

Aiyl Bank OJSC

Financial Statements
for the year ended 31 December 2019

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Independent Auditors' Report

To the Board of Directors and Management Board of Aiyl Bank OJSC

Qualified Opinion

We have audited the financial statements of Aiyl Bank OJSC (the "Bank"), which comprise the statement of financial position as at 31 December 2019, 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, except for the effects of the matters described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Qualified Opinion

As at 31 December 2019 the Bank has loans to customers stated in the amount of KGS 19,030,529 thousand. Management of the Bank has not performed an appropriate assessment of expected credit losses for these loans as at 31 December 2019 in certain respects, including the appropriate valuation of underlying collateral used to develop future cash flow assumptions, and the related credit staging assessment. Indications exist that the impairment loss allowance on loans to customers is understated.

As at 31 December 2019 the Bank has foreclosed property included in other assets stated in the amount of KGS 436,889 thousand. Management of the Bank has not performed an appropriate assessment of the recoverable amount of these assets as at 31 December 2019.

The Bank has not disclosed a reconciliation of loss allowance of loans to customers, the significant changes in the gross carrying amount of loans to customers that contributed to changes in the loss allowance, and the nature and effect of modifications of contractual cash flows on loans to customers that have not resulted in derecognition, and the effect of such modifications on the measurement of expected credit losses. In addition, the Bank has not disclosed comparative information relating to collateral and other credit enhancements on loans to customers.

It is not possible for us to provide the information described in the preceding paragraph, and we were unable to determine the necessary adjustments to the Bank's loans to customers and foreclosed property and respective impairment losses, including the impact on the Bank's equity, capital adequacy, related items in the financial statements and related disclosures, had management performed an appropriate assessment of expected credit losses and recoverable amounts of the items mentioned above as at 31 December 2019 and for the year then ended.



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 the Kyrgyz Republic (NBKR) approved by the Order No. 2017-П-12/25-2 of the NBKR Management Board on 15 June 2017 (last revised on 14 August 2019). 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 Code of Ethics for Professional Accountants (including International Independence Standards) 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 International Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified 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. In addition to the matters described in the Basis for Qualified Opinion section we have determined the matter described below to be the key audit matter to be communicated in our report.

Going concern	
Please refer to Notes 19(e), 23(e), 26(d) and 32 in the financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>The Bank's financial statements are prepared on a going concern basis.</p> <p>The World Health Organization declared on 11 March 2020 the coronavirus (COVID-19) outbreak a pandemic. The government authorities of the Kyrgyz Republic have taken a number of measures to counter the effects of the outbreak, including border closures, quarantine, severe limitations imposed on cross-border and domestic transportation, and a ban on social, cultural, leisure or sport events. The measures are expected to have a significant impact on the Kyrgyz economy.</p> <p>In addition, as disclosed in notes 19(d) and 23(d) the Bank had breached certain covenants in respect of its debt obligations, resulting in the related liabilities becoming due on demand.</p> <p>The Bank's going concern assessment was based on cash flow forecasts which in management's view support the assertion that the Bank will have sufficient liquid resources to continue in operational existence for the</p>	<p>As part of our audit, we performed the following procedures:</p> <p>We analysed management's stress tests on the operations of the Bank, including their evaluation of business and liquidity risks arising from the COVID-19 outbreak, and plans for further actions in response to the risks identified.</p> <p>We tested the reasonableness and feasibility of the plans for future actions in order to alleviate the effects of the outbreak by performing the following:</p> <ul style="list-style-type: none"> - Challenging the key assumptions used in the determination of the forecast financial information under various scenarios. This included challenging the forecast by reference to observed effects on Kyrgyz banks of previous stressed economic situations, including the 2009 global financial crisis and political events in Kyrgyzstan in 2010. - Performing an analysis of the going concern conclusion's



