



Коммерческий банк
КЫРГЫЗСТАН

2016

16

ЖЫЛДЫК БАЯНДАМА
ГODOBOY OTЧET
ANNUAL REPORT

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**COVERAGE
OF ALL
REGIONS OF
THE COUNTRY!
MORE THAN
100 BRANCHES
AND CASH
OUTLETS!**

MORE THAN

100

BRANCHES AND

CASH OUTLETS!



CHUI
REGION
13 BRANCHES
17 CASH OUTLETS
ISSUED LOANS
FOR AMOUNT
MILLION KGS **3322**
6965 DEPOSIT BASE
MILLION KGS

OSH
REGION
6 BRANCHES
16 CASH OUTLETS
ISSUED LOANS
FOR AMOUNT
MILLION KGS **877**
877 DEPOSIT BASE
MILLION KGS

JALAL-ABAD
REGION
7 BRANCHES
8 CASH OUTLETS
ISSUED LOANS
FOR AMOUNT
MILLION KGS **772**
663 DEPOSIT BASE
MILLION KGS

ISSYK- KUL
REGION
3 BRANCHES
5 CASH OUTLETS
ISSUED LOANS
FOR AMOUNT
MILLION KGS **270**
285 DEPOSIT BASE
MILLION KGS

BATKEN
REGION
2 BRANCHES
5 CASH OUTLETS
ISSUED LOANS
FOR AMOUNT
MILLION KGS **184**
158 DEPOSIT BASE
MILLION KGS

NARYN
REGION
3 BRANCHES
1 CASH OUTLET
ISSUED LOANS
FOR AMOUNT
MILLION KGS **108**
81 DEPOSIT BASE
MILLION KGS

TALAS
REGION
1 BRANCH
2 CASH OUTLETS
ISSUED LOANS
FOR AMOUNT
MILLION KGS **133**
75 DEPOSIT BASE
MILLION KGS

Message from chairman of executive board

Dear Clients and Partners! Dear Friends!



We would like to bring to your attention the annual report on our Bank's activity for 2016.

The past year was marked by global changes in the world's financial market, which affected all and us as well. Despite the difficult times, we have deliberately continued to work on modernization and improvement of the Bank's technical platform, focusing on the new technologies of the banking market.

We have made the great emphasis on the development of remote banking service channels, continuing improvement of Internet and mobile banking technologies.

Considerable attention was paid to information security improvement, including information security quality by ISO international standards within the management system.

Lending still remains one of the main directions of our activity. In reporting year the Bank continued to develop its retail lending and successfully funded many projects of private entrepreneurs in different regions of the country.

In collaboration with international financial institutions, we have successfully continued cooperation on financing the agriculture. It should be noted that we also continue to participate in the financial support government programs for agricultural producers.

In 2016, a number of important agreements were signed with "Guarantee Fund" OJSC aimed to providing assistance to small and medium-sized businesses in the form of additional mortgage security to the Bank in order to obtain the necessary loan amount. We began to cooperate with the Russian-Kyrgyz Development Fund within the framework of providing a credit line for financing small and medium-sized businesses. We also cooperate successfully with "State Mortgage Company" OJSC, having issued mortgage loans in the amount of more than 0.5 billion soms within the framework of cooperation.

In conclusion it should be noted that these trends in terms of technical modernization, sustainable development and safety, information security and certainly enhancement of the customer service quality will definitely stay in the focus of our priorities, our mission and values!

Sincerely,
Nurdin ILEBAEV
CEO

Management

Board of Directors:

Chairman of the Board

Baktybek Tumonbaev

Deputy Chairman of the Board

Janybek Myrzabaev

Member of the Board

Gulzara Omurzakova

Member of the Board

Stanislav Karpovich

Member of the Board

Vladimir Nifadyev

Management Board:



CEO

Nurdin ILEBAEV



Deputy CEO

Jarkynbek Sagyndykov



Deputy CEO

Elena Djilkichieva



Deputy CEO

Aminat Grivtsova



Deputy CEO / Chief Accountant

Elmira Djenbaeva

Information about the Bank

"Commercial bank KYRGYZSTAN" OJSC dates back to January 1, 1988, as Kirkontora of Zhilsotsbank of the USSR, on which on November 6, 1990 the Bank was established, registered by the Ministry of Justice of the Kyrgyz Republic as AKB "Kyrgyzstan". In 2005 the Bank was reorganized into "AKB Kyrgyzstan" JSC, and since November 20, 2006, the Bank holds its current name - "Commercial bank KYRGYZSTAN".

Over the years we have established ourselves as one of the most stable and financially sustained banks in the Kyrgyz Republic. "Commercial bank KYRGYZSTAN" OJSC is one of the first commercial banks established in the country. In spite of all external circumstances, throughout the time, the bank has been worked successfully, confirming its status as the first private bank with the national capital, having long operational experience in the financial market of the republic and abroad.

The broad geography of the branch network consisting of 35 branches, 54 cash outlets and 16 of mobile cash outlets throughout the country which allows for quality service anywhere in the country.

The Bank serves such international cards like Visa, MasterCard, Zolotaya Korona and Elcart - national payment system card. At the moment, the Bank has a wide acquiring network – 177 ATMs and over 1,000 POS terminals across the country, serving 4 payment systems.

The Bank was the first one in the region having started emission and acquiring contactless cards Visa Pay Wave and MasterCard PayPass. The total number of issued bank cards at the end of 2016 exceeded 395,000 cards.

In 2016, the Bank completely switched over to the issue of Visa chip cards, thereby the cards of our Bank became more secure and card validity increased to 4 years. 3D Secure Verified by Visa service was implemented, which ensures the security of online shopping by the means of additional client identification.

Back in 2015, a project was launched between "Commercial bank KYRGYZSTAN" OJSC, "Interbank Processing Center" CJSC and the National Bank of the Kyrgyz Republic to organize the connections between the Node and IPC for reception and service peripherals of the Bank connected to the Bank Node, Elcart payment cards of the national payment system.

In the first quarter of 2016, the Bank successfully integrated with Elcart the national payment system and began servicing payment cards in the Bank terminal network, as well as emissions.

"Commercial bank KYRGYZSTAN" OJSC receives a worthy assessment from state bodies and international financial institutions, such as: International Development Association, the World Bank, IDB, KfW and others.

Our Bank is a member of such organizations as:

- "Union of Banks of Kyrgyzstan";
- "AmCham" (American Chamber of Commerce);
- "Deposits Protection Agency".

To serve the customers' trade turnover, working in the international area, the Bank has established correspondent relationships with banks in Europe, Asia and CIS.

Planning the development, we develop and implement modern technological solutions, which help to save our customers' time to have product offers always met their expectations.

Customer service and quality

For almost 30-year operation of our bank, we try to take into account the individual needs of each client and partner, paying special attention to the establishment of long-term relations, forming opportunities for friendly and mutually beneficial cooperation, cooperative welfare growth, striving to provide our customers with the best price-quality ratio so that many of our customers become good and faithful friends.

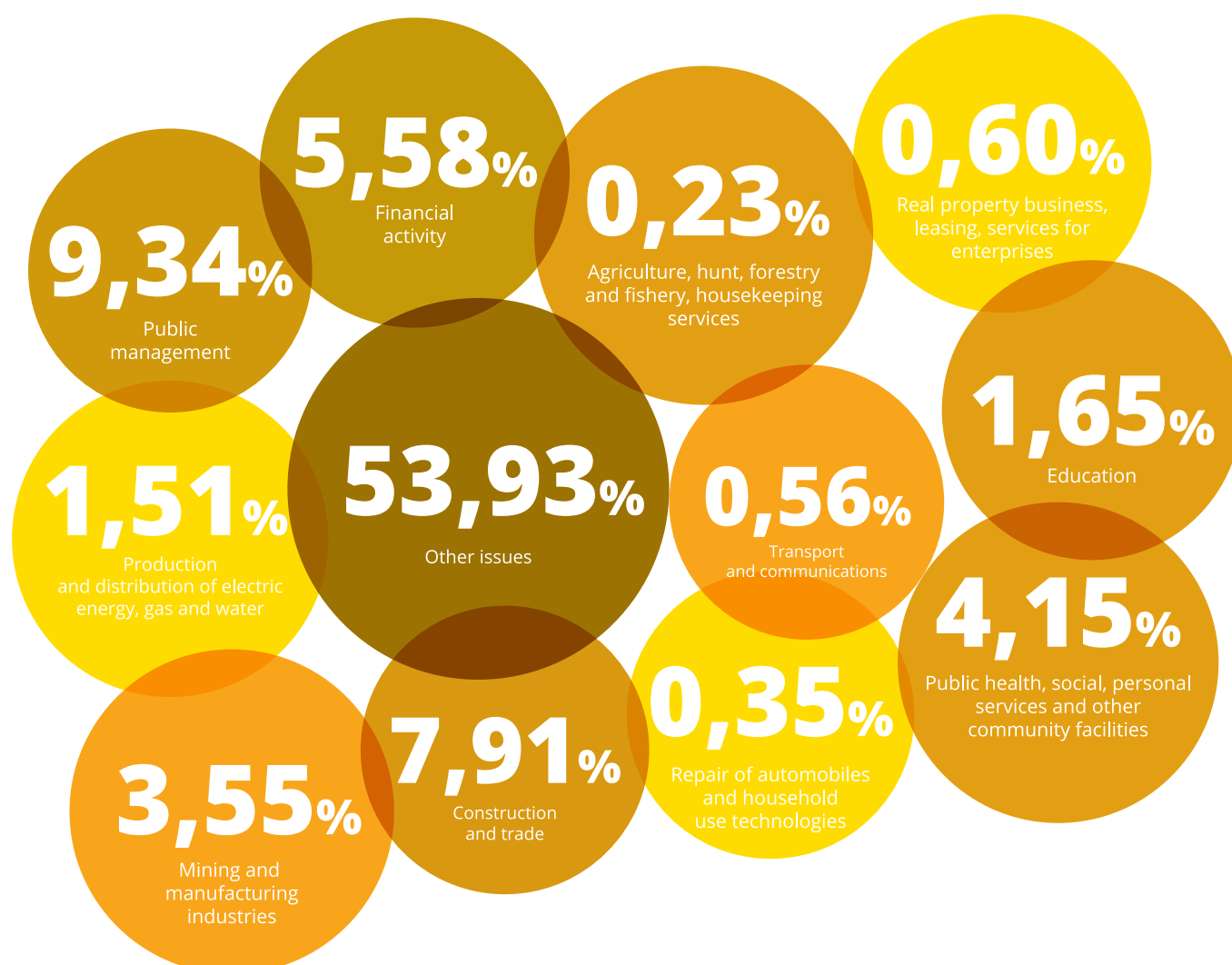
Currently when bank offers are almost the same by tariffs and assortment, therefore it is the quality to be the determining factor of customers' loyalty and it was the increase in the service level that was paid special attention to in 2016.

At the heart of customer relations, we adhere to such principles as quality, trust, convenience and the most important thing is reliability.

The Bank has many ways to get feedback from the clients - the contact center, website feedback, Bank's own sites in social networks, modern messengers. All these assist the Bank to improve its` service continuously.

During 2016 the Bank managed not only to strengthen its customer base, but also to attract new customers. Our customers operate in different segments of the economy.

