

KYRGYZAUDIT

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Audit and Advisory Services**

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**To the Shareholders of
Open Joint Stock Company
"FinanceCreditBank KAB"**

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the financial statements of OJSC "FinanceCreditBank", which comprise the statement of comprehensive income, the statement of financial position as at 31 December 2021, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of the 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 2021, 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, the auditors of the auditing and advisory firm "Kyrgyzaudit" (License No. 0030 of series GK, issued by the State Commission on the financial reporting and auditing standards under the Government of the Kyrgyz Republic dated 16.02.2005), have audited 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)* 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.

Provision for expected credit losses on loans to customers

The Bank creates a provision for expected credit losses (ECL) in accordance with the requirements of IFRS 9 "Financial Instruments" to the extent of recognition and measurement of expected credit losses on the loan portfolio.

We have reviewed the procedures and policies of the measurement of the expected credit losses, as well as the working process for the creation of a provision for the expected credit losses by the Bank's employees, for compliance with the requirements of IFRS 9 "Financial Instruments".

On drawdown of loans issued to customers, we observed the correctness of the stage classification by the Bank by analyzing financial and non-financial information, as well as the assumptions and professional judgments applied by the Bank.

We observed and evaluated the process of testing of loans issued to customers and the operational effectiveness of controls in relation to the timely allocation of loans for strata.

The Bank measures its expected credit losses according to IFRS 9 "Financial Instruments" based on the assumption concerning the significant increase of credit risk when payments under the loan agreement are overdue by the customer for more than 30 days. The Bank's ECL measurement system provides for the gradation of all customers by 6 ratings (based on the scoring system), which in its turn are classified by qualitative and quantitative characteristics, divided into 6 categories, the Bank takes into account the credit-adjusted effective interest rate. The bank has 3 types of probability of default (historical data). When determining the forecast probability of default, the Bank takes into account the credit-adjusted effective interest rate, and also takes into account macroeconomic data (GDP, currency exchange rate, unemployment rate, and consumer price index). The Bank does not group loans, but assesses each customer individually, while the probability of default is grouped into groups.

On drawdown of loans issued to customers, we estimate the correctness of the input data used in PD calculating (estimate of the probability of default) and the size of loss in case of default ("LGD"), thus, the expected credit losses as of 31.12.21 are 50,761 thousand KGS.

We believe that the calculations used to determine the level of expected credit losses and estimate of the probability of default comply with the requirements of IFRS 9 "Financial Instruments".

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 than liquidation or termination of activities.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements 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 International Standards on Auditing, 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 the risk of not detecting a material misstatement from an error, as fraud may involve collusion, forgery, omission, misrepresentations, or the override of internal control;
- obtain an understanding of the internal control system 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 system;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures prepared 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 presentation of the financial statements as a whole, its structure and content, including the disclosures, and whether the financial statements present 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 significant deficiencies in the internal control system that we identify during the audit.

We also provide those charged with governance with a statement that we have complied with all relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's 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. We describe these matters in our auditor's 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 communication.

General Director
CJSC AAF "Kyrgyzaudit"

/signed/

E.V.Lednev

/Seal affixed: Kyrgyz Republic Bishkek city Audit Advisory Firm "Kyrgyzaudit"/

Bishkek c.
04.03.2022

REPORT ON THE FULFILLMENT OF THE REQUIREMENTS OF THE NATIONAL BANK (NBKR) TO CONDUCT AN EXTERNAL AUDIT OF BANKS AND OTHER NON-BANK ORGANIZATIONS LICENSED BY THE NBKR IN THE KYRGYZ REPUBLIC

Management of the Bank is responsible for the implementation of the regulatory requirements established by the NBKR and for compliance of internal control and organization of the Bank's risk management systems with the requirements set by the NBKR.

In accordance with the Regulation "On Minimum Requirements for the External Audit of Banks and Other Non-Banking Organizations Licensed by the NBKR", approved by the Resolution of the NBKR Board No. 2017-П-12/25-2-(НПА) dated June 15, 2017, we have included the following procedures for checking:

1. In terms of the Bank's compliance with the statutory requirements established by the NBKR: as of December 31, 2021, the values of the Bank's statutory requirements were within the limits established by the NBKR, with the exception of equity (regulatory capital).

2. In terms of compliance of the internal control and organization of the Bank's risk management systems with the requirements established by the NBKR for such systems; we draw attention to the assessment of the identified risks and their impact on the financial statements, on the Bank's strategy, and related commercial risks in the following order:

- The Bank has developed internal documents that establish methods for identifying and managing risks, credit, operational, market, interest rate, legal risks, liquidity risks and business reputation risks, and conducting stress testing.
- The Bank has developed a risk reporting system prepared on a periodic and consistent basis by the risk manager. The Board of Directors reviews the reports prepared by the risk manager on a monthly basis.
- Disclosure to the financial statements on risk management are presented in Note 34 "Risk Management",
- The Bank's strategy includes the impact of the Bank's risks on future activities; the Anti-Crisis Plan has possible banking risks, scenarios and strategies in case of critical situations, as well as forecast data of the bank's financial indicators for the next year.

