

**Optima Bank OJSC**

Financial Statements

for the year ended 31 December 2016

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## **Independent Auditors' Report**

*To the Board of Directors of Optima Bank OJSC*

### **Opinion**

We have audited the financial statements of Optima Bank OJSC (the Bank), which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the requirements prescribed in the Regulations on minimum requirements to external audit of banks and other financial and credit institutions, licensed by the National Bank of Kyrgyz Republic (NBKR) approved by the Order No 22/2 of the NBKR Management Board on 14 July 2005. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with 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.

### Key Audit Matters, continued

<i>Impairment of loans to customers</i>	
Please refer to Note 15 in the financial statements.	
<b>The key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>Impairment of loans to customers is a key audit matter due to the significance of the balances, and complexity and subjectivity over estimating timing and amount of impairment. The risk is that the amount of impairment may be misstated.</p> <p>The estimation of the impairment loss allowance on an individual basis requires management to make judgements to determine whether there is objective evidence of impairment and to make assumptions about the financial condition of the borrowers and expected future cash flows.</p> <p>The collective impairment loss allowance relates to retail loans and losses incurred but not yet identified (IBNR loss allowance) on corporate loans. The audit matters include controls over the models used, accuracy of input and appropriateness of model overlays, such as upward adjustment to the impairment allowance to reflect economic conditions at the year end.</p>	<p>Our procedures in this area included:</p> <ul style="list-style-type: none"> <li>- assessing and testing the design and operating effectiveness of the controls over the Bank's loan impairment process, including: <ul style="list-style-type: none"> <li>- for the principal underlying system generating credit data, IT controls such as access, data management, and change management;</li> <li>- controls over the identification of which loans to customers were impaired. For individually significant loans this included the controls over credit reviews and the monitoring process;</li> <li>- the management review process over the calculations;</li> </ul> </li> <li>- testing the model overlays, such as evaluating the rationale for the upward adjustment used in the model for collective impairment allowance. Comparing the assumptions used to externally available industry, financial and economic data;</li> <li>- re-performing certain credit procedures as follows: <ul style="list-style-type: none"> <li>- for individually significant loans: <ul style="list-style-type: none"> <li>- performing a credit assessment of a sample of impaired loans to assess the reasonableness of the amount and timing of estimated recoverable cash flows, including realisable value of collateral. Where available, we compared the assumptions and estimates made by management to that externally available; and</li> <li>- performing a credit assessment of a sample of unimpaired loans to evaluate if any indicators of impairment existed as at the year end;</li> </ul> </li> <li>- for retail loans: <ul style="list-style-type: none"> <li>- testing the accuracy of key inputs into the models and agreeing a sample of data inputs to source documentation;</li> <li>- assessing the appropriateness of the impairment calculation methodology;</li> <li>- re-performing certain calculations;</li> </ul> </li> </ul> </li> <li>- assessing whether disclosures in the financial statements appropriately reflect the Bank's exposure to credit risk.</li> </ul>



### ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

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

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional NBKR requirements will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs and additional NBKR requirements, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



***Auditors' Responsibilities for the Audit of the Financial Statements, continued***

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Yelena Kim.



**Optima Bank OJSC**  
*Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2016*

	Note	2016 KGS'000	2015 KGS'000
Interest income	4	2,046,581	2,277,067
Interest expense	4	(764,242)	(834,192)
<b>Net interest income</b>		<b>1,282,339</b>	<b>1,442,875</b>
Fee and commission income	5	321,405	281,665
Fee and commission expense	6	(95,527)	(78,943)
<b>Net fee and commission income</b>		<b>225,878</b>	<b>202,722</b>
Net gain on financial instruments at fair value through profit or loss		32,911	66,610
Net foreign exchange income	7	288,666	294,312
Other operating income		13,541	6,768
<b>Operating income</b>		<b>1,843,335</b>	<b>2,013,287</b>
Impairment losses	8	(284,118)	(196,851)
Personnel expenses	9	(658,361)	(590,247)
Other general administrative expenses	10	(400,763)	(375,147)
<b>Profit before income tax</b>		<b>500,093</b>	<b>851,042</b>
Income tax expense	11	(42,715)	(93,723)
<b>Profit for the year</b>		<b>457,378</b>	<b>757,319</b>
<b>Other comprehensive income</b>			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		357	(79)
<b>Other comprehensive income for the year, net of income tax</b>		<b>357</b>	<b>(79)</b>
<b>Total comprehensive income for the year</b>		<b>457,735</b>	<b>757,240</b>

**Earnings per share**

Basic and diluted earnings per share (KGS)	23	21.87	36.06
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The financial statements as set out on pages 7 to 55 were approved by management on 3 March 2017.

Mr. B. Kapyshev  
Chairman



Ms. A. Baryktabasova  
Chief Accountant

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 11 to 55.