<p>foreseeable future. The forecasts reflected a number of scenarios, including those considered by management to be severe but plausible as disclosed in note 32 to the financial statements.</p> <p>The Bank also considered the impact on its liquidity if the outstanding debt obligations with breached covenants were called by the respective lenders, and concluded that this would not significantly impact its ability to continue in operation.</p> <p>The COVID-19 pandemic is an unprecedented challenge for the global economy, and at the date of the financial statements, its effects are subject to a significant degree of uncertainty. The Bank's use of the going concern basis of accounting is a key audit matter due to high level of management judgment required and inherent uncertainty involved in forecasting and evaluating financial impact of current economic environment and measures planned by the Bank.</p>	<p>sensitivity to changes in the aforementioned key assumptions adopted in the going concern assessment, and considering whether there were any indicators of management bias in the assessment.</p> <ul style="list-style-type: none">- Reperforming management's calculation of the impact on the Bank's liquidity ratios, in the event of a sudden withdrawal of the debt obligations for which covenants are in breach, and a potential reduction in deposits. <p>We also considered whether any additional relevant facts or information have become available since the date on which the management made its assessment.</p> <p>We evaluated the adequacy of the Bank's disclosures in respect of the impact of COVID-19 and breached debt covenants, and any related uncertainties in the financial statements.</p>
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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:

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

5 June 2020

Aiyi Bank OJSC
Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2019


	Note	2019 KGS'000	2018 KGS'000
Interest income calculated using the effective interest method	5	2,668,519	2,241,374
Other interest income	5	114,731	97,804
Amortisation of government grant	5	324,997	407,319
Interest expenses	5	(1,268,989)	(1,174,394)
Net interest income before impairment losses on interest bearing assets		1,839,258	1,572,103
Impairment losses on interest-bearing assets	9	(687,794)	(332,391)
Net interest income		1,151,464	1,239,712
Fee and commission income	6	329,599	312,339
Fee and commission expense	7	(86,731)	(69,835)
Net foreign exchange gain	8	108,935	144,934
Impairment (losses)/recovery on other assets	9	(221,563)	26
Impairment recovery/(losses) on credit-related commitments	9	25,838	(15,495)
Other income		16,061	38,692
Net other income		172,139	410,661
Operating income		1,323,603	1,650,373
Operating expenses	10	(1,166,309)	(1,228,548)
Profit before income tax		157,294	421,825
Income tax expense	11	(12,482)	(49,067)
Profit for the year		144,812	372,758
Total comprehensive income for the year		144,812	372,758

The financial statements were approved by management on 5 June 2020 and were signed on its behalf by:

On behalf of the Management of the Bank:


 Mr. Shamkeey B.A.
 Chairman of the Management Board




 Ms. Kazakova A.Zh.
 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.

	2019	2018
Note	KGS'000	KGS'000
ASSETS		
Cash and cash equivalents	12 6,730,226	5,808,289
Loans and advances to banks and other financial institutions	418	419
Loans to customers		
- Loans to corporate customers	13 3,877,549	5,192,141
- Loans to retail customers	4 15,152,980	13,562,442
Investments in securities (pledged)	14 709,412	602,129
Investments in securities (unpledged)	14 1,926,307	2,935,699
Property, plant and equipment and intangible assets	15 865,912	674,449
Other assets	16 700,096	347,821
Total assets	29,962,900	29,123,389
LIABILITIES		
Deposits and balances from banks and other financial institutions	17 233,912	135,519
Current accounts and deposits from customers		
- Current accounts and deposits from corporate customers	18 8,104,005	6,283,357
- Current accounts and deposits from retail customers	18 6,070,514	6,459,851
Amounts due to the Ministry of Finance of the Kyrgyz Republic	19 2,633,641	2,488,881
Amounts due to the National Bank of the Kyrgyz Republic	20 1,182,746	2,125,849
Loan from the shareholder	21 -	1,000,000
Government grant	22 304,602	386,099
Other borrowed funds	23 7,180,694	7,001,369
Other liabilities	24 312,919	234,600
Total liabilities	26,023,033	26,115,525
EQUITY		
Share capital	25 3,379,200	2,268,760
Additional paid-in capital	84,478	83,982
General reserve	25 189,696	155,131
Retained earnings	286,493	499,991
Total equity	3,939,867	3,007,864
Total liabilities and equity	29,962,900	29,123,389

