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Independent Auditors' Report

To the Board of Directors and Shareholders 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 2018, 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 2018, 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). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Kyrgyz Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Expected credit losses (ECL) for loans to customers

Please refer to Notes 4, 17 and 26 in the financial statements.

Key audit matter	How the matter was addressed in our audit
Loans to customers represent more than 63% of assets and are stated net of allowance for expected credit losses (ECL). On 1 January 2018, as a result of adoption of IFRS 9, the Bank implemented a new ECL valuation model. ECL valuation requires management to apply professional judgement and to make assumptions related to the following key areas: - timely identification of significant increase in credit risk and default events related to loans to customers (allocation between stages 1, 2 and 3 in accordance with the IFRS 9); - assessment of probability of default (PD) and loss given default (LGD);	We analysed the key aspects of the Bank's methodology and policies related to the ECL estimate for compliance with the requirements of IFRS 9, with the involvement of financial risks management specialists. To analyse the adequacy of professional judgement and assumptions made by the management in relation to the allowance for ECL estimate, we performed the following audit procedures: - We tested design and operating effectiveness of controls over allocation of loans into stages. - For a sample of loans, for which ECL is assessed individually and for which a potential changes in ECL estimate may have a significant impact on the financial statements, we tested whether stages are correctly assigned by the Bank by analysing financial and non-financial information, as well as assumptions and professional judgements, applied by the Bank. - For a sample of loans we tested the correctness of input data used to determine PD.



- expected cash flows forecast for loans to customers classified in stage 3. Due to the significant volume of loans to customers, adoption of the new ECL model and the related estimation uncertainty, this area is a key audit matter.	- Regarding loans issued to customers and assigned to stages 1 and 2, for which ECL is assessed collectively, we tested the design and implementation of the related models, as well as agreeing input data to supporting documents on a sample basis. - For a sample of stage 3 loans for which ECL is assessed individually and which mostly comprise loans to legal entities, we critically assessed assumptions used by the Bank to forecast future cash flows, including estimated proceeds from realisable collateral and their timing based on our understanding and publicly available market information. We specifically focused on exposures which potentially may have the most significant impact on the financial statements. We assessed the predictive capability of the Bank's methodology by comparing the estimates made as at 1 January 2018 with actual results for 2018. We also assessed whether the financial statements disclosures appropriately reflect the Bank's exposure to credit risk.
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Other Information

Management is responsible for the other information. The other information comprises the information included in the report for the annual general meeting of shareholders, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



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 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 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.



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:


Sergey Mesheryakov
Attorney


KPMG Bishkek LLC

7 March 2019



Optima Bank OJSC
Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2018

	Note	2018 KGS'000	2017 KGS'000
Interest income calculated using the effective interest method	6	2,596,403	2,109,504
Interest expense	6	(603,249)	(457,895)
Net interest income		1,993,154	1,651,609
Fee and commission income	7	457,458	391,421
Fee and commission expense	8	(158,050)	(123,862)
Net fee and commission income		299,408	267,559
Net gain on financial instruments at fair value through profit or loss		30,445	20,946
Net foreign exchange gain	9	317,891	233,323
Other operating income		6,835	7,545
Operating income		2,647,733	2,180,982
Impairment losses on debt financial assets	10	(399,074)	(192,322)
Personnel expenses	11	(784,665)	(815,915)
Other general administrative expenses	12	(435,793)	(406,513)
Recovery/(charge) of loss allowance for financial guarantees		577	(73,530)
Loss allowance for other assets	19	(96,413)	(7,811)
Profit before income tax		932,365	684,891
Income tax expense	13	(91,160)	(79,864)
Profit for the year		841,205	605,027
Other comprehensive income			
<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		-	1,399
Other comprehensive income for the year, net of income tax		-	1,399
Total comprehensive income for the year		841,205	606,426
Earnings per share			
Basic and diluted earnings per share (in KGS)	25	40.06	28.81

The financial statements were approved by management on 5 March 2019.

Mr. B. Kapyshev
Chairman of the Board



Ms. A. Baryktabsova
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 12 to 91.