Customer base by economic sectors

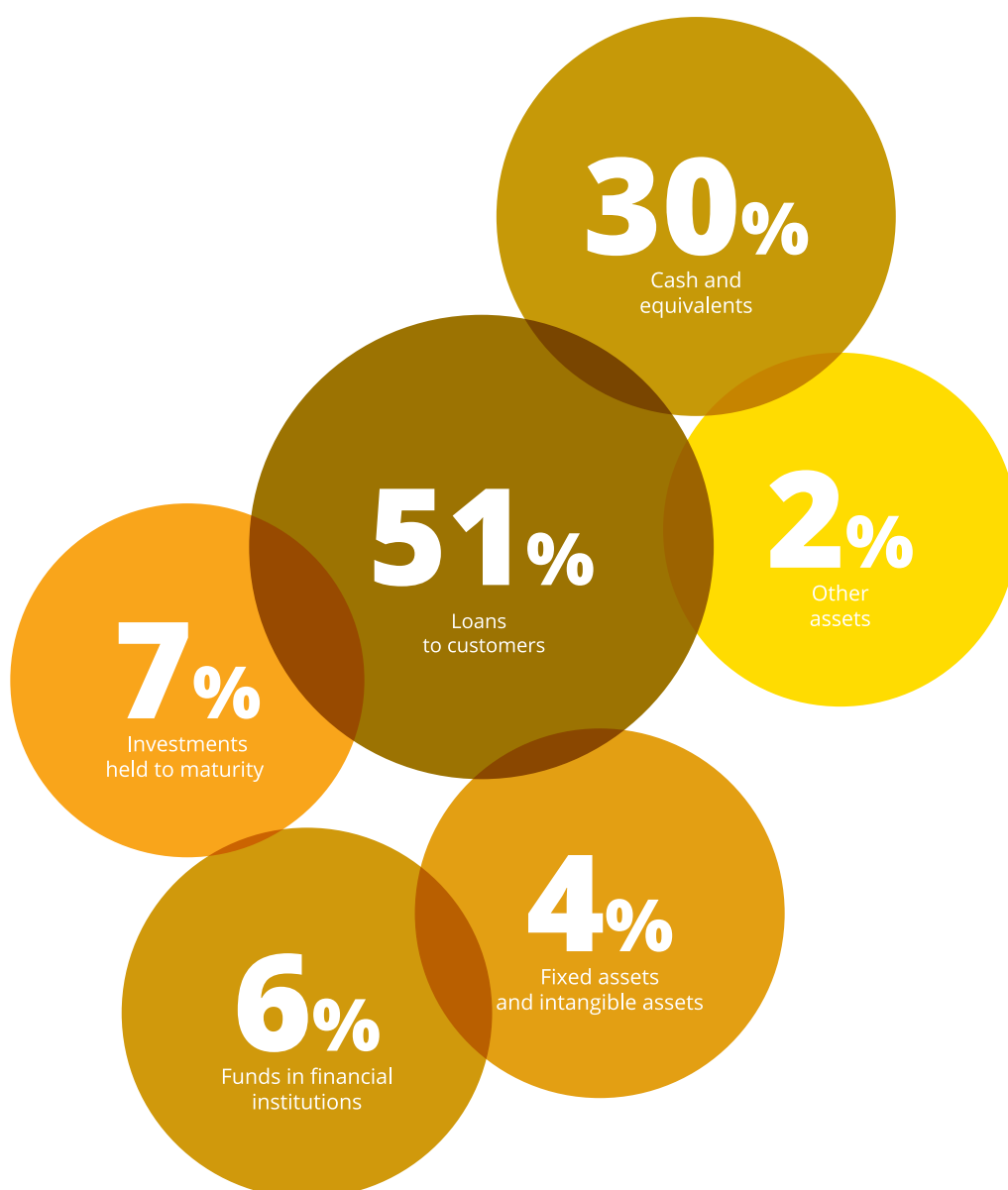


Financial indicators

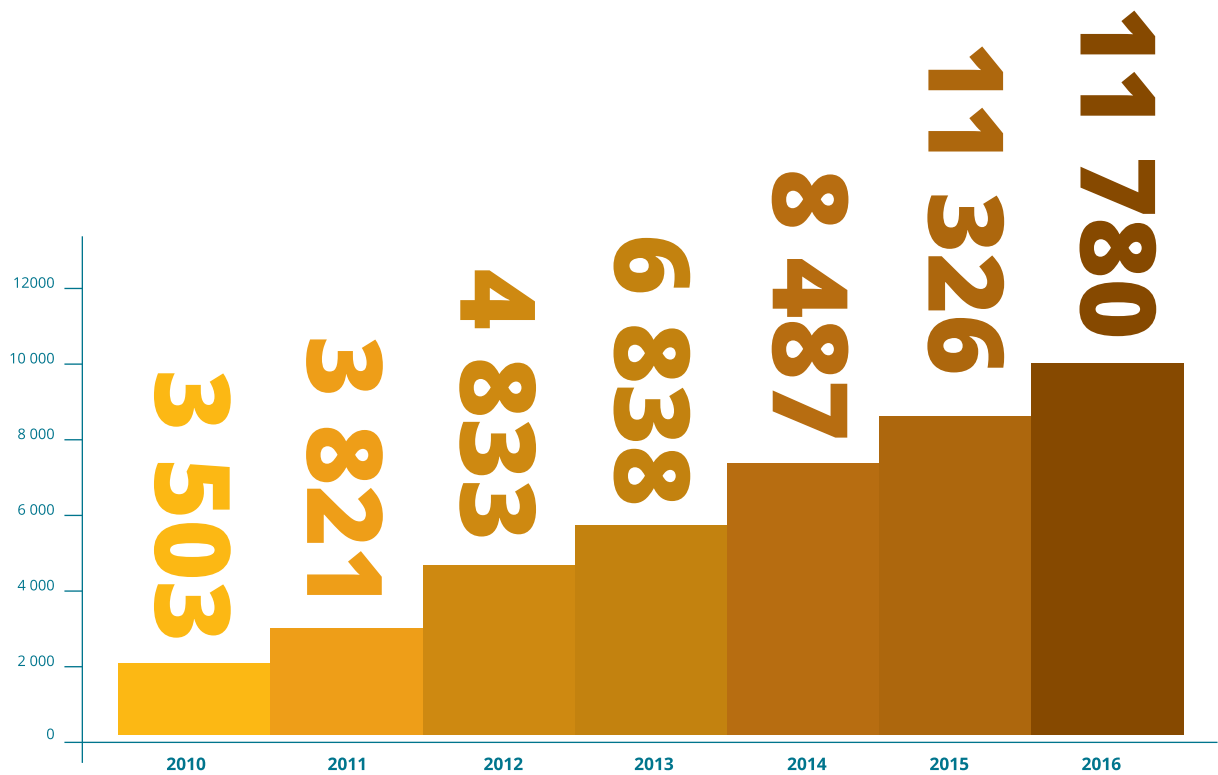
Assets

Dynamics of financial performance of "Commercial bank KYRGYZSTAN" OJSC witnesses the correctness of the selected positions, elaborated development strategies and guarantees its stability, sustainability and relevant revenue position. By the end of 2016 the volume of the bank's assets reached 11,780 million soms.

Asset profile

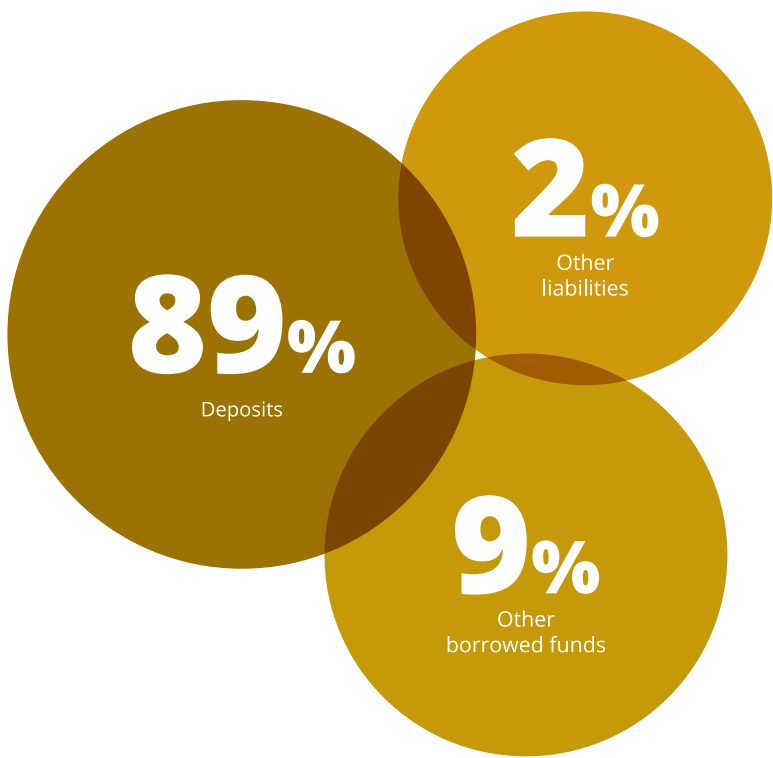


Assets dynamics (million KGS)