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

Aiyi Bank OJSC
Statement of Cash Flows for the year ended as at 31 December 2019

	2019	2018
	KGS'000	KGS'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	2,791,796	2,249,293
Receipt of government grant	243,500	376,395
Interest payments	(1,278,954)	(1,093,701)
Fee and commission receipts	328,585	312,405
Fee and commission payments	(86,731)	(69,835)
Net receipts from foreign exchange	111,656	145,669
Other income receipts	11,848	35,414
Operating expenses payments	(1,001,011)	(1,137,792)
(Increase)/decrease in operating assets		
Loans and advances to banks and other financial institutions	(2,767)	(10,281)
Loans to customers	(1,564,187)	(4,613,050)
Other assets	(22,925)	(88,152)
Increase/(decrease) in operating liabilities		
Deposits and balances from banks and other financial institutions	98,393	58,193
Current accounts and deposits from customers	1,409,589	2,697,225
Other liabilities	(34,448)	26,557
Net cash from/(used in) operating activities before income tax paid	1,004,334	(1,111,660)
Income tax paid	(39,270)	(39,240)
Net cash flows from/(used in) operations	965,064	(1,150,900)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments in securities	(471,241)	(2,959,465)
Repayment of investments in securities	1,394,296	669,138
Purchases of property and equipment and intangible assets	(143,532)	(189,312)
Proceeds from sale of property and equipment and intangible assets	4,213	3,278
Cash flows from/(used in) investing activities	783,736	(2,476,361)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts of amounts due to the Ministry of Finance of the Kyrgyz Republic	352,500	203,988
Repayment of amounts due to the Ministry of Finance of the Kyrgyz Republic	(208,077)	(181,518)
Receipts of amounts due to the National Bank of the Kyrgyz Republic	300,000	920,833
Repayment of amounts due to the National Bank of the Kyrgyz Republic	(1,239,100)	-
Receipts of other borrowed funds	1,215,453	3,932,660
Receipt of loan from the shareholder	-	1,000,000
Repayments of other borrowed funds	(997,379)	(1,006,147)
Dividends paid	(210,000)	(100,000)
Repayment of lease liabilities	(53,158)	-
Cash flows (used in)/from financing activities	(839,761)	4,769,816
Effect of changes in exchange rates on cash and cash equivalents	12,145	(9,254)
Effect of change in ECL on cash and cash equivalents	753	-
Net increase in cash and cash equivalent	921,937	1,133,301
Cash and cash equivalents as at the beginning of the year	5,808,289	4,674,988
Cash and cash equivalents as at the end of the year (Note 12)	6,730,226	5,808,289

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

KGS'000	Share capital	Additional paid-in capital	General reserve	Retained earnings	Total
Balance as at 1 January 2018	2,083,670	82,005	121,950	318,271	2,605,896
Adjustment on initial application of IFRS 9, net of tax	-	-	-	127,233	127,233
Restated balance as at 1 January 2018	2,083,670	82,005	121,950	445,504	2,733,129
Comprehensive income					
Profit for the year	-	-	-	372,758	372,758
Total comprehensive income for the period				372,758	372,758
Transactions with owners, recorded directly in equity					
Shares issued	185,090	-	-	(185,090)	-
Contribution by the Government of the Kyrgyz Republic	-	1,977	-	-	1,977
Dividends declared	-	-	-	(100,000)	(100,000)
Transfer of a part of retained earnings to general reserves	-	-	33,181	(33,181)	-
Balance at 31 December 2018	2,268,760	83,982	155,131	499,991	3,007,864
Impact of adopting IFRS 16, net of tax	-	-	-	(3,305)	(3,305)
Comprehensive income					
Profit for the year	-	-	-	144,812	144,812
Total comprehensive income for the period				144,812	144,812
Transactions with owners, recorded directly in equity					
Contribution by the Government of the Kyrgyz Republic	-	496	-	-	496
Shares issued (Note 25)	1,110,440	-	-	(110,440)	1,000,000
Transfer of a part of retained earnings to general reserves	-	-	34,565	(34,565)	-
Dividends declared	-	-	-	(210,000)	(210,000)
Balance at 31 December 2019	3,379,200	84,478	189,696	286,493	3,939,867