Optima Bank OJSC
Statement of Financial Position as at 31 December 2018

	Note	2018 KGS'000	2017 r. KGS'000
ASSETS			
Cash and cash equivalents	14	10,356,192	9,782,983
Investment securities	15	460,361	420,611
Loans and advances to banks and other financial institutions	16	57,266	32,265
Loans to customers			
- Loans to corporate customers	17	16,638,133	12,824,667
- Loans to retail customers	17	3,014,693	2,589,982
Property, plant and equipment and intangible assets	18	450,222	384,822
Other assets	19	433,784	299,081
Total assets		31,410,651	26,334,411
LIABILITIES			
Financial instruments at fair value through profit or loss		28,707	23,715
Deposits and balances from banks and other financial institutions	20	257,190	323,550
Current accounts and deposits from customers			
- Current accounts and deposits from corporate customers	21	12,935,447	11,750,764
- Current accounts and deposits from retail customers	21	8,645,775	7,214,976
Other borrowed funds	22	4,291,322	2,565,324
Other liabilities	23	327,532	348,225
Total liabilities		26,485,973	22,226,554
EQUITY			
Share capital	24	1,050,000	1,050,000
Revaluation reserve for available-for-sale financial assets		-	1,627
Retained earnings		3,874,678	3,056,230
Total equity		4,924,678	4,107,857
Total liabilities and equity		31,410,651	26,334,411

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	2018 KGS'000	2017 KGS'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	2,539,703	1,929,820
Interest payments	(583,173)	(472,172)
Fee and commission receipts	454,703	390,587
Fee and commission payments	(156,946)	(123,887)
Net receipts from financial instruments at fair value through profit or loss	31,917	35,508
Net receipts from foreign exchange	321,858	243,588
Other income receipts	8,584	8,099
Personnel and general administrative expenses payments	(1,093,698)	(1,173,040)
(Increase)/decrease in operating assets		
Loans and advances to banks and other financial institutions	34,054	(2,487)
Loans to customers	(4,648,961)	(4,111,730)
Increase/(decrease) in operating liabilities		
Deposits and balances from banks and other financial institutions	(72,037)	184,686
Current accounts and deposits from customers	2,552,553	3,771,677
Net cash (used in)/provided from operating activities before income tax paid	(611,443)	680,649
Income tax paid	(91,874)	(49,315)
Cash flows (used in)/ from operations	(703,317)	631,334
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investment securities	(447,447)	(585,608)
Proceeds from repayment of investment securities	424,383	249,479
Acquisition of property, plant and equipment and intangible assets	(156,592)	(50,095)
Cash flows used in investing activities	(179,656)	(386,224)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from other borrowed funds	1,954,029	1,787,501
Proceeds from repayment of other borrowed funds	(277,413)	(49,345)
Dividends paid	(116,556)	(1,781)
Cash flows from financing activities	1,560,060	1,736,375
Net increase in cash and cash equivalents	677,087	1,981,485
Effect of movements in exchange rates on cash and cash equivalents	(98,036)	41,662
Effect of changes in expected credit losses (ECL) on cash and cash equivalents	(5,842)	-
Cash and cash equivalents (gross) as at 1 January	9,782,983	7,759,836
Cash and cash equivalents as at the end of year (Note 14)	10,356,192	9,782,983

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

Optima Bank OJSC
Statement of Changes in Equity for the year ended 31 December 2018

‘000 KGS	Share capital	Revaluation reserve for available-for- sale financial assets	Retained earnings	Total equity
Balance as at 1 January 2017	1,050,000	228	2,565,443	3,615,671
Total comprehensive income				
Profit for the year	-	-	605,027	605,027
Other comprehensive income				
<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	-	1,399	-	1,399
Total comprehensive income for the year	-	1,399	605,027	606,426
Transactions with owners, recorded directly in equity				
Dividends declared	-	-	(114,240)	(114,240)
Total transactions with owners	-	-	(114,240)	(114,240)
Balance as at 31 December 2017	1,050,000	1,627	3,056,230	4,107,857
Balance as at 31 December 2017	1,050,000	1,627	3,056,230	4,107,857
Impact of adopting IFRS 9, net of tax (Note 5)	-	(1,627)	128,443	126,816
Restated balance as at 1 January 2018	1,050,000	-	3,184,673	4,234,673
Total comprehensive income				
Profit for the year	-	-	841,205	841,205
Other comprehensive income	-	-	841,205	841,205
Transactions with owners, recorded directly in equity				
Dividends declared	-	-	(151,200)	(151,200)
Total transactions with owners	-	-	(151,200)	(151,200)
Balance as at 31 December 2017	1,050,000	-	3,874,678	4,924,678

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.