

Keremet Bank OJSC

Financial Statements and Independent Auditors' Report
for the year ended 31 December 2020

Keremet Bank OJSC

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Keremet Bank Open Joint Stock Company

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS for the year ended 31 December 2020

Management is responsible for the preparation of the financial statements, which present fairly, in all material respects, the financial position of Keremet Bank OJSC (hereinafter, the "Bank") as at 31 December 2020, and its financial performance, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Management of the Bank shall be responsible for:

- selection of appropriate accounting principles and consistent application thereof;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- disclosure of additional information in cases when compliance with IFRS requirements is not sufficient for the financial statements users to understand the influence that some or other transactions as well as other events or circumstances have in the Bank's financial position and performance; and
- assessment of the Bank's ability to continue as a going concern in the foreseeable future.

Management of the Bank shall be also responsible for:

- development, implementation and maintenance of the efficient and reliable internal controls throughout the Bank;
- maintaining of the accounting system, which allows generating, any time and reliably, information on the Bank's financial position and ensure compliance with IFRS;
- maintaining of the accounting in compliance with the legislation of the Kyrgyz Republic and IFRS;
- taking measures, within its competence, to protect assets of the Bank;
- identification and prevention of the frauds and other abuses.

The financial statements for the year ended 31 December 2020 were approved for issue by the Management Board of the Bank on 24 March 2021.

On behalf of the Management Board:


Toktogul R.
Chairman of the Board

24 March 2021
City of Bishkek
The Kyrgyz Republic




Toktogozhoyeva G.
Chief Accountant

24 March 2021
City of Bishkek
The Kyrgyz Republic



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Independent Auditors' Report

To the Board of Directors and Shareholders of Keremet Bank OJSC

Opinion

We have audited the financial statements of Keremet Bank OJSC (the "Bank"), which comprise the statement of financial position as at 31 December 2020, 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 2020, 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 Regulation on Minimum Requirements to External Audit of Banks and Other Financial and Credit Institutions, Licensed by the National Bank of the Kyrgyz Republic ("NBKR") approved by the Order of the NBKR Management Board No.2017-П-12/25-2 on 15 June 2017 (last revised on 14 August 2019) (the "NBKR requirements"). 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 International Code of Ethics for Professional Accountants (including International Independence Standards) (*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 3, 5, 8 and 31 in the financial statements.

Key audit matter	How the matter was addressed in our audit
<p>Loans to customers represent more than 41% of assets and are stated net of allowance for expected credit losses (ECL).</p> <p>The Bank uses a model to determine its estimate of ECL, which requires management to apply professional judgement and to make assumptions related to the following key areas:</p> <ul style="list-style-type: none"> — identification of significant increases in credit risk and default events related to loans to customers and the resulting allocation between stages 1, 2 and 3 in accordance with IFRS 9. During the reporting period the extent of judgement involved in this area has increased significantly as certain customers of the Bank were granted one or more deferrals in repayments due to economic difficulties caused by the consequences of the COVID-19 pandemic; — determination of the probability of default (PD), which is based on historic information overlaid with macroeconomic adjustment factors based on forward looking economic forecasts; — estimation of the loss given default (LGD), which is mostly based on assumptions relating to collateral valuation and estimated time periods to realise collateral; — expected cash flow forecasts for those loans to customers classified in stage 3, which may be based on assumptions relating to the successful realization of borrowers' 	<p>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 risk management specialists.</p> <p>To assess the appropriateness of professional judgement and assumptions made by management in relation to the estimate of ECL, we performed the following audit procedures:</p> <ul style="list-style-type: none"> — We tested the design and operating effectiveness of controls over the identification of significant increase in credit risk and default events. — We assessed the reasonableness of the Bank's assessment of significant increases in credit risk and default events relating to a sample of loans whose repayment had been deferred under COVID-19 payment relief programs. — We tested whether stages were correctly determined by analysing financial and non-financial information for a sample of loans. — We critically assessed the assumptions used by the Bank to forecast future cash flows for a sample of significant stage 3 loans, including estimates of cash flows from collateral disposals. — We recalculated the amount of ECL determined by the Bank, and agreed input data to supporting documents, for a sample of loans, whose ECL is determined using collective assumptions.



<p>business plans, and collateral valuations which may be subjective in nature.</p> <p>Due to the significant volume of loans to customers and the related estimation uncertainty inherent in estimation of the ECL allowance this area is a key audit matter.</p>	<p>— We also assessed whether the financial statements disclosures appropriately reflect the Bank's exposure to credit risk.</p>
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Other matter

The financial statements of the Bank as at and for the year ended 31 December 2019 were audited by other auditors who expressed an unmodified opinion on those financial statements on 8 April 2020.

