

# **CJSC “Kyrgyz-Swiss Bank”**

Financial Statements  
for the year ended December 31, 2017

**and independent auditors' report**

## **INDEPENDENT AUDITORS' REPORT**

To the Shareholder and Management of the CJSC "Kyrgyz-Swiss Bank":

### **Opinion**

We have audited the financial statements of the Closed Joint Stock Company "Kyrgyz-Swiss Bank" (the "Bank"), which comprise the statement of financial position as at December 31, 2017, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2017, and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRSs).

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs) and requirements of National Bank of Kyrgyz Republic (NBKR). Our responsibilities under those standards and requirements are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank 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 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.

### **Emphasis of Matter**

The Bank calculates its loan loss allowance in accordance with the instructions of the International Accounting Standards 39 "Financial Instruments: Recognition and Measurement". Loan loss allowance in accordance with IFRS differs from amount that was calculated according to requirements of National Bank of the Kyrgyz Republic ("NBKR").

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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 Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

## **Auditor's Responsibilities 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 skepticism 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 Bank'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 Bank'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 Bank 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 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

**Report on the procedures performed in accordance with the Regulation of the National Bank of the Kyrgyz Republic #2017-P-12/25-2-(HIIA) “On minimum requirements for the external audit of banks and other financial and credit organizations licensed by the National Bank of the Kyrgyz Republic” dated June 15, 2017**

Management of the Bank is responsible for the implementation of the regulatory requirements established by the National Bank of the Kyrgyz Republic (the “NBKR”) and for compliance of internal control with the requirements set by the NBKR.

In the course of audit of the Bank's financial statements as at December 31, 2017 and for the year then ended we examined accounting and classification of the Bank’s assets and disclosure of transactions with related parties and affiliates to be in compliance with the regulatory requirements of the NBKR. Furthermore, we reviewed compliance of internal control and informational systems of the Bank with regulatory requirements set by the NBKR. These procedures were performed in accordance with the Regulation of the NBKR #2017-P-12/25-2-(HIIA) "On minimum requirements for the external audit of banks and other financial and credit organizations licensed by the NBKR" dated June 15, 2017.

The review was limited to the procedures selected on the basis of our judgement, which included requests, analysis, examination of documents, comparison of requirements, procedures and methods approved by the Bank with requirements set by the NBKR, as well as recalculation, reconciliation of values and other information. Identified matters related to internal controls and procedures were discussed with Management of the Bank and appropriate points were communicated in Management Letter.

The procedures performed and the results of the review are presented below:

1. With respect to compliance of the Bank’s accounting and classification of assets with legislation of the Kyrgyz Republic, the regulatory requirements of the NBKR, accounting policy and procedures of the Bank, the relevant procedures have been performed within the framework of the audit conducted in accordance with International Standards on Auditing and the requirements of the NBKR. These procedures are necessary for expressing an opinion on compliance of the Bank's financial statements, in all material respects, to the generally accepted principles of preparation and presentation of financial statements:

- We obtained and analyzed the Bank’s Credit policies approved by the Board of Directors and effective during 2017;
- We obtained the loan portfolio of the Bank as at December 31, 2017. During the statistical sampling analysis of the customer and financial institutions loan files, the following was established:
  - a loan application is completed at the moment of loan origination. The application indicates preliminary information about the loan objectives and customer’s capabilities on the basis of which customer's initial analysis is made;
  - customer loan files are formed in accordance with the provisions and requirements set by the NBKR;
  - monitoring of the loan status is performed with the periodicity established by the Bank’s policies and regulations after the loan is issued. A report which describes activities performed by the Bank (calls, visits to the client, etc.), appropriateness of the intended use of the loan, financial condition of the customer and conditions of the collateral is completed based on the results of the monitoring;
  - if evidence of the customer's financial condition worsening is available, restructuring of the loan is made after detailed analysis of the customer’s financial performance and approval by the credit committee is made.
- Classification and evaluation of the loan portfolio and other assets are made in accordance with the rules and approach prescribed by IAS 39. Within the framework of the audit we performed analysis of the methodology for impairment evaluation and estimation of the impairment allowance. We checked the adequacy of the assessment procedures of the loan portfolio and other assets of the Bank in accordance with IFRS sample basis. As discussed in paragraph Emphasis of Matter the loan loss allowance in accordance with IFRS differs from amount that was calculated according to requirements of NBKR.

