

**English translation of the Independent
Auditors' Report issued on 18th June 2018**

CLARIFICATION OF THE INDEPENDENT AUDITOR'S REPORT

**TO COMPANY'S ASSEMBLY AND GENERAL MANAGER „AGENCIJA ZA OSIGURANJE I
FINANSIRANJE IZVOZA REPUBLIKE SRBIJE“ AD, Užice**

We have audited the accompanying Financial Statements of the company "AGENCIJA ZA OSIGURANJE I FINANSIRANJE IZVOZA REPUBLIKE SRBIJE" AD, Užice (hereinafter referred to as the „Agency“) which comprise Balance Sheet as of December 31st, 2017 and the and the income statement, statement of changes in equity, other comprehensive income and cash flow statement for the year ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and Accounting Law of the Republic of Serbia and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on auditor's judgment, including the assessment of the risk of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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CLARIFICATION OF THE INDEPENDENT AUDITOR'S REPORT (Continued)

Basis for Qualified Opinion

- In accordance with the adopted accounting policy, the Agency measured long-term financial investments (approved long-term loans), receivables from specific operations (claims from the guarantor) and short-term financial investments (approved short-term loans) in the amount of principal minus all principal repayments and impairment provisions, while the off-balance sheet evidence (issued guarantees and unused revolving loans) measured in amount of principal minus impairment provisions. During the estimation of impairment of financial assets, the Agency uses the criteria defined by its internal procedures and methodology (as disclosed in Note 3.14 to the financial statements), that are not totally in line with the requirements of IAS 39 - *Financial Instruments: Recognition and Measurement*. During the audit, we were unable to quantify the effects on the Financial Statements for 2017.
- During the course of audit, we have not received answers from Agency' clients on independent confirmations of gross balances as of December 31st 2017, and we were not able to gain assurance that the Agency reconciled gross claims and liabilities with clients regarding the following balance sheet positions:
 - Approved loans (long-term investments) in the amount of RSD 137,221 thousand (impairment provision is RSD 50,189 thousand),
 - Approved loans (short-term financial investments) in the amount of RSD 765,192 thousand (impairment provision is RSD 56,276 thousand),
 - Other current receivables (receivables for regular and default interest, claims from insurance of business activities, interest from factoring, claims for credit rating services) in amount of RSD 27,777 thousand (impairment provision is RSD 14,848 thousand),
 - Claims from debtors derived from domestic factoring in the amount of RSD 22,854 thousand (impairment provision is RSD 134 thousand),
 - Claims derived from bills of exchange in the amount of RSD 81,000 thousand (impairment provision is RSD 61,000 thousand),
 - Receivables from specific business operations in the amount of RSD 412,246 thousand (impairment provision is RSD 0 thousand) and
 - Liabilities from specific business operations in the amount of RSD 47,107 thousand.

Also, on the basis of the received answers from Agency' clients to independent auditors confirmations of gross balances as of December 31, 2017, we find that the Agency did not reconcile receivables and obligations with debtors from factoring for the amount of RSD 20,009 thousand for which receivables are stated more in the Agency's books; nor with foreign debtors from factoring for the amount of RSD 6,877 thousand for which receivables are less stated in the Agency's books; as well as long-term financial investments for the amount of RSD 38,561 thousand for which the investments are more stated in the Agency's books; as well as liabilities from specific business activities for the amount of RSD 42,019 thousand for which the liabilities are stated more in the Agency's business books.

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CLARIFICATION OF THE INDEPENDENT AUDITOR'S REPORT (Continued)

Basis for Qualified Opinion (Continued)

- Based on the Decision of the Assembly No. 327/18 dated on 6th February 2018, the Agency reclassified receivables and liabilities relating to the two activated guarantees in the amount of RSD 2,441,013 thousand, from balance sheet items to off-balance sheet positions as of 31st December 2017. In this way, mentioned items are exempted from the classification and impairment. During the course of audit, based on the available data and documentation, as well as due to the inherent limitations of the audit, we were not able to quantify effects on the Financial Statement for 2017 that would occur in case Agency acted in accordance with the requirements of the *Rules on the Chart of Accounts and Contents of Accounts in the Chart of Accounts for Companies, Cooperatives and Entrepreneurs* (Official Gazette of RS, no. 95/2014) and in accordance with the requirements of IAS 39 - *Financial Instruments: Recognition and Measurement*.

Qualified Opinion

In our opinion, except for the effects of the matters described in *the Basis for Qualified Opinion paragraph*, the presented financial statements, in all material respects, give a true and fair view of the financial position of the "AGENCIJA ZA OSIGURANJE I FINANSIRANJE IZVOZA REPUBLIKE SRBIJE" a.d., Užice as of December 31st 2017, and its financial performance and cash flow for the year ended, in accordance with accounting policies presented in the Notes to financial statements and Accounting Law of the Republic of Serbia.

Emphasis of Matter

- Based on the results of the credit loan portfolio analysis, we have determined that 38.33% of credit loans approved by the Agency mostly in previous periods, are classified in the most unfavorable or "D" category. According to the *Policies and procedures for credit risk management*, the "D" category credit loans are fully impaired. Also, 1.34% of credit portfolio is consisted of claims that are late more than 180 days. In addition, 11.18% of credit loans approved by the Agency, as of December 31st 2017, are secured by adequate means while other credit loans are secured by means such as bills of exchange, guarantees, corporate guarantees, pledges over movable assets and pledges over receivables. This indicates the unfavorable structure with respect to collectability of credit loans approved by the Agency.
- According to the record of the "Business Registers Agency of the Republic of Serbia", the Agency has pledged all current accounts opened as well as current accounts to be opened at a "Raiffeisen Zentralbank Osterreich" AG, Austria. The pledge is given in favour of "Raiffeisen Zentralbank Osterreich" AG, Austria. The basic and maximum amount of the secured claim is EUR 5,000,000.00. Since the creditor "Raiffeisen Zentralbank Osterreich" AG, Austria has issued Certificate dated on 20th July 2016 that all claims are satisfied, the Agency is in the process of erasing the pledge.
- According to the record of the "National Bank of Serbia", until the date of Auditors' report, the Agency has registered 21 bills of exchange. As disclosed in the Note 37 to the financial statements of the Agency, bills of exchanges are issued as a security of current accounts opened at commercial banks. According to management estimation, the probability that a funds outflow would occur on this basis is very small.

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CLARIFICATION OF THE INDEPENDENT AUDITOR'S REPORT (Continued)

Emphasis of Matter (Continued)

- Financial Statements of the "Agencija za osiguranje i finansiranje izvoza Republike Srbije" a.d., Užice are prepared and presented in the format prescribed by the *Rules on the Chart of Accounts and content of accounts in the Chart of Accounts for Companies, cooperatives and entrepreneurs (Official Gazette of the Republic of Serbia No. 95/14)*. As disclosed in Note 11 to the financial statements of the Agency, the financial revenue realized in 2017 in amount of RSD 1,060,107 thousand includes the amount of RSD 663,226 thousand realized by performing the main business activity.

Our opinion does not contain qualification regarding these matters.

Belgrade, 18th Jun 2018




Petar Grubor
Certified auditor

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