

## Independent Auditors' Report

To the Shareholders and Board of Directors of RSK Bank Open Joint Stock Company

### **Opinion**

We have audited the financial statements of RSK Bank Open Joint Stock Company (the Bank), which comprise the statement of financial position as at 31 December 2016, the statement of 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 31 December 2016, and its financial performance and its 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 (ISA). Our responsibilities in accordance with these standards are described below in the section "*Responsibility of the auditor for the audit of the financial statements*" of our report. We are independent of the Bank in accordance with the *Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants* (the Code of IESBA), and we have met other ethical obligations under the Code of IESBA.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each of the following matters, our description of how the respective matter was addressed in the course of our audit is provided in this context.

We have met the obligations described in the section "*Responsibility of the auditor for the audit of the financial statements*" of our report, including with respect to these matters. Accordingly, our audit included performance of procedures designed in response to our assessment of risks of significant misstatement of the financial statements. The results of our audit procedures including procedures performed during the consideration of the following matters serve as a basis for our audit opinion on the accompanying financial statements.

### ***Adequacy of provisions impairment of loans to customers***

The adequacy of the level of provision for impairment of loans to customers is a key area of the Bank's management judgment. Identification of impairment evidence and measurement of the recoverable value of loans is a process involving a high level of subjective judgment, use of assumptions and analysis of various factors, including the financial condition of the borrower, estimated future cash flows and value of the collateral. The use of various models and assumptions can significantly affect the amount of provisions for impairment of loans to customers.

Because of the substantial amounts of loans to customers, which in aggregate amount to 45% of the total assets of the Bank as at 31 December 2016, assessment of provision for impairment has been one of the key audit matters.

Our audit procedures included analysis of the methodology for assessing the impairment of loans to customers, as well as the analysis and testing of controls over the processes of identifying impairment evidence and calculation of the provision for impairment of loans. As part of the audit procedures we analysed assumptions and performed testing of inputs used by the Bank in assessing the collective impairment of loans to customers, loss transfer ratio models and recovery factors. We have analysed the consistency of judgments used by the Bank's management in assessing economic factors and statistical information on the losses incurred and amounts reimbursed, as well as their compliance with general practice and our professional judgment. As for the assessment of individual impairment of loans to customers, we have analysed the expected future cash flows, including in the case of foreclosure on the property, based on our professional judgment and available information in the market.

We reviewed the information on the provision for impairment of loans to customers disclosed in the Notes 6 and 15 to the financial statements for completeness and compliance with IFRS.

### ***Measurement of fair value of financial instruments not quoted in an active market***

The fair value of derivative financial instruments is an important issue, given the complexity and subjectivity of judgements and assumptions taken as a basis by the Bank's management to calculate the fair value of financial instruments that are not quoted in an active market. Note 29 of the financial statements provides an analysis of financial instruments recorded by level of the fair value hierarchy as at 31 December 2016.

Our audit procedures included assessment of methodology, inputs and assumptions used by the Bank's management for assessing the level of hierarchy and the fair value. Audit procedures included the procedures on recalculation and analysis of assumptions used to test the fair value of the assets. We have also performed procedures for disclosure of the information presented in the Note 29.

### ***Responsibility of management and those charged with governance for the financial statements***

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

In preparing the financial statements, the management is responsible for assessing the ability of the Bank to continue as a going concern, disclosure of appropriate information relating to business continuity, and for the preparation of financial statements based on the going concern basis, except when the management intends to liquidate the Bank, cease its activities or if it has no real alternative to such actions.

The Board of Directors is responsible for the supervision of preparation of the Bank's financial statements.

### ***Responsibility of the auditor for the audit of financial statements***

Our objectives are to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and issue an audit report containing our opinion. Reasonable assurance is a high degree of confidence, but is not a guarantee that the audit performed in accordance with International Auditing Standard will always detect a material misstatement, if any. Misstatements can be resulted from fraud or error, and are considered to be significant if it can be reasonably assumed that, individually or collectively, they could influence the economic decisions of users taken on the basis of these financial statements.