**Optima Bank OJSC**  
Statement of Financial Position as at 31 December 2016

	Note	2016 KGS'000	2015 KGS'000
<b>ASSETS</b>			
Cash and cash equivalents	12	7,759,836	10,634,484
Available-for-sale financial assets			
- Held by the Bank	13	65,627	-
Loans and advances to banks and other financial institutions	14	29,389	15,802
Loans to customers			
- Loans to corporate customers	15	3,808,043	4,450,190
- Loans to retail customers	15	7,639,535	9,055,855
Property, equipment and intangible assets	16	421,612	464,188
Other assets	17	183,127	159,087
<b>Total assets</b>		<b>19,907,169</b>	<b>24,779,606</b>
<b>LIABILITIES</b>			
Financial instruments at fair value through profit or loss		33,900	-
Deposits and balances from banks and other financial institutions	18	119,338	220,272
Current accounts and deposits from customers			
- Current accounts and deposits from corporate customers	19	9,221,545	11,578,344
- Current accounts and deposits from retail customers	19	5,976,109	8,801,979
Other borrowed funds	20	822,882	350,002
Other liabilities	21	117,724	671,073
<b>Total liabilities</b>		<b>16,291,498</b>	<b>21,621,670</b>
<b>EQUITY</b>			
Share capital	22	1,050,000	700,000
Revaluation reserve for available-for-sale financial assets		228	(129)
Retained earnings		2,565,443	2,458,065
<b>Total equity</b>		<b>3,615,671</b>	<b>3,157,936</b>
<b>Total liabilities and equity</b>		<b>19,907,169</b>	<b>24,779,606</b>

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 11 to 55.



**Optima Bank OJSC**  
*Statement of Cash Flows for the year ended 31 December 2016*

	<b>2016</b> <b>KGS'000</b>	<b>2015</b> <b>KGS'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest receipts	1,937,277	2,178,433
Interest payments	(768,803)	(822,798)
Fee and commission receipts	321,263	281,563
Fee and commission payments	(95,534)	(78,912)
Net receipts from financial instruments at fair value through profit or loss	11,083	95,170
Net receipts from foreign exchange	306,571	321,925
Other income receipts	12,486	7,010
General administrative expenses payments	(1,109,903)	(789,677)
<b>(Increase)/decrease in operating assets</b>		
Available-for-sale financial assets	(51,598)	249,576
Loans and advances to banks and other financial institutions	(75,195)	32,903
Loans to customers	1,206,302	2,174,751
<b>Increase/(decrease) in operating liabilities</b>		
Deposits and balances from banks and other financial institutions	(30,525)	59,689
Current accounts and deposits from customers	(3,884,333)	1,950,934
<b>Net cash (used in)/from operating activities before income tax paid</b>	<b>(2,220,909)</b>	<b>5,660,567</b>
Income tax paid	(75,621)	(83,565)
<b>Cash flows (used in)/from operations</b>	<b>(2,296,530)</b>	<b>5,577,002</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment and intangible assets	(52,801)	(55,776)
Sales of property and equipment and intangible assets	1,112	140
<b>Cash flows used in investing activities</b>	<b>(51,689)</b>	<b>(55,636)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Receipts of other borrowed funds	454,436	337,323
Repayment of other borrowed funds	-	(800,558)
Dividends paid	(439,418)	(382,520)
<b>Cash flows from/(used in) financing activities</b>	<b>15,018</b>	<b>(845,755)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(2,333,201)</b>	<b>4,675,611</b>
Effect of changes in exchange rates on cash and cash equivalents	(541,447)	1,088,124
Cash and cash equivalents as at the beginning of the year	10,634,484	4,870,749
<b>Cash and cash equivalents as at the end of the year</b> (Note 12)	<b>7,759,836</b>	<b>10,634,484</b>

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 11 to 55.

**Optima Bank OJSC**  
*Statement of Changes in Equity for the year ended 31 December 2016*

<b>KGS'000</b>	<b>Share capital</b>	<b>Revaluation reserve for available-for-sale financial assets</b>	<b>Retained earnings</b>	<b>Total equity</b>
Balance as at 1 January 2015	700,000	(50)	2,152,526	2,852,476
<b>Total comprehensive income</b>				
Profit for the year	-	-	757,319	757,319
<b>Other comprehensive income</b>				
<i>Items that are or may be reclassified subsequently to profit or loss:</i>				
Net change in fair value of available-for-sale financial assets, net of income tax	-	(79)	-	(79)
<b>Total comprehensive income for the year</b>	-	(79)	757,319	757,240
<b>Transactions with owners, recorded directly in equity</b>				
Dividends declared	-	-	(451,780)	(451,780)
<b>Total transactions with owners</b>	-	-	(451,780)	(451,780)
<b>Balance as at 31 December 2015</b>	<b>700,000</b>	<b>(129)</b>	<b>2,458,065</b>	<b>3,157,936</b>
Balance as at 1 January 2016	700,000	(129)	2,458,065	3,157,936
<b>Total comprehensive income</b>				
Profit for the year	-	-	457,378	457,378
<b>Other comprehensive income</b>				
<i>Items that are or may be reclassified subsequently to profit or loss:</i>				
Net change in fair value of available-for-sale financial assets, net of income tax	-	357	-	357
<b>Total comprehensive income for the year</b>	-	357	457,378	457,735
<b>Transactions with owners, recorded directly in equity</b>				
Shares issued	350,000	-	(350,000)	-
Dividends declared	-	-	-	-
<b>Total transactions with owners</b>	<b>350,000</b>	<b>-</b>	<b>(350,000)</b>	<b>-</b>
<b>Balance as at 31 December 2016</b>	<b>1,050,000</b>	<b>228</b>	<b>2,565,443</b>	<b>3,615,671</b>

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 11 to 55.