



**Crowe DNW SIA**  
Member Crowe Global

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## Independent Auditor's Report

To the shareholders of AS "Moda Kapitāls"

### Our Opinion on the Financial Statements

We have audited the accompanying financial statements of AS "Moda Kapitāls" ("the Company") set out on pages 6 to 26 of the accompanying annual report, which comprise:

- the statement of financial position as at December 31, 2020,
- the statement of comprehensive income for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, 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 AS "Moda Kapitāls" as at December 31, 2020, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) that have been adopted in European Union.

### 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 International Code of Ethics for Professional Accountants (including International Independence Standards) 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 International Code of Ethics for Professional Accountants (including International Independence Standards) 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

The key audit matters are matters that, based on our professional judgment, were the most important in the audit of these financial statements. These matters were generally dealt with in the context of the Audit of Financial Statements as well as in the preparation of the Independent Auditor's report for these Financial Statements, but we do not express a separate opinion on these matters.

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

### **Key Audit matters**

**Loans and receivables** (see Note No 2 Accounting Policies and Note No 16)

As at December 31, 2020 loans and trade receivables consisted of 1 213 228 EUR and its impairment was 152 484 EUR.

We paid the attention to this matter, because the Management applies individual judgments in determining the period in which the impairment is recognized and in determining the amount of the impairment.

The Company provides loans, which are primarily secured with pledge. The loan impairment is determined by splitting issued loans into two groups: pledge secured and unsecured loans, and by estimating potential accounts receivables' default losses. The default analysis is made by determining the impairment provisions. Portfolio provisions are made for unsecured loans. The default losses to loans secured by pledge are estimated by individual borrowers' payment history and the amount of collateral assessment.

The Company's policy is to issue loans for the amount of approximately 70% of the pledged asset's market value. The information is updated at least once a month and the Management continuously monitors and documents the movement of issued loans.

**Inventories** (see Note No 2 Accounting Policies and Note No 15)

The inventories amounted to EUR 821 575 and these impairments amounted EUR 65 444as at December 31, 2020.

This area we estimated as significant because the management has to make judgments to determine the value of the inventories and consider whether the value of inventories in the financial statements hasn't been presented overstated as its recoverable value, respectively necessary losses for value adjustment of inventories have been estimated.

### **Procedures performed**

We assessed whether the Company's accounting policies in relation to the loans and receivables are in compliance with IFRS.

We assessed the design and efficiency of the controls over impairment data and calculations. We performed the test of selected controls by using the re-performance test method on the sample base. We did not identify any restriction that impacted our audit approach in the result of procedures performed.

We obtained the impairment calculation of loans and receivables as at December 31, 2020 and assessed its appropriateness. We made the aging structure analysis of loans and receivables and calculated, in our opinion, necessary impairment, which we compared with the Company's ones. We did not find material deviations in the result of procedures performed.

We considered whether the disclosure properly made in the Note 16 to the financial statements is appropriate.

We obtained an understanding of the Company's approach of inventory accounting and evaluation, especially of the pledges taken over – real estate, commercial pledge and precious metals.

We assessed whether the Company's accounting policies in relation to the inventory comply with IFRS. We acquainted with Company's procedures of the pledge value determining when loans are issued and when borrowers' pledges are taken over. We tested the procedures applied and their suitability on the sample base.

The inventories of the company consist of goods purchased for sale as well as pledges taken over from borrowers, including real estate, commercial pledges and precious metals. The procedures applied for evaluation of each group of pledges and pledges that have been taken over.

**Borrowings** (see Annex No 2 Accounting policy and annexes 21, 25 and 26)

As at 31st December 2020, borrowings totaled EUR 3 183 090 in net value, of which EUR 2 840 000 were borrowings against bonds from others.

We considered this area to be significant, as the Company during the financial year repurchased bonds on the secondary market and amended the bond issue regulations. According to the bond issue prospectus, the Company's bondholders have the right to request early redemption of the bonds together with the accumulated coupon, if the Company's equity on 31.12.2020 shown in the balance sheet is less than EUR 100 000 and if the shareholders of the Company, within thirty days after the publication of the financial statements, do not increase it to at least EUR 150 000.

We did not find any exception that could impacted our audit approach during the procedures performed. We assessed the Company's calculations of provisions. We inquired the Company's management, examined the historical and the post - balance sheet date of inventory sales transactions and results.

We assessed whether the Company's accounting policies for accounting of borrowings are in accordance with IFRS and whether the classification of borrowings is appropriate.

We made certain that on April 26, 2021 the bondholders' voting described in Appendix 25 was concluded in which the bondholders agreed that the Company does not have to increase equity, in accordance with the requirements of the bonds issue rules. Bondholders gave permission not to increase equity to EUR 150 000 and continue operations also in case the Company's equity in the 2021 balance sheet will be less than EUR 100 000. The Company's bondholders confirmed that early redemption of the bonds will not be requested.

## Reporting on Other Information

The Company management is responsible for the other information. The other information comprises:

- the Company's General information, as set out on page 3 of the accompanying Annual Report,
- the Management Report, as set out on pages 4 of the accompanying Annual Report,
- the Statement on Management Responsibility, as set out on page 5 of the accompanying Annual Report,
- the Statement of Corporate Governance, which has been provided in a separate report prepared by the management and is available on the Company's website [www.lombardsmoda.lv](http://www.lombardsmoda.lv).

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.



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### **Other reporting responsibilities in accordance with the legislation of the Republic of Latvia**

In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the 'Law on the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the 'Law on the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in section 56.2, third paragraph, clause 1 of the Financial Instruments Market Law.

In our opinion, the Statement of Corporate Governance includes the information required in section 56.2, third paragraph, clause 1 of the Financial Instruments Market Law.

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia 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 financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Other reporting responsibilities and confirmations required by the legislation of the Republic of Latvia and the European Union when providing audit services to public interest entities**



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We were appointed by those charged with governance on January 29, 2021 to audit the financial statements of AS "Moda Kapitāls" for the year ended 31 December 2020. Our total uninterrupted period of engagement is 5 years, covering the periods ending December 31, 2016 to 31 December 2020.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Supervisory Board of the Company;
- as referred to in the paragraph 37.6 of the Law on Audit Services of the Republic of Latvia we have not provided to the Company the prohibited non-audit services (NASs) referred to of EU Regulation (EU) No 537/2014.
- We also remained independent of the audited entity in conducting the audit.

The responsible certified auditor on the audit resulting in this independent auditors' report is Iveta Rutkovska.

Riga, 29 April 2021

**„Crowe DNW” SIA**  
Licence No 157

**Iveta Rutkovska**  
certified Auditor, Certificate No 43  
Member of The Board

*This version of our report is a translation from the original, which was prepared in Latvian. In all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*