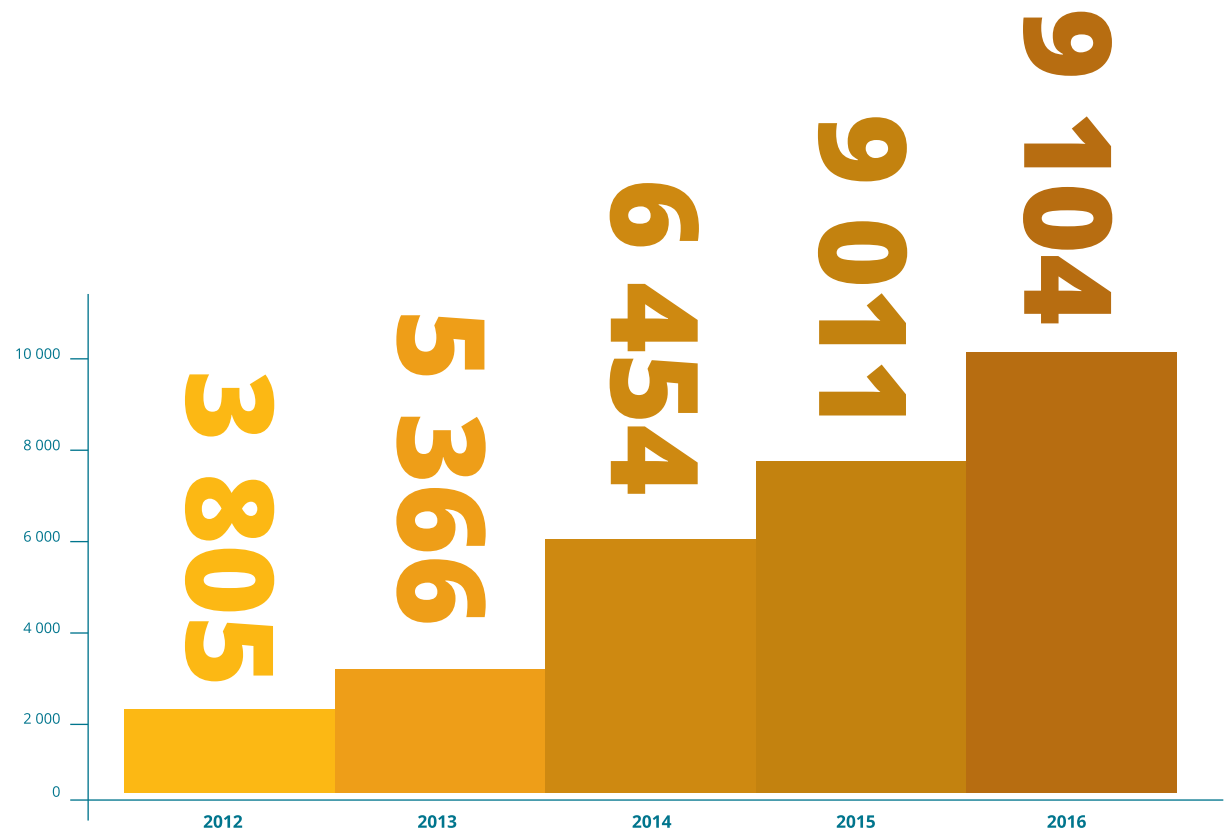


Liabilities

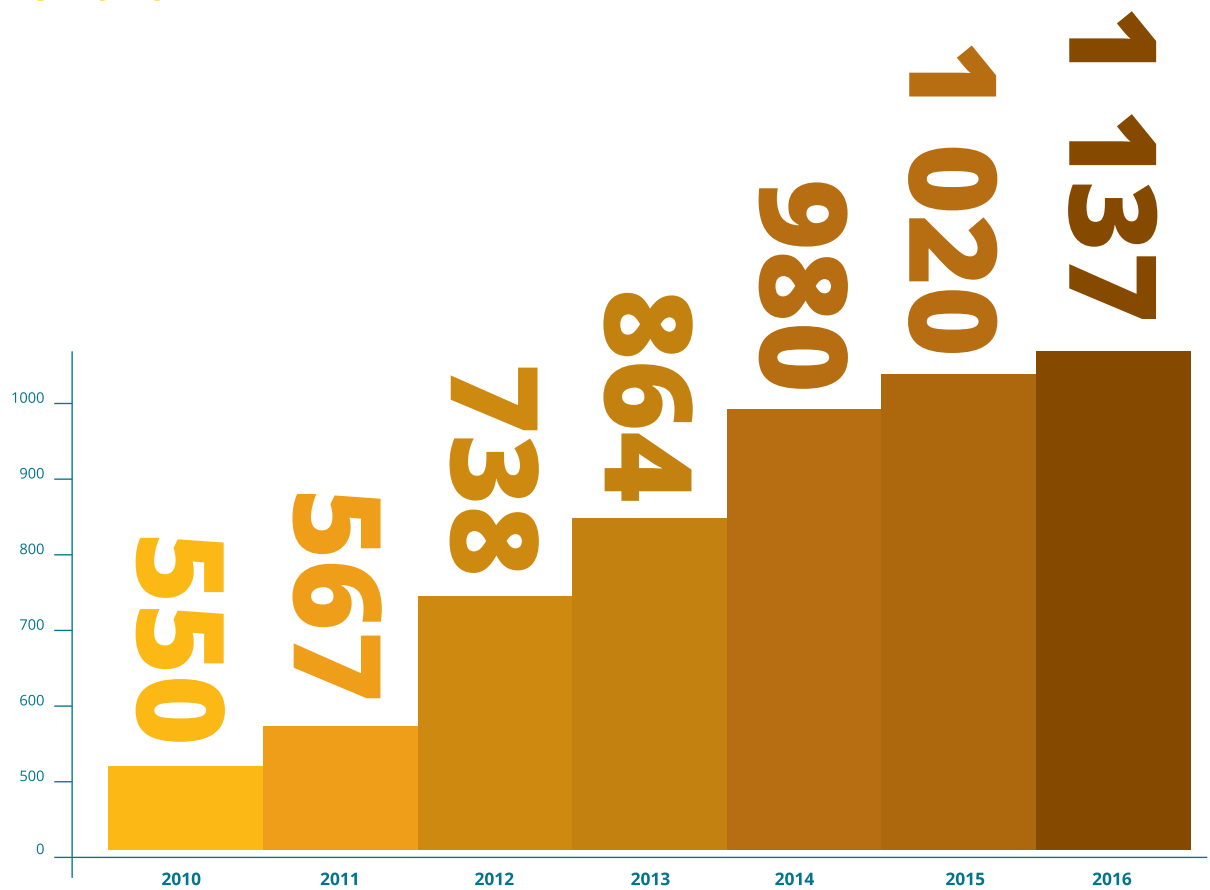
The broad product range of deposits that satisfies the demand of all consumer groups allows for successful ramp up liabilities volumes, most of which are customers funds, i.e. deposits.



Deposit portfolio (million KGS)



Equity dynamics (million KGS)



Development of the Bank

Bank cards

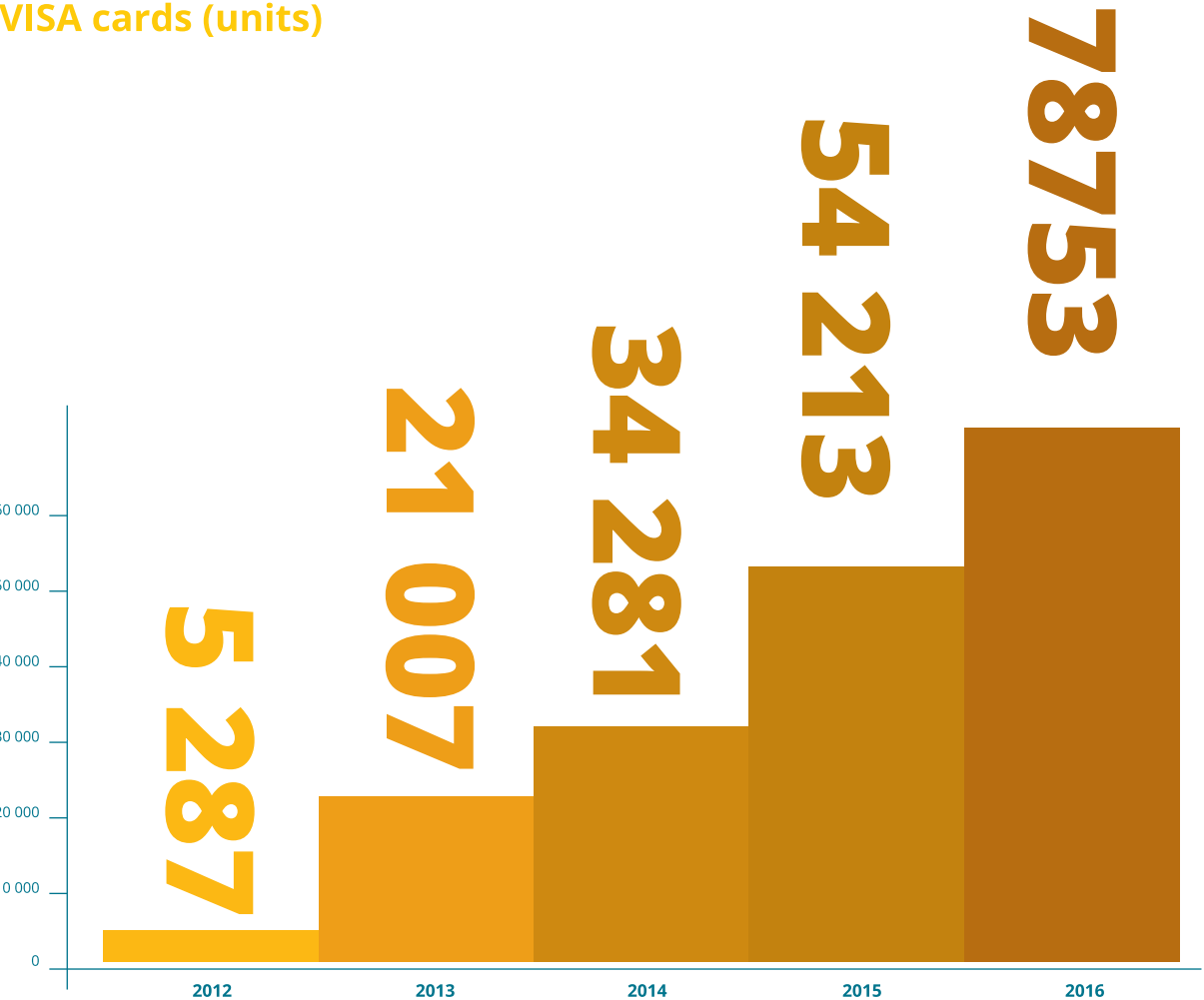
The total number of cards issued by the end of 2016 increased by 69% and amounted to 395 928 cards.

- Visa payment system cards - an increase of 45% over the previous year, total of 78,753.
- Cards of the Zolotaya Korona payment system - an increase of 21% over the previous year, total amount is 251,634.
- In 2016, the Bank issued 65,373 Elcart cards.

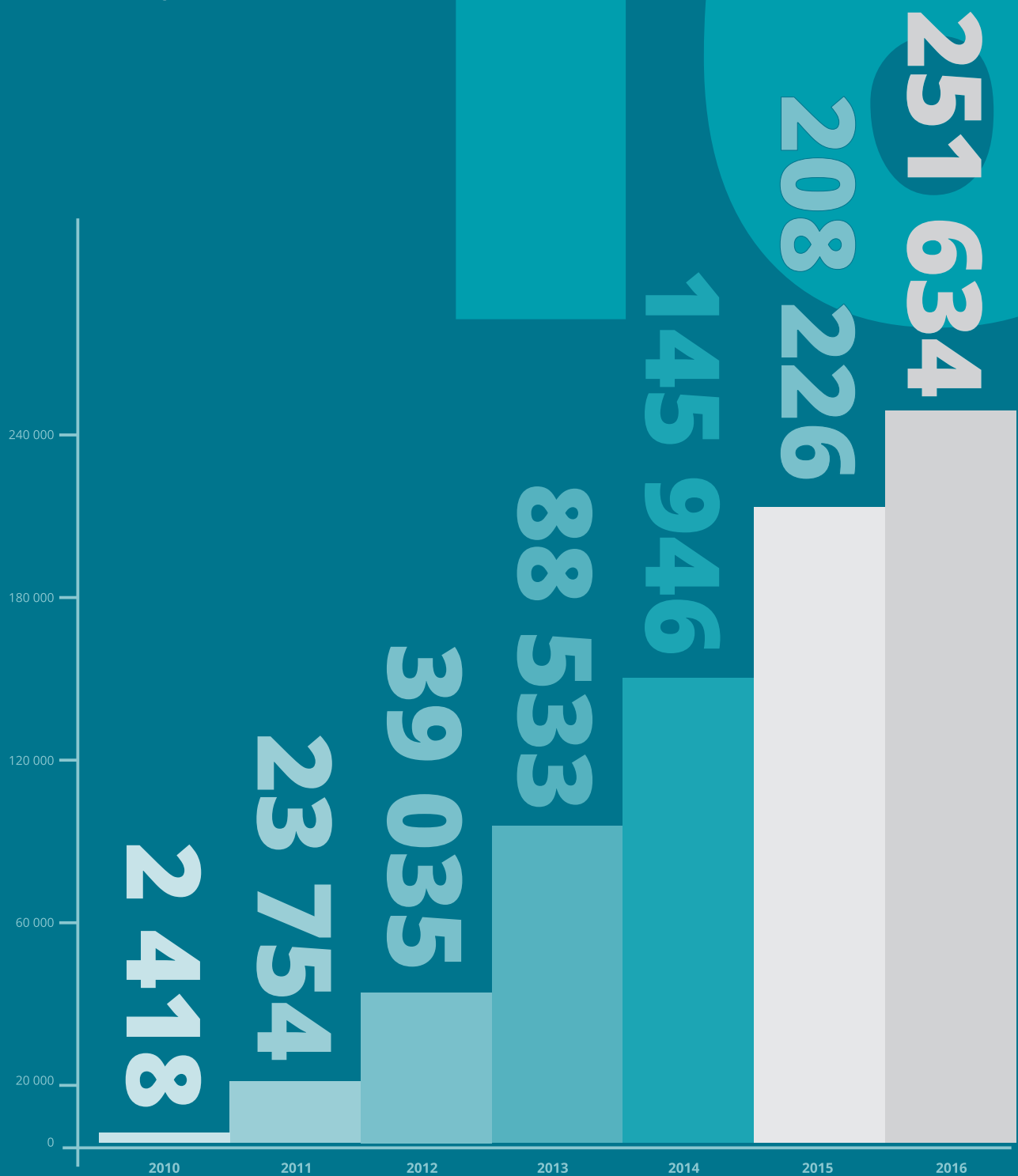
In 2016, the project for the entry of our Bank into MasterCard the international payment system was completed, we obtained the status of Affiliate Member MasterCard and successfully launched acquiring on servicing MasterCard cards in the Bank's ATMs.