As part of the audit performed in accordance with the International Auditing Standard, we use professional judgement and retain a professional scepticism throughout the audit. Besides, we perform the following:

- ▶ identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures in response to these risks; obtain audit evidence, which is sufficient and appropriate to serve as a basis for our audit opinion. The risk of failure to detect a material misstatement as a result of fraud is higher than the risk of failure to detect a material misstatement resulting from error, since the fraud may include collusion, forgery, deliberate omission, distorted presentation of information or action to bypass the internal controls;
- ▶ obtain an understanding of internal controls relevant to the audit, for the purpose of developing 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 controls;
- ▶ assess the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, and disclosure of relevant information;
- ▶ conclude on eligibility of the management's application of going concern assumption, and based on obtained audit evidence, conclude if there is a sufficient uncertainty due to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we determine the existence of material uncertainty, we shall draw attention in our opinion to the related disclosure in the financial statements or, if such a disclosure is improper, modify our opinion. Our findings are based on audit evidence received before the date of our opinion. However, subsequent events or conditions may result in the Bank's loss of ability to continue as a going concern;
- ▶ evaluate the overall presentation of the financial statements, their structure and content, including disclosure of information, and if the financial statements present transactions underlying the financial statements and events in such a way that their fair presentation is provided.

We perform communication with the Board of Directors notifying them among other things about the planned scope and period of the audit, and significant observations on the audit results, including material weaknesses of internal control system, if we identify such in the course of the audit.

We also provide the Board of Directors with the statement that we complied with all respective ethical requirements with regard to independence and notified those persons about all relations and other matters that may be reasonably considered as affecting the auditor's independence, and where necessary - about respective remedial measures.

Among those matters that we communicated to the Board of Directors, we define matters of most significance for the audit of the financial statements for the current period and that accordingly represent key audit matters. We describe these matters in our audit opinion except for the cases when public disclosure of such matters is prohibited by law or regulation, or in rare cases when we come to a conclusion that information on a certain matter shall not be disclosed in our opinion, as it can be reasonably concluded that negative effects of such disclosure exceed social benefit.

Bakhtiyor Eshonkulov is the partner responsible for the audit based on the results of which this independent auditor's report has been issued.

*Ernst & Young*

*Bakhtiyor Eshonkulov*

Bakhtiyor Eshonkulov  
Audit partner



*Elizaveta Tsoy*

Elizaveta Tsoy  
Auditor/General director  
Ernst and Young Audit LLC

Qualification certificate of auditor of the  
Kyrgyz Republic: A № 003, registration  
number № 00098 as of February 28 2006

Audit license series A № 0036, registration number  
№0065, issued on February 20, 2010 by the State  
Agency on Review and Regulation of the financial  
market of the Kyrgyz Republic

191 Abdrakhmanova street  
720011, Bishkek, Kyrgyz Republic

*23 March 2017*


## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2016

*(in thousands of kyrgyz soms)*

	Notes	For the year ended 31 December 2016	For the year ended 31 December 2015
Interest income	5	1,820,685	1,562,298
Interest expense	5	(940,871)	(820,732)
<b>Net interest income before accrual of allowance for impairment losses on interest bearing assets</b>	5	879,814	741,566
Accrual of allowance for impairment losses on interest bearing assets	6	(283,667)	(118,560)
<b>Net interest income</b>		596,147	623,006
Commission income	7	436,748	382,413
Commission expenses	7	(29,622)	(17,503)
Net gain on financial instruments at fair value	8	26,580	3,631
Net gain on foreign exchange operations	9	88,905	96,170
Accrual of allowance for impairment losses on other assets	6	(3,496)	(10,694)
Other income	10	4,987	11,418
<b>Net non-interest income</b>		524,102	465,435
Operating expenses	11	(979,091)	(916,236)
<b>Profit before income tax</b>		141,158	172,205
Income tax	12	(17,531)	(10,755)
<b>Net profit for the year</b>		123,627	161,450
<b>Other comprehensive income</b>			
Gain/loss from revaluation of financial assets available for sale		54,839	(3,317)
<b>Total comprehensive income</b>		178,466	158,133
Earnings per share (som)	24	33,48	53,07
Diluted earnings per share (som)		33,48	53,07