- When assessing collateral the Bank follows provisions of collateral policy and instruction for valuation of foreclosed assets. During sample base analysis of the loan portfolio and other property transferred to the Bank's ownership we assured that:
  - the Bank values foreclosed assets when registering collateral for originated loans;
  - the Bank takes into account the cost of the collateral, its market value, the presence or absence of defects, as well as other quality characteristics for estimation of fair value.
- The Bank follows policies for the management of other property when dealing with foreclosed assets that became property of the Bank:
  - we assured availability of valuation reports for foreclosed assets prepared by independent appraiser on a sample basis.
- We requested confirmation letters on balances with customers on a sample basis during analysis of the Bank's loan portfolio. As a result of reviewing received documents we assured that the data indicated in the confirmations corresponds to the values in the Bank's accounts;
- Confirmations with correspondent banks were requested on a sample basis during analysis of Due from banks accounts of the Bank. Based on the received documents we assured that the reconciliation is made for each 1st day of month and the data specified in the reconciliation acts corresponds to the data in the Bank's accounts;
- During analysis of the Bank's obligations we assured that all liabilities are classified in accordance with the requirements of the NBKR, IFRS and internal policies of the Bank.
- We received a portfolio of securities as of December 31, 2017 and a report on transactions with securities that took place during 2017. After analyzing transactions on a sample basis, we determined the following:
  - the Bank follows internal policies on securities for transactions with securities;
  - existence of approved application on transactions by Assets and Liabilities Management Committee;
  - existence of application for purchase;
  - existence of confirmation documents from authorized trading system (“ATS”) on executed deals.

2. With respect to the compliance of accounting and disclosure of the Bank's transactions with affiliates and related parties we identified the following:

- The Bank has a policy on operations with affiliated and related parties, which states requirements for identifying disclosure of related parties;
- As at the reporting date all related parties are determined by the Bank. Information on balances and transactions with related parties is disclosed in the financial statements;
- During the audit we have identified balances and transactions with related parties, which correspond to the list of transactions with related parties of the Bank. In addition, on a sample basis, we assured the availability of approvals by the Board of Directors;
- As at reporting date we conducted the following procedures on transactions with related parties:
  - on a sample basis received confirmations of balances (loans to financial institutions, investments in associate company, due to banks and other financial institutions, customers accounts) if the related party is a legal entity;
  - assured that all transactions with related parties were carried out by the Bank in compliance with all generally accepted procedures of banking practice without granting any exemptions or privileges.

3. With respect to examination of internal control and its structure we identified the following:

- In order to post all transactions in accounting books and prepare reliable financial statements the Bank developed accounting policy, job descriptions for employees and other guidelines and instructions regulating the activities of all employees of the Bank;

- The Bank established an effective system of risk management and internal control to provide assurance of sufficient confidence in achieving the Bank's goals. An effective system of risk management and internal control is implemented at all levels of management. Systematic and independent evaluation of the reliability and effectiveness of the internal control system is performed by the internal auditor who is reportable to the Board of Directors. The internal auditor performs tasks based on the principles of independence, objectivity, competence and professional attitude to work, as well as on the legislation of the Kyrgyz Republic, legal acts of the NBKR, internal audit standards determined by the International Standards for the Professional Practice of Internal Audit and the Code of Ethics of the Institute of Internal Auditors. The Board of Directors approves work plans and reviews reports;
- We received the internal documents of the Bank effective as at December 31, 2017 and during the year ended on this date, which establish methods of identifying and managing significant credit, operational, market, interest, legal and liquidity risks, and made sure that they are approved by the Bank in accordance with the requirements and recommendations of the NBKR;
- We received management letter on the results of the audit for the previous reporting year. We reviewed the issues indicated in the letter and assured that the Bank's management took appropriate efforts for elimination of deficiencies in the system of internal controls. In case if the same deficiency remains from previous years we include it into the management letter by the results of the audit for the current year with note "Recurring".

4. During examination of compliance of operations and procedures of the Bank related to payments and settlements with the legislation of the Kyrgyz Republic and the regulatory requirements of the NBKR we established the following:

Within a substantive testing of certain captions of the financial statements (loans to customers, customer accounts, interest income, commission income, taxes paid) we made a statistical sample of transactions to test that:

- Hard copy payment documents correspond to the figures in the system;
- Confidentiality and security matters during execution of electronic payments as well as the rules for storage and use comply with the requirements of the NBKR;
- Payments are made on time;
- The requirements for filling details of payment documents are appropriately executed.

5. With respect to compliance with the requirements of International Standards on Auditing regarding the responsibility of the Bank's external auditor to review fraudulent activities and errors during the audit of the financial statements of the Bank, we performed all audit procedures in accordance with IFRS and ISA, which we considered necessary for expressing our opinion on the financial statements of the Bank.

