Equivalents	1,999,196	-	-	1,999,196
	<u>43,694,071</u>	<u>-</u>	<u>782,000</u>	<u>42,912,071</u>
Financial Liabilities				
Borrowings	13,736,414	-	-	13,736,414
Loans Payable	32,991,310	-	-	32,991,310
Other Payables	37,995	-	-	37,995
	<u>46,765,719</u>	<u>-</u>	<u>-</u>	<u>46,765,719</u>
31 December 2019				
Financial Assets				
Investment in Subsidiaries	472,093	-	-	472,093
Financial Assets at Fair Value through P/L	3,110,000	-	3,110,000	-
Loans Receivable	29,656,865	-	-	29,656,865
Other Receivables	100,737	-	-	100,737
Cash and Cash Equivalents	140,197	-	-	140,197
	<u>33,479,892</u>	<u>-</u>	<u>3,110,000</u>	<u>30,369,892</u>
Financial Liabilities				
Borrowings	9,754,053	-	-	9,754,053
Loans Payable	24,469,693	-	-	24,576,908
Other Payables	107,215	-	-	107,215
	<u>34,330,961</u>	<u>-</u>	<u>-</u>	<u>34,330,961</u>

During the reporting year ended 31 December 2020, there was no transfer between Level 1 and Level 2 fair value measurement.

SUN FINANCE TREASURY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

20. Financial Risk Management

20.1 Overview

The Company activities potentially expose it to a variety of financial risks, including fair value or cash flow interest rate risk, credit risk, liquidity risks and market risks:

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

20.2 Risk Management Framework

The Board has overall responsibility for the establishment and oversight of the Company's risk management objectives and policies.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details of these policies are set out below:

20.3 Credit Risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's loans receivable from third parties and other related companies. The Company has implemented credit reviews for new and existing customers before entering into contracts and the Company monitors intra-group credit exposures on a regular basis and ensures timely performances of these assets in the context of the overall group liquidity management. The Company takes cognisance of the related party relationship and the director does not expect any losses from non-performance.

Furthermore, credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. The Company's policy is to place cash with financial institutions of a high credit rating.

Exposure to Credit Risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the end of the reporting period was as follows:

	<u>2020</u>	<u>2019</u>
	<u>Euro</u>	<u>Euro</u>
Financial Assets at Fair Value through Profit or Loss	782,000	3,110,000
Loans Receivable	40,405,230	29,656,865
Other Receivables	4,047	5,212
Cash and Cash Equivalents	1,999,196	140,197
	<u>41,190,473</u>	<u>32,912,274</u>

The Company is required to determine expected credit losses on these receivables in accordance with IFRS 9 and this exercise was not carried out at year end.

SUN FINANCE TREASURY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

20. Financial Risk Management (Contd.)

20.4 Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Exposure to Liquidity Risk

The following are the contractual maturities of financial liabilities:

	<u>Within 12 Months</u>	<u>Between 1-2 Years</u>	<u>Between 2-5 Years</u>	<u>Over 5 Years</u>
	<u>Euro</u>	<u>Euro</u>	<u>Euro</u>	<u>Euro</u>
31 December 2020				
Borrowings	9,880,791	3,855,623	-	-
Loans Payable	12,747,508	-	20,243,802	-
Ultimate Beneficial Owner	9,858	-	-	-
	<u>22,638,157</u>	<u>3,855,623</u>	<u>20,243,802</u>	<u>-</u>
31 December 2019				
Borrowings	-	9,754,053	-	-
Loans Payable	4,276,373	-	20,193,320	-
Related Parties Accounts	88,467	-	-	-
Ultimate Beneficial Owner	9,858	-	-	-
	<u>4,374,698</u>	<u>9,754,053</u>	<u>20,193,320</u>	<u>-</u>

20.5 Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange currency financial instruments and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The overall effect of fluctuations in exchange rate at the reporting date on financial instruments such as receivables and payables are not considered by management to be material on the results of the company.