One of the most important events of the past year was the launch of the project between "Commercial bank KYRGYZSTAN" OJSC, "Interbank Processing Center" CJSC and the National Bank of the Kyrgyz Republic for reception and servicing the Elcart national payment card in the Bank's ATMs.

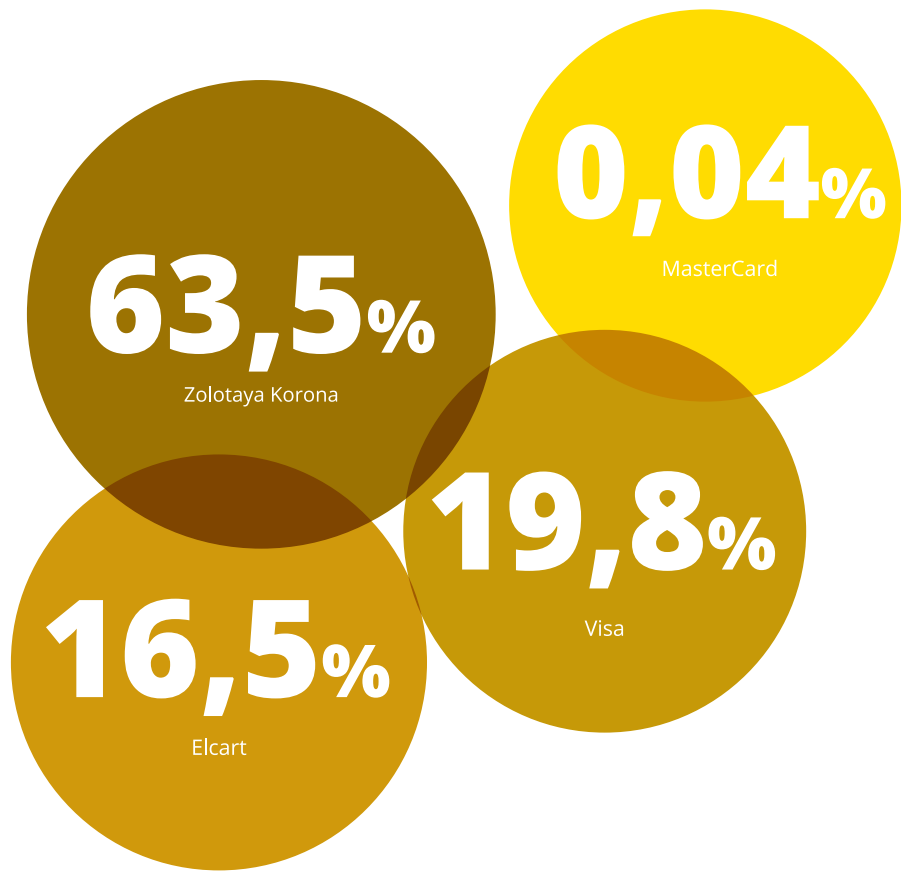
VISA cards (units)



"Zolotaya Korona" cards (units)



Cards structure by 01/01/2017



In 2017, the Bank's infrastructure for servicing bank cards will be significantly expanded, for this purpose it is planned to purchase 12 of additional ATMs.

It is also planned to expand the acquiring network by attracting new TSPs (trade and service enterprises), setting up new CDOs (cash points), placing ATMs, which will result in increase of cash flows and bank revenues respectively.

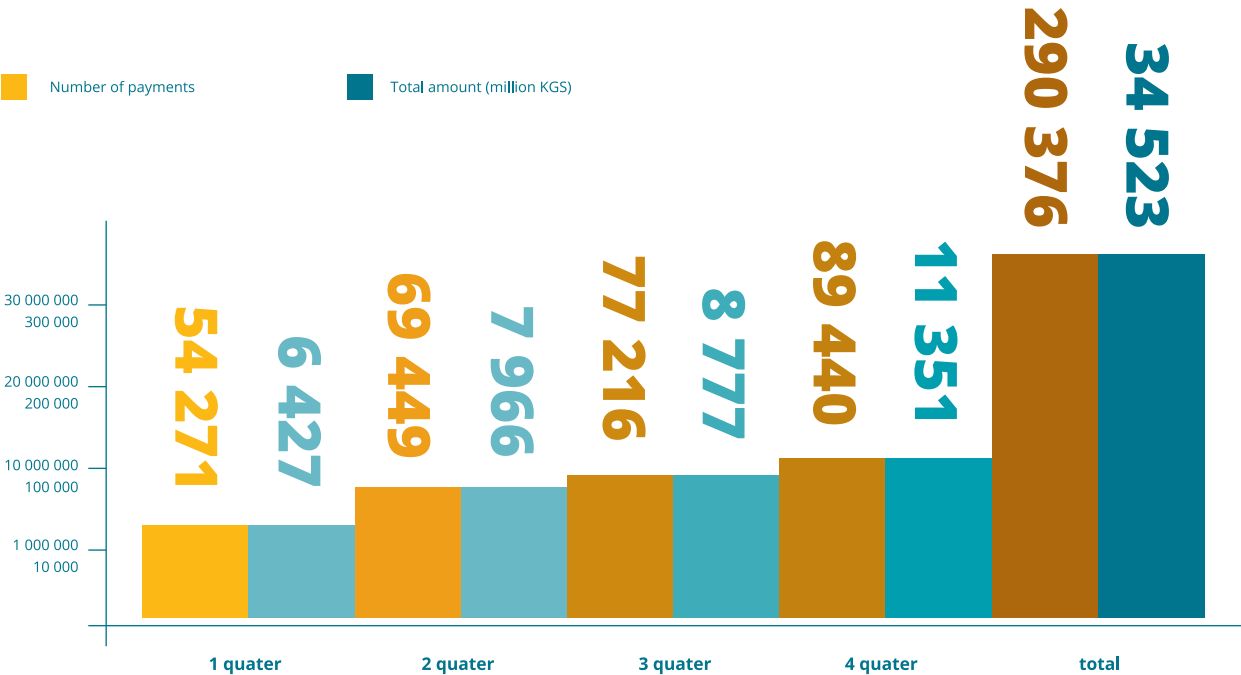
In addition, in 2017 the Bank plans to develop additional products and services within the Bank's card products in order to increase the share of non-cash payments.

Online banking

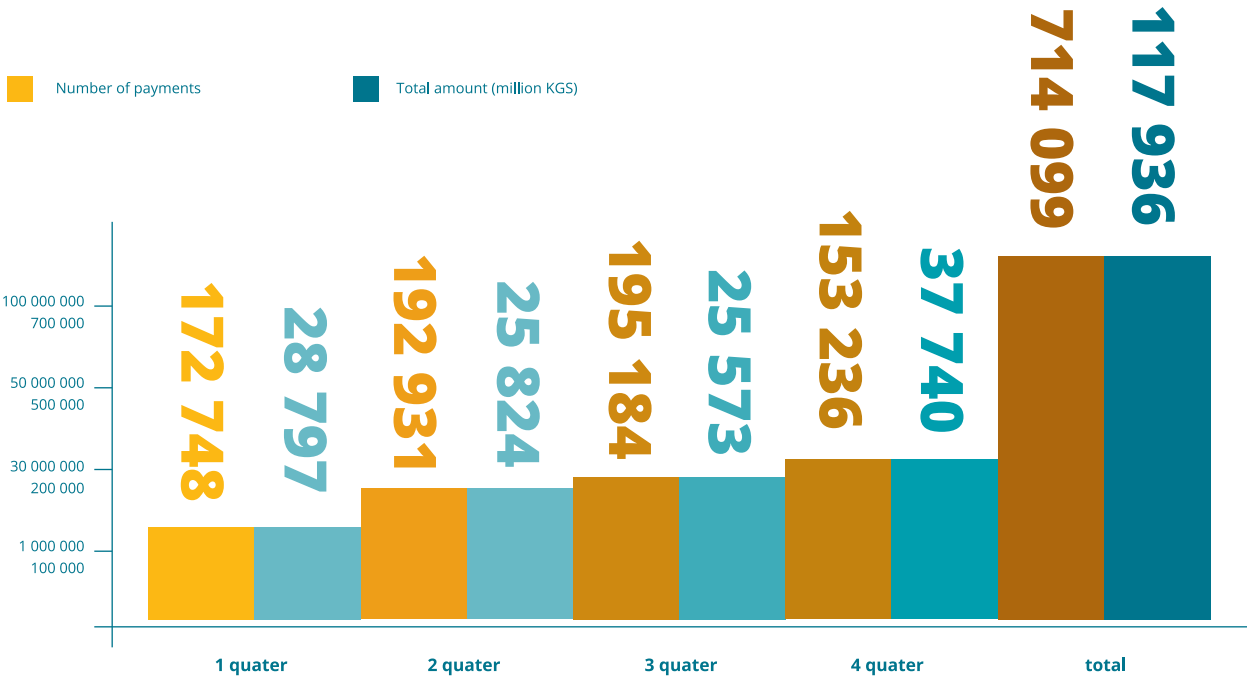
In 2016, following the course of new technologies development, the Bank continued to develop remote service channels, improving the Mobile Banking service, the number of active users of the service increased to 67,000 customers within a short period of time.