6. Audit of information system was conducted as at November 1, 2017. During the audit of information systems, we conducted an analysis and assessment of the compliance of documents, processes and information systems to achieve the following audit objectives stipulated by the current legislation:

- Check the internal regulatory documents on ensuring information security for their sufficiency and compliance with the requirements of the legislation of the Kyrgyz Republic and the regulatory legal acts of the NBKR;
- Check strategic documents of the Bank, business plans, policies and procedures for risk management of information systems in order to assess their adequacy, sufficiency and relevance;
- Assessment of the quality management system of IT processes and the operational risk management system;
- Assessment of the information systems operation continuity and plans for information systems recovery in the event of emergency situations;
- Assessment of the level of network security, operating systems, applications and databases, personnel and physical security;
- Assessment of the system of access control and distribution of roles in automated systems;
- Assessment of the level of awareness of the Bank's personnel in the field of information security;
- Consideration of issues of compliance with the requirements of the law with respect to intellectual property rights and the use of licensed software products.

February 16, 2018

Bishkek, Kyrgyz Republic



Kubat Alymkulov

Certified accountant, FCCA

Certificate of auditor of the Kyrgyz Republic # A 0069

Audit Director, Baker Tilly Bishkek LLC

“Baker Tilly Bishkek” LLC,

License Series A # 0049 issued by the State

Committee on Review and Regulation of the financial  
market of the Kyrgyz Republic

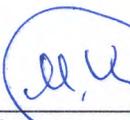
## CJSC "KYRGYZ-SWISS BANK"

### STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2017

(in thousands of Kyrgyz Soms)

	Notes	For the year ended December 31, 2017	For the year ended December 31, 2016
Interest income	4	89,229	87,732
Interest expenses	4	(43,293)	(37,787)
NET INTEREST INCOME BEFORE ACCRUAL OF ALLOWANCE FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS	4	45,936	49,945
Accrual of allowance for impairment losses on interest bearing assets	5	(34,807)	(17,782)
NET INTEREST INCOME		11,129	32,163
Commission income	6	61,891	20,197
Commission expenses	6	(14,729)	(2,843)
Net gain on financial instruments at fair value	7	9,368	4,507
Net gain on foreign exchange operations	8	4,236	11,253
Income from investments in associate company	17	872	1,449
Accrual of allowance for impairment losses on non-interest bearing assets and liabilities	5	(3,786)	(5,475)
Other income, net	9	5,583	4,051
NET NON - INTEREST INCOME		63,435	33,139
Operating expenses	10	(71,026)	(67,332)
PROFIT / (LOSS) BEFORE INCOME TAX		3,538	(2,030)
Income tax benefit	11	454	222
PROFIT / (LOSS) FOR THE YEAR		3,992	(1,808)
Other comprehensive income			-
(Loss) / gain from revaluation of financial assets available for sale		(2,430)	1,236
Income tax attributable to components of other comprehensive income		243	(123)
TOTAL COMPREHENSIVE INCOME / (LOSS)		1,805	(695)
Earnings per share (som)	27	7.05	(3.68)

On behalf of the Management of the Bank

  
Kachkeev Muras  
Chairman of Management Board

February 16, 2018  
Bishkek, Kyrgyz Republic

  
Seidakhmatova Naima  
Chief Accountant

February 16, 2018  
Bishkek, Kyrgyz Republic

The notes on pages 15-65 form an integral part of the financial statements. The Independent Auditors' Report is on pages 4-9.

## CJSC "KYRGYZ-SWISS BANK"

### STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2017

(in thousands of Kyrgyz Soms)

	Notes	December 31, 2017	December 31, 2016
<b>ASSETS:</b>			
Cash and cash equivalents	12	443,390	201,579
Due from banks	13	467,243	590,550
Loans to financial institutions	14	77,197	53,296
Loans to customers	15	525,823	507,273
Financial assets available for sale	16	117,639	21,290
Investments in associate company	17	16,872	17,446
Property, equipment and intangible assets	18	36,331	39,357
Long-term assets held for sale	19	23,557	15,546
Deferred tax assets	11	2,941	2,244
Financial instruments at fair value through profit or loss	20	329	-
Other assets	21	10,136	3,728
<b>TOTAL ASSETS</b>		<b>1,721,458</b>	<b>1,452,309</b>
<b>SHAREHOLDER'S EQUITY AND LIABILITIES:</b>			
<b>LIABILITIES:</b>			
Due to banks and other financial institutions	22	204,656	162,948
Customer accounts	23	957,930	632,226
Loans received	24	-	103,845
Financial instruments at fair value through profit or loss	20	-	211
Other liabilities	25	11,664	7,676
		<b>1,174,250</b>	<b>906,906</b>
<b>SHAREHOLDER'S EQUITY:</b>			
Share capital	26	566,389	566,389
Revaluation reserve for financial assets available for sale		(403)	1,784
Accumulated deficit		(18,778)	(22,770)
		<b>547,208</b>	<b>545,403</b>
<b>TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES</b>		<b>1,721,458</b>	<b>1,452,309</b>