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

1 Reporting entity

(a) Organisation and operations

Aiyl Bank OJSC (the "Bank") was established in the Kyrgyz Republic as an open joint stock company. The Bank obtained general banking license №048 in 2006. The Bank is the successor of the Kyrgyz Agricultural Financial Corporation JSC, which was established by the Government of the Kyrgyz Republic in 1996 under the auspices of the World Bank for the purpose of providing loans to farmers and agricultural commodity producers.

The principal activities of the Bank are commercial banking, lending and operations with securities. Initially the Bank obtained a banking license for the granting of loans and provision of settlement services to agricultural customers in the national currency of the Kyrgyz Republic, the acquisition of government securities, and cash foreign currency exchange operations. In December 2008 the Bank additionally obtained licenses for the following operations: opening of customer current accounts and provision of corporate and retail banking services, money transfer and payment card services, agency arrangement services as well as non-cash foreign currency exchange operations. Also in December 2009, the Bank obtained a license to maintain customer deposit accounts and provide leasing operations, guarantees and letters of credit. In 2016, the Bank additionally received a license to conduct operations with precious metals and maintain metal accounts. The activities of the Bank are regulated by the National Bank of the Kyrgyz Republic ("the NBKR"). The Bank participates in the mandatory deposit insurance system of the Kyrgyz Republic.

As at 31 December 2019 the Bank has 35 branches, 22 regional subdivisions and 31 village subdivisions, 64 regional savings offices and 16 mobile cash desks from which it conducts business throughout the Kyrgyz Republic (2018: 33 branches, 23 regional subdivisions and 30 village subdivisions, 73 regional savings offices and 31 mobile cash desks).

The legal address of the headquarters is the Kyrgyz Republic, Bishkek, 720040, Logvinenko Street, 14.

The majority of the Bank's assets and liabilities are located in the Kyrgyz Republic.

The Bank is wholly-owned by the Government of the Kyrgyz Republic (the "Government") through the State Property Management Fund under the Government of the Kyrgyz Republic.

(b) Operating environment

The Bank's operations are primarily located in Kyrgyzstan. Consequently, the Bank is exposed to the economic and financial markets of Kyrgyzstan, which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by banks operating in Kyrgyzstan. In addition, the first months of 2020 have seen significant global market turmoil triggered by the outbreak of the coronavirus.

Together with other factors, this has resulted in a sharp decrease in the oil price and the stock market indices, as well as a depreciation of the Kyrgyz Som. These developments are further increasing the level of uncertainty in the Kyrgyzstan business environment.

The financial statements reflect management's assessment of the impact of the Kyrgyz business environment on the operations and financial position of the Bank. The future business environment may differ from management's assessment

2 Basis of accounting

(a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). This is the first set of the Bank's annual financial statements in which *IFRS 16 Leases* has been applied. Changes to significant accounting policies are described in Note 2(e)(i).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

The functional currency of the Bank is the Kyrgyz Som (“KGS”) as, being the national currency of the Kyrgyz Republic, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The KGS is also the presentation currency for the purposes of these financial statements.

Financial information presented in KGS is rounded to the nearest thousand.

(d) Use of estimates and judgments

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank’s accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- Classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 3(e)(i).
- Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL - Note 4.

