Kyrgyz Investment and Credit Bank CJSC

Consolidated Financial Statements
for the year ended 31 December 2018

KPMG Bishkek LLC
Office 201, 21 Erkindik blvrd
Bishkek, Kyrgyz Republic 720040
Telephone 996 (312) 62-33-80
Fax 996 (312) 62-38-56
Internet www.kpmg.kg

Independent Auditors' Report

To the Board of Directors of Kyrgyz Investment and Credit Bank CJSC

Opinion

We have audited the consolidated financial statements of Kyrgyz Investment and Credit Bank CJSC and its subsidiary (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the requirements prescribed in the Regulations on minimum requirements to external audit of banks and other financial and credit institutions, licensed by the National Bank of Kyrgyz Republic (NBKR) approved by the Order No. 2017-П-12/25-2 of the NBKR Management Board on 15 June 2017. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kyrgyz Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Expected credit losses (ECL) for loans to customers

Please refer to Notes 4, 2 (e), 3 (f) and 16 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
Loans to customers represent more than 44% of assets and are stated net of allowance for expected credit losses (ECL) that is estimated on a regular basis and is sensitive to assumptions used. On 1 January 2018 the Bank implemented a new ECL valuation model, which requires management to apply professional judgement and to make assumptions related to the following key areas: - timely identification of significant increase in credit risk and default events related to loans to customers (allocation between stages 1, 2 and 3 in accordance with the IFRS 9); - assessment of probability of default (PD) and loss given default (LGD); - assessment of add-on adjustment to account for different scenarios and forward-looking information; - expected cash flows forecast for loans to customers classified in stage 3. Due to the significant volume of loans to customers, adoption of the new ECL model and the related estimation uncertainty, this area is a key audit matter.	We analysed the key aspects of the Group's methodology and policies related to the ECL estimate for compliance with the requirements of IFRS 9, with the involvement of financial risks management specialists. To analyse the adequacy of professional judgement and assumptions made by the management in relation to the allowance for ECL estimate, we performed the following: - We tested design and operating effectiveness of controls over allocation of loans into stages. - For a sample of loans, for which ECL is assessed individually and for which a potential changes in ECL estimate may have a material impact on the consolidated financial statements, we tested whether stages are correctly assigned by the Group by analysing financial and non-financial information, as well as assumptions and professional judgements, applied by the Group. - Regarding loans to large corporate borrowers, for which ECL is assessed individually, we assessed the overall adequacy of the ultimate ECL by analysing and processing information on payments and status of overdue debts, requests and satisfaction of requests for negotiation of terms and conditions of loan agreements, financial position of the borrowers and changes in the borrowers' credit risks, actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities. - Regarding loans issued to customers and assigned to stages 1 and 2, for which ECL is assessed collectively, we tested the design and implementation of the related models, as well as agreeing input data to supporting documents on a sample basis. - We assessed the overall adequacy of the add-on adjustment to account for different scenarios and forward-looking information by comparison with our own estimate.

	- For a sample of stage 3 loans for which ECL is assessed individually we critically assessed assumptions used by the Group to forecast future cash flows, including estimated proceeds from realisable collateral and their timing based on our understanding and publicly available market information. We specifically focused on exposures which potentially may have the most significant impact on the consolidated financial statements. We assessed the predictive capability of the Group's methodology by comparing the estimates made as at 1 January 2018 with actual results for 2018. We also assessed whether the consolidated financial statements disclosures appropriately reflect the Group's exposure to credit risk.

Adoption of IFRS 9 'Financial instruments'

