SIA “AGROCREDIT LATVIA”

Annual accounts for year 2016

Prepared in accordance with the international financial reporting standards as adopted by EU

Translation from Latvian

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Information on the Company

Name of the Company	SIA AGROCREDIT LATVIA
Legal status of the Company	Limited liability company
Number, place and date of registration	40103479757 Commercial Registry Riga, 11 November 2011
Operations as classified by NACE classification code system	64.91 – Financial leasing 64.92 – Other credit granting
Address	K.Ulmaņa gatve 119, Mārupe, Mārupe municipality, LV-2167, Latvia (since 19.04.2016) Puķu iela 8-7, Riga LV-1048, Latvia (till 19.04.2016)
Names and addresses of shareholders	AgroCredit Estonia OU (90%) 90% since 28.04.2016; 100% till 28.04.2016 Reg.No. 1000241097 Sirbi 9-2, Tallinn 11713, Estonia K Investments SIA (10%) 10% since 28.04.2016 Reg.No. 40103978402 Puķu 8-7, Rīga, LV-1048, Latvia
Names and positions of Board members	Ģirts Vinters – Chairman of the Board Jānis Kārkliņš – Member of the Board
Person responsible for accounting	Evija Šverna - accountant
Financial year	1 January - 31 December 2016
Name and address of the auditor	SIA Potapoviča un Andersone Certified Auditors' Company Licence No. 99 Ūdens Street 12-45, Riga, LV-1007 Latvia Responsible Certified Auditor: Anna Temerova – Allena Certificate No. 154

Management report

Type of operations

SIA AgroCredit Latvia (hereinafter – the Company) is a specialized financial services provider, offering credit services to farmers. The Company mainly issues short-term financing to crop farmers for the purchase of raw materials, which is repaid after the harvest sales.

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

The Company provides the necessary resources for crediting from its own funds as well as attracts from external sources of financing- banks and investment funds, private investors and bonds.

The Company's performance during the reporting year

The Company continued consistent growth in 2016. The share-capital was increased by 1/3rd what gave an opportunity to increase the capital attracted from external sources of financing and increase the loan amount granted to the customers. The Company issued bonds in 2016 and they are listed in AS Nasdaq Riga stock exchange. This is planned to be a considerable source of financing for the coming years.

The financial figures of the Company show the increase if interest income by 20% in comparison to year 2015. The total assets of the company has grown by 24%.

The year was quite unfavourable for grain growers. There were low grain quality, poor weather conditions during the harvest time, low grain prices. Still the quality of credit repayments remained on consistently high standard level and the Company had no credit losses during the year.
As the portfolio grew, the methodology of making accruals for possible credit risks was implemented. The accruals were made according to this methodology, which is the cause for decreasing rentability of the Company in 2016.

The Company's exposure to risks

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

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

Statement on internal control procedures

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

Future prospects

The Company plans to continue to grant seasonal financing to grain growers and remain the credit policy unchanged in 2017. It is planned to attract additional credit resources, grant financing to wider range of customers and ensure gradual growth of the Company in 2017.

Post balance sheet events

During the period between the last day of the financial year and the date of signing of this report there have been no significant events that would have a material effect on the year end results.

Distribution of the profit proposed by the Board

The Management Board proposes to the shareholders to approve the annual report of the Company and to retain the profit in amount of 50 764 EUR undivided.

The Management Board has prepared the annual report of SIA AgroCredit Latvia, including Management report and Financial reports for 2016 and approved it for submission to Shareholders meeting.

Ģirts Vinters	Jānis Kārkliņš
Chairman of the Board	Member of the Board

Riga, 28 April 2017

Statement of management`s responsibility

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

Based on the information available to the Board of the Company, the financial statements are prepared on the basis of the relevant primary documents and statements in accordance with International Financial Reporting Standards as adopted by the European Union and present a true and fair view of the Company's assets, liabilities and financial position as at 31 December 2016 and its profit and cash flows for 2016.

The management of the Company confirms that the accounting policies and management estimates have been applied consistently and appropriately. The management of the Company confirms that the consolidated financial statements have been prepared on the basis of the principles of prudence and going concern.

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

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

Corporate governance statement

The corporate governance report of SIA AgroCredit Latvia for 2016 has been prepared in accordance with Section 56.2 Paragraph 3 of the Financial Instrument Market Law.

The report will be submitted to AS Nasdaq Riga (hereinafter – the Stock Exchange) concurrently with the audited financial statements SIA AgroCredit Latvia for 2016 for publishing on the website of the Stock Exchange: http://www.nasdaqbaltic.com/, and the website of SIA AgroCredit Latvia http://www.agrocredit.lv in Latvian and English.

Ģirts Vinters	Jānis Kārkliņš
Chairman of the Board	Member of the Board

Riga, 28 April 2017

Statement of income for the year ended 31 December 2016

	Notes	2016 EUR	2015 EUR
Interest and similar income	1	619 923	514 940
Interest expense	2	(288 622)	(259 027)
Impairment	3	(70 000)	25 000
Administrative expense	4	(166 709)	(81 440)
Other operating income	5	57	866
Other operating expense	6	(28 844)	(32 080)
Other financial expense	7	(139)	(248)
Profit before corporate income tax		**65 666**	**168 011**
Corporative income tax	8	(25 533)	(21 450)
Deferred tax	8	10 631	(3 603)
Current year's profit		**50 764**	**142 958**
Other income		-	-
Total profit for the year		**50 764**	**142 958**

Notes on pages from 10 to 24 are integral part of these financial statements.