On behalf of the Management of the Bank:



Omorkulov A.P.  
Chairman of Management Board

23 March 2017

Bishkek, the Kyrgyz Republic



Chubarova A.A.  
Chief Accountant

23 March 2017

Bishkek, the Kyrgyz Republic


## STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

*(in thousands of Kyrgyz soms)*

	Note	31 December 2016	31 December 2015
<b>Assets</b>			
Cash and cash equivalents	13	6,270,757	2,773,503
Due from banks	14	380,521	2,144,307
Loans to customers, net	15	8,366,146	8,317,437
-Loans to customers, gross	15	8,941,964	8,690,051
-Allowance for impairment losses	15	(575,818)	(372,614)
Financial assets available for sale	16	2,414,004	2,559,049
Repurchase agreements		-	140,524
Property, equipment and intangible assets	17	647,438	660,310
Other assets	18	381,843	152,051
<b>Total assets</b>		<b>18,460,709</b>	<b>16,747,181</b>
<b>Shareholder's equity and liabilities</b>			
<b>Liabilities</b>			
Customer accounts	19	13,660,720	11,041,379
Due to banks and other financial institutions	20	2,509,597	3,614,684
Loan from the Ministry of Finance of the Kyrgyz Republic	21	2,504	3,008
Income tax payable		4,447	5,105
Provision for contingent liabilities	6	8,816	9,883
Deferred tax liability	12	20,329	18,354
Other liability	22	243,226	165,656
		<b>16,449,639</b>	<b>14,858,069</b>
<b>Shareholder's equity</b>			
Share capital	23	1,845,960	1,741,018
Revaluation reserve for investments available for sale		41,483	(13,356)
Retained earnings		123,627	161,450
		<b>2,011,070</b>	<b>1,889,112</b>
<b>Total shareholder's equity and liabilities</b>		<b>18,460,709</b>	<b>16,747,181</b>


On behalf of the Management of the Bank:



Omorkulov A.P.  
Chairman of Management Board

23 March 2017

Bishkek, the Kyrgyz Republic



Chubarova A.A.  
Chief Accountant

23 March 2017

Bishkek, the Kyrgyz Republic


## STATEMENT OF CHANGES IN EQUITY

for the ended 31 December 2016

(in thousands of kyrgyz soms)

Notes	Share capital	Revaluation reserves for investments available for sale	Retained earnings	Total capital
	1,244,018	(10,039)	146,184	1,380,163
<b>Comprehensive income</b>				
Profit for the year	–	–	161,450	161,450
Change in revaluation reserve for financial assets available for sale	–	(3,317)	–	(3,317)
<b>Total comprehensive income</b>	–	(3,317)	161,450	158,133
<b>Transactions with owners</b>				
Issue of shares	497,000	–	(73,092)	(423,908)
Dividends declared	–	–	(73,092)	(73,092)
<b>Total transactions with owners</b>	497,000	–	(146,184)	350,816
<b>Balance at 31 December 2015</b>	23 1,741,018	(13,356)	161,450	1,889,112
<b>Comprehensive income</b>				
Profit for the year	–	–	123,627	123,627
Change in revaluation reserve for financial assets available for sale	–	54,840	–	54,840
<b>Total comprehensive income</b>	–	54,840	123,627	178,467
<b>Transactions with owners</b>				
Dividends declared	–	–	(56,508)	(56,508)
Issue of shares	104,942	–	(104,942)	–
<b>Total transactions with owners</b>	104,942	–	(161,450)	(56,508)
<b>Balance at 31 December 2016</b>	23 1,845,960	41,483	123,627	2,011,070


On behalf of the Management of the Bank:



Omorkulov A.P.  
Chairman of Management Board

23 March 2017

Bishkek Kyrgyz Republic



Chubarova A.A.  
Chief Accountant

23 March 2017

Bishkek Kyrgyz Republic

The accompanying notes on pages 6 to 44 are an integral part of these financial statements.