3. With respect to the compliance of the Bank's accounting and classification of assets with legislation of the Kyrgyz Republic, the regulatory requirements of the National Bank of the Kyrgyz Republic, the accounting policy and procedures of the Bank, the following procedures were carried out:

- The loan approval or loan refusal in the presence of significant risks, as well as the loan restructuring, is made in accordance with the current Procedures of the Bank;
- The loan policy establishes the basic requirements for considering a borrower's loan application and approving a loan. The procedures contain a description of the procedures carried out by the Bank's employees, the procedure for preparation and approval of documents;
- Analysis of the loan portfolio and random check of loan files showed that the Bank exercises control (monitoring) over the timeliness of repayment of the loan, based on the results of which monitoring reports are made;
- In relation to problem loans, measures are taken in accordance with the Loan Policy. The classification of assets is carried out in accordance with the "Regulations on Assets Classification and Relevant Deductions to LLP", approved by the Resolution No.18/3 of the NBKR Board dated 21.07.2004 (as amended on 20.06.2018). The Bank simultaneously calculates expected credit losses (ECL) in accordance with IFRS 9 "Financial Instruments". The results of asset classification carried out according to the above two methods were analyzed. The Bank applied the "Provisional rules for the classification of assets and relevant deductions to LLP" (Resolution No. 2020-П-12 / 25-7-(НПА) of the Board of the National Bank of the Kyrgyz Republic dated 29.04.20, No. 2020- П-33/35-1 as amended on 17.06.20.), which determine the provisional asset classification procedure related to the COVID-19 pandemic."
- Appraisal of property accepted as collateral is carried out by the Bank's employees in accordance with internal rules and procedures;
- The Bank performs reconciliation of balances on correspondent accounts with the correspondent bank statements on a periodic basis;

The accompanying comments on pages 13 - 54 are an integral part of this financial statement

- In order to confirm the balances as of December 31, 2021, the auditors carried out the request procedures from correspondent banks, 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.

4. With respect to the matter of accounting and disclosure of operations with affiliates and related parties we noted that operations with those persons are made in accordance with the requirements of the National Bank of the Kyrgyz Republic, internal policies and regulations. Operations with affiliates are disclosed in accordance with IFRS IAS 31 "Operations with Related Parties".

5. 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 identified that:

- The Bank's management structure corresponds to the types and volumes of operations performed by the Bank. Decisions on the main areas of activity are made by the Management Board of the Bank in agreement with the Board of Directors. The duties of employees are carried out in accordance with the Employment Position Instruction and Regulations on departments;
- The internal control system includes the risk manager and the head of the Compliance Service, as well as other subdivisions within their powers and control procedures described in the regulations and rules.
- The Risk Manager and the Head of the Compliance 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, which makes it possible to make decisions in a timely manner.

STATEMENT OF COMPREHENSIVE INCOME (calculated in accordance with the requirements of IFRS9)
OJSC "FinanceCreditBank"
For the period from 01 January to 31 December 2021
(amount in thousands of Kyrgyz som)

	Notes	31 December 2021	31 December 2020
Interest income	6	192 486	216 164
Interest expenses	6	(69 710)	(79 615)
Net interest income before creation of provision for impairment losses		122 775	136 549
<i>Recovery/(creation) of provision of (ECL) for impairment on interest bearing assets</i>	6	(5 635)	(25 272)
Net interest income	6	117 140	111 277
Commission income	9	32 078	28 196
Commission expenses	9	(2 619)	(2 033)
Net commission income		29 459	26 163
Net income/loss on foreign currency transactions	8	25 181	24 078
Net other income	10	(2 205)	54
<i>(Creation)/recovery of provision for impairment losses on other assets</i>	7	9 005	10 544
Net non-interest income		31 981	34 676
Total income		178 580	172 116
Operational expenses	11	(180 817)	(174 741)
Profit before income tax		(2 238)	(2 625)
Income tax expense/income	12	(399)	(79)
Profit/(Loss) for the year		(2 637)*	(2 704)*
Other comprehensive income/(loss)		0	0
Total comprehensive income/(loss)		(2 637)	(2 704)
Basic earnings (loss) per share (in KGS per share)		(0,0037)	(0,0038)

* according to the requirements of the NBKR, the net profit of the Bank as of 31.12.2021 and 31.12.2020 amounted to (7,307) thousand KGS and 12,764 thousand KGS.

On behalf of the Management:

/signed/

Alchiev E.K.
Chairman of the Board,
OJSC "FinanceCreditBank"

Seal affixed

/signed/

Matkabylova N.A.
Chief accountant
OJSC "FinanceCreditBank"

STATEMENT OF FINANCIAL POSITION (calculated in accordance with the requirements of IFRS9)**OJSC "FinanceCreditBank"****For the period from 01 January to 31 December 2021**

(amount in thousands of Kyrgyz som)