Ģirts Vinters Chairman of the Board	Jānis Kārkliņš Member of the Board	Evija Šverna Accountant

Riga, 28 April 2017

Statement of financial position as at 31 December 2016

	Notes	31.12.2016. EUR	31.12.2015. EUR
Assets			
Long term investments			
Fixed assets	9	2 729	6 998
Loans and receivables	10	206 219	519 798
Deferred tax assets	8	10 347	-
Total long-term investments:		**219 295**	**526 796**
Current assets			
Loans and receivables	10	4 841 576	3 592 356
Other debtors	11	7 492	7 384
Cash	12	77 761	25 203
Total current assets:		**4 926 829**	**3 624 943**
Total assets		**5 146 124**	**4 151 739**
Liabilities			
Shareholders' funds:			
Share capital	13	1 500 000	1 000 020
Other reserves		25	25
Retained earnings:			
- prior year's retained earnings		190 533	47 575
- current year's profit		50 764	142 958
Total shareholders' funds:		**1 741 322**	**1 190 578**
Creditors:			
Long-term creditors:			
Borrowings	14	1 800 399	1 357 763
Deferred income	8	-	284
Total long-term creditors:		**1 800 399**	**1 358 047**
Short-term creditors:			
Borrowings	14	1 588 665	1 578 009
Trade creditors and accrued liabilities	15; 16	15 738	25 105
Total short-term creditors:		**1 604 403**	**1 603 114**
Total liabilities and shareholders' funds		**5 146 124**	**4 151 739**

Notes on pages from 10 to 24 are integral part of these financial statements.

Ģirts Vinters Chairman of the Board	Jānis Kārkliņš Member of the Board	Evija Šverna Accountant

Riga, 28 April 2017

Statement of changes in equity for the year ended 31 December 2016

	Share capital EUR	Other reserves EUR	Retained earnings EUR	Total EUR
As at 1 January 2015	**1 000 020**	**25**	**47 575**	**1 047 620**
Profit for the year	-	-	142 958	**142 958**
As at 31 December 2015	**1 000 020**	**25**	**190 533**	**1 190 578**
Increase of the share capital	499 980	-	-	**499 980**
Profit for the year	-	-	50 764	**50 764**
As at 31 December 2016	**1 500 000**	**25**	**241 297**	**1 741 322**

Notes on pages from 10 to 24 are integral part of these financial statements.

Statement of cash flows for the year ended 31 December 2016

	Notes	2016 EUR	2015 EUR
Cash flow from operating activities			
Profit before corporate income tax		**65 666**	**168 011**
Adjustments for:			
- Corrections of decrease in value of fixed assets		3 512	3 227
- loss on fixed assets disposal		759	-
- interest and similar income		(619 923)	(457 937)
- interest and similar expense		252 575	221 224
- changes in provisions		70 000	(25 000)
Loss before adjustments of working capital and short-term liabilities		**(227 441)**	**(90 475)**
Adjustments for:			
- (increase) / decrease in trade and other debtors		1 239	(7 381)
- trade creditors' increase		4 989	2 553
Gross cash flow from operating activities		**(221 183)**	**(95 303)**
Interest paid		(265 467)	(215 123)
Interest income		568 740	439 233
Corporate income tax payments		(28 341)	(31 094)
Net cash flow from operating activities		**53 749**	**97 713**
Cash flow from investing activities			
Acquisition of fixed assets and intangibles		(2 895)	(271)
Proceeds from sales of fixed assets and intangibles		2 893	-
Loans issued		(5 641 909)	(5 453 940)
Repayment of the issued loans		4 687 447	5 403 759
Net cash flow from investing activities		**(954 464)**	**(50 452)**
Cash flow from financing activities			
Proceeds from the share capital increase		499 980	-
Loans received		5 829 523	1 302 500
Repaid loans		(5 376 230)	(1 335 501)
Net cash flow from financing activities		**953 273**	**(33 001)**
Net cash flow of the reporting year		**52 558**	**14 260**
Cash and cash equivalents at the beginning of the reporting year		**25 203**	**10 943**
Cash and cash equivalents at the end of reporting year	12	**77 761**	**25 203**

Notes on pages from 10 to 24 are integral part of these financial statements.

Notes to the financial statements
Accounting policies

General information about the Company

SIA AgroCredit Latvia (further - The Company) is registered in Latvian Commercial Registry on 11 November 2011. The Company is specialized in providing financial services and offering credit services to farmers. Basically the Company issues short-term financing to crop-farmers for the purchase of raw materials, which is repaid after the harvest sales.

Basis of preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

The financial statements cover the period from 1 January 2016 until 31 December 2016.

The financial statements are prepared based on historic cost method.

The Company's functional and presentation currency is euro (EUR).

