

**HLB MARKA AUDIT  
INDEPENDENT AUDITOR'S REPORT  
LLC “HLB MARKA AUDIT”  
ON FINANCIAL STATEMENTS OF  
OJSC “FINANCECREDITBANK”**

**To the Shareholders and the Board of Directors of OJSC “FinanceCreditBank”**

**Conclusion on the results of the audited financial statements**

***Opinion***

We have audited the financial statements of OJSC “FinanceCreditBank” (hereinafter referred to as the Bank), including the Statement of Financial Position as of 31 December 2019, 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 ended on that date, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2019, its financial performance and cash flows for the year ended on that date, in accordance with International Financial Reporting Standards (IFRS).

***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards 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) and the ethical requirements applicable to our audit of financial statements in the Kyrgyz Republic, and we have met our other ethical responsibilities in accordance with those 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 matters that, in our professional judgment, are of most significance to our audit of the financial statements for the current period. These matters were considered in the context of our audit of the financial statements as a whole and in forming our opinion on these statements, and we do not express a separate opinion on these matters.

***Allowance for expected credit losses on loans to clients***

Due to the significance of the Loans to Clients line item in the statement of financial position and the use of professional judgment by the Bank's management to timely identify and measure allowances for expected credit losses (ECL) on loans, the calculation of allowances for ECL in accordance with IFRS (II RS) 9 Financial Instruments is considered one of the key audit matters.

The Bank evaluates ECL allowances on a collective and individual basis and calculates probabilities of default, exposure at risk of default and loss on default on a loan-by-loan or portfolio-by-loan basis.

The collective assessment is carried out using modeling based on forward-looking information, as well as internal ratings, the choice of appropriate data is the professional judgment of the Bank's management.

Open Joint Stock Company “FinanceCreditBank”

The calculation of a provision on an individual basis involves the exercise of significant judgment, the use of assumptions and the analysis of various factors, including financial performance of counterparties, projected cash flows and the value of collateral.

The Bank's approach to credit risk management is presented in note 34 Risk Management of the financial statements. Details of loans to clients and ECL allowances are presented in Note 11 Loans to clients of the financial statements.

### ***Our methods***

As part of our audit procedures, we reviewed the methodology that the Bank approved in accordance with IFRS 9 and used to identify increases in credit risk and calculate expected credit losses on a collective and individual basis.

We reviewed the ECL allowance calculation on a collective basis, including a selective review of the underlying data and assumptions used for the credit risk model, including internal credit ratings, and the classification of loans by impairment stage.

For significant individually impaired loans, we have analyzed, on a sample basis, the calculation of recoverable amount and ECL based on the Bank's debt repayment scenarios and their likelihood, including the Bank's assumptions about expected cash flows, including from the current activities of borrowers, as well as from the sale of collateral, taking into account available information on the market.

Our audit procedures also included testing, on a sample basis, controls on the ECL process for clients loans, including tests of controls for accounting for arrears.

We also reviewed the information on expected credit losses on loans to clients disclosed in the Bank's financial statements.

### ***Other information***

The audit of the financial statements of the Bank for 2018 was carried out by CJSC ACF “Kyrgyzaudit”. Based on the results of the audit, CJSC ACF “Kyrgyzaudit” in the auditor's report expressed an unmodified opinion on the reliability in all material aspects of the Bank's financial statements for 2018. The auditor's report is dated 1 March 2019.

### ***Responsibilities of the Bank's 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 maintaining 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, for disclosing information relating to going concern, as appropriate, and for reporting on a going concern basis, unless management intends to liquidate the Bank, cease its activities or when it has no other viable alternative than liquidation or termination of activities.

