

**ENGLISH TRANSLATION OF THE INDEPENDENT
AUDITORS' REPORT ISSUED ON 22nd MAY 2019**

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the “AGENCIJA ZA OSIGURANJE I FINANSIRANJE IZVOZA REPUBLIKE SRBIJE” AD, Užice (hereinafter referred to as the „Agency“) which comprise balance sheet as of December 31st 2018, and the income statement, statement of changes in equity, report on other comprehensive income and cash flow statement for the year ended and a summary of significant accounting policies contained in the Notes to the regular annual financial report.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Accounting Law and accounting regulations prevailing in Republic of Serbia and for such internal controls as management determines are 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 Law on Auditing and audit standards applicable in the Republic of Serbia. 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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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 2018.
- During the course of audit, we have not received answers from Agency' clients on independent confirmations of gross balances as of December 31st 2018, 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 276,451 thousand (impairment provision is RSD 268,221 thousand),
 - Approved loans (short-term financial investments) in the amount of RSD 24,978 thousand (impairment provision is RSD 24,978 thousand),
 - Claims from debtors derived from domestic factoring in the amount of RSD 45,693 thousand (impairment provision is RSD 0 thousand),
 - Claims derived from bills of exchange in the amount of RSD 61,000 thousand (impairment provision is RSD 61,000 thousand),
 - Receivables from specific business operations in the amount of RSD 695,656 thousand (impairment provision is RSD 13 thousand),
 - Other current receivables (receivables for regular and default loan interest, claims from insurance of business activities, interest from factoring, claims for credit rating services) in amount of RSD 57,013 thousand (impairment provision is RSD 38,852 thousand),
 - Liabilities from specific business operations in the amount of RSD 65,721 thousand.

Also, on the basis of the received answers from Agency' clients to independent auditors confirmations of gross balances as of December 31st, 2018, we find that the Agency did not reconcile receivables and liabilities with credit debtors (short-term financial investments) for the amount of RSD 25,910 thousand for which receivables are less stated in the Agency's books; receivables from factoring for the amount of RSD 1,451 thousand for which receivables are stated less in the Agency's books; nor other current receivables for the amount of RSD 2,739 thousand for which receivables are more stated in the Agency's books; as well as long-term financial investments for the amount of RSD 2,803 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 18,038 thousand for which the liabilities are stated more in the Agency's business books.

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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 during the previous reporting period, 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 opening and final balances stated in the Financial Statement for 2018 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*.
- Within the off-balance records, the Agency stated claims for the principals derived from Security Agreements concluded with companies that are warrantors to the Agency' credit clients who are in the reorganisation process, in the total amount of RSD 493,307 thousand. Mentioned claims derived from Security Agreements are valued within the off-balance records at the contractual value, while the claims for principals derived from credit loans are valued within the balance records at the amounts recognized and defined in *Pre-prepared reorganization plans* of those credit clients.

Opinion

In our opinion, except for the effect and possible effects on the financial statements of the matter described in the *Basis for qualified opinion*, the financial statements 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 2018, its financial performance and cash flow for the year ended in accordance with Accounting Law and accounting regulations prevailing in Republic of Serbia.

Emphasis of Matter

- Based on the results of the credit loan portfolio analysis, we have determined that 20.58% of credit loans approved by the Agency mostly in previous reporting periods, are classified in the most unfavourable "D" category. According to the *Policies and procedures for credit risk management*, the "D" category credit loans are fully impaired. Also, 12.15% of credit portfolio is consisted of claims that are overdue more than 180 days. In addition, 18.74% of credit loans approved by the Agency, as of December 31st 2018, 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 unfavourable structure with respect to collectability of credit loans approved by the Agency.
- According to the record of the "National Bank of Serbia", until the date of Auditors' report, the Agency has registered 26 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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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*. As disclosed in Note 11. to the financial statements of the Agency, the financial revenue realized in 2018 in amount of RSD 798,280 thousand includes the amount of RSD 665,544 thousand realized by performing the main business activity.
- Corporate income tax presented in the Financial Statements of the Company for 2018 may be subject to correction considering that the legal due date for Corporate income tax return submission is 1st July 2019. Effects of any eventual corrections made to the Financial Statements are possible to define only after the submission of the transfer pricing study and Corporate income tax return to the Tax administration.

Our opinion does not contain qualification regarding these matters.

Belgrade, 22nd May 2019

Petar Grubor

Certified auditor



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