The preparation of financial statements in accordance with IFRS requires the use of significant estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the information on contingent assets and liabilities at the balance sheet date and the revenues and costs for the reporting period. Although these estimates are based on the information available to the management regarding the current events and actions, the actual results may differ from the estimates used. Critical assumptions and judgements are described in the relevant sections of the Notes to the financial statements.

(a) Significant accounting judgements, estimates and assumptions

The Company’s financial statements and its financial result are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements. The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the current and next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgments are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events. Accounting policies and management’s judgements for certain items are especially critical for the Company’s results and financial situation due to their materiality. Future events occur which cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

Impairment allowance
The Company assesses at each reporting date whether there is objective evidence that a group of financial assets is impaired. A group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- adverse changes in the payment status of borrowers in the portfolio of financial assets, i.e. financial assets whose interest and principal payments are past due;
- termination of agreement due to a breach of contract by the borrower, such as a default or delinquency in interest, principal and/or penalty payments.

The Company assesses whether objective evidence of impairment exists collectively for a group of financial assets with similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

The amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement.

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

(a) Significant accounting judgements, estimates and assumptions (continued)

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Company and historical loss experience for assets with credit risk characteristics similar to those in the Company. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, levels of arrears, collateral recoverability, or other factors indicative of changes in the probability of losses in the Company and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

When a receivable is uncollectible, it is written off against the related allowance for receivable impairment. Such receivables are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the accounts receivable aging), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement.

Financial assets that are subject to collective impairment assessment and whose terms have been renegotiated are no longer considered to be past due but are treated as new assets. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated again.

Deferred tax assets
Deferred tax asset is recognized in respect of tax losses to the extent that is probable that future taxable profit will be available against which the losses can be utilized. Judgement is required to determine the amount of deferred tax asset than can be recognized, based upon the likely timing and level of future taxable profits.

(b) Summary of significant accounting policies

Changes in accounting principles and reporting
The following new and amended IFRS and interpretations come into force in 2016, but do not apply to the Company's operations and have no impact on these financial statements:

Amendment to IFRS 11 “Joint arrangements” on acquisition of an interest in a joint operation (effective for annual periods beginning on or after 1 January 2016)
Amendment to IAS 16 “Property, plant and equipment” and IAS 38 “Intangible assets” on depreciation and amortization (effective for annual periods beginning on or after 1 January 2016)
Amendments to IAS 16 “Property, plant and equipment” and IAS 41 “Agriculture” regarding bearer plants (effective for annual periods beginning on or after 1 January 2016)
Amendments to IAS 27 “Separate financial statements” on the equity method (effective for annual periods beginning on or after 1 January 2016)
Amendments to IAS 1 “Presentation of financial statements” regarding disclosure initiative effective for annual periods beginning on or after 1 January 2016)
Amendments to IFRS 10 “Consolidated financial statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in associates and joint ventures” (effective for annual periods beginning on or after 1 January 2016)

The following new and amended IFRS and interpretations come into force in 2015, but do not apply to the Company's operations and have no impact on these financial statements:

Amendments to IAS 19 “Employee benefits plans” regarding defined benefit plans (endorsed by EU for annual periods beginning on or after 1 February 2015).

Annual improvements 2014 (effective for annual periods beginning on or after 1 January 2016). The amendments include changes that affect 4 standards:
• IFRS 5 “Non-current assets held for sale and discontinued operations”
• IFRS 7 “Financial instruments: Disclosures” with consequential amendments to IFRS 1
• IAS 19 “Employee benefits”
• IAS 34 “Interim financial reporting”

Notes to the financial statements (continued)

Accounting policies (continued)

(b) Summary of significant accounting policies (continued)

Changes in accounting principles and reporting (continued)

Annual improvements 2012 (effective for annual periods beginning on or after 1 July 2014, endorsed by EU for annual periods beginning on or after 1 February 2015). These amendments include changes that affect 6 standards:
• IFRS 2 “Share-based payment”
• IFRS 3 “Business Combinations”
• IFRS 8 “Operating segments”
• IAS 16 “Property, plant and equipment” and IAS 38 “Intangible assets”
• IAS 24 “Related party disclosures”

The following new and amended IFRS and interpretations are published and come into force in financial periods on or after 2017 or not yet endorsed by EU:

IFRS 9 “Financial Instruments: Classification and Measurement” (effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:
• Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortized cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
• Classification for debt instruments is driven by the entity’s business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortized cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets’ cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
• Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
• The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments Standard - IAS 39. Main changes of the standard affect that companies will further present their own credit risk impact of changes into other incomes position that is estimated in fair value, calculated in profit or loss.
• IFRS 9 introduces a new model for recognition of value reductions – the expected credit loss (ECL) model. The model has three level approach, based on changes in financial assets credit quality, comparing with initial measurements. New changes in practice will mean initial credit loss recognition equal to 12-month ECL even if financial assets do not contain signals of value loss. If significant growth of credit risk occurs, value loss measurements have to be done by using lifetime ECL. The model includes some operational simplifications for trade receivables, contract assets and lease receivables.
• Credit risk management requirements are improved for credit management systems matching purposes. The standard allows to choose accounting policies between IFRS 9 and IAS 39 because IFRS 9 has not yet regulated for measuring restrictions of macro risks.