Turnovers and the number of payments through the Mobile Banking service are steadily growing:

Number of payments and turnovers in 2015



Number of payments and turnovers in 2016

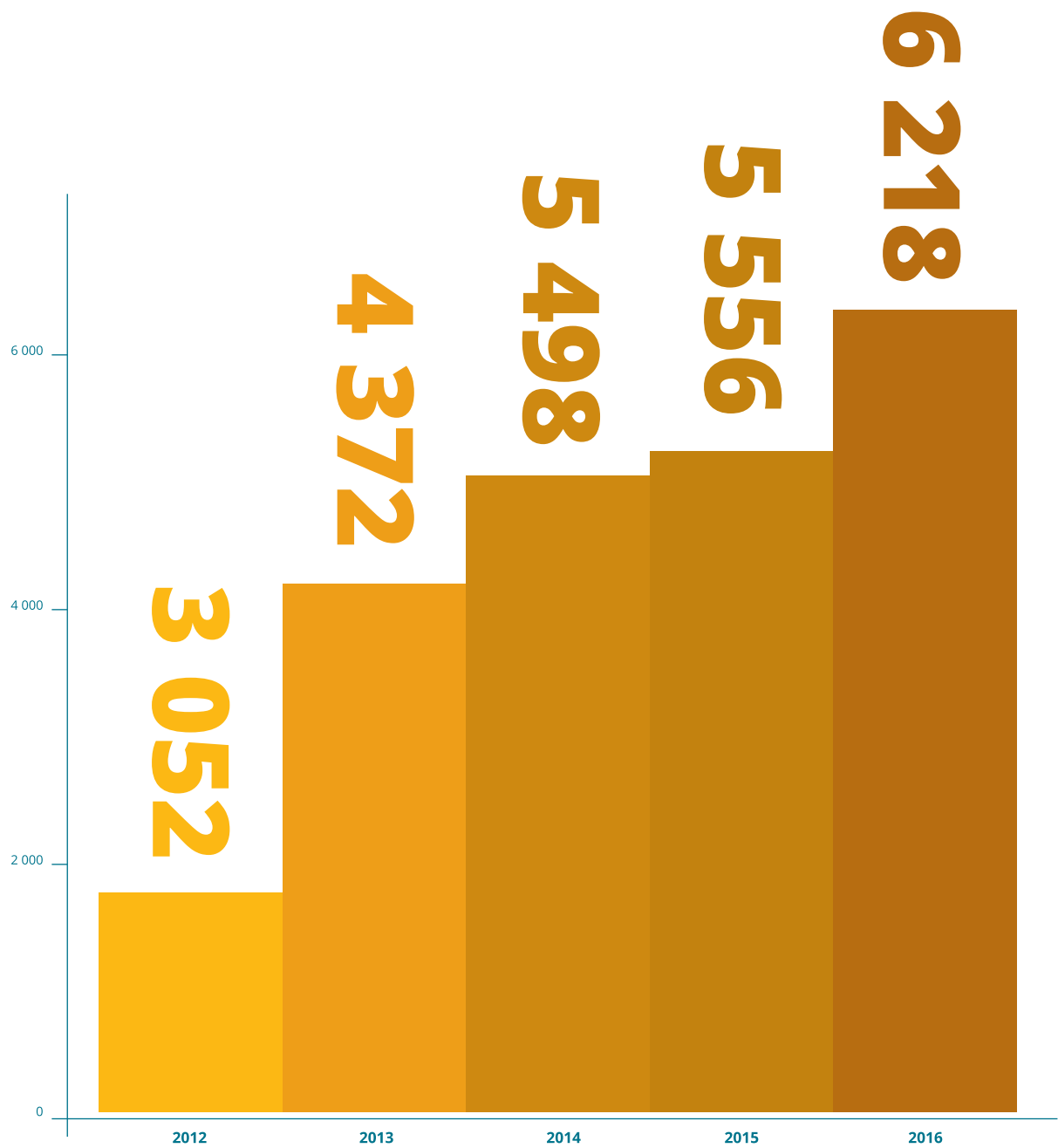


In 2017, the Bank will continue its` activity within the framework of development plan for Mobile Banking services.

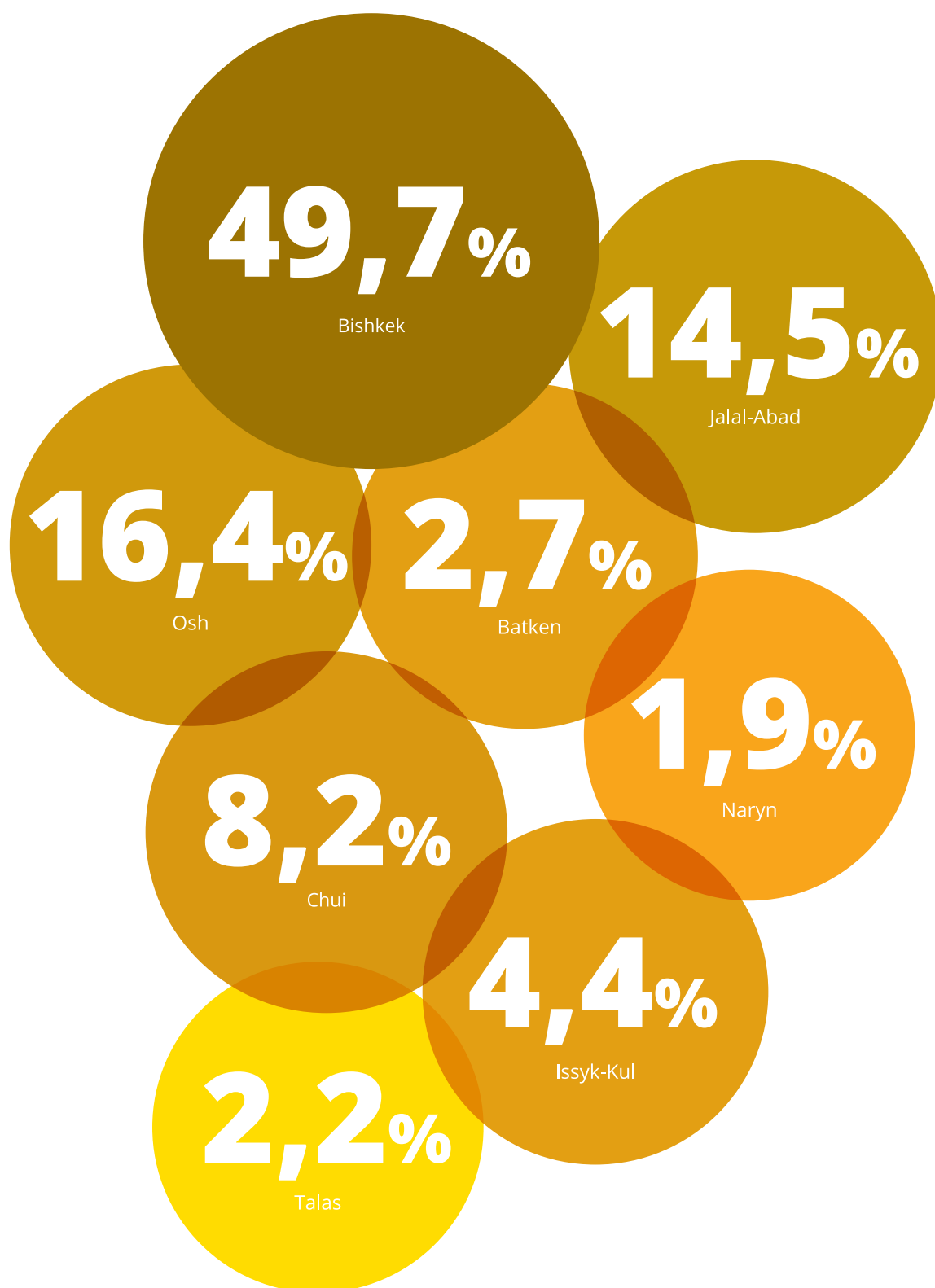
Loans

By the end of 2016 the credit portfolio amounted to 6 218 million soms. The main areas of credit activity, as in previous years, were trade, commercial operations and agriculture.

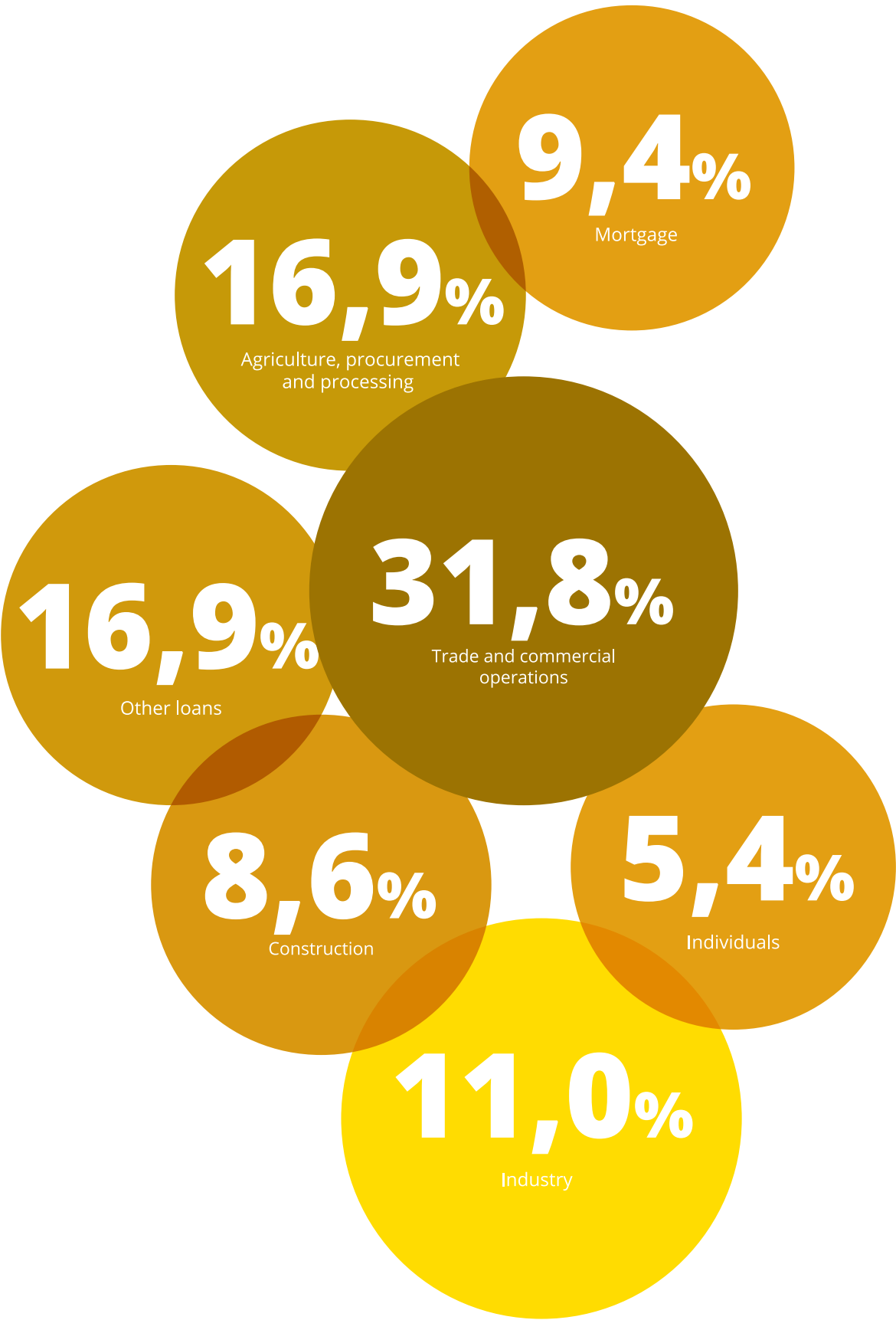
Dynamics in Credit Portfolio (million KGS)



Structure of credit portfolio



Structure of loans by sectors



Soft window facility "Agriculture support credit scheme"

The purpose of this program is to provide soft loans to agricultural producers for the development of animal husbandry, crop production, agro-processing in agriculture, seed and breed livestock farms and agricultural cooperatives. Loans are granted for a period of 36 months with the possible provision of a gestation period. The interest rate is 10% per annum for animal husbandry and crops production. For the sectors of agro-processing and seed and breed livestock farms and agricultural cooperatives the interest rate is 6% per annum. At the same time loans are granted to the borrowers with a good credit history.

The Bank has been participating in the agriculture support project in the regions of the Kyrgyz Republic since 2013. In 2016, the Bank also participated in the state program "Financing of Agriculture-4", 805 loans were granted, which is 70% more than in 2015, totaling 200 million soms at 9% and 10% per annum.