On behalf of the Management of the Bank

  
Kachkeev Muras  
Chairman of Management Board

February 16, 2018  
Bishkek, Kyrgyz Republic



  
Seidakhmatova Naima  
Chief Accountant

February 16, 2018  
Bishkek, Kyrgyz Republic

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# CJSC "KYRGYZ-SWISS BANK"

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2017

(in thousands of Kyrgyz Soms)

	Notes	Share capital	Additional paid-in capital	Revaluation reserves for financial assets available for sale	Accumulated deficit	Total equity
Balance at December 31, 2015	26	422,389	-	671	(42,030)	381,030
<b>Comprehensive income</b>						
Loss for the year		-	-	-	(1,808)	(1,808)
Change in revaluation reserve for financial assets available for sale		-	-	1,113	-	1,113
Offset of additional paid-in capital with accumulated deficit		-	(21,068)	-	21,068	-
<b>Total comprehensive income</b>		-	(21,068)	1,113	19,260	(695)
<b>Transactions with owners</b>						
Issue of shares		144,000	-	-	-	144,000
Issue of shares with premium		-	21,068	-	-	21,068
<b>Total transactions with owners</b>		144,000	21,068	-	-	165,068
Balance at December 31, 2016	26	566,389	-	1,784	(22,770)	545,403
<b>Comprehensive income</b>						
Profit for the year		-	-	-	3,992	3,992
Change in revaluation reserve for financial assets available for sale		-	-	(2,187)	-	(2,187)
<b>Total comprehensive income</b>		-	-	(2,187)	3,992	1,805
Balance at December 31, 2017	26	566,389	-	(403)	(18,778)	547,208

On behalf of the Management of the Bank

  
Kachkeev Muras  
Chairman of Management Board

February 16, 2018  
Bishkek, Kyrgyz Republic



  
Seidakhmatova Naima  
Chief accountant

February 16, 2018  
Bishkek, Kyrgyz Republic

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**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Thousands of Kyrgyz Soms)

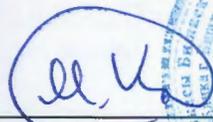
	Notes	For the year ended December 31, 2017	For the year ended December 31, 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Interest received		84,544	84,028
Interest paid		(37,116)	(38,435)
Commissions received	6	61,891	20,197
Commissions paid		(14,664)	(2,773)
Financial instruments operations, net		8,087	2,523
Foreign exchange operations, net		4,945	11,719
Other income, net		5,584	3,416
Operating expenses		<u>(63,578)</u>	<u>(59,559)</u>
<b>Cash flow from operating activities before changes in operating assets and liabilities</b>		<u>49,693</u>	<u>21,116</u>
<b>Changes in operating assets and liabilities</b>			
(Increase) / decrease of obligatory reserve in NBKR	12	(15,402)	18,941
Increase in loans to financial institutions		(39,512)	(16,971)
Increase in loans to customers		(44,673)	(5,951)
Increase in other assets		(6,171)	(10,264)
Increase / (decrease) in due to banks and other financial institutions		38,423	(76,894)
Increase in customer accounts		322,812	36,195
Increase in other liabilities		<u>3,204</u>	<u>1,763</u>
<b>Cash flow from operating activities before taxation and interest</b>		<u>308,374</u>	<u>(32,065)</u>
Income tax paid		-	-
<b>Net cash inflow / (outflow) from operating activities</b>		<u>308,374</u>	<u>(32,065)</u>

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2017 (CONTINUED)**

*(in thousands of Kyrgyz Soms)*

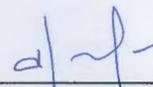
	Notes	For the year ended December 31, 2017	For the year ended December 31, 2016
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of investments		(92,787)	(19,852)
Proceeds from sale of investments		-	55,619
Purchase of property, equipment and intangible Assets	18	(4,447)	(16,695)
Dividends received from associate company		1,446	1,644
<b>Net cash (outflow) / inflow from investing activities</b>		<u>(95,788)</u>	<u>20,716</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Issue of shares	26	-	144,000
Issue of shares with premium	26	-	21,068
Loans (repaid) / received	24	(103,845)	103,845
<b>Net cash (outflow) / inflow from financing activities</b>		<u>(103,845)</u>	<u>268,913</u>
Effect of exchange rate changes on the balance of cash and cash equivalents		(5,639)	(1,490)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<u>108,741</u>	<u>257,564</u>
<b>CASH AND CASH EQUIVALENTS, at the beginning of year</b>	12	<u>717,410</u>	<u>461,336</u>
<b>CASH AND CASH EQUIVALENTS, at the end of year</b>	12	<u>820,512</u>	<u>717,410</u>

On behalf of the Management of the Bank:



**Kachkeev Muras**  
**Chairman of Management Board**

February 16, 2018  
Bishkek, Kyrgyz Republic

**Seidakhmatova Naima**  
**Chief accountant**

February 16, 2018  
Bishkek, Kyrgyz Republic

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