IFRS 9 will be effective for annual periods of Parent company and Group after its endorsing by EU. The Board estimates no influence on financial reports of Parent company and Group according to changes in IFRS 9, comparing to current classification of expected credit loss and financial instruments.

Amendment to IFRS 10, Consolidated Financial Statements, and IAS 28 Investments in Associates and Joint Ventures (not yet endorsed in the EU).
IFRS 16 “Leasing” (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU).
Amendments to IAS 12, “Income taxes “, recognition of Deferred Tax Assets for Unrealized Losses (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU).
Amendments to IAS 7 “Statement of Cash Flows “(issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU).
Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

Amendments to IFRS 2 “Share-based Payment “(issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018).

Notes to the financial statements (continued)
Accounting policies (continued)
(b) Summary of significant accounting policies (continued)

Changes in accounting principles and reporting (continued)

Annual improvements 2016. These amendments include changes that affect 3 standards:

• IFRS 12 “Disclosure of Interests in Other Entities” (effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU)
• IFRS 1 “First-time Adoption of International Financial Reporting Standards” (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU)
• IAS 28 “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU)

IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU)

Transfers of Investment Property - Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU)

Board of the Company decided not to initiate new standards and interpretations before endorsing them in EU. Management of the Company believes that new standards and interpretations listed above does not have significant impact on Company’s separate financial statements in the year of endorsement, with the exception of IFRS 9, impact of which is still being assessed.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Company.

Recognition of revenue and expenses
Net sales
Net revenue represents the total value of goods sold and services provided during the year net of value added tax. Income is recognised based on accruals principle.

Interest income and similar income
The Company presents interest income in the section of the Profit and loss account prior to calculation of gross profit, as this income is related to the basic activities of the Company – charging interest for loans issued in return to pledge held as security or loans issued on other conditions. Interest income is recognised using accruals principle. Interest income is not recognised from the moment the recoverability of principal is considered doubtful. Penalty interest is recognised on a cash basis.

Other income
Other income is recognised based on accruals principle.

Expenses
Expenses are recognised based on accruals principle in the period of origination, irrespective of the moment of payment. Expenses related to financing of loans is recognised in the period of liability origination and included in the profit and loss items „Interest and similar expenses”.

Foreign currency translation
The Company maintains its accounts in euros. During the reporting period transactions in foreign currencies are recorded using euro foreign exchange reference rates that are published based on a regular daily concertation procedure between central banks of the European System of Central Banks and other central banks. At the end of the reporting year foreign currency cash balance and balances of advances and loans denominated in foreign currencies as well as other debtors’ or creditors' debts payable in foreign currencies are translated from the foreign currency to the euro in accordance with the foreign exchange rates in force on the last date of the reporting year. The resulting profit or loss is charged to the profit and loss account.

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

	% per annum
Intangibles	20
Buildings	5
Plant and equipment	20
Other fixtures and fittings, motor vehicles	20

Notes to the financial statements (continued)

Accounting policies (continued)

(b) Summary of significant accounting policies (continued)

Finance leases

Leases of assets under which the Company has substantially all the risks and rewards of ownership are classified as financial leases. Financial leases are capitalised at the inception of the lease at the present value of the minimum lease payments. Interest element of leasing payments is charged to the profit and loss account over the lease period.

Taxation

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with Latvian Republic tax legislation.

Deferred tax is provided for using liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from different fixed asset depreciation rates, as well as tax losses carried forward. Where an overall deferred taxation asset arises, it is only recognised in the financial statements where its recoverability is foreseen with reasonable certainty.

Provisions for unused annual leave

Amount of provision for unused annual leave is determined by multiplying the average wage of employees in the reporting year per day by the amount of accrued but unused annual leave at the end of the reporting year.

Accounts receivable

Accounts receivable comprise loans and other receivables (other debtors, advances and deposits) that are non-derivative financial assets with fixed or determinable payments. Loans are carried at amortized cost where cost is defined as the fair value of cash consideration given to originate those loans. All loans and receivables are recognized when cash is advanced to borrowers and derecognized on repayments. The Company has granted consumer loans to customers throughout its market area. The economic condition of the market area may have an impact on the borrowers' ability to repay their debts. Restructured loans are no longer considered to be past due unless the loan is past due according to the renegotiated terms.

The Company assesses at each balance sheet date whether there is objective evidence that loans are impaired. If any such evidence exists, the amount of the allowances for loan impairment is assessed as the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows including amounts recoverable from collateral discounted at the original effective interest rate.

The assessment of the evidence for impairment and the determination of the amount of allowances for impairment or its reversal requires the application of management's judgement and estimates. Management's judgements and estimates consider relevant factors including but not limited to, the identification of non-performing loans (loan repayment schedule compliance), the estimated value of collateral (if taken) as well as other relevant factors affecting loan and recoverability and collateral values. These judgements and estimates are reviewed periodically and as adjustments become necessary, they are reported in earnings in the period in which they become known. The Management of the Company have made their best estimates of losses based on objective evidence of impairment and believe those estimates presented in the financial statements are reasonable in light of available information.