Those charged with governance are responsible for overseeing the preparation of the Bank's financial statements.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements do not contain material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our

opinion. Reasonable assurance is a high degree of assurance, but is not a guarantee that an audit conducted in accordance with ISA 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 audit in accordance with ISA, we exercise professional judgment and professional skepticism during the audit. In addition, we do the following:

- Determine and evaluate the risks of material misstatement of the financial statements, whether due to fraud or error, plan and perform audit procedures that respond to such risks, and obtain audit evidence that reasonably and appropriately provides the basis for our opinion. The risk of not detecting a material misstatement from fraud is greater than the risk of not detecting a material misstatement from an error, as fraud may include collusion, forgery, omission, misrepresentation, or circumvention of internal controls;
- ✓ Obtain an understanding of relevant internal audit controls 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 controls.
- ✓ Assess the appropriateness of the accounting policies applied and the reasonableness of accounting estimates and related disclosures made by management.
- ✓ Conclude on the appropriateness of management's application of the accounting basis for continuing operations and, based on the audit evidence obtained, conclude whether a material uncertainty exists, with respect to events or conditions that may cast doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we need to refer in our auditor's report to the relevant disclosures in the financial statements or, if such disclosures are inadequate, 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 affect the continuing operations of the Bank.
- ✓ evaluate the presentation of the financial statements as a whole, their structure and content, including disclosures, and whether the financial statements present underlying transactions and events in such a way that they are presented fairly.

We communicate with those charged with governance, bringing to their attention, among other things, information about the planned scope and timing of the audit, as well as significant observations on the results of the audit, including significant deficiencies in the internal control system that we identify during the audit process.

We also provide those charged with governance with a statement that we have complied with all relevant ethical requirements for independence and have kept them informed of all relationships and other matters that could reasonably be considered to affect the independence of the auditor, and where appropriate about appropriate precautions.

#### ***Reporting on other legal and regulatory requirement***

In accordance with the Regulation on the minimum requirements for external audit of banks and other non-banking financial and credit organizations licensed by the National Bank of the Kyrgyz Republic, approved by the Resolution of the Board of the National Bank of the Kyrgyz Republic dated 15 June 2017 No. 2017-II-12/25-2-(HIIA) when examining material aspects, we performed the following audit procedures:

- ✓ compliance of accounting records and reflection of operations in financial statements with the requirements established by the legislation of the Kyrgyz Republic;

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- ✓ organization of lending activities: the existence of a credit policy; procedures for reviewing loan applications; proper management of credit files (dossier) of borrowers; monitoring the condition and quality of assets; procedures for classifying assets and assessing the adequacy of reserves to cover potential outgoings and losses;
- ✓ organization of internal control: the procedure for making decisions on credit and financial transactions; availability and compliance with regulations on structural divisions and job descriptions; control over the reflection of transactions in accounting and the preparation of reliable reports;
- ✓ compliance of internal procedures and policies with the legislation of the Kyrgyz Republic;
- ✓ compliance with the requirements of the legislation of the Kyrgyz Republic, including regulatory legal acts of the National Bank;
- ✓ evaluation of risk management quality.

*The results of our review are set out below:*

In terms of assessing the identified risks and their impact on the financial statements, on the Bank's strategy, and related commercial risks, we found that:

- The Bank has developed internal documents that establish methods for identifying and managing risks, credit, operational, market, interest rate, legal risks, risks of loss of liquidity and risks of loss of business reputation, and conducting stress testing.
  - The Bank has developed a risk reporting system prepared on a periodic and consistent basis by the risk manager. The Bank's Board of Directors periodically discusses reports prepared by the Risk Management Service, the Internal Audit Service and the Compliance Control Service.
  - Disclosures to the financial statements on risk management are presented in accordance with IFRS 7 Financial Instruments: Disclosures in Note 34,
  - The Bank's strategy includes the impact of the Bank's risks on future activities.
- ✓ With regard to the issue of compliance of the accounting and classification of the Bank's assets with the legislation of the Kyrgyz Republic, the regulatory requirements of the National Bank, the accounting policies and procedures of the Bank, we carried out the following procedures:
- The activities of the Credit Committee are carried out in accordance with the Credit Policy. The Credit Committee considers and makes a decision on issuing a loan or refusing to issue a loan in the presence of significant risks, as well as on restructuring loans;
  - The credit policy establishes the basic requirements for considering the borrower's application for lending, and approving the decision to issue a loan. The procedures contain a detailed description of the procedures carried out by the Bank's employees, the procedure for compiling and approving documents;
  - Analysis of the loan portfolio and selective verification of credit files showed that the Bank exercises control (monitoring) over the timeliness of repayment of the loan, but the results of which are compiled monitoring reports;
  - In relation to problem loans, a set of measures is carried out in accordance with the Credit Policy;
  - Assets are classified in accordance with the requirements of IFRS 9 Financial Instruments.
  - Valuation of property accepted as collateral is carried out by the Bank's employees in accordance with internal rules and procedures;
  - On a periodic basis, the Bank reconciles the balances on correspondent accounts with statements of correspondent banks;
  - In order to confirm the balances as of 31 December 2019, the auditors carried out the procedures for requests from correspondent banks, borrowers, depositors and creditors, as well as from the National Bank of the Kyrgyz Republic;

