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Independent Auditors' Report

To the Board of Directors of "RSK Bank" OJSC

Opinion

We have audited the financial statements of "RSK Bank" OJSC (the "Bank"), which comprise the statement of financial position as at 31 December 2017, the 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 financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its 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 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our 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.



Impairment of loans to customers

Please refer to the Note 14 in the financial statements.

The key audit matter	How the matter was addressed in our audit
<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 Bank'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; - performing certain 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 Bank's exposure to credit risk.

Other Matter

The financial statements of the Bank as at and for the year ended 31 December 2016 were audited by other auditors who expressed an unmodified opinion on those statements on 23 March 2017.

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 IFRS, 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.

Auditors' 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 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 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 financial statements.

As part of an audit in accordance with ISAs and additional NBKR requirements, 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 auditors' 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 auditors' 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 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.

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


Yelena Kim
Attorney (Audit Partner)
of KPMG Bishkek LLC
Power of Attorney No.1/00007
of 28 July 2017



KPMG Bishkek LLC
16 March 2018


STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2017

(in thousands of kyrgyz soms)

	Notes	For the year ended 31 December 2017	For the year ended 31 December 2016
Interest income	5	1,916,853	1,820,685
Interest expense	5	(946,384)	(940,871)
Net interest income before accrual of allowance for impairment losses on interest bearing assets	5	970,469	879,814
Accrual of allowance for impairment losses on interest bearing assets	6	(201,552)	(234,079)
Net interest income		768,917	645,735
Commission income	7	510,070	436,748
Commission expense	7	(24,531)	(29,622)
Net gain on financial instruments at fair value through profit or loss		24,462	26,580
Net gain on foreign exchange operations	8	82,450	88,905
Accrual of allowance for impairment losses on other assets and other liabilities	6	(89,746)	(53,084)
Other income		4,048	4,987
Net non-interest income		506,753	474,514
Operating expenses	9	(1,111,646)	(979,091)
Profit before income tax		164,024	141,158
Income tax expense	10	(33,445)	(17,531)
Profit for the year		130,579	123,627
Other comprehensive income			
Gain from revaluation of available-for-sale financial assets		64,118	54,839
Total comprehensive income for the year		194,697	178,466
Basic and diluted earnings per share (som)	22	33.89	32.09

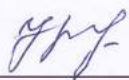
On behalf of the Management of the Bank:


 Omorkulov A.P.
 Chairman of Management Board

16 March 2018

Bishkek, the Kyrgyz Republic




 Nosova S.Y.
 Chief Accountant

16 March 2018

Bishkek, the Kyrgyz Republic

The accompanying notes on pages 6 to 49 are an integral part of these financial statements.


STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

(in thousands of kyrgyz soms)

	Note	31 December 2017	31 December 2016
Assets			
Cash and cash equivalents	11	4,671,793	6,647,084
Available-for-sale financial assets	12	3,744,085	2,414,004
Loans and advances to banks and other financial institutions	13	399,302	105,848
Loans to customers			
- Loans to corporate customers	14	4,529,176	3,775,417
- Loans to retail customers	14	5,367,738	4,489,075
Property, equipment and intangible assets	15	748,735	647,438
Other assets	16	559,610	381,843
Total assets		20,020,439	18,460,709
Liabilities			
Deposits and balances from banks and other financial institutions	17	288,152	234,731
Current accounts and deposits from customers			
- Current accounts and deposits from corporate customers	18	4,956,446	5,705,617
- Current accounts and deposits from retail customers	18	9,517,204	7,955,103
Other borrowed funds	19	2,752,693	2,277,370
Other liabilities	20	343,447	276,818
Total liabilities		17,857,942	16,449,639
Equity			
Share capital	21	1,926,317	1,845,960
Revaluation reserve for available-for-sale financial assets		105,601	41,483
Retained earnings		130,579	123,627
Total equity		2,162,497	2,011,070
Total liabilities and equity		20,020,439	18,460,709


On behalf of the Management of the Bank:



Omorkulov A.P.
Chairman of Management Board

16 March 2018

Bishkek, the Kyrgyz Republic

Nosova S.Y.
Chief Accountant

16 March 2018

Bishkek, the Kyrgyz Republic

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STATEMENT OF CHANGES IN EQUITY

for the ended 31 December 2017

(in thousands of Kyrgyz soms)