The company holds Private notes for which the fair value is equivalent to the market value. The director believes that the exposure to market risk from this activity is acceptable in the Company's circumstances. The effect of a 10% increase in the value of financial assets at fair value through profit and loss, all other variables held constant, have a result in an increase in the fair value reserve and net assets of € 78,200. A 10% decrease in value would have an effect of a decrease in the fair value reserve and net assets by the same amount.

20.5.1 Fair Value or Cash Flow Interest Rate Risk

The Company is not exposed to cash flow interest rate risk from borrowings, as all borrowings are subject to fixed interest rates.

SUN FINANCE TREASURY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

20. Financial Risk Management (Contd.)

20.5 Market Risk (Contd.)

20.5.2 Foreign Currency Risk

The Company is exposed to foreign currency risk on monetary amounts denominated in a currency other than the functional currency of the Company (€), mainly the SEK. Since the exposure is not significant, no hedging is performed by the Company.

At 31 December 2020, the company was exposed to the following liabilities in foreign currencies:

	<u>2020</u>	<u>2019</u>
	Liabilities	Liabilities
Swedish Kroners - SEK	<u>19,280,447</u>	<u>15,221,312</u>

The following table details the Company's sensitivity to a 10% increase or decrease in foreign currency which mainly arises from the company's exposure to trade receivables and payables.

	<u>2020</u>	<u>2019</u>
	Liabilities	Liabilities
	Euro	Euro
Profit or Loss	<u>174,678</u>	<u>132,457</u>

20.6 Capital Management

The director's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The director's objective is to safeguard their ability to continue as a going concern, so that the company can continue to provide returns for shareholders and benefits other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The director monitors the return on capital as well as the level of dividends to ordinary shareholders.

21. Related Parties

21.1 Parent and Ultimate Controlling Party

The Company is jointly owned by AS Sun Finance Scandinavia and AS Sun Finance Europe (the "Joint Parent Companies") whose registered offices are at Skanstes iela 52, Vidzemes priekšpilsēta, Rīga LV-1013, Latvia, and who are in turn subsidiaries of AS Sun Finance Group (the "Ultimate Parent Company") with registered offices at Skanstes iela 52, Vidzemes priekšpilsēta, Rīga LV-1013, Latvia.

AS Sun Finance Group prepares the consolidated financial statements of the Group of which Sun Finance Treasury Limited forms part. These financial statements will be filed and available for public viewing at the Malta Business Registry.

The ultimate controlling party is Mr. Aigars Kesenfelds.

SUN FINANCE TREASURY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

21. Related Parties (Contd.)

21.2 Identity of Related Parties

The Company has a related party relationship with its ultimate beneficial owner, ultimate parent, joint parent, subsidiaries and related companies.

21.3 Related Party Transactions and Balances

	<u>2020</u>	<u>2019</u>
	Euro	Euro
Related Companies		
Interest Receivable from	1,105,033	2,142,052
Interest Payable to	(639,818)	(260,967)
Advances to/by	(2,698,247)	2,169,952
	<u>=====</u>	<u>=====</u>
Subsidiary Companies		
Interest Receivable from	139,399	145,327
Loan Advanced to	(1,533,399)	(3,215,327)
	<u>=====</u>	<u>=====</u>
Joint Parent Companies		
Interest Receivable from	344,738	128,745
Loan Advanced to	(1,878,737)	(3,477,745)
	<u>=====</u>	<u>=====</u>
Ultimate Parent Company		
Interest Receivable from	481,549	74,713
Loan Advanced to	(2,856,515)	(3,925,713)
	<u>=====</u>	<u>=====</u>

Amounts due to and from related parties are disclosed in Notes 12, 13, 17 and 18 to these financial statements.

The key management of the Company is considered to be the director of the company. The director's remuneration has been disclosed in Note 7 to these financial statements.

22. Operating Commitments

The company did not have any operating lease commitments at year end.

23. Capital Commitments

The company did not have any commitments to purchase any property, plant and equipment at year end.

24. Contingent Liabilities

At year end, the company did not have any contingent liabilities.