- Accounting for investments in securities is carried out in accordance with the accounting policy. The investment policy establishes approaches to identifying and managing risks associated with investment instruments. Securities disclosures are presented in Note 10 to the financial statements.
- ✓ With regard to the issue of accounting and disclosure of transactions with affiliates and related parties, we noted that transactions with these persons are made in accordance with the requirements of the National Bank of the Kyrgyz Republic, internal policies and regulations. Transactions with affiliates are disclosed in accordance with IAS 24 Related Party Transactions. In order to verify transactions with these persons, we received a list of related persons, and selectively checked credit and deposit transactions, reconciled the disclosures to the financial statements with accounting data.
- ✓ In terms of assessing the adequacy of the Bank's management structure to the types and volumes of operations performed by the Bank, and the organization of risk management in the Bank, we found that:
  - In Banks, the management structure corresponds to the types and volumes of operations performed by the Bank. Decisions on the main areas of activity are made in the Committees, whose work is carried out in accordance with the Regulations. The duties of employees are carried out in accordance with the Job Descriptions and Regulations on departments;
  - The internal control system includes the Risk Management Service, the Internal Audit Service and the Compliance Control Service, as well as other structural units within their powers and control procedures described in the regulations and regulations.
  - The Internal Audit Service is accountable to the Audit Committee and the Board of Directors,
  - The Risk Management Service and the Compliance Control Service monitor and assess risks, participate in the development and optimization of business processes and banking procedures in order to minimize risks.
  - The Bank has organized a system for the exchange of information between departments and a system for preparing information for management bodies, allowing timely decision-making.

**LLC “HLB Marka Audit”**

*License reg. No. 0146 dated 13 November 2018, issued by the State Service for the Financial Market Regulation and Supervision under the Government of the Kyrgyz Republic*

*Registration certificate No. 4850-3301-000 of the Ministry of Justice of the Kyrgyz Republic dated 11 October 2019*

*Kyrgyz Republic, Bishkek*

*38 Professor Zima street, tel./fax (0312) 32 05 75*

*/signed/*

**Asylbekova A.M., Director**

*Auditor's Qualification Certificate series AD No.0012, reg.No.0461 dd.07 August 2019*

*/signed/*

**Kobritseva N.N., Auditor, head of audit**

*Auditor's Qualification Certificate No.00047 dd.12 June 2004, CIPA No.0000492 dd.15.04.2011*

*DipIFR No.1709119 dd.10.12.2009*

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**5 March 2020**

**STATEMENT OF MANAGEMENT’S RESPONSIBILITY FOR THE PREPARATION AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS**

The following statement is made in order to separate the responsibilities of the auditors and management in relation to the financial statements of OJSC “FinanceCreditBank” for the year ended 31 December 2019.

The attached reports were prepared by the management of OJSC “FinanceCreditBank” (hereinafter referred to as the Bank). The Bank's management acknowledges its responsibility for the preparation and fair presentation of financial statements that reflect in all material respects the financial condition, results of operations, cash flows and changes in equity, including adequate disclosures, for the year ended 31 December 2019 in accordance with International Standards Financial Reporting (IFRS).