When loans cannot be recovered they are written off and charged against allowances for loan impairment losses. They are not written off until all the necessary legal procedures have been completed and the amount of the loss is finally determined.

The provision in the allowance account is reversed if the estimated recovery value exceeds the carrying amount.

In accordance with the provision policy developed by the Company, accounts receivables according their level of risk are divided in 4 groups. The following rates are applied: 1st level – no provisions are made, 2nd level – accounts receivables which recoverability is highly credible, however additional costs may occur (5%), 3rd level – accounts receivables, which recoverability is possible, however there are reasonable doubts of full recovery (50%), 4th level – accounts receivables, which are unlikely to be recovered (100%).

The recoverability of other debtors, advances and deposits paid is valued on individual basis if there are any indications of net book value of the asset exceeding its recoverable amount.

Borrowings

Borrowings are recognised initially at the proceeds received net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between proceeds net of any transaction costs and the redemption value is gradually recognised in the profit and loss account or capitalised to fixed assets under construction according to fixed assets accounting policy over the period of borrowings.

Notes to the financial statements (continued)

Accounting policies (continued)

(b) Summary of significant accounting policies (continued)

Cash and cash equivalents

For the purposes of the cash flow statements, cash and cash equivalents comprise cash on hand, balances of current account with banks and short-term deposits with maturity up to 90 days.

Related parties

Related parties are defined as shareholders of the Company, members of the board, their close relatives and companies in which they have a significant influence or control.

Subsequent events

Post-period-end events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-period-end events that are not adjusting events are disclosed in the notes when material.

Contingencies

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

Risk management

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

Credit risk

The Company has a credit risk concentration based on its operational specifics – issuance of loans against pledge, as well as issuance of non-secured loans that is connected with an increased risk of asset recoverability. The risk may result in short-term liquidity problems and issues related to timely coverage of short-term liabilities.

The Company's policies are developed in order to ensure maximum control procedures in the process of loan issuance, timely identification of bad and doubtful debts and adequate provisioning for potential loss.

Company has no concentration of credit risk to one loan receiver.

Company issues loans that are secured with collateral as well as non-collateralized loans:

	31.12.2016 EUR	**%**
Loans with collateral	1 756 921	35
Loans without collateral	2 887 060	57
Financial leasing	371 007	8
Total loan amount (see also Note 10)	**5 014 988**	**100%**

Liquidity risk

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

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

Loans (excluding finance lease liabilities)	**Less than 3 months**	**3 months to year**	**From year to 5 years**	**Total**
31 December 2015, EUR	-	1 614 943	1 188 177	**2 803 120**
31 December 2016, EUR		1 582 165	1 781 550	**3 363 715**

Financial leasing	**Less than 3 months**	**3 months to year**	**From year to 5 years**	**Total**
31 December 2015, EUR	4 466	122 295	259 604	**386 365**
31 December 2016, EUR	57 603	58 873	140 511	**256 987**

Notes to the financial statements (continued)

Accounting policies (continued)

(b) Summary of significant accounting policies (continued)

Risk management (continued)

Market risk

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

Cash flow and interest rate risk

As the Company has borrowings from credit institutions and finance lease obligations, the Company's cash flows related to financing costs to some extent depend on the changes in market rates of interest (interest rates applied consist of base rate and variable rate (6M Euribor, 3M Euribor). The Company's interest payment related cash flows depend on the current market rates of interest.

Interest rate risk is partly averted by the fact that a number of loans received (including bond issued) have fixed interest rates set. Please see also Note 14. Management of the Company monitors fluctuations of % rates on regular basis and, if necessary, takes measures in order to minimize negative impact of % rate fluctuations on Company's operations.

Operational risk

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

Foreign exchange risk

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

Accounting for derivative financial instruments

The Company does not actively use derivative financial instruments in its operations.

Financial instruments – key measurement terms

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Fair values of financial assets or liabilities, including derivative financial instruments in active markets are based on quoted market prices. If the market for a financial asset or liability is not active (and for unlisted securities) the Group establishes fair value by using valuation techniques. These include the use of discounted cash flow analysis, option pricing models and recent comparative transactions as appropriate and may require the application of management's judgement and estimates.

Where, in the opinion of the Management, the fair values of financial assets and liabilities differ materially from their book values such fair values are separately disclosed in the notes to the accounts.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments plus accrued interest and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any) are not presented separately and are included in the carrying values of related items on the balance sheet.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Notes to the financial statements (continued)

Accounting policies (continued)

(b) Summary of significant accounting policies (continued)

Risk management (continued)

Management of the capital structure

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

At year-end the ratios were as follows:

	31.12.2016 EUR	31.12.2015 EUR
Loan and lease liabilities	3 404 802	2 960 8877
Cash and bank	77 761	25 203
Net debts	**3 327 041**	**2 935 674**
Equity	1 741 322	1 190 578
Liabilities / equity ratio	**1.96**	**2.49**
Net liabilities / equity ratio	**1.91**	**2.47**

Changes of the ratios calculated as at the end of the year 2016, are mainly due to the increase of share capital, as well as attraction of additional funding. Respective changes are in line with the strategy of the Company.

Financial instruments

Financial instruments by category

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

Assets and liabilities fair value hierarchy

The Company's financial assets and liabilities are carried at their fair value.