KfW lending program

The Bank participates in the Program of the financial system development in rural areas of the Kyrgyz Republic, which is funded by the German State Bank KfW through Ministry of Finance of the Kyrgyz Republic. This program promotes the development of small and medium-sized entrepreneurs, mostly women entrepreneurs, through financing aimed at improving their productivity and competitiveness, as well as creating employment. Since the launch of the program, more than 3,000 loans have been granted for a total amount of more than 750 million soms, with an average loan amount for one borrower of about 247 thousand soms.

Since autumn of 2016, the Bank has been involved in the new project KfW "Program for the Financing of Agricultural Value Chains (VC Financing)."

The program promotes the creation of chains in the agricultural sector between producers, processors and sellers who are directly involved in the supply of products or services, from production to the end user, and value chain supporting organizations which can affect the quality of final product, whether it be raw materials or finished products.

Currently, the Bank grants long-term loans within the Program for producers and processors of agricultural products. Farms or enterprises engaged in the production, processing and storage of agricultural products, as well as the provision of machine and tractor services and the supply of fertilizers and plant protection products for the agricultural cycle.

Loans are granted for replenishment of operating capital for a period of up to 3 years and for investment purposes for up to 7 years (until 2023) with an interest rate of 14% per annum in national currency.

Within the framework of "VS Financing" program, the Bank provides loans to "Sugar Beet" for farmers growing sugar beet.

Since 2015, the Bank has been cooperating with "Kaindy-Kant" OJSC in order to increase access to financial resources for agricultural producers. Within the framework of the signed agreement between the Bank and "Kaindy-Kant" OJSC, sugar beet growers will be able to receive the necessary loan amount in national currency on preferential basis and for short time. "Kaindy-Kant" OJSC guarantees timely payment for the beets supplied by the farmer, which allows the farmer and the Bank to minimize the risks associated with the payback of credit debts.

Credit granting within the framework of cooperation with “State Mortgage Company” OJSC

On March 11, 2016, the General Agreement on cooperation between “State Mortgage Company” OJSC and “Commercial bank KYRGYZSTAN” OJSC was signed.

During the period of cooperation, as of December 31, 2016, mortgage loans were granted to 126 of program participants for a total of 135.4 million soms. Through our Bank, a loan was granted to the 100th participant of the program, also we were the first to grant a loan within the model of “Individual housing construction” among all partner banks.

Credit granting of the consumer sector

In 2016 new products for consumer loans were introduced for employees of payroll organizations: “Five salaries”, “Credit per hour”. In 2016, 3,098 of consumer loans were granted for a total of 265.3 million soms. The balance at the end of 2016 amounted to 3292 loans (2015 - 1528 loans) for a total of 248.3 million soms. (2015 - 160.0 million soms)

Credit granting within the framework of cooperation with the Russian-Kyrgyz Development Fund

On May 25, 2016, the Bank signed an agreement with the Russian-Kyrgyz Development Fund (RKDF). Within the framework of the Loan Program, as of December 31, 2016, loans of more than 500 million som were granted to small and medium-sized businesses.

Crediting in the framework of cooperation with “Guarantee Fund” OJSC

Many entrepreneurs in Kyrgyzstan with good business potential have a limited access to financial resources to develop their business due to insufficient mortgage security. To resolve this issue in 2016, an agreement was signed between the Bank and “Guarantee Fund” OJSC to develop and support small and medium-sized businesses by facilitating their access to financial resources.

As part of the agreement the Guarantee Fund provides entrepreneurs with the necessary guarantees on the part of required loan amount in case of insufficiency of mortgage security.

The priority areas of the Guarantee Fund to provide the guarantees are: production and processing of agricultural products (crops, fruit and berry and vegetable clusters, meat and dairy industry, fisheries), industry (clothing and textile industry, production of construction materials), in the services sector - the development of tourism, exports, health care, transportation and logistics services, import-substituting and export-oriented enterprises, also the emphasis will be on women's private in entrepreneurship.

Security

IT security

"Commercial bank KYRGYZSTAN" OJSC pays much attention to improving information security. All of the Bank's information systems are subject to thorough and regular monitoring as to their reliability and security. The Bank uses the most advanced mechanisms for restricting access to information systems and data, installed anti-virus protection, intrusion detection, attack detection and firewall, etc. We pay great attention to prevention of attempts to harm our clients both from outside and insiders.

The plans for 2017 are to continue training the staff for information security and improve their skills, switch to a multi-vendor protection system in terms of software and hardware protection complexes. Separately, it is planned to strengthen the protection of the online banking.

Countering financing of terrorism and legalization (laundering) of proceeds from crime

In 2016 "Commercial bank KYRGYZSTAN" OJSC significantly strengthened the internal control system within the framework of the Law of the Kyrgyz Republic on Countering the Legalization (Laundering) of Criminal Incomes and Financing of Terrorist or Extremist Activities (hereinafter referred to as CIFTEA) and began work on the introduction of a risk-oriented approach to risks Assessment of CIFTEA.

In 2016, "Commercial bank KYRGYZSTAN" OJSC introduced amendments and additions to the internal regulatory legal acts regulating the issues of combating money laundering and financing of terrorism and extremism, as well as in within the framework of US law FATCA (Foreign Account Tax Compliance Act).

The Bank continues to improve progressively its "Know Your Client" (KYC) methodology by introducing additional standards and requirements.

In its activities, the Bank strives to maintain high standards of internal control in the field of CIFTEA in its activities for financial service rendering to the Bank's customers.

Correspondent relations

"Commercial bank KYRGYZSTAN" OJSC pays much attention to expansion of the correspondent network with foreign banks and is an active participant of the international payments market.

The establishment of direct correspondent relations between the banks stipulates the possibility of direct transfers through the SWIFT system. Working in the SWIFT network is a quick way to send messages anywhere in the world in real time.

To date the Bank has established correspondent relations with the largest banks in Europe, Asia and CIS countries.

Correspondent banks:

Countries of the far abroad:

Raiffeisen Bank International AG (Austria);

Agricultural Bank of China (Xinjiang Nongken Branch) (China);

Bank of China, Head Office (China);

Türkiye İş Bankası A.Ş. (Turkey);

Kookmin Bank (South Korea).

CIS countries:

PJSC "Sberbank of Russia" (Russia);

PJSC "Alfa Bank" (Russia);

PJSC "VTB Bank" (Russia);

JSC "Halyk Bank of Kazakhstan" (Kazakhstan);

JSC "Kazkommertsbank" (Kazakhstan).

Foreign currency transactions

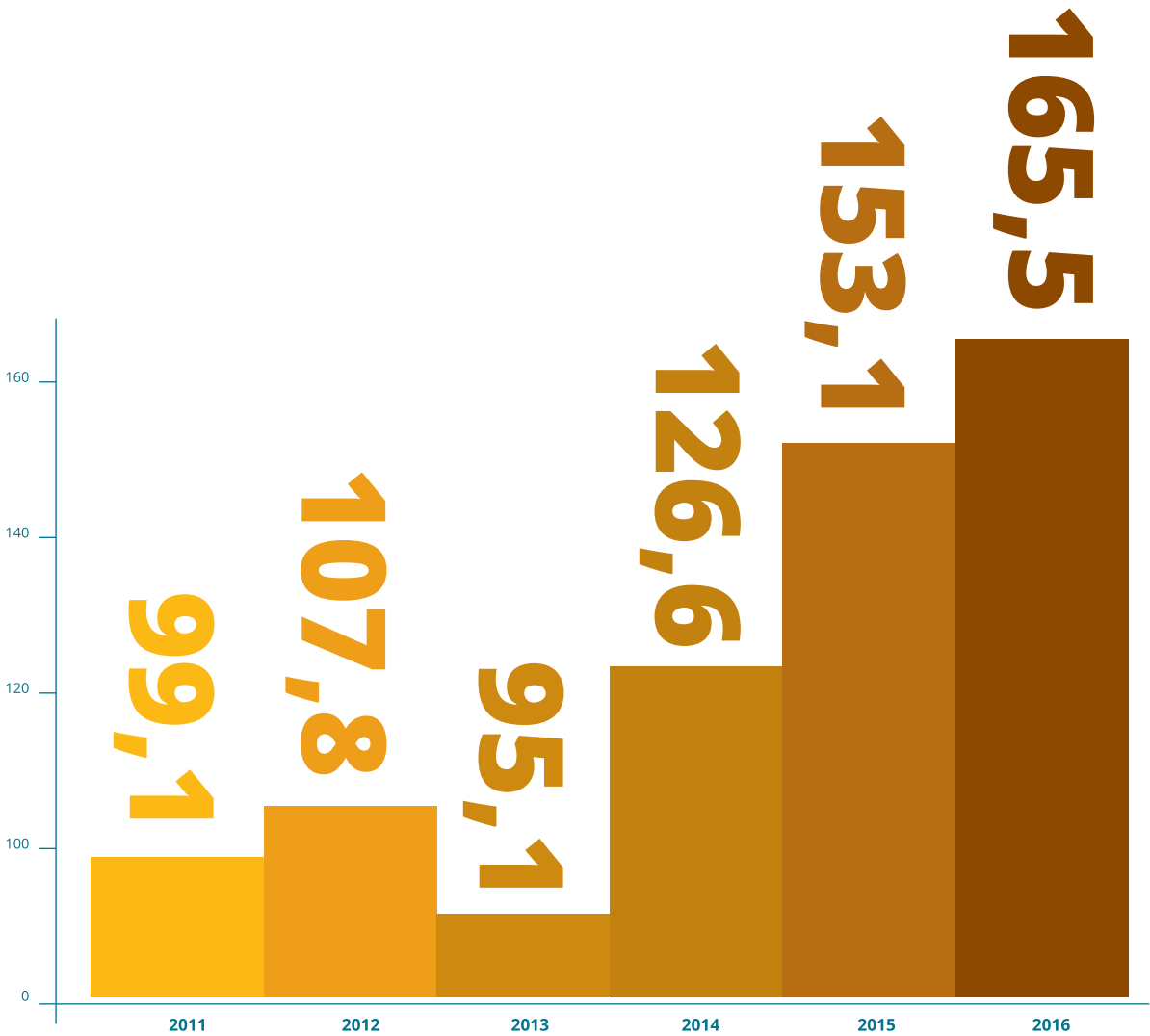
Foreign currency transactions are one of the most profitable revenue items of the Bank`s activities. The Bank executes transactions on customer accounts in foreign currency, non-commercial operations, establishes correspondent relations with top class international financial institutions, performs international payments related to exports and imports of goods and services, purchase and sale of foreign currency on the domestic foreign exchange market, as well as foreign currency hedging (SWAP transactions), actively conducts banknote operations both on local and foreign markets, attracts and

places foreign exchange funds inside the country, carries out credit, deposit and conversion operations on the International Monetary Market.

The Bank has positioned itself as one of the most active and major participants of the interbank foreign exchange market of the Kyrgyz Republic.

The income from monetary transactions for 2016 amounted to more than 165 million soms. Currently, the Bank ranks third in terms of revenues from foreign exchange operations among local Banks.