In preparing the financial statements, management is responsible for selecting appropriate accounting principles and applying them consistently, applying reasonable and sound estimates and calculations, complying with IFRS and disclosing all material deviations from IFRS in the notes to the financial statements, and preparing the financial statements on the assumption that the Bank will continue as a going concern for the foreseeable future unless such an assumption is inappropriate.

Management is also responsible for designing, implementing and maintaining an effective and sound system of internal controls at the Bank, maintaining an accounting system that enables, at any time and with reasonable accuracy, information on the financial position of the Bank and ensures that the financial statements comply with IFRS, taking measures within its competence to ensure the safety of the Bank's assets, and to detect and prevent fraud, errors and other abuses.

These financial statements for the year ended 31 December 2019 were approved by the Bank's management on 5 March 2020.

On behalf of the Bank Management Board

/signed/

**Bukuev K.D.**  
**Chairman of the Board**  
**OJSC “FinanceCreditBank”**  
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**5 March 2020**

**Statement of financial position**

As of 31 December 2019

(Amounts in tables are expressed in thousands of Kyrgyz soms)

	Note	31 December 2019	31 December 2018 (recalculated)
<b>Assets</b>			
Cash and cash equivalents	6	359,346	353,45
Funds in banks	7	187,567	74,018
Other financial assets at fair value through profit or loss	8	112	-
Demands under money transfer systems	9	3,516	9,376
Debt securities	10	68,172	69,880
Operations under REPO agreements			37,29
Client loans	11	1,252,620	941,862
Assets held for sale	12	47,564	53,011
Fixed assets and intangible assets	13	61,884	69,38
Assets in the form of a right of use	14	22,108	
Other assets	15	23,146	17,46
<b>Total assets</b>		<b>2,026,035</b>	<b>1,625,745</b>
<b>Liabilities and Equity</b>			
<b>Liabilities</b>			
Other financial liabilities at fair value through profit or loss		-	44
Bank funds	16	29,765	24,764
Client funds	17	1,167,058	877,80
Government Accounts	18	100,000	-
Other borrowings	19	35,368	8,250
Rental obligations	14	23,553	-
Obligations under money transfer systems	20	12,930	16,548
Reserves	21	10,512	-
Deferred income tax liability	22	859	1673
Other liabilities	23	14,931	21,842
<b>Total liabilities</b>		<b>1,394,976</b>	<b>950,922</b>
<b>Capital</b>			
Authorized capital	24	710,000	710,000
Retained earnings		(78,941)	(35,177)
<b>Total capital</b>		<b>631,059</b>	<b>674,823</b>
<b>Total liabilities and equity</b>		<b>2,026,035</b>	<b>1,625,745</b>

/signed/

**Bukuev K.D.**  
**Chairman of the Board**

/signed/

**Dzhusupova M.D.**  
**Chief Accountant**

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**Statement of profit or loss and other comprehensive income**

As of 31 December 2019

(Amounts in tables are expressed in thousands of Kyrgyz soms)

	Note	2019	2018 (recalculated)
Interest income	25	209,051	176,611
Interest expenses	25	(65,126)	(47,414)
<b>Net interest income before provision for impairment</b>		<b>143,925</b>	<b>129,197</b>
(Formation)/recovery of provision for impairment of assets on which interest is accrued	26	(2,785)	3,697
<b>Net interest income</b>		<b>141,140</b>	<b>132,894</b>
Commission income	27	35,205	51,739
Commission expenses	27	(3,222)	(5,707)
<b>Net fee and commission income</b>		<b>31,983</b>	<b>46,032</b>
Net income / (loss) from foreign exchange transactions		26,787	27,364
Net other income	29	1,355	(1,863)
(Formation)/recovery of provision for impairment of other assets	26	(46,292)	(14,972)
(Formation)/recovery of provision for contingent liabilities	22	(10,512)	231
<b>Net non-interest income</b>		<b>3,321</b>	<b>56,792</b>
Operating expenses	30	(188,351)	(182,556)
<b>Profit before income tax</b>		<b>(43,890)</b>	<b>7,130</b>
Income tax expense	22	126	767
<b>Profit per year</b>		<b>(43,764)</b>	<b>7,897</b>
Other comprehensive income		-	-
<b>Total comprehensive income / (loss)</b>		<b>(43,764)</b>	<b>7,897</b>