	Notes	Share capital	Revaluation reserves for available for sale financial assets	Retained earnings	Total equity
Balance at 1 January 2016		1,741,018	(13,356)	161,450	1,889,112
Comprehensive income					
Profit for the year		–	–	123,627	123,627
Change in revaluation reserve for available-for-sale financial assets		–	54,839	–	54,839
Total comprehensive income		–	54,839	123,627	178,466
Transactions with owners					
Dividends declared		–	–	(56,508)	(56,508)
Issue of shares		104,942	–	(104,942)	–
Total transactions with owners		104,942	–	(161,450)	(56,508)
Balance at 31 December 2016	21	1,845,960	41,483	123,627	2,011,070
Comprehensive income					
Profit for the year		–	–	130,579	130,579
Change in revaluation reserve for available-for-sale financial assets		–	64,118	–	64,118
Total comprehensive income		–	64,118	130,579	194,697
Transactions with owners					
Dividends declared		–	–	(43,270)	(43,270)
Issue of shares		80,357	–	(80,357)	–
Total transactions with owners		80,357	–	(123,627)	(43,270)
Balance at 31 December 2017	21	1,926,317	105,601	130,579	2,162,497

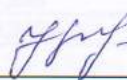
On behalf of the Management of the Bank:


 Omorkulov A.P.
 Chairman of Management Board

16 March 2018

Bishkek, the Kyrgyz Republic




 Nosova S.Y.
 Chief Accountant

16 March 2018

Bishkek, the Kyrgyz Republic

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STATEMENT OF CASH FLOWS**for the year ended 31 December 2017***(in thousands of kyrgyz soms)*

<i>Notes</i>	<i>For the year ended 31 December 2017</i>	<i>For the year ended 31 December 2016</i>
Cash flows from operating activities		
Profit before income tax	164,024	141,158
Adjustments for:		
Accrual of allowance for impairment losses on interest bearing assets	201,552	234,079
Accrual of allowance for impairment losses on other assets and other liabilities	89,746	53,084
Interest income	(1,916,853)	(1,820,685)
Interest expenses	946,384	940,871
Depreciation and amortisation of property, equipment and intangible assets	89,647	85,712
Loss from disposal of property, equipment and intangible assets	2,343	766
Foreign exchange differences	1,539	1,326
Cash flows before changes in operating assets and liabilities	(421,618)	(363,689)
Changes in operating assets		
(Increase)/decrease in loans and advances to banks and other financial institutions	(291,980)	34,676
Increase in loans to customers	(1,860,480)	(534,963)
Increase in other assets	(262,098)	(252,819)
Changes in operating liabilities		
Increase/(decrease) in deposits and balances from banks and other financial institutions	53,421	(1,011,649)
Increase in current accounts and deposits from customers	830,165	2,857,955
Increase in other liabilities	37,551	80,421
Cash (outflow)/inflow from operating activities before taxation and interest	(1,915,039)	809,932
Interest received	1,962,159	1,825,535
Interest paid	(959,698)	(867,632)
Income tax paid	(16,224)	(16,214)
Net cash (used in)/generated from operating activities	(928,802)	1,751,621
Cash flows from investing activities		
Purchase of property, equipment and intangible assets	(193,287)	(73,607)
Purchase of available-for-sale financial assets	(4,790,850)	(1,480,222)
Proceeds from available-for-sale financial assets	3,513,268	1,662,403
Net cash (used in)/generated from investment activities	(1,470,869)	108,574

The accompanying notes on pages 6 to 49 are an integral part of these financial statements.


STATEMENT OF CASH FLOWS (continued)

for the year ended 31 December 2017

(in thousands of kyrgyz soms)

	<i>Notes</i>	<i>For the year ended 31 December 2017</i>	<i>For the year ended 31 December 2016</i>
Cash flows from financing activities			
Dividends paid		(43,270)	(56,508)
Proceeds from other borrowed funds		1,229,443	128,301
Repayment of other borrowed funds		(737,203)	(109,960)
Net cash generated from/(used in) financing activities		448,970	(38,167)
Net (decrease)/increase in cash and cash equivalents		(1,950,701)	1,822,028
Effect of foreign exchange translation difference		(24,590)	(92,754)
Cash and cash equivalents, at the beginning of the year		6,647,084	4,917,810
Cash and cash equivalents, at the end of the year	11	4,671,793	6,647,084

On behalf of the Management of the Bank:


 Omorkulov A.P.
 Chairman of Management Board

16 March 2018

Bishkek, the Kyrgyz Republic




 Nosova S.Y.
 Chief Accountant

16 March 2018

Bishkek, the Kyrgyz Republic

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