Dynamics in foreign exchange earnings (million KGS):



Remittances

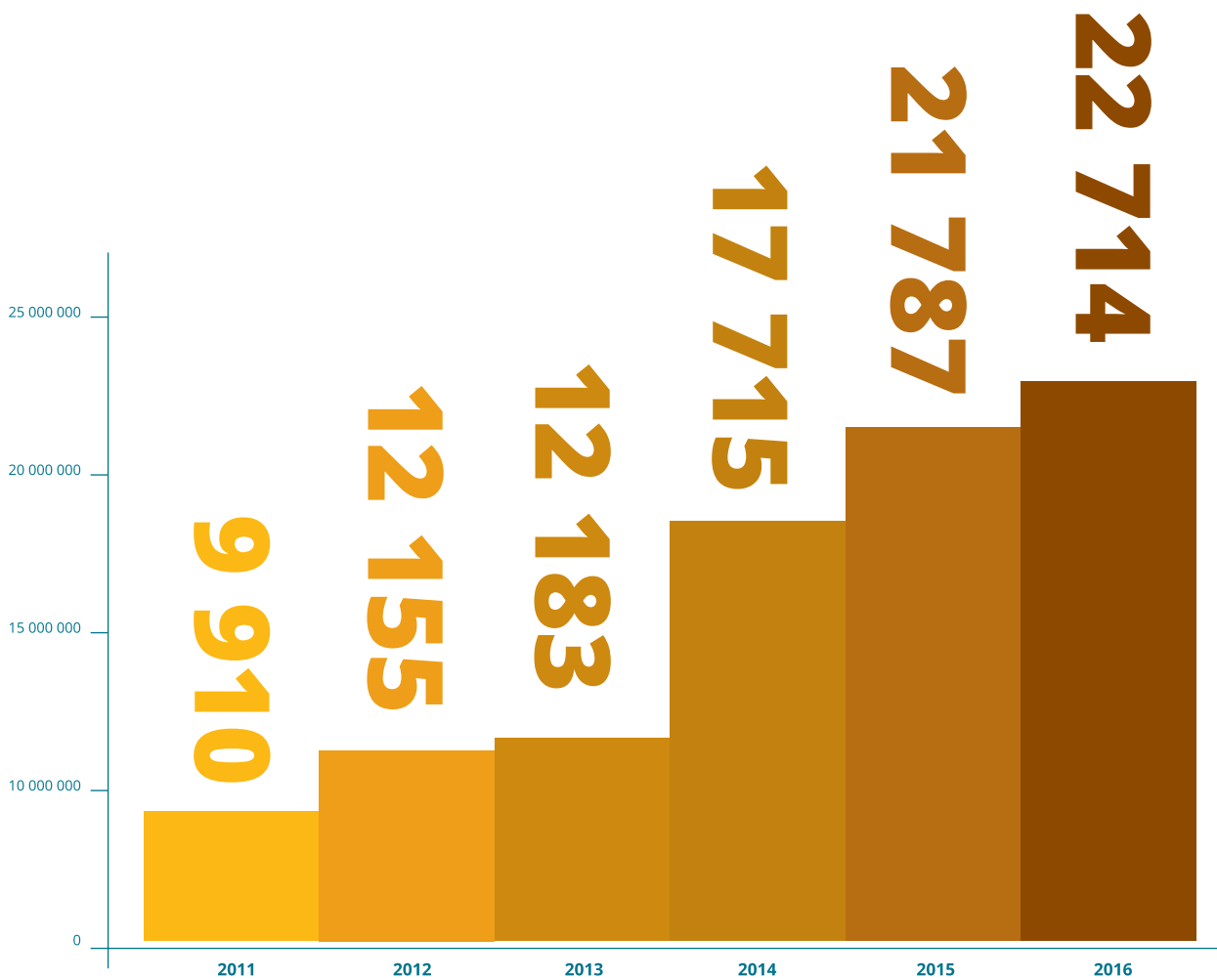
"Commercial bank KYRGYZSTAN" OJSC for the convenience of its` customers provides money transfer services around the world without opening an account. We are working in the 6 money transfer systems: Western Union, UNISStream, Contact, Zolotaya Korona, Leader and Money Gram and the local money transfer system "Argymak".

International money transfers allow for sending the money anywhere in the world in a fast and safe way without opening a current account. Due to the variety of money transfer systems, customers are able to select the most suitable conditions for sending money.

For transferring the funds within the Kyrgyz Republic, we suggest using "Argymak" non-targeted money transfer system. Transfers are carried out in all branches of the Bank in both national and foreign currencies: Kyrgyz som, US dollar, Russian ruble, euro, Kazakh tenge.

Money transfer systems are represented in all branches of the Bank, throughout the Republic.

Volume of paid remittances, in KGS (million som)



Human resources

The development of the Bank and its effective activities would be impossible without a consolidated, professional team of like-minded people. The human resource, experience, knowledge are no less important criteria for a dynamic and successful activity.

- In accordance with the urgent needs and perspectives of the Bank, the development of the personnel is a complex, multifaceted process of training the employee to perform new functions, taking new positions, solving new tasks. As training procedures, a wide range of activities for the professional development of personnel were used: workshops on strategic management and team building for line managers of the bank, training for prospective youth (trainees) in the training center of the bank, courses on studying the Kyrgyz language for competent business correspondence, job rotation of Employees and managers, etc. In 2016, a special attention in training was paid to improving the quality of service, 36 seminars were held on the topic "What is customer-oriented approach?", "Client-oriented attitude in working with clients", "We love our customers". Thus, the training in 2016 covered 100% of the personnel, i.e. 1140 employees, of whom 164 employees were trained externally and 976 employees were trained internally.
- In 2016, a strengthened direction was given to the tutoring method, which is the main method of training the newly hired employee. After the new employee was admitted to the vacant position, the supervisor is assigned to him, the goals of supervision are to streamline the development of professional competencies, to develop the ability to fulfill the tasks assigned to the employee independently and qualitatively; to adapt to the corporate culture of the bank, to form the loyalty to the brand and the bank's reputation. The tasks of the supervisor are: make new employee knowing of the bank, the history of its development, structure, corporate culture, current norms and rules of conduct in the organization; Implementation of theoretical training of employee in accordance with the training plan. The supervisor carries out practical training of the employee to work in specialized software.
- 52 trainees passed Internship in the bank.
- Number of employees trained is 1140 people. Of which, 164 employees were trained externally and 976 employees internally.
- Number of workshops held - 86.
- Number of hours spent on training - 1,456 hours.
- Number of trainees who passed the internship - 52 people.



86

**Number of
workshops
held**



52

**Trainees passed
Internship
in the bank**



1140

**Number of
employees
trained**



1456

**Number of hours
spent on training**



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Independent auditor's report

To the Shareholders and Board of Directors of Open Joint Stock Company "Commercial Bank KYRGYZSTAN":

Opinion

We have audited the accompanying financial statements of Open Joint Stock Company "Commercial Bank KYRGYZSTAN" ("the Bank"), which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and 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 and with the requirements of the National Bank of the Kyrgyz Republic ("NBKR") on preparation of financial statements of commercial banks and financial institutions ("the requirements of NBKR").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). 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 (the "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.

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 the requirements of NBKR, 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.

Report on procedures performed in accordance with Regulation No. 22/2 "On minimum requirements to the external audit of banks and other financial and credit institutions, licensed by the National Bank of the Kyrgyz Republic" dated 14 July 2005

Management of the Bank is responsible for compliance of the Bank with the requirements established by the National Bank of the Kyrgyz Republic in respect of accounting and classification of assets, disclosure of transactions with insiders and affiliates, as well as compliance of the Bank's internal control, customer's payment and settlement transactions and information systems ("IS") with the National Bank of the Kyrgyz Republic ("the NBKR") requirements.

According to Article 3.4.1 of the Regulation No. 22/2 "On minimum requirements to the external audit of banks and other financial and credit institutions, licensed by the National Bank of the Kyrgyz Republic" dated 14 July 2005 in the course of our audit of the Bank's financial statements for 2016 we performed procedures with respect to the Bank's compliance of accounting and classification of the Bank's assets as at 31 December 2016 and for the year then ended with the regulatory requirements of the National Bank of the Kyrgyz Republic and verified the Bank's compliance with the requirements for disclosure of transactions with insiders and affiliates, internal control, customer's payment and settlements transactions and the Bank's information systems ("IS") with the regulatory requirements set by the National Bank of the Kyrgyz Republic.

The specified verification was limited on the basis of our judgment to such procedures selected as requests, analysis, examination of documents, comparison of requirements, procedures and methods approved by the Bank with requirements set by the National Bank of the Kyrgyz Republic, as well as recalculation, comparison and reconciliation of numerical values and other information.

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

1. With respect to the Bank's compliance of its accounting and classification of assets with the Regulation of the National Bank of the Kyrgyz Republic No. 95-04 "On classification of assets and provision of respective reserves on potential losses" dated 23 August 2004 and the Regulation of the National Bank of the Kyrgyz Republic No. 52/4 "On minimum requirements to management of credit risk in commercial banks and other financial institutions, licensed by the National Bank of the Kyrgyz Republic" dated 30 June 2010:
 - a. We obtained the original Credit Policy of the Bank and checked that it is approved by the Bank's Board of Directors;
 - b. We obtained the loan portfolio of the Bank as at 31 December 2016 and performed a selection of loans using a statistical sampling method. For each selected loan we identified the following:
 - existence, content and timing of preparation of a borrower's credit file are in compliance with the minimum requirements set in Appendix 1 of the Regulation on minimum requirements on credit risk management in commercial banks and other financial institutions, licensed by the National bank of the Kyrgyz Republic;
 - the loan monitoring report contains all information on borrower's compliance with the terms of the loan agreement, financial position of the borrower, information that loan is used for its purpose, and condition of collateral. Loan monitoring report is dated no later than 12 months before reporting date and prepared not later than once in 6 months before the reporting date for loans which exceed 1% of net total capital of the Bank (except for loans issued during the reporting period);
 - the loan currency specified in the loan portfolio corresponds to the currency specified in the loan agreement;
 - the information on overdue days on principal and interest amount indicated in the loan portfolio correspond to the data of the Bank's accounting system;
 - the amount of each type of collateral corresponds to the amounts indicated in the valuation report and in the collateral's monitoring report;
 - for loans with prolongation, the prolongation is approved by the Credit Committee in the minutes of the Credit Committee;
- c. We obtained a list of "problem" loans from the Management of the Bank as at 31 December 2016 and selected loans from the list using a statistical sampling method. For selected loans, we obtained a list of measures for repayment taken by the Bank during the reporting period, and checked existence of documents confirming the measures taken.
- d. We obtained a list of real estate property of the Bank as at 31 December 2016 classified as "other property" with the existence of valuation reports indicated. Using a statistical sampling method, we selected other property with valuation reports and other property without valuation reports. With regard to the selected property with valuation reports, we identified the following:
 - existence of an instruction of the Bank on sale of the property describing the order and means of sale that is approved by the Management Board;
 - valuation report is prepared by a valuation specialist with a certificate of qualification to provide valuation services in accordance with the legislation of the Kyrgyz Republic;

For selected property without valuation reports, we identified existence, at a minimum, of one of the following characteristics:

 - book value of the property does not exceed KGS 1,000,000;
 - valuation of the real estate was performed within six months prior to the date the property was classified as "other property";
 - the Bank has documentary evidence confirming the sale of the property within 90 days from the date of receipt of the title by the Bank.
- e. We obtained the original of the Investment Policy of the Bank and checked that it was approved by the Board of Directors;
- f. We obtained the securities portfolio of the Bank with identification of beginning and ending balances for 2016, and movement on purchased and sold securities during 2016. Using a statistical sampling method, we selected deals on purchase and deals on sale of securities during 2016. For selected operations, we identified the following:
 - existence of deal application, approved by the Assets and Liabilities Committee ("ALCO");
 - existence of confirmation of the deal with approvals of dealer and controller ;
 - existence of confirmation of the deal settlement from the counterparty (existence of deal registration and execution order in automated trading system ("ATS");
- g. We obtained a breakdown of outstanding balances on corresponding accounts (nostro and loro) as at 31 December 2016. Using a statistical sampling method, we selected nostro and loro accounts. For selected accounts, we obtained acts of reconciliations and agreed to the balances in the accounting system of the Bank as at 31 December 2016.

