

Kyrgyz Investment and Credit Bank CJSC

Consolidated Financial Statements
for the year ended 31 December 2016



KPMG Bishkek LLC
21 Erkindik Boulevard
Orion Business Centre, Office 201
Bishkek, Kyrgyz Republic 720040
Telephone +996 312 623 380
Fax +996 312 623 856
E-mail kpmg@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 (the "Bank") and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, 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 2016, 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 22/2 of the NBKR Management Board on 14 July 2005. 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), and we have fulfilled our other ethical responsibilities in accordance with 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.



<i>Impairment of loans to customers</i>	
Please refer to Note 14 in the consolidated financial statements.	
<i>The key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>Impairment of loans to customers is a key audit matter due to the significance of the balances, and complexity and subjectivity over estimating timing and amount of impairment. The risk is that the amount of impairment may be misstated.</p> <p>The estimation of the impairment loss allowance on an individual basis requires management to make judgements to determine whether there is objective evidence of impairment and to make assumptions about the financial condition of the borrowers and expected future cash flows.</p> <p>The collective impairment loss allowance relates to retail loans and losses incurred but not yet identified (IBNR loss allowance) on corporate loans. The audit matters include controls over the models used, accuracy of input and appropriateness of model overlays, such as upward adjustment to the impairment allowance to reflect economic conditions at the year end.</p>	<p>Our procedures in this area included:</p> <ul style="list-style-type: none"> - assessing and testing the design and operating effectiveness of the controls over the Group's loan impairment process, including: <ul style="list-style-type: none"> - for the principal underlying system generating credit data, IT controls such as access, data management, and change management; - controls over the identification of which loans to customers were impaired. For individually significant loans this included the controls over credit reviews and the monitoring process; - the management review process over the calculations; - testing the model overlays, such as evaluating the rationale for the upward adjustment used in the model for collective impairment allowance. Comparing the assumptions used to externally available industry, financial and economic data; - re-performing certain credit procedures as follows: <ul style="list-style-type: none"> - for individually significant loans: <ul style="list-style-type: none"> - performing a credit assessment of a sample of impaired loans to assess the reasonableness of the amount and timing of estimated recoverable cash flows, including realisable value of collateral. Where available, we compared the assumptions and estimates made by management to that externally available; and - performing a credit assessment of a sample of unimpaired loans to evaluate if any indicators of impairment existed as at the year end; - for retail loans: <ul style="list-style-type: none"> - testing the accuracy of key inputs into the models and agreeing a sample of data inputs to source documentation; - assessing the appropriateness of the impairment calculation methodology; - re-performing certain calculations; - assessing whether disclosures in the financial statements appropriately reflect the Group's exposure to credit risk.



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.



Auditors' Responsibilities for the Audit of the Consolidated Financial Statements, continued

- 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 Yelena Kim.

KPMG

KPMG Bishkek LLC


28 February 2017



Kyrgyz Investment and Credit Bank CJSC
Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2016

	Note	2016 USD'000	2015 USD'000
Interest income	4	25,386	31,711
Interest expense	4	(11,845)	(11,648)
Net interest income before impairment losses on interest bearing assets		13,541	20,063
Impairment losses on interest bearing assets		(3,045)	(4,983)
Net interest income		10,496	15,080
Fee and commission income	5	3,905	3,714
Fee and commission expense	6	(1,691)	(1,541)
Net fee and commission income		2,214	2,173
Net income from insurance operations	7	258	227
Net foreign exchange income	8	2,685	3,307
Share of profit in associate		136	96
Other operating income		435	267
Operating income		16,224	21,150
Impairment losses on other transactions	9	(386)	(179)
Personnel expenses	10	(7,371)	(8,163)
Other general administrative expenses	11	(6,683)	(7,044)
Profit before income tax		1,784	5,764
Income tax expense	12	(125)	(507)
Profit for the year		1,659	5,257
Other comprehensive income			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation differences		204	(497)
Other comprehensive income for the year, net of income tax		204	(497)
Total comprehensive income for the year		1,863	4,760
Profit attributable to:			
Equity holders of the Bank		1,589	4,916
Non-controlling interest		70	341
Total comprehensive income attributable to:		1,659	5,257
Equity holders of the Bank		1,683	4,715
Non-controlling interest		180	45
		1,863	4,760

The consolidated financial statements as set out on pages 7 to 64 were approved by the Management on 28 February 2017 and signed on its behalf by:


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


 Mr. Kwang-Young Choi
 Chief Executive Officer


 Mr. Mansoor Ali Halari
 Chief Finance Officer



Kyrgyz Investment and Credit Bank CJSC
Consolidated Statement of Financial Position as at 31 December 2016