Please refer to Note 5 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
The use of financial instruments is a core business of the Group and financial assets make up a majority of Group's assets. On 1 January 2018 the Group adopted a new accounting standard for financial instruments, IFRS 9, which provides significant changes to classification and measurement of financial assets. Due to the adoption of new requirements, which provide significant changes to the accounting principles of financial instruments, and due to the significant impact of the new standard on the opening balances under IFRS 9 as at 1 January 2018 and financial position and performance of the Group, this area is a key audit matter.	We analysed the criteria used to determine business models for managing financial assets by making inquiries to responsible employees, reviewing the Group's internal documentation and analysing internal business processes on selected significant financial instruments portfolios. We checked that the Group has performed a proper assessment of whether contractual cash flows are solely payments of principal and interest by analysing underlying documents for a sample financial instruments. We also checked whether the Group has correctly identified and accounted for modifications of terms of loans to customers, by means of both general analysis of core procedures related to modification of loans' terms by the Group and analysis of underlying documents on a sample of loans to customers. We assessed whether the consolidated financial statements provide an appropriate disclosure of key classification and measurement principles for financial instruments. In addition, in order to provide audit evidence over the transition adjustments and disclosures as at 1 January 2018 we performed procedures over ECL assessment as at that date in the same way as described in the key audit matter Expected credit losses (ECL) for loans to customers.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 and the additional NBKR requirements 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 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 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 engagement partner on the audit resulting in this independent auditors' report is:

Ashley Clarke
Attorney

KPMG Bishkek LLC

KPMG Bishkek LLC

1 March 2019

	Note	2018 USD'000	2017 USD'000*
Interest income calculated using the effective interest method	6	26,292	24,947
Interest expense	6	(10,557)	(10,416)
Net interest income before impairment losses on interest-bearing assets		**15,735**	**14,531**
Impairment recovery on interest-bearing assets		25	4,294
Net interest income		**15,760**	**18,825**
Fee and commission income	7	5,094	4,540
Fee and commission expense	8	(2,288)	(1,914)
Net fee and commission income		**2,806**	**2,626**
Net income from insurance operations	9	287	317
Net foreign exchange income	10	2,659	2,909
Share of profit in associate		517	378
Other operating income		917	338
Operating income		**22,946**	**25,393**
Impairment recovery/(losses) on other transactions	11	721	(2,420)
Personnel expenses	12	(9,204)	(8,453)
Other general administrative expenses	13	(7,471)	(7,459)
Profit before income tax		**6,992**	**7,061**
Income tax expense	14	(561)	(735)
Profit for the year		**6,431**	**6,326**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences		(87)	(122)
Other comprehensive income for the year, net of income tax		**(87)**	**(122)**
Total comprehensive income for the year		**6,344**	**6,204**
Profit attributable to:			
Equity holders of the Bank		6,227	6,113
Non-controlling interest		204	213
		6,431	**6,326**
Total comprehensive income attributable to:			
Equity holders of the Bank		6,174	5,979
Non-controlling interest		170	225
		6,344	**6,204**

*The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

The consolidated financial statements as set out on pages 8 to 86 were approved by the Management on 1 March 2019 and signed on its behalf by:

Mr. R. Zakir Mahmood
Chairman of the Board of Directors

Mr. Kwang-Young Choi
Chief Executive Officer

Ms. Gulnara Shamshieva
Chief Finance Officer

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 86.

	Note	2018 USD'000	2017 USD'000*
ASSETS			
Cash and cash equivalents	15	124,534	215,042
Loans to customers			
- Loans to corporate customers	16	78,111	55,641
- Loans to retail customers	16	90,517	71,334
Investment securities	17	53,643	9,274
Investment in associate	18	2,536	1,937
Property, equipment and intangible assets	19	13,020	11,751
Other assets	20	26,028	31,303
Total assets		**388,389**	**396,282**
LIABILITIES			
Deposits and balances from banks and other financial institutions	21	6,487	4,449
Current accounts and deposits from customers			
- Current accounts and deposits from corporate customers	22	123,653	141,446
- Current accounts and deposits from retail customers	22	141,768	136,098
Debt securities issued	23	3,976	3,180
Subordinated debt	24	1,483	1,621
Other borrowed funds	25	27,902	32,737
Other liabilities	26	10,455	10,917
Total liabilities		**315,724**	**330,448**
EQUITY			
Share capital	27	17,500	17,500
Share premium		495	495
Cumulative translation reserve		(415)	(362)
Retained earnings and other reserves for general banking risks		52,678	45,964
Total equity attributable to equity holders of the Bank		**70,258**	**63,597**
Non-controlling interest		2,407	2,237
Total equity		**72,665**	**65,834**
Total liabilities and equity		**388,389**	**396,282**

*The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 86.