SUN FINANCE TREASURY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

25. COVID-19

The Coronavirus (COVID-19) pandemic is affecting economic and financial markets worldwide, and virtually all industries are facing challenges associated with the economic conditions resulting from efforts to address it.

Entities are experiencing conditions often associated with a general economic downturn. This includes, but is not limited to, financial market volatility and erosion, deteriorating credit, liquidity concerns, further increases in government intervention, increasing unemployment, broad declines in consumer discretionary spending, increasing inventory levels, reductions in production because of decreased demand, layoffs and leave of absence, and other restructuring activities. The continuation of these circumstances could result in an even broader economic downturn which could have a prolonged negative impact on an entity's financial results.

The director has assessed the effects of COVID-19 on the Company's operations and noted that the Company has been able to continue operating through the prevalent market conditions and continues to do so without significant disruptions to date, even though there have been certain measures taken by governments which have resulted in lower interest rates being charged, but which position has however been offset through a reduction of interest charged to the Company. Furthermore, since transactions are mostly with related companies, these are overall not expected to be negatively impacted, and though the future business environment may differ from management's assessment, the director believes that the impact of such position is not at present affected by these risks.

26. Going Concern

During the year under review, the company incurred an operating loss of € 1,102,251 and registered an overall loss of € 1,220,579.

As at year end, the company had net current assets of € 21,555,684 but had a net assets deficiency position amounting to € 2,071,648.

During the year, related companies continued to provide financial support to the Company and this financing is still required to enable the Company to continue in business as a going concern.

The foregoing factors cast significant doubt upon the Company's ability to continue in operation in the foreseeable future. However, notwithstanding the said factors, the Company has received a subordinated loan from a third party which does not have a fixed date of repayment but has to be repaid by not later than 31 July 2022. This subordinated loan is unsecured and is subject to be repaid after all senior liabilities have been paid. Furthermore, the lender cannot take any encumbrance to secure the repayment of the subordinated liabilities and cannot commence any proceedings against the company or take any action for or in respect of the recovery of any of the subordinated liabilities or part thereof. Accordingly, the director believes that the going concern basis applied in the preparation of these financial statements is appropriate.

27. Subsequent Events

- (a) As at 31 December 2020, a total of € 4,039,000 was subscribed out of the total private placement of the € 15,000,000 Notes. As at 31 March 2021, additional subscriptions amounting to € 2,616,487 were made on this private placement.
- (b) On 27 April 2021, the Company issued a further € 30,000,000 Notes at a coupon interest rate of 12% p.a. and with a February 2023 maturity date.

SUN FINANCE TREASURY LIMITED

SCHEDULE TO INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

	<u>2020</u>	<u>2019</u>
	Euro	Euro
Finance Income		
Loan Interest Income	2,247,528	2,832,970
Coupon Notes Income	161,231	130,924
	<u>2,408,759</u>	<u>2,963,894</u>
Finance Costs		
Loan Interest Expense	1,520,969	3,114,055
Coupon Notes Costs	1,165,026	391,111
	<u>2,685,995</u>	<u>3,505,166</u>
Net Interest Margin	<u>(277,236)</u>	<u>(541,272)</u>
Operational Overheads		
Amortisation of Bond Costs	196,838	53,878
Expected Credit Losses	507,430	-
	<u>704,268</u>	<u>53,878</u>
Administrative Overheads		
Auditors' Remuneration	6,490	6,490
Bank Charges	59,799	27,228
Broker Fees	-	197
Company Secretary Fees	2,185	2,185
Director's Remuneration	4,282	-
Legal and Professional Fees	30,202	25,053
Registration Fees	350	340
Rent Payable	6,419	401
Salaries and Social Costs	10,440	-
Stationery and Courier Fees	580	-
	<u>120,747</u>	<u>61,894</u>
	<u>(1,102,251)</u>	<u>(657,044)</u>
Other Operating Income		
Profit from Sale of Debt Instruments	-	20,350
Operating Loss	<u>(1,102,251)</u>	<u>(636,694)</u>