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 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 NBKR requirements, we exercise professional judgement 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, actions taken to eliminate threats or safeguards applied.

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:

Ashley Clarke

Attorney



Aida Asyrandieva

Executive Director of KPMG Bishkek LLC
Certified Auditor of the Kyrgyz Republic,
Auditor's Qualification Certificate
serial A, No. 0232 of 13 November 2014

24 March 2021

Keremet Bank OJSC

Statement of Financial Position as at 31 December 2020 (in thousands of Kyrgyz soms)

	Note	31 December 2020	31 December 2019
ASSETS:			
Cash and cash equivalents	6	6,067,390	823,529
Due from banks and other financial institutions		7,183	5,641
Loans to customers	8	5,758,941	4,691,714
Investment securities measured at fair value through other comprehensive income – not pledged	9	538,300	576,561
Investment securities measured at fair value through other comprehensive income – pledged	9	378,390	417,285
Investments in associates	28	10,118	10,118
Property, plant and equipment and intangible assets	10	507,071	458,261
Right-of-use assets	11	224,832	278,081
Income tax prepaid		93	93
Other assets	12	81,875	67,068
		13,574,193	7,328,351
Non-current assets held for sale	13	425,173	832,781
		13,999,366	8,161,132
LIABILITIES:			
Financial derivative liabilities	7	-	12,480
Other borrowed funds	14	384,235	540,564
Due to financial organisations	15	150,401	264,659
Customer accounts	16	6,550,216	3,621,044
Lease liabilities	11	319,376	299,335
Deferred tax liability	26	13,305	8,037
Other liabilities	17	78,587	95,218
		7,496,120	4,841,337
EQUITY:			
Equity attributable to the Bank's shareholders:			
Share capital	18	5,998,746	4,498,746
Additional paid-in capital	18	2,700,000	-
Revaluation reserve for financial assets at fair value through other comprehensive income		21,032	7,938
Property revaluation reserve		86,118	47,684
Accumulated loss		(2,302,650)	(1,234,573)
		6,503,246	3,319,795
TOTAL EQUITY		6,503,246	3,319,795
TOTAL LIABILITIES AND EQUITY		13,999,366	8,161,132

On behalf of the Management Board:

Chairman of the Board

24 March 2021
City of Bishkek
The Kyrgyz Republic



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Chief Accountant

24 March 2021
City of Bishkek
The Kyrgyz Republic

The notes on pages 12-71 form an integral part of these financial statements.

Keremet Bank OJSC

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2020

(In thousands of Kyrgyz soms, except for loss per share denominated in Kyrgyz soms)

	Note	Year ended 31 December 2020	Year ended 31 December 2019
Interest income calculated using the effective interest method	19	531,496	437,413
Other interest income		58,867	19,450
Interest expense	19	(413,055)	(301,647)
Net interest income before impairment loss on interest-bearing assets	19	177,308	155,216
Impairment loss on interest-bearing assets	20	(667,839)	(65,764)
Net interest (expense)/income after impairment loss		(490,531)	89,452
Net (loss)/gains on financial instruments at fair value through profit or loss		(49,527)	15,834
Net foreign exchange income	22	88,853	17,147
Fee and commission income	21	72,102	74,002
Fee and commission expense	21	(32,853)	(30,850)
Net loss on disposal of financial assets measured at FVOCI		-	(3,194)
(Charge)/recovery of provision for other assets and contingent liabilities	20	(21,088)	289,557
Other expenses	23	(77,363)	(136,876)
Other income		6,741	14,948
Net non-interest income		(13,135)	240,568
Operating expenses	25	(560,452)	(541,406)
Loss before income tax		(1,064,118)	(211,386)
Income tax expense	26	(5,268)	(72,732)
Net loss for the year		(1,069,386)	(284,118)
Loss per share	18	(18.81)	(8.35)
Basic and diluted earnings (loss) per share	18	(18.81)	(8.35)
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Debt instruments measured at FVOCI:			
Profit/(loss) from changes on fair value of investments in securities measured at FVOCI, including impairment during the period			
		13,094	(17,925)
Less: comprehensive loss on investment securities measured at FVOCI reclassified to profit and loss upon disposal			
		-	3,194
Items that are or may not be reclassified subsequently to profit or loss:			
Property revaluation	10	39,743	-
Other comprehensive income/(loss), net of income tax		52,837	(14,731)
Total comprehensive loss		(1,016,549)	(298,849)

On behalf of the Management Board:

Chairman of the Board

24 March 2021
City of Bishkek
The Kyrgyz Republic



Chief Accountant

24 March 2021
City of Bishkek
The Kyrgyz Republic

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Keremet Bank OJSC

Statement of Changes in Equity for the year ended 31 December 2020 (in thousands of Kyrgyz soms)