Assumptions and estimations uncertainty

Information about significant assumptions and estimation uncertainties is as follows:

- Impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 4, for impairment of loans to customers – Note 13.
- Estimates of fair value of financial assets and liabilities – Note 31.

(e) Changes in accounting policies and presentation

(i) Changes in comparative information

The following adjustments have been made to ensure comparability with the presentation of the current period:

- In the statement of profit or loss and other comprehensive income for the year ended 31 December 2018:

	As previously reported	Reclassification	As reclassified
Impairment losses for interest bearing assets	(316,775)	(15,616)	(332,391)
Impairment losses on other assets and credit-related commitments	(31,085)	15,616	(15,469)

(ii) Changes in accounting policy

IFRS 16 Leases

The Bank has initially applied IFRS 16 from 1 January 2019.

A number of other new amendments to the existing standards and interpretations are also effective from 1 January 2019 but they do not have a material effect on the Bank’s financial statements.

IFRS 16 replaces leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases.

In addition, the nature of expenses related to those leases changed as IFRS 16 replaced the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Definition of a lease

Previously, the Bank determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining Whether an Arrangement Contains a Lease. The Bank now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Bank applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component and non-lease component on the basis of its relative stand-alone prices.

As a lessee

As a lessee, the Bank previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Bank. Under IFRS 16, the Bank recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet. The Bank presents right-of-use assets that do not meet the definition of investment property in ‘property, plant and equipment’, the same line item as it presents underlying assets of the same nature that it owns.

	Property, plant and equipment	
	Property	Total
Balance at 1 January 2019	175,251	175,251
Balance at 31 December 2019	141,989	141,989

The Bank presents lease liabilities in “Other liabilities” in the statement of financial position.

(iii) Transition

Previously, the Bank classified leases of property as operating leases under IAS 17. The leases typically run for different periods of time. None of the lease contracts contain a clause of significant penalty payment for the lease agreement early termination.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Bank used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 month of lease term and where relocation costs are non-significant.

Impacts on transition

On transition to IFRS 16, the Bank recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

	1 January 2019
Right-of-use assets	175,251
Deferred tax asset	331
Lease liabilities	178,559
Retained earnings	3,305

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019. The Bank applied USD and KGS borrowing rates for lease contracts where lease payments are denominated in USD and KGS, respectively. The USD and KGS borrowing rates applied are 3.2% and 8.5%, respectively.

Impacts for the period

As a result of initially applying IFRS 16, in relation to the leases were previously classified as operating leases, the Bank recognised KGS 141,989 thousand of right-of-use assets and KGS 147,736 thousand of lease liabilities as at 31 December 2019.

In addition, in relation to those leases under IFRS 16, the Bank has recognised depreciation and interest costs, instead of operating lease expense. During the year ended 31 December 2019, the Bank recognised KGS 46,806 thousand of depreciation charges and KGS 7,974 thousand of interest costs from these leases.

3 Significant accounting policies

Except for the changes disclosed in Note 2(e)(ii), the Bank has consistently applied the following accounting policies to all periods presented in these financial statements.

(a) Interest

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 3(e)(iv).

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes interest on financial assets measured at amortised cost.

Interest expense presented in the statement of profit or loss and other comprehensive income includes interest on financial liabilities measured at amortised cost.

(b) Fees, commission and other income and expenses

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see Note 3(a)).

Other fee and commission income – including cash transaction fees, settlement fees and other fees - is recognised as the related services are performed.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Other income and expense items are recognized in profit or loss when the corresponding service is provided.

(c) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss.

(d) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the NBKR and other banks, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(e) Financial assets and financial liabilities**(i) Classification**

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Financial liabilities

The Bank classified its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

(ii) Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iii) Modification of financial assets and financial liabilities**Financial assets**

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Bank due to changes in the NBKR key rate, if the loan agreement entitles the Bank to do so.