	2018 USD'000	2017 USD'000*
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	26,543	25,152
Interest payments	(10,532)	(9,945)
Fee and commission receipts	5,094	4,540
Fee and commission payments	(2,288)	(1,914)
Insurance premiums received	1,539	1,206
Insurance premiums paid to reinsurers	(1,063)	(818)
Net insurance claims paid	(189)	(71)
Net receipts from foreign exchange	2,698	3,058
Other income receipts	917	338
Personnel expenses	(9,447)	(7,129)
Other general administrative expenses	(5,790)	(5,299)
(Increase)/decrease in operating assets		
Loans to customers	(40,454)	(2,242)
Other assets	4,732	(2,050)
Increase/(decrease) in operating liabilities		
Deposits and balances from banks and other financial institutions	2,090	2,234
Current accounts and deposits from customers	(5,221)	32,640
Other liabilities	1,013	(218)
Net cash (used in)/from operating activities before income tax paid	**(30,358)**	**39,482**
Income tax paid	(480)	(294)
Cash flows (used in)/from operations	**(30,838)**	**39,188**
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received from associated company	81	-
Purchases of investment securities	(51,035)	(8,547)
Repayment of investment securities	5,984	11,991
Purchases of property, equipment and intangible assets	(3,237)	(2,768)
Cash flows (used in)/from investing activities	**(48,207)**	**676**
CASH FLOWS FROM FINANCING ACTIVITIES		
Placement of debt securities issued	853	2,117
Redemption of debt securities issued	-	(3,012)
Repayment of subordinated debt	(50)	(64)
Receipt of other borrowed funds	11,331	30,807
Repayment of other borrowed funds	(15,868)	(38,849)
Dividend paid	(813)	-
Cash flows used in financing activities	**(4,547)**	**(9,001)**
Net (decrease)/increase in cash and cash equivalents	**(83,592)**	**30,863**
Effect of changes in exchange rates on cash and cash equivalents	(6,397)	1,534
Cash and cash equivalents at the beginning of the year	215,042	182,645
Effect of changes in ECL on cash and cash equivalents	(519)	-
Cash and cash equivalents at the end of the year (Note 15)	**124,534**	**215,042**

*The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 86.

	Attributable to equity holders of the Bank						
USD'000	**Share capital**	**Share premium**	**Cumulative translation reserve**	**Retained earnings and other reserves for general banking risks**	**Total equity attributable to owners**	**Non-controlling interest**	**Total**
Balance at 1 January 2017	**17,500**	**495**	**(228)**	**39,851**	**57,618**	**2,012**	**59,630**
Profit for the year	-	-	-	6,113	6,113	213	6,326
Other comprehensive income							
Items that are or may be reclassified subsequently to profit or loss:							
Foreign currency translation differences	-	-	(134)	-	(134)	12	(122)
Total comprehensive income for the year	-	-	**(134)**	**6,113**	**5,979**	**225**	**6,204**
Balance at 31 December 2017	**17,500**	**495**	**(362)**	**45,964**	**63,597**	**2,237**	**65,834**
Adjustment on initial application of IFRS 9, net of tax (Note 5)*	-	-	-	1,300	1,300	-	1,300
Balance at 1 January 2018	**17,500**	**495**	**(362)**	**47,264**	**64,897**	**2,237**	**67,134**
Profit for the year	-	-	-	6,227	6,227	204	6,431
Other comprehensive income							
Items that are or may be reclassified subsequently to profit or loss:							
Foreign currency translation differences	-	-	(53)	-	(53)	(34)	(87)
Total comprehensive income for the year	-	-	**(53)**	**6,227**	**6,174**	**170**	**6,344**
Transactions with owners, recorded directly in equity							
Dividends paid	-	-	-	(813)	(813)	-	(813)
Total transactions with owners	-	-	-	**(813)**	**(813)**	-	**(813)**
Balance at 31 December 2018	**17,500**	**495**	**(415)**	**52,678**	**70,258**	**2,407**	**72,665**

*The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 86.