	Note	Share capital	Additional paid-in capital	Reserve funds		Accumulated loss	Total equity
				Investment revaluation fund	Property revaluation reserve		
1 January 2019		782,172	500,000	22,669	72,335	(975,106)	402,070
Net loss for the year		-	-	-	-	(284,118)	(284,118)
Other comprehensive loss		-	-	(14,731)	-	-	(14,731)
Total comprehensive loss		-	-	(14,731)	-	(284,118)	(298,849)
Issue of share capital	18	3,216,574	-	-	-	-	3,216,574
Issue of previously paid share capital	18	500,000	(500,000)	-	-	-	-
Transfer of property revaluation reserve as a result of depreciation and disposal of previously revalued property		-	-	-	(24,651)	24,651	-
31 December 2019		4,498,746	-	7,938	47,684	(1,234,573)	3,319,795
Net loss for the year		-	-	-	-	(1,069,386)	(1,069,386)
Other comprehensive income		-	-	13,094	39,743	-	52,837
Total comprehensive loss		-	-	13,094	39,743	(1,069,386)	(1,016,549)
Issue of share capital	18	1,500,000	-	-	-	-	1,500,000
Additional paid-in capital contributed	18	-	2,700,000	-	-	-	2,700,000
Transfer of property revaluation reserve as a result of depreciation and disposal of previously revalued property		-	-	-	(1,309)	1,309	-
31 December 2020		5,998,746	2,700,000	21,032	86,118	(2,302,650)	6,503,246

On behalf of the Management Board:

Chairman of the Board

24 March 2021
City of Bishkek
The Kyrgyz Republic



Chief Accountant

24 March 2021
City of Bishkek
The Kyrgyz Republic

The notes on pages 12-71 form an integral part of these financial statements.

Keremet Bank OJSC

Statement of Cash Flows for the year ended 31 December 2020 (in thousands of Kyrgyz soms)

Note	Year ended 31 December 2020	Year ended 31 December 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	453,521	424,337
Interest paid	(384,020)	(274,927)
Services and commission income received	72,102	74,002
Services and commission expenses paid	(32,853)	(30,850)
Receipts from dealing in foreign currencies	37,524	8,335
Net realised loss on other financial instruments at fair value through profit or loss	(49,527)	15,834
Administrative and other operating expenses paid	(404,376)	(397,172)
Other operating income received	7,807	14,948
Cash flows used in operating activities before changes in operating assets and liabilities	(299,822)	(165,493)
Change in operating assets and liabilities		
Net (decrease)/increase in derivative financial instruments	(12,480)	2,534
Net increase in due from banks and other financial institutions	(477)	(3,571)
Net increase in loans to customers	(1,291,814)	(2,166,997)
Net decrease in non-current assets held for sale	36,833	167,305
Net (increase)/decrease in other assets	(34,318)	7,712
Net (decrease)/increase in due to financial institutions	(103,894)	215,916
Net increase in customers accounts	2,750,001	662,857
Net decrease in other liabilities	(57,082)	(8,722)
Cash flows from/(used in) operating activities	986,947	(1,288,459)
Income tax paid	-	(31,191)
Net cash flows from/(used in) operating activities	986,947	(1,319,650)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities measured at amortised cost	-	(13,026,629)
Proceeds from sale and maturity of investment securities measured at FVOCI	76,525	12,280,012
Purchases of shares of associates	-	(10,061)
Acquisition of property, plant and equipment and intangible assets	(79,329)	(25,094)
Proceeds from disposal of property, plant and equipment	-	388
Net cash used in investing activities	(2,804)	(781,384)

Keremet Bank OJSC

Statement of Cash Flows for the year ended 31 December 2020 (in thousands of Kyrgyz soms)

	Note	Year ended 31 December 2020	Year ended 31 December 2019
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from shares issued	18	4,200,000	3,216,574
Repayment of other borrowed funds	14	-	(365,343)
Lease payments	11	(57,138)	(55,780)
Net cash from financing activities		4,142,862	2,795,451
Effect of exchange rate changes on the balance of cash held in foreign currencies		116,856	1,061
Net increase in cash and cash equivalents		5,127,005	694,417
CASH AND CASH EQUIVALENTS at the beginning of the year	6	823,529	128,051
CASH AND CASH EQUIVALENTS at the end of the year	6	6,067,390	823,529

On behalf of the Management Board:

Chairman of the Board

24 March 2021
City of Bishkek
The Kyrgyz Republic



Chief Accountant

24 March 2021
City of Bishkek
The Kyrgyz Republic

The notes on pages 12-71 form an integral part of these financial statements.