**STATEMENTS OF CASH FLOWS**

for the year ended 31 December 2016

*(in thousands of kyrgyz soms)*

<i>Notes</i>	<i>For the year ended 31 December 2016</i>	<i>For the year ended 31 December 2015</i>
<b>Cash flows operating activities</b>		
Profit before income tax expenses	141,159	172,205
Adjustments for:		
Accrual of allowance for impairment losses on interest bearing assets	234,079	118,560
Accrual of allowance for impairment losses on other assets	53,084	10,694
Interest income	(1,820,685)	(1,562,298)
Interest expenses	940,870	820,732
Commission income on loans to customers	-	(25,434)
Commission expenses on loans received	-	5,086
Depreciation of property, equipment and intangible assets	85,712	89,548
Loss from disposal of property, equipment and intangible assets	766	255
Foreign exchange differences	1,326	(7,301)
<b>Cash flows before changes in operating assets and liabilities</b>	<b>(363,689)</b>	<b>(377,953)</b>
<b>Changes in operating assets</b>		
Decrease/(increase) in obligatory reserve in NBKR	(103,002)	183,043
Increase in loans to customers	(636,617)	(920,530)
Increase in repurchase agreements	140,524	(240,623)
Increase in other assets	(252,819)	(47,462)
<b>Changes in operating liabilities</b>		
Decrease in financial instruments at fair value	-	(23,527)
Increase in due to banks and other financial institutions	(1,011,649)	104,377
Increase in customer accounts	2,857,955	612,483
Increase/(decrease) in other liabilities	80,421	35,717
Cash outflow from operating activities before taxation and interest	711,124	(674,475)
Interest received	1,825,535	1,541,001
Interest paid	(867,632)	(740,383)
Commission received	-	23,823
Commission paid	-	(11,035)
Income tax paid	(16,214)	(19,270)
<b>Net cash generated from operating activities</b>	<b>1,652,813</b>	<b>119,661</b>
<b>Cash flows from investing activities</b>		
Purchase of property, equipment and intangible assets	(73,607)	(61,448)
Purchase of financial assets available for sale	(1,480,222)	(954,576)
Proceeds from financial assets available for sale	1,662,403	514,203
<b>Net cash outflow from investment activities</b>	<b>108,574</b>	<b>(501,821)</b>


The accompanying notes on pages 6 to 44 are an integral part of these financial statements.



## STATEMENTS OF CASH FLOWS (continued)

	<i>Notes</i>	<i>For the year ended 31 December 2016</i>	<i>For the year ended 31 December 2015</i>
<b>Cash flows from financing activities</b>			
Dividends paid		(56,508)	(73,092)
Increase of share capital		-	423,908
Proceeds from loans from banks and other financial institutions		128,301	1,366,424
Repayment of loans from banks and other financial institutions		(109,708)	(111,945)
Repayment of loan from the Ministry of Finance of the Kyrgyz Republic		(252)	(12,645)
<b>Net cash generated from / (used in) financing activities</b>		<b>(38,167)</b>	<b>1,592,650</b>
<b>Net increase in cash and cash equivalents</b>		<b>1,723,220</b>	<b>1,210,490</b>
Effect of foreign exchange translation difference		(92,754)	- 321,119
Cash and cash equivalents, at the beginning of the year		4,204,062	2,672,453
<b>Cash and cash equivalents, at the end of the year</b>	13	<b>5,834,528</b>	<b>4,204,062</b>


On behalf of the Management of the Bank:



Omorkulov A.P.  
Chairman of Management Board

23 March 2017

Bishkek Kyrgyz Republic



Chubarova A.A.  
Chief Accountant

23 March 2017

Bishkek Kyrgyz Republic