Hierarchy of input data for determining the fair value of assets and liabilities

In order to determine and present the financial assets and liabilities fair value, the Company uses the following three-level fair value hierarchy.

Level 1: active market published price quotations;

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

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

Level 1 it includes cash and cash equivalents. In Level 2 are not included any of the financial assets or financial liabilities. Level 3 includes loans and other debts, other financial assets, payables and other liabilities.

These assets and liabilities, with the exception of long-term loans, are short-term assets (with maturity less than 1 year), and as a result, the Company assumes that the assets (less the calculated provisions) are carried at their fair value. Loans received and given to related parties are priced at market rates (published statistical lending rates), hence the Company assumes that the fair value of these loans is reflected in their carrying value. The Company's assets and liabilities that are measured at fair value hierarchy as follows:

	31.12.2016. EUR	31.12.2015. EUR
Assets carried at amortized value		
level 3		
Loans and receivables and others debtors	5 047 795	4 112 154
Total level 3	*5 047 795*	*4 112 154*
level 1		
Cash	77 761	25 203
Total level 1	*77 761*	*25 203*
Total	**5 125 556**	**4 137 357**
Liabilities at amortized value		
level 3		
Borrowings	3 389 064	2 935 772
Trade creditors and other creditors	*15 330*	23 645
Total level 3	*3 404 394*	*2 959 417*
Total	**3 404 394**	**2 959 417**

Notes to the financial statements (continued)

(1) Interest and similar income

	2016 EUR	2015 EUR
Interest income from issued loans	548 361	460 269
Income from commissions	66 702	42 534
Other interest income	4 860	12 137
	619 923	**514 940**

All of the Company's revenues generated Latvia.

(2) Interest expense

Interest on loans received – SIA Citadele Banka	69 717	77 566
Bonds' coupon expense	59 464	56 627
Interest on loans received – A3E Capital SICAV plc	47 123	2 877
Leverage expenditure	36 047	38 050
Interest on loans received – SIA Bonus.lv	25 189	-
LCD bond's coupon expense	18 895	-
Interest on loans received from affiliated companies	15 378	10 712
Interest on loans received – SIA Nordea Finance Latvia	11 298	12 985
Interest on loans received – SIA Nordpro Capital	-	60 210
Interest on other loans received	5 511	-
	288 622	**259 027**

(3) Impairment

Change of provision for doubtful debts*	70 000	(25 000)
	70 000	**(25 000)**

* See also Note 10.

(4) Administrative expense

Staff costs	51 363	29 338
Legal services, including debt collection costs *	44 367	9 227
Accounting services and professional fees	14 769	10 336
Social insurance	12 116	6 921
Transportation expenses	12 005	5 157
Office rent	8 167	2 071
IT costs	6 411	6 335
Office expenses	5 761	4 302
Decrease of fixed assets value	3 512	3 227
Communication expenses	2 789	2 613
Bank commission	638	605
Insurance	564	720
Household goods	-	496
Risk duty	9	10
Other administrative expenses	4 238	82
	166 709	**81 440**

* The legal costs increased due to services received regarding the preparation of necessary documentation to issue and list the bond program. Also, the managing of debtor payment collection was outsourced in 2016.

(5) Other operating income

Other interest income	57	-
Other interest income from AgroCredit Estonia OU	-	866
	57	**866**

Notes to the financial statements (continued)

(6) Other operating expenses

	2016 EUR	2015 EUR
Marketing and advertising costs	11 556	21 200
Donations	6 500	7 007
Sales promotion costs	3 784	1 124
Debt recovery costs	3 516	-
Membership fees	3 351	2 749
Penalties	137	-
	28 844	**32 080**

(7) Other financial expenses

	2016 EUR	2015 EUR
Interest paid – SIA Nordea Finance Latvia	**139**	**248**

(8) Corporate income tax for the reporting year

	2016 EUR	2015 EUR
Corporate income tax charge for the current year	25 533	21 450
Deferred tax charge	(10 631)	3 603
	14 902	**25 053**

Corporate income tax differs from the theoretical amount:

	2016 EUR	2015 EUR
Profit before corporate income tax	**65 666**	**168 011**
Theoretically calculated tax	9 850	25 202
Expenses not deductible for tax purposes	10 577	5 214
Tax discount for donations	(5 525)	(5 363)
Tax charge	**14 902**	**25 053**

	31.12.2016. EUR	31.12.2015. EUR
Deferred tax liabilities (assets) at the beginning of year	284	(3 319)
Deferred tax liabilities increase / (decrease) in the reporting year	(10 631)	3 603
Deferred tax liabilities (assets) at the end of year	**(10 347)**	**284**

(9) Fixed assets

	Plant and equipment EUR	Other fixed assets EUR	Total EUR
Cost			
31.12.2015.	**20 492**	**1 829**	**22 321**
Additions	-	2 895	2 895
Disposals	(20 492)	-	(20 492)
31.12.2016.	**-**	**4 724**	**4 724**
Depreciation			
31.12.2015.	**13 727**	**1 596**	**15 323**
Charge for 2016	3 113	399	3 512
Disposals	(16 840)	-	(16 840)
31.12.2016.	**-**	**1 995**	**1 995**
Net book value 31.12.2015.	**6 765**	**233**	**6 998**
Net book value 31.12.2016.	**-**	**2 729**	**2 729**

