

## Independent Auditor's Report

### To the shareholders of SIA AgroCredit Latvia

#### *Our Opinion on the Financial Statements*

We have audited the accompanying financial statements of SIA AgroCredit Latvia ("the Company") set out on pages 7 to 28 of the accompanying annual report, which comprise:

- the statement of comprehensive income for the year 2018,
- the statement of financial position as at 31 December, 2018,
- the statement of changes in equity for the year 2018,
- statement of cash flows for the year 2018, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of SIA AgroCredit Latvia as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

#### *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' Code of Ethics for Professional Accountants (IESBA Code) 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 IESBA Code 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.

#### *Key Audit Matters*

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

We have determined the matters described below to be the key audit matters to be communicated in our report:

<i>Audit matter</i>	<i>Audit procedures performed</i>
<p><u>(a) Completeness of income from crediting activities</u> Interest and similar income in the respective financial statements amount to EUR 745 186.</p> <p>Detailed information on the relevant income items is presented in Note 1 to the financial statements (financial information) and in the section of the accounting policies (income and expense recognition principles description).</p> <p>All Company's revenues consist of Interest income and similar income, therefore income recognition and control matters are considered to be one of the key audit matters.</p>	<p>Our audit procedures, amidst others, included the following:</p> <ul style="list-style-type: none"><li>• meeting with the financial management of the company in order to discuss the specifics of the current market situation, income structure of the Company, changes in the reporting year and key material risks for ensurance of income recognition completeness;</li><li>• obtaining understanding of the adequacy of the accounting methods and control procedures applied;</li><li>• performing of detailed analytical procedures, comparing interest income to the asset base of loans issued;</li><li>• on a random selection basis performed tests of ageing of loans issued and income recognised on the respective loan base in accordance with the loan agreement provisions.</li></ul>

**(b) Recoverable values of loans issued**

The net balance sheet value of loans and receivables amount to EUR 5 374 824.

Detailed information on this balance sheet item is included in Note 8 to the financial statements (financial information) and in the section of the accounting policies (accounting principles and policies for Accounts Receivable and Risk management, Creditrisk).

Starting 1 January 2018, the Company has adopted IFRS 9 "Financial instruments" and has implemented expected credit loss (ECL) model for recognition of impairment losses on loans. ECL rate is affected by the carrying value of defaulted asset, the probability of default and other risk factors known, as well as expected cash flows from loan repayment or pledge realisation, as well as modifications of ECL model in the result of microeconomic scenarios. For determination of components for ECL calculation, the management of the Company applies a number of assessments and takes significant decisions.

We consider this to be one of the key audit matters as loans and receivables represent material portion of assets of the Company and the valuation of these assets involves significant decisions and judgements applied.

Our audit procedures, amidst others, included the following:

- meeting with the financial management of the Company in order to discuss the specifics of the current market situation, expected profit levels and ratios of asset return;
- obtaining understanding of general principles applied to loan issuance and the adequacy of control procedures applied for the monitoring of borrowers;
- assessing whether the Company's accounting policies in relation to the ECL of issued loans are in compliance with IFRS 9 by assessing each significant model component.
- review of adequacy of ageing analysis of loans issued on a random selection basis, as ageing analysis is one of the ECL components;
- in accordance with the ECL model developed by the Company, as well as our test results, identified accounts receivable with the highest risk level and substantively tested ECL recognition;
- evaluating the adequacy and sufficiency of provisions made in prior periods with the actual repayment data for the loans provided for;
- analytical tests of consistency and adequacy of ECL model application;
- evaluating the loan repayment dynamics after the balance sheet date.

**Reporting on Other Information**

- The Company management is responsible for the other information. The other information is the Management Report, as set out on pages from 4 to 5 of the accompanying Annual Report.
- the Statement on Management Responsibility and the Statement of Corporate Governance, as set out on page 6 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.

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in section 56.1, first paragraph, clause 3, 4, 6., 8 and 9, as well as section 56.2, second paragraph, clause 5, and third paragraph of the Financial Instruments Market Law and if it includes the information stipulated in section 56.2 second paragraph, clause 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

In our opinion, the Statement of Corporate Governance includes the information required in section 56.1, first paragraph, clause 3, 4, 6, 8 and 9, as well as section 56.2, second paragraph, clause 5, and third paragraph of the Financial Instruments Market Law and it includes the information stipulated in section 56.2 second paragraph, clause 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

### **Auditor's Responsibility for the Audit of the Financial Statements**

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

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

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


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

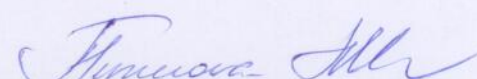
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and objectivity, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable,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

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

The responsible certified auditor on the audit resulting in this independent auditors' report is Anna Temerova-Allena.

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

  
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Kristīne Potapoviča  
Chairman of the Board

  
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Anna Temerova-Allena  
Responsible Certified Auditor  
Certificate No. 154  
Member of the Board