The Bank performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Bank assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In making this evaluation the Bank analogizes to the guidance on the derecognition of financial liabilities.

The Bank concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement;

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. The Bank further performs qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortised cost does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see Note 3(e)(iv)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method (see Note 3(a)).

For fixed-rate loans, where the borrower has an option to prepay the loan at par without significant penalty, the Bank treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

Bank performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Bank concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(iv) Impairment

See also Note 4.

The Bank recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- finance leases;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition (see Note 4).

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1' financial instruments. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised are referred to as 'Stage 2' financial instruments.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the present value of expected payments to reimburse the holder less any amounts that the Bank expects to recover.

See also Note 4.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see Note 3(e)(iii)) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 4).
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and finance leases are credit-impaired referred to as 'Stage 3 financial assets'. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

(f) Loans to customers

'Loans to customers' caption in the statement of financial position include loans to customers measured at amortised cost and finance leases (see Note 3(e)(i)). Loans to customers are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

(g) Investment securities

The 'investment securities' caption in the statement of financial position includes debt investment securities measured at amortised cost (see Note 3(e)(i)). Investment securities these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

(h) Deposits, borrowings and subordinated liabilities

Deposits, borrowings and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(i) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. Liabilities arising from financial guarantees and loan commitments are included within provisions.

(j) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses. Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings	50 years;
Other constructions	10 – 25 years;
Leasehold improvements	1 years;
Office equipment	3 – 15 years;
Computers	3 – 10 years;
Motor vehicles	5 – 15 years.

(k) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 5 to 10 years.

(l) Foreclosed property

Foreclosed property is classified as held for sale and is measured at the fair value less cost to sell.

(m) Government grants

Government grants are assistance by the Government, Government agencies and state-owned entities in the form of transfers of resources to the Bank in return for past or future compliance with certain conditions relating to the operating activities of the Bank. Government grants are not recognised until there is reasonable assurance that the Bank will comply with the conditions attaching to them and the grants will be received.

The benefit of a government loan at a below-market rate of interest is treated as a government grant. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan determined as discussed in the Note 3(e)(iii) and the proceeds received.

Government grants are recognised in profit or loss as "Amortisation of government grant" income line item on a systematic basis over the periods in which the Bank recognises as expenses the related costs for which the grants are intended to compensate.

Amortisation of government grant in the form of prepaid interest by the Ministry of Finance of the Kyrgyz Republic (Note 22) is recognized in "Amortization of government grant" income line on a straight-line basis over the term of the related loans to customers.

(n) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of Kyrgyz legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(o) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

In determining the amount of current and deferred tax the Bank takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Bank believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

(p) Leases

The Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Bank by the end of the lease term or the cost of the right-of-use asset reflects that the Bank will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) As a lessor

At inception or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Bank acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Bank applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease (see Note 13). The Bank further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Bank recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

Generally, the accounting policies applicable to the Bank as a lessor in the comparative period were not different from IFRS 16.

Policy applicable before 1 January 2019

Lease transactions were classified as either financing or operating leases at inception in accordance with IAS 17 *Leases*.

Finance leases were leases that transfer substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. Whether a lease was a finance lease or an operating lease depended on the substance of the transaction rather than the form of the contract.

The lease was classified as a finance lease if:

- The lease transferred ownership of the asset to the lessee by the end of the lease term;
- The lessee had the option to purchase the asset at a price which was expected to be sufficiently lower than the fair value at the date the option became exercisable such that, at the inception of the lease, it was reasonably certain that the option will be exercised;
- The lease term was for the major part of the economic life of the asset even if title was not transferred;
- At the inception of the lease the present value of the minimum lease payments amounted to at least substantially all of the fair value of the leased asset; or
- The leased assets were of a specialised nature such that only the lessee could use them without major modifications being made.

The Bank as a lessor initially measured finance leases at an amount equal to net investment in the lease. Subsequently the recognition of finance income was based on a pattern reflecting a constant periodic rate of return on the Bank's net investment in the finance lease.

