

# **Financial Statements and Independent Auditor's Report “Micro-lending company “Frontiers” LLC**

31 December 2017



# Independent auditor's report

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To the Founder and Board of Directors of "Micro-lending company "Frontiers" LLC

## *Opinion*

We have audited financial statements of "Micro-lending company "Frontiers" LLC (the "Company"), which comprise the statement of financial position as of 31 December 2017, 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 give a true and fair view of the financial position of the Company as of 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

## *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 Company 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 those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## *Key Audit Matters*

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

## *Provision for impairment of loans to customers*

The provision for impairment of loans to customers is a key audit matter due to importance of loans to customers, as well as the subjectivity of the underlying assumptions used for assessing of impairment. The application of different estimates and assumptions could result to materially different assessment of provision for loan losses, which could have a significant impact on the Company's financial results. Judgments and assumptions may relate to an assessment of objective indicators of impairment, the financial condition of the

borrower, the expected cash flows, the value of collateral and the period of its disposal, as well as losses incurred but not yet declared.

To assess impairment losses for individually significant loans, we reviewed the judgments and assumptions underlying the disclosure of information and the amount of impairment, the market value of collateral, and future cash flows forecast.

In order to verify the reliability of calculating the impairment on a group basis, we reviewed the structure and effectiveness of existing control mechanisms, the number of overdue loan days, the calculation of write-offs and the model of assumptions underlying the calculation of group impairment.

We also conducted audit procedures aimed at assessing the disclosures in the financial statements regarding the credit risk, assumptions used and judgments related to the impairment of loans.

### *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 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 Company'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 Company'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 Company 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 to 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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Armen Vanyan.

Armen Vanyan  
Director/ Partner

Qualification certificate of the auditor  
Series A No. 0264 dated July 11, 2016



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State Service for Regulation and Supervision of  
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of the Kyrgyz Republic, on May 3, 2013



# Statement of profit or loss and other comprehensive income

In thousands of kyrgyz soms

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Interest and similar income	6	113,288	151,012
Interest and similar expense	6	(24,248)	(52,927)
Net interest income		89,040	98,085
Net gain/(losses) from operations in foreign currencies	7	(260)	458
Share of results of associates	19	15,688	159
Other income	8	999	504
Recovery of provision on interest bearing assets	9	3,614	17,442
Recovery/(impairment charge) of provision for other assets	10	827	(8,981)
Staff costs	11	(27,572)	(26,740)
Depreciation and amortization	20	(219)	(225)
Other expenses	12	(8,786)	(7,916)
<b>Operating profit</b>		73,331	72,786
Income tax expense	13	(7,450)	(7,069)
<b>Profit for the year</b>		65,881	65,717
<b>Other comprehensive income:</b>			
Items that will not be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	19	(12,255)	(26,556)
Income tax relating to items that will be reclassified	13	1,226	2,656
<b>Total comprehensive income for the year</b>		54,852	41,817

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 10 to 49.

# Statement of financial position

In thousands of kyrgyz soms

	Notes	As of 31 December 2017	As of 31 December 2016
<b>ASSETS</b>			
Cash and cash equivalents	14	119,432	95,217
Amounts due from banks	15	80,631	10,629
Derivative financial assets	16	1,144	3,667
Loans and advances to customers	17	421,188	574,800
Investment securities			
- Investments available for sale	18	41,159	-
- Investments held to maturity	18	10,431	-
Investment in associate	19	109,307	105,874
Property, equipment and intangible assets	20	397	393
Foreclosed assets	21	2,791	2,500
Other assets	22	164	662
<b>TOTAL ASSETS</b>		<b>786,644</b>	<b>793,742</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Borrowed funds from Government	23	65,809	89,760
Borrowed funds from financial institutions	24	138,818	170,297
Derivative financial liabilities	16	1,262	-
Current income tax liabilities		1,507	2,581
Deferred income tax liabilities	13	2,968	2,662
Other liabilities	25	5,652	4,430
<b>TOTAL LIABILITIES</b>		<b>216,016</b>	<b>269,730</b>
<b>EQUITY</b>			
Charter capital	26	175,000	175,000
Share premium in associate		10,706	12,415
Foreign currency translation reserve		(26,739)	(15,710)
General reserves		5,000	5,000
Retained earnings		406,661	347,307
<b>TOTAL EQUITY</b>		<b>570,628</b>	<b>524,012</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>786,644</b>	<b>793,742</b>

The financial statements were approved on 19 March 2018 by:

Dzhumataev Taalaibek

Chief executive officer

Suleimanova Bermet

Chief accountant

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 10 to 39.