	Note	2016 USD'000	2015 USD'000
ASSETS			
Cash and cash equivalents	13	182,645	148,119
Loans to customers			
- Loans to corporate customers	14	63,518	80,076
- Loans to retail customers	14	60,850	66,662
Investments in securities	15	12,767	10,760
Investment in associate	16	1,597	1,474
Property, equipment and intangible assets	17	11,039	11,613
Other assets	18	26,740	12,162
Total assets		359,156	330,866
LIABILITIES			
Deposits and balances from banks and other financial institutions	19	2,148	14,783
Current accounts and deposits from customers			
- Current accounts and deposits from corporate customers	20	129,079	111,840
- Current accounts and deposits from retail customers	20	114,112	87,798
Debt securities issued	21	4,021	1,696
Subordinated debt	22	1,482	1,604
Other borrowed funds	23	40,362	49,793
Other liabilities	24	8,322	5,368
Total liabilities		299,526	272,882
EQUITY			
Share capital	25	17,500	17,500
Share premium		495	495
Cumulative translation reserve		(228)	(322)
Retained earnings and other reserves for general banking risks		39,851	39,174
Total equity attributable to equity holders of the Bank		57,618	56,847
Non-controlling interest		2,012	1,137
Total equity		59,630	57,984
Total liabilities and equity		359,156	330,866

Kyrgyz Investment and Credit Bank CJSC
Consolidated Statement of Cash Flows for the year ended 31 December 2016

	2016 USD'000	2015 USD'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	24,538	31,211
Interest payments	(11,704)	(11,732)
Fee and commission receipts	3,905	3,714
Fee and commission payments	(1,691)	(1,541)
Insurance premiums received	1,114	1,241
Insurance premiums paid to reinsurers	(771)	(854)
Net insurance claims paid	(85)	(160)
Net receipts from foreign exchange	3,182	2,655
Other income receipts	423	263
Personnel and other general administrative expenses	(12,481)	(13,167)
(Increase)/decrease in operating assets		
Loans to customers	22,515	27,782
Other assets	(14,668)	(4,557)
Increase/(decrease) in operating liabilities		
Deposits and balances from banks and other financial institutions	(12,735)	1,456
Current accounts and deposits from customers	38,301	48,639
Other liabilities	3,300	794
Net cash from operating activities before income tax paid	43,143	85,744
Income tax paid	(64)	(1,046)
Cash flows from operations	43,079	84,698
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments in securities	(18,869)	(52,072)
Repayment of investments in securities	17,303	55,146
Purchases of property, equipment and intangible assets	(1,484)	(2,159)
Sales of property, equipment and intangible assets	60	277
Cash flows (used in)/from investing activities	(2,990)	1,192
CASH FLOWS FROM FINANCING ACTIVITIES		
Placement of debt securities issued	2,017	3,366
Redemption of debt securities issued	-	(3,793)
Repayment of subordinated debt	(61)	(251)
Receipt of other borrowed funds	36,419	26,366
Repayment of other borrowed funds	(47,962)	(40,430)
Proceeds on additional issue of shares by subsidiary	695	-
Dividend paid	(912)	(3,688)
Cash flows used in financing activities	(9,804)	(18,430)
Net increase in cash and cash equivalents	30,285	67,460
Effect of changes in exchange rates on cash and cash equivalents	4,241	(4,333)
Cash and cash equivalents at the beginning of the year	148,119	84,992
Cash and cash equivalents at the end of the year (Note 13)	182,645	148,119

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 11 to 64.

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 2015	17,500	495	(121)	37,946	55,820	1,092	56,912
Profit for the year	-	-	-	4,916	4,916	341	5,257
Other comprehensive income							
<i>Items that are or may be reclassified subsequently to profit or loss:</i>							
Foreign currency translation differences	-	-	(201)	-	(201)	(296)	(497)
Total comprehensive income for the year	-	-	(201)	4,916	4,715	45	4,760
Transactions with owners, recorded directly in equity							
Dividends paid	-	-	-	(3,688)	(3,688)	-	(3,688)
Total transactions with owners	-	-	-	(3,688)	(3,688)	-	(3,688)
Balance at 31 December 2015	17,500	495	(322)	39,174	56,847	1,137	57,984
Balance at 1 January 2016	17,500	495	(322)	39,174	56,847	1,137	57,984
Profit for the year	-	-	-	1,589	1,589	70	1,659
Other comprehensive income							
<i>Items that are or may be reclassified subsequently to profit or loss:</i>							
Foreign currency translation differences	-	-	94	-	94	110	204
Total comprehensive income for the year	-	-	94	1,589	1,683	180	1,863
Transactions with owners, recorded directly in equity							
Change in non-controlling interest related to increase in share capital of subsidiary	-	-	-	-	-	695	695
Dividends paid	-	-	-	(912)	(912)	-	(912)
Total transactions with owners	-	-	-	(912)	(912)	695	(217)
Balance at 31 December 2016	17,500	495	(228)	39,851	57,618	2,012	59,630