(q) Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application if permitted. However, the Bank has not early adopted the following new or amended standards in the preparing these financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Bank's financial statements.

- *Amendments to References to Conceptual Framework in IFRS Standards;*
- *Definition of a Business (Amendments to IFRS 3);*
- *Definition of Material (Amendments to IAS 1 and IAS 8);*
- *IFRS 17 Insurance Contracts.*

4 Financial risk review

This note presents information about the Bank's exposure to financial risks. For information on the Bank's financial risk management framework, see Note 24.

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3(e)(iv).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank uses the following criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in probability of default (PD);
- qualitative indicators, such as prolongation and restructures;
- for correspondent and current accounts overdue by 7 days. A delay of more than 7 days indicates a significant increase in credit risk;
- overdue - other than 30 days. There is a significant increase in credit risk when, despite the fact that, at the reporting date, overdue days were less than 30 days, there was at least one case of over 60 days overdue during the past 6 months;
- change of external corporate credit rating. A significant change in grades at a rating by agencies (Standard & Poor's ('S&P'), Moody's and Fitch) indicates a significant increase in credit risk. A significant increase in credit risk is taken into account when the S&P rating is lowered every time by 1 level, starting from BB (or its equivalent under the Moody's and Fitch scheme). In cases where a counterparty does not have a corporate rating valued by rating agency and the Bank does not have an equivalent internal rating system, the "C" rating is taken into account;
- default ("Stage 3") for the last 12 months. There is a significant increase in credit risk when, despite the fact that at the reporting date the balance is not classified as default, the debt over the past 12 months was at least once in the Stage 3.

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting period. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region. What is considered significant will differ for different types of lending, in particular between corporate and retail.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgement and relevant historical experience.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due or was restructured during the last 12 months before reporting date. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases the Bank determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes history of up-to-date payment performance against the modified contractual terms.

Definition of default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Bank formulates three economic scenarios: a basic case, which is the median scenario and two less likely scenarios, one optimistic and one pessimistic.

The basic scenario is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the country where the Bank operates, such as the National Statistic Committee and the Ministry of Economy of the Kyrgyz Republic, as well as international bodies such as World Bank and International Monetary Fund.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data of 2013-2019, has estimated relationships between macro-economic variables and credit risk and credit losses.

The basic economic scenarios used for loan portfolio as at 31 December 2019 and 31 December 2018 included the following key indicators for the Kyrgyz Republic:

Macroeconomic variables	2019	2018
Nominal GDP (in billion KGS)	580	538
Annual transfers (inflow, in million USD)	2,348	1,746
Unemployment rate (in %)	7.36	8.18
Official exchange rate (KGS per USD, average)	69.79	73.59
Agriculture, added value (% in GDP)	19.07	12.52
Ratio of Non-Performing loans to total Loan Portfolio (in %)	17.89	14.90
Goods trade (% of GDP)	76.15	65.35

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(e)(iii).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 3(e)(iv)). A customer needs to demonstrate consistently good payment behavior over a two-year period before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

Generating the term structure of PD:

In calculating the ECL, as indicated above, the weighted average PD (adjusted by macroeconomic factor) for stage 1 is used, and the marginal PD (adjusted by macroeconomic coefficient) is used for stages 2 and 3.

The probability of default (PD,%) for loan is calculated using the Markov chains method, namely, stochastic loan transition matrices over the intervals of overdue periods during a given analysed period.

As such a period, the Bank decided to use an interval of 5 years. The annual interval is chosen due to the fact that the average loan term is 5 years.

For the calculation of PD, all loans are allocated to portfolios and stages. Then the same portfolio of loans is ranked by data categories at the end of the period under consideration.

Calculation of LGD:

The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV (loan-to-value) ratios are a key parameter in determining LGD. LTV ratios are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD:

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EAD