# Statement of changes in equity

In thousands of kyrgyz soms

	Charter capital	Share premium in associate	Foreign currency translation reserve	General reserves	Retained earnings	Total
Balance as of 1 January 2016	175,000	15,483	8,190	5,000	281,456	485,129
Profit for the year	-	-	-	-	65,717	65,717
Other comprehensive income:						
Effect of changes in the general reserves of an associate	-	-	-	-	(2,934)	(2,934)
Changes in share premium in associate	-	(3,068)	-	-	3,068	-
Exchange differences on translating foreign operations	-	-	(26,556)	-	-	(26,556)
Income tax relating to items that will be reclassified	-	-	2,656	-	-	2,656
Total comprehensive income for the year	-	(3,068)	(23,900)	-	65,851	38,883
Balance as of 31 December 2016	175,000	12,415	(15,710)	5,000	347,307	524,012
Dividends to founder	-	-	-	-	(8,236)	(8,236)
Transactions with owners	-	-	-	-	(8,236)	(8,236)
Profit for the year	-	-	-	-	65,881	65,881
Other comprehensive income:						
Changes in share premium in associate	-	(1,709)	-	-	1,709	-
Exchange differences on translating foreign operations	-	-	(12,255)	-	-	(12,255)
Income tax relating to items that will be reclassified	-	-	1,226	-	-	1,226
Total comprehensive income for the year	-	(1,709)	(11,029)	-	67,590	54,852
Balance as of 31 December 2017	175,000	10,706	(26,739)	5,000	406,661	570,628

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 10 to 49.

# Statement of cash flows

In thousands of kyrgyz soms

	Year ended 31 December 2017	Year ended 31 December 2016
Interest received	108,139	147,528
Interest paid	(24,265)	(60,085)
Commissions received	3,640	7,966
Commissions paid	(1,240)	(345)
Net losses from foreign currency translation	(411)	(531)
Other income	660	62
Salary and bonuses to employees and remunerations to Board of directors	(26,769)	(26,107)
Administrative expenses	(8,431)	(8,038)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>51,323</b>	<b>60,450</b>
<i>(Increase)/decrease in operating assets</i>		
Derivative financial assets	3,733	(8,004)
Amounts due from banks	(70,223)	223,114
Loans and advances to customers	156,780	161,248
Other assets	877	(431)
<i>Increase in operating liabilities</i>		
Other liabilities	841	-
<b>Net cash flow from operating activities before income tax</b>	<b>143,331</b>	<b>436,377</b>
Income tax paid	(6,991)	(258)
<b>Net cash from operating activities</b>	<b>136,340</b>	<b>436,119</b>
<b>Cash flows from investing activities</b>		
Purchase of investment securities	(49,990)	(6,008)
Dividends received	-	6,008
Purchase of property and equipment	(223)	(118)
Proceeds from sale of property, equipment and intangible assets	-	1
<b>Net cash used in investing activities</b>	<b>(50,213)</b>	<b>(117)</b>
<b>Cash flow from financing activities</b>		
Repayment of borrowings	(54,059)	(461,611)
Dividends paid	(8,236)	-
<b>Net cash used in financing activities</b>	<b>(62,295)</b>	<b>(461,611)</b>
Net increase/(decrease) in cash and cash equivalents	23,832	(25,609)
Cash and cash equivalents at the beginning of the year	95,217	136,668
Exchange differences on cash and cash equivalents	383	(15,842)
<b>Cash and cash equivalents at the end of the year (Note 14)</b>	<b>119,432</b>	<b>95,217</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 10 to 49.