Assets	Notes	31 December 2021	31 December 2020
Cash and cash equivalents	13	171 934	165 121
Accounts and deposits with the National Bank of KR	13	58 607	68 612
Accounts and deposits with the banks, net	13,14	138 132	104 729
Financial instruments at fair value through profit/loss	16	3 626	28 420
Investments in non-consolidated financial institutions	17	20	20
<i>Loans to customers</i>	15	1 299 362	1 234 477
<i>Expected credit losses (ECL)</i>	15	(50 761)*	(45 125)*
Loans to customers, net	15	1 248 601	1 189 352
Non-current assets held for sale	19	39 017	37 454
Premises, equipment and intangible assets	18	59 232	67 974
Right-of-use assets	21	8 399	10 438
Other financial assets at fair value through profit/loss	27	0	241
Requirements for money transfer systems	22	45 950	13 316
Deferred tax asset (tax order)	12	0	588
Other assets, net	20	12 637	15 962
Total assets:		1 786 155	1 702 227
Liabilities			
Funds due to banks and financial and lending institutions	23	31 861	28 613
Customer funds	24	1 013 126	928 362
Funds of public institutions	25	61 905	69 359
Lease liabilities	21	9 139	11 640
Liabilities for money transfer systems	26	17 026	14 859
Provision for conditional liabilities	28	10 665	10 869
Other deferred liabilities		292	-
Other financial liabilities measured at fair value through comprehensive income	27	45	-
Other liabilities	28	16 377	10 170
Total liabilities		1 160 437	1 073 872
Equity			
Equity capital	29	710 000	710 000
Retained profit/(loss)		(84 282) **	(81 645) **
Total equity		625 718***	628 355***
Total liabilities and equity:		1 786 155	1 702 227

*according to the requirements of the NBKR, provisions for impairment of financial assets (loans) in 2021 amounted to (57,409) thousand KGS and in 2020 - (46,472) thousand KGS;

** retained profit as of 31.12.2021 amounted to (89,525) thousand KGS and as of 31.12.2020 amounted to (82,219) thousand KGS;

***Equity of the Bank as of 31.12.2021 amounted to 620,475 thousand KGS and as of 31.12.2020 amounted to 627,781 thousand KGS.

On behalf of the Management:

/signed/

Alchiev E.K.
Chairman of the Board,
OJSC "FinanceCreditBank"

/signed/

Matkabylova N.A.
Chief accountant
OJSC "FinanceCreditBank"

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STATEMENT OF CASH FLOW (calculated in accordance with the requirements of IFRS9)

OJSC "FinanceCreditBank"

For the period from 01 January to 31 December 2021

(amount in thousands of Kyrgyz som)

Expenditure heading	31 December 2021	31 December 2020
Cash flow from operating activities:		
Interest, income of service and fees received	229 548	200 913
Interest, expenses of service and fees paid	(53 669)	(81 594)
Foreign exchange income	84 115	25 428
Administrative expenses	(190 669)	(168 308)
Cash flow from operating activities before changes in operating assets and liabilities:	69 325	(23 561)
Increase (decrease) in operating assets:		
Loans to customers	103 083	85 714
Other assets	22 071	0
Loans and funds to credit institutions	163	0
Non-current assets held for sale	(17 477)	0
Increase (decrease) in operating liabilities:		
Customer funds	(115 237)	(341 630)
Funds of credit institutions	0	0
Other liabilities	(28 433)	5 077
Net cash inflow/outflow from operating activities	33 494	(274 400)
Cash flow from investing activities:		
Purchase of securities	(24 814)	(671 662)
Sale, redemption of securities	24 963	689 145
Purchase of fixed assets	(1 962)	(16 090)
Sale of fixed assets	0	0
Net cash from investing activities	(1 813)	1 393
Issue of shares	0	0
Additional equity contributed by shareholders	0	0
Operations under repurchase agreements	0	35 500
Loans received	(1 005)	(1 909)
Payments on loans received	(7 243)	0
Lease payments	(13 796)	(13 752)
Receipts of other borrowed funds	0	0
Net cash from financing activities	(22 044)	19 839
Net increase (decrease) in cash and cash equivalents	9 638	(253 168)
Impact of exchange rate fluctuations	840	(2 758)
Cash and cash equivalents at the beginning of the period	360 447	616 373
Cash and cash equivalents at the end of the period	370 925	360 447

On behalf of the Management:

/signed/

Alchiev E.K.
Chairman of the Board,
OJSC "FinanceCreditBank"

Seal affixed

/signed/

Matkabylova N.A.
Chief accountant
OJSC "FinanceCreditBank"

STATEMENT OF CHANGES IN EQUITY
OJSC "FinanceCreditBank"
For the period from 01 January to 31 December 2021
(amount in thousands of Kyrgyz som)

	Equity capital	retained profit/loss	Total equity
As of 31 December 2019	710 000	(78 941)	631 059
Increase of equity capital			
Net profit/(loss) for the reporting year		(2 704)	(2 704)
As of December 31, 2020	710 000	(81 645)	628 355
Increase of equity capital			
Net profit/(loss) for the reporting year		(2 637)	(2 637)
As of December 31, 2021	710 000	(84 282)	625 718

On behalf of the Management:

/signed/

Alchiev E.K.
Chairman of the Board,
OJSC "FinanceCreditBank"

/signed/

Matkabylova N.A.
Chief accountant
OJSC "FinanceCreditBank"

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