2. With respect to the compliance of accounting and disclosure of the Bank's transactions with insiders and affiliates we identified the following:
 - a. existence of the Bank's policy on transactions with insiders and affiliates;
 - b. list of loans issued to insiders and affiliates, that were selected during the audit from the loan portfolio of the Bank as at 31 December 2016 as loans issued to insiders and affiliates, agrees to the list of transactions with insiders and affiliates of the Bank for 2016;
 - c. list of deposits and current customer accounts of insiders and affiliates, that were selected during the audit from the deposit portfolio of the Bank as at 31 December 2016 as deposits and current customer accounts of insiders and affiliates, agrees to the list of transactions with insiders and affiliates of the Bank for 2016;
 - d. list of transactions on purchase of securities, that were selected during the audit from the list of transactions of securities of the Bank during 2016 as sale and purchase of securities from insiders and affiliates, agree to the list of transactions with insiders and affiliates of the Bank for 2016;
 - e. list of nostro and loro accounts, with identification of correspondent banks as at 31 December 2016, that were selected during the audit as correspondent banks that are insiders and affiliates, agrees to the list of transactions with insiders and affiliates of the Bank for 2016;
 - f. the following prudential regulations and requirements set by the National bank of the Kyrgyz Republic were within the limits set by the National bank of the Kyrgyz Republic as at 31 December 2016:
 - maximum risk exposure to an insider and/or an affiliate (coefficient K1.2);
 - maximum risk exposure to interbank deposits with affiliate banks (coefficient K1.4);
 - maximum risk exposure to transactions with insiders and/or affiliates (aggregated amount of outstanding debt of insiders and/or affiliates owed to the Bank)
 - g. for loans and deposits selected using a statistical sampling method from the list of transactions of insiders and affiliates, we identified the following:
 - existence of protocol(s) of the Assets and Liabilities committee ("ALCO") on approval of interest rates on all loan products that were effective during 2016. Interest rates set for loans issued to insiders and affiliates are not lower than interest rates on similar loan products issued at that date to those that are not insiders and affiliates;
 - existence of protocol(s) of the Assets and Liabilities committee ("ALCO") on approval of interest rates on all deposit products that were effective during 2016. Interest payments on deposits of insiders and affiliates are not higher than interest rates on similar deposit products issued at that date to those that are not insiders and affiliates.
3. With respect to compliance of internal control, customer's payment and settlement transactions, and information systems ("IS") of the Bank with statutory requirements set by the National Bank of the Kyrgyz Republic:
 - a. We obtained the organisational structure that is approved by the Board of Directors and development strategy of the Bank as at 31 December 2016 that is approved by the Board of Directors. We ensured that the Regulations on each structure/department that are approved by the Board of Directors are in place.
 - b. We obtained the original of the Bank's Accounting Policy approved by the Board of Directors.
- c. We obtained the deposit portfolio of the Bank as at 31 December 2016 and selected current customer accounts using a statistical sampling method. For selected accounts, we obtained reports on the movement of current accounts in national and foreign currencies with indication of opening and closing balances of the reporting period and detailed description of operations. We selected outgoing and incoming payment transactions on a sample basis and for selected transactions, we identified the following:
 - correspondence of hard payment documents to its electronic analogues;
 - timeliness of payments;
 - existence of requisites of payment documents;
 - existence of internal procedures and policies of the Bank on storage of incoming and outgoing electronic payment documents and compliance of archival period with requirements of the National Bank of the Kyrgyz Republic.
- d. We checked existence of internal policies and procedures of the Bank on informational security, performed analysis and evaluation of internal controls of information systems (IS) of the Bank for compliance with the internal policies and procedures of the Bank.
4. With respect to the responsibility of the external auditor of the Bank on consideration of fraud during audit of the Bank's financial statements, we performed procedures within the audit scope, that are in compliance with ISA, which we consider necessary for the purpose of expressing an opinion as to whether the financial statements of the Bank 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 and requirements of the National Bank of the Kyrgyz Republic for financial statements of banks and financial institutions.



22 March 2017

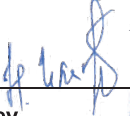
Bishkek, Kyrgyz Republic

Statement of financial position as at 31 december 2016

(in thousands of kyrgyz soms)

	Notes	31 december 2016	31 december 2015
ASSETS			
Cash and cash equivalents	6	3,555,113	4,306,258
Due from other financial institutions	7	710,396	913,752
Investments held to maturity	8	802,697	312,065
Loans to customers	9,27	5,977,095	5,091,444
Property, equipment and intangible assets	10	495,997	495,182
Other assets	11,27	238,937	208,195
TOTAL ASSETS	-	11,780,235	11,326,896
LIABILITIES AND EQUITY			
LIABILITIES			
Due to other financial institutions	12	819,791	1,607,384
Customer accounts	13,27	8,637,049	8,152,531
Other borrowed funds	14	1,010,549	352,413
Financial liabilities at fair value through profit or loss	-	5,905	6,922
Current tax liability	23	550	-
Deferred tax liability	23	6,000	4,020
Other liabilities	15	163,229	183,801
TOTAL LIABILITIES	-	10,643,073	10,307,071
EQUITY			
Share capital	16	1,080,814	921,310
Additional paid-in capital	-	-	161
Retained earnings	-	56,348	98,354
TOTAL EQUITY	-	1,137,162	1,019,825
TOTAL LIABILITIES AND EQUITY	-	11,780,235	11,326,896

On behalf of the Management Board:


Mr. N. Ilebaev
Chairman of the Board

22 March 2017
Bishkek, Kyrgyz Republic




Ms. E. Djenbaeva
Chief Accountant

22 March 2017
Bishkek, Kyrgyz Republic

Statement of profit or loss and other comprehensive income for the year ended 31 december 2016

(in thousands of kyrgyz soms)


	Notes	Year ended 31 december 2016	Year ended 31 december 2015
Interest income	17,27	1,194,311	1,175,690
Interest expense	17,27	(677,976)	(584,351)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS			
Provision for impairment losses on interest bearing assets	17 18	516,335 (77,150)	591,339 (84,251)
NET INTEREST INCOME	-	439,185	507,088
Fee and commission income	19	273,781	249,071
Fee and commission expense	19	(32,589)	(28,434)
Net gain on foreign exchange operations	20	165,539	153,136
Other income	21	4,279	2,569
NET NON-INTEREST INCOME	-	411,010	376,342
OPERATING INCOME	-	850,195	883,430
OPERATING EXPENSES	22	(792,671)	(786,050)
OPERATING PROFIT	-	57,524	97,380
Provision for impairment losses on other transactions	18	(5,756)	(1,381)
PROFIT BEFORE TAX	-	51,768	95,999
Income tax expense	23	(6,530)	(8,755)
NET PROFIT	-	45,238	87,244
TOTAL COMPREHENSIVE INCOME	-	45,238	87,244

On behalf of the Management Board:


Mr. N. Ilebaev
Chairman of the Board

22 March 2017
Bishkek, Kyrgyz Republic




Ms. E. Djenbaeva
Chief Accountant

22 March 2017
Bishkek, Kyrgyz Republic

Statement of changes in equity for the year ended 31 december 2016

(in thousands of kyrgyz soms)

	Note	Share capital	Additional paid-in capital	Retained earnings	Total equity
AS AT 1 JANUARY 2015	-	781,987	350	197,393	979,730
Issue of ordinary shares	-	808	(808)	-	-
Total comprehensive income for the period	-	-	-	87,244	87,244
Dividends declared	16	-	-	(47,149)	(47,149)
Reinvestment of retained earnings to share capital and additional paid-in capital	-	138,515	619	(139,134)	-
AS AT 31 DECEMBER 2015	-	921,310	161	98,354	1,019,825
Issue of ordinary shares	16	72,573	(161)	-	72,412
Total comprehensive income for the period	-	-	-	45,238	45,238
Dividends declared	-	-	-	(313)	(313)
Reinvestment of retained earnings to share capital and additional paid-in capital	16	86,931	-	(86,931)	-
AS AT 31 DECEMBER 2016	-	1,080,814	-	56,348	1,137,162

On behalf of the Management Board:


Mr. N. Ilebaev

Chairman of the Board

22 March 2017

Bishkek, Kyrgyz Republic




Ms. E. Djenbaeva

Chief Accountant

22 March 2017

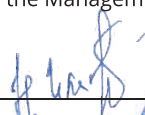
Bishkek, Kyrgyz Republic

Statement of changes in equity for the year ended 31 december 2016

(in thousands of kyrgyz soms)


	Notes	Year ended 31 december 2016	Year ended 31 december 2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received	-	1,211,013	1,171,673
Interest paid	-	(680,325)	(577,283)
Fee and commission received	-	274,546	248,767
Fee and commission paid	-	(32,589)	(28,434)
Net receipts from trading in foreign currencies	20	167,412	146,360
Other income received	-	9,117	455
Operating expenses paid	-	(721,782)	(711,787)
Cash flows from operating activities before changes in net operating assets	-	227,392	249,751
Changes in operating assets and liabilities:			
(Increase)/decrease in operating assets:			
Due from other financial institutions	-	200,809	(391,222)
Loans to customers	-	(1,222,764)	447,848
Other assets	-	21,210	35,880
Increase/(decrease) in operating liabilities:			
Due to other financial institutions	-	(725,199)	26,578
Customer accounts	-	944,435	1,828,408
Financial liabilities at fair value through profit and loss	-	3,593	(54,683)
Other liabilities	-	(43,306)	18,548
Net cash (outflow)/inflow from operating activities before income tax	-	(593,830)	2,161,108
Income tax paid	-	(4,000)	(12,120)
Net cash (outflow)/inflow from operating activities	-	(597,830)	2,148,988

On behalf of the Management Board:


Mr. N. Ilebaev
Chairman of the Board

22 March 2017
Bishkek, Kyrgyz Republic




Ms. E. Djenbaeva
Chief Accountant

22 March 2017
Bishkek, Kyrgyz Republic

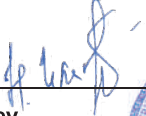
Statement of changes in equity for the year ended 31 december 2016

(in thousands of kyrgyz soms)

	Notes	Year ended 31 december 2016	Year ended 31 december 2015
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	10	(77,053)	(133,383)
Proceeds on sale of property and equipment	-	473	1,070
Purchase of investments held-to-maturity	-	(1,123,189)	(381,468)
Proceeds from redemption of investments held-to-maturity	-	632,557	286,524
Net cash outflow from investing activities	-	(567,212)	(227,257)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from other borrowed funds	-	775,912	68,387
Repayment of other borrowed funds	-	(108,483)	(296,870)
Dividends paid	-	(478)	(47,030)
Net cash inflow/(outflow) from financing activities	-	666,951	(275,513)
Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents	-	(253,054)	505,211
Net change in cash and cash equivalents	-	(751,145)	2,151,429
CASH AND CASH EQUIVALENTS, beginning of the year	6	4,306,258	2,154,829
CASH AND CASH EQUIVALENTS, end of the year	6	3,555,113	4,306,258

Non-cash transaction: in 2016 the shareholders transferred cash from their own accounts to the Bank to increase share capital in amount of KGS 72,250 thousand (Note 16).

On behalf of the Management Board:


Mr. N. Ilebaev
Chairman of the Board

22 March 2017
Bishkek, Kyrgyz Republic




Ms. E. Djenbaeva
Chief Accountant

22 March 2017
Bishkek, Kyrgyz Republic