/signed/

**Bukuev K.D.**

**Chairman of the Board**

/signed/

**Dzhusupova M.D.**

**Chief Accountant**

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**Statement of Cash Flows**

As of 31 December 2019

(Amounts in tables are expressed in thousands of Kyrgyz soms)

	Note	2019	2018 (recalculated)
<b>Cash from operating activities:</b>			
Interest received		207,717	169,651
Interest paid		(61,408)	(47,414)
Profit/loss received from foreign exchange trading operations		27,393	28,644
Commissions received		35,205	51,739
Commissions paid		(3,222)	(5,707)
Other operating income		1,355	(2,343)
Operating expenses		(188,351)	(172,813)
<b>Cash from operating activities before changes in operating assets and liabilities</b>		<b>18,689</b>	<b>21,757</b>
<b>Changes in operating assets and liabilities:</b>			
Net increase in loans to clients		(309,937)	(123,202)
Net increase in accounts and deposits with banks		37,292	(7,677)
Net increase in client funds		382,327	49,651
Net increase in other assets less other liabilities		(3,286)	57,598
<b>Net cash from operating activities</b>		<b>125,085</b>	<b>(1,873)</b>
<b>Cash from investing activities:</b>			
Proceeds from redemption of securities		666,840	24,317
Acquisitions of securities		(662,870)	(65,939)
Acquisition of fixed assets		(4,323)	(13,146)
<b>Net cash from investing activities</b>		<b>(3531)</b>	<b>(54,768)</b>
<b>Cash from financing activities:</b>			
Owner contributions	24		160,000
Credits and loans received	19	30,167	8,226
Payments on loans received	19	(3,108)	-
Rental payments	14	(14,137)	-
<b>Net cash from financing activities</b>		<b>12,922</b>	<b>168,226</b>
Impact of changes in exchange rates		(606)	(1,281)
<b>Net change in cash position</b>		<b>137,048</b>	<b>110,304</b>
<b>Cash and cash equivalents at the beginning of the reporting period</b>	<b>6,7,10</b>	<b>479,325</b>	<b>369,021</b>
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>6,7,10</b>	<b>616,373</b>	<b>479,325</b>

/signed/

**Bukuev K.D.**  
Chairman of the Board

/signed/

**Dzhusupova M.D.**  
Chief Accountant

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**Statement of changes in equity**

As of 31 December 2019

(Amounts in tables are expressed in thousands of Kyrgyz soms)

	<b>Authorized capital</b>	<b>Retained earnings</b>	<b>Total</b>
<b>Balance at 31 December 2017</b>	<b>550,000</b>	<b>(80,934)</b>	<b>469,066</b>
Error correction	-	3,975	<b>3,975</b>
Impact of the entry into force of IFRS 9		33,885	33,885
<b>Restated balance as of 1 January 2018</b>	<b>550,000</b>	<b>(43,074)</b>	<b>506,926</b>
Issue of shares	160,000	-	160,000
Total profit for 2018	-	7,897	7,897
<b>Balance at 31 December 2018 (recalculated)</b>	<b>710,000</b>	<b>(35,177)</b>	<b>674,823</b>
Total profit for 2019		(43,764)	(43,764)
<b>Balance at 31 December 2019</b>	<b>710,000</b>	<b>(78,941)</b>	<b>631,059</b>

/signed/

**Bukuev K.D.**  
**Chairman of the Board**

/signed/

**Dzhusupova M.D.**  
**Chief Accountant**

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