Notes to the financial statements (continued)

(10) Loans and receivables

	31.12.2016. EUR	31.12.2015. EUR
Loans issued – long-term	206 219	519 798
Loans issued – short-term	4 841 576	3 592 356
Total	**5 047 795**	**4 112 154**
Including:		
Issued loan portfolio - long-term portion	206 219	519 798
Issued loan portfolio - short-term portion	4 808 769	3 507 300
Total issued loan portfolio, gross	***5 014 988***	***4 027 098***
Provisions for bad and doubtful trade debtors	*(70 000)*	-
Total issued loan portfolio, net	***4 944 988***	***4 027 098***
Trade receivables	28 381	35 879
Accrued interest income	74 426	49 177
Total	**5 047 795**	**4 112 154**

The Company issues loans secured by collateral and unsecured loans:

Loans issued against pledge	1 756 921	1 233 713
Loans issued without pledge	*2 887 060*	2 321 678
Finance lease	*371 007*	441 707
Finance lease against pledge	-	30 000
Total issued loan portfolio, gross	**5 014 988**	**4 027 098**

As at 31 December 2016 the Company has no credit risk concentration to one major customer or group of partners.

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

Company’s maximum exposure to credit risk on unsecured loans is the remaining amount of the loans issued.

All loans are issued in euro.

Loans and receivables (gross) age analysis:

Debt does not exceed the payment deadline	4 950 250	4 077 338
Delayed from 1 - 30 days	64 134	30
Delayed from 31 - 90 days	12 062	10 000
Delayed from 91 - 180 days	81 309	23 965
Over 180 days past due	10 040	821
	5 117 795	**4 112 154**

Provisions for bad and doubtful loans and receivables:

	2016 EUR	2015 EUR
Provisions at the beginning of the year	-	25 000
Additional provisions	70 000	-
Recovered debts	-	(25 000)
Provisions at the end of the year	**70 000**	**-**

* In accordance with the provisioning policy developed by the Company, starting with the year 2017 special and general provisions will be assessed. As at the end of the year 2016 general provisions in accordance to the policy developed would constitute EUR 50 000.

Notes to the financial statements (continued)

(11) Other debtors

	31.12.2016. EUR	31.12 2015. EUR
Taxes overpaid	1 349	4
Prepaid expenses	417	7 380
Advance payments received	5 726	-
	7 492	**7 384**

(12) Cash and bank

Cash at bank	**77 761**	**25 203**

(13) Share capital

In April 2016 share capital of the Company was increased by cash contributions in amount of EUR 499 980 made by the shareholders of the Company. As at 31 December 2016 the subscribed and fully paid share capital the Company is EUR 1 500 000 that consists of 50 000 ordinary shares with a nominal value of EUR 30 each.

(14) Borrowings

		31.12.2016. EUR	31.12.2015. EUR
SIA Nordea Finance Latvia, finance lease	(14a)	135 399	247 763
Loans from affiliated companies		-	570 000
Bond issued	(14c)	1 665 000	540 000
Total long-term part		**1 800 399**	**1 357 763**
Loans	(14a)	380 000	500 000
Loans from credit institutions	(14b)	1 098 071	673 190
Bonds issued	(14c)	-	290 000
SIA Nordea Finance Latvia, finance lease	(14a)	110 594	114 819
Total short-term part		**1 588 665**	**1 578 009**
Total loans		**3 389 064**	**2 935 772**

(14a) Borrowings

Lease – SIA Nordea Finance Latvia	135 399	247 763
Total long-term part	**135 399**	**247 763**
Loan – SIA Bonus.lv	380 000	-
Loan – A3E Capital SICAV p.l.c.	-	500 000
Lease – SIA Nordea Finance Latvia	110 594	114 819
Total short-term part	**490 594**	**614 819**
Total loans	**625 993**	**862 582**

As at 31 December 2016 the Company has the following credit liabilities:

- Standard financial leasing agreements with variable interest rate (incl. base rate 3m Euribor and margin). The agreements are secured by the guaranty from major shareholder of the Company – AgroCredit Estonia OU as well as by leased assets. The resources received according to the lease contracts are used for customer financing and are included into the Company’s assets; Finance lease receivables are secured with the lease objects.

Notes to the financial statements (continued)

(14) Borrowings (continued)

- unsecured loan from A3E Capital SICAV p.l.c. according to the loan agreement from 10.12.2015., total amount EUR 500 000 and 10% annual interest rate, repayment date December 9, 2016. The loan was fully repaid in 2016.
- unsecured loan from Bonus.lv SIA according to the loan agreement from June 7, 2016, total amount EUR 600 000, annual interest rate 10%, repayment date December 31, 2017.

-

(14b) Loans from credit institutions

	31.12.2016. EUR	31.12.2015. EUR
Credit facility in AS Citadele Banka	**1 098 071**	**673 190**

On 11 November 2014, the Company concluded credit facility agreement with AS Citadele Banka. According the amendments signed on 10 November 2016, total limit of the credit facility is 2 000 000 EUR. Annual interest rate consists of variable rate 6M Euribor and fixed base rate. The repayment date is October 30, 2017.
The collateral of the contract is pledge on the Company’s shares, as well as the Company's assets as a whole at the date of pledge as well as their future components.

The contract foresees several covenants including the structure of the credit portfolio and other requirements.

(14c) Bonds issued

Long-term bonds, 2-5 years	-	540 000
Short-term bonds	-	290 000
LCD Bonds issued	1 665 000	-
	1 665 000	**830 000**

The Company has issued bonds (ISIN LV0000802106, registered in Latvian Central Depository, listed in AS Nasdaq Riga). The total amount listed in AS Nasdaq Riga on December 31, 2016 is 350 bonds, 5 000 EUR nominal value each (total value 1 750 000 EUR). As on December 31, 2016 17 bonds are held by the Company itself. The coupon rate is 7% and it is paid once a year – on December 31. The expiry date of the bonds is 31 December 2026. Most of the holders (excluding bonds for amount EUR 300 000) has an option to sell-back the bonds in the end of each calendar year, informing 1 month prior.

In August 2016, the bonds issued were listed in AS Nasdaq Riga Baltic bond list.

Previously issued bonds were repaid by the Company in 2016.

(15) Trade creditors and accrued liabilities

Debt for goods and services received	1 316	3 031
Taxes and social insurance payments	408	1 460
Accrued liabilities	14 014	20 614
	15 738	**25 105**

Notes to the financial statements (continued)

(16) Taxes and social insurance payments

	Liabilities/ (overpayment) 31.12.2015 EUR	Charge for 2016 EUR	Paid in 2016 EUR	Liabilities/ (overpayment) 31.12.2016 EUR
VAT	**-**	16 272	16 260	**12**
CIT	**1 460**	25 533	28 340	**(1 347)**
Social insurance	**(1)**	17 510	17 262	**247**
Payroll tax	**-**	17 435	17 286	**149**
Business risk charge	**(3)**	9	8	**(2)**
Total	**1 456**	**76 759**	**79 156**	**(941)**
Including:				
Liabilities	**1 460**			**408**
(Overpaid)	**(4)**			**(1 349)**

(17) Related party transactions

All related party transactions in the reporting year have been performed at market rates.

(18) Average number of the Company's employees

	2016	2015
Average number of employees during the reporting year:	**2**	**2**

(19) Personnel costs

	2016 EUR	2015 EUR
Salary expenses	26 163	16 018
Social insurance	6 171	3 779
	32 334	**19 797**

(20) Management remuneration

Salary expenses	25 200	13 320
Social insurance	5 945	3 142
	31 145	**16 462**

(21) Subsequent events

There are no subsequent events since the last date of the reporting year, which would have a significant effect on the financial position of the Company as at 31 December 2016.

Ģirts Vinters	Jānis Kārkliņš	Evija Šverna
Valdes priekšsēdētājs	Valdes loceklis	Accountant

Riga, 28 April 2017

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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 6 to 23 of the accompanying annual report, which comprise:

- the statement of comprehensive income for the year 2016,
- the statement of financial position as at 31 December, 2016,
- the statement of changes in equity for the year 2016,
- statement of cash flows for the year 2016, 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 2016, 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:

Audit matter	*Audit procedures performed*
<u>(a) Completeness of income from crediting activities</u> Interest and similar income in the respective financial statements amount to EUR 619 923. 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). 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.	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, income structure of the Company, changes in the reporting year and key material risks for ensurance of income recognition completeness; • obtaining understanding of the adequacy of the accounting methods and control procedures applied; • performing of detailed analytical procedures, comparing interest income to the asset base of loans issued; • 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.

Audit matter

(b) Recoverable values of loans issued

The net balance sheet value of loans and receivables amount to EUR 4 944 989.

Detailed information on this balance sheet item is included in Note 10 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).

The loans and receivables are included in the balance sheet in net realisable values and consist of the gross values of loan principal reclaimable, interest income accrued as at the balance sheet date net of provisions created in accordance with the bad debt provisioning policies as developed by the management of the Company.

In making provisions for doubtful receivables significant management decisions are needed in order to evaluate the adequacy of the provisioning policy determined and make required improvements in order to ensure that loans and receivables inclusive of interest income accrued are presented in the values that do not exceed net recoverable values of the respective assets.

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.

Audit procedures performed

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;
- performing of detailed analytical procedures, comparing interest income volumes to the asset base of loans issued;
- on a random selection basis review of adequacy of ageing analysis of loans issued, as ageing analysis is the basis for application of provisioning procedures developed;
- in accordance to the risk measurement methodology developed by the Company, as well as our test results, identified accounts receivables with the highest risk level and evaluated recognised provision adequacy in detail;
- comparing of adequacy and sufficiency of provisions made in prior periods with the actual repayment data for the loans provided for;
- performance of analytical calculations to test the consistency and adequacy of provisioning policy 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 page 4 of the accompanying Annual Report.
- the Statement on Management Responsibility and the Statement of Corporate Governance, as set out on page 5 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 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

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

Sandra Apsāne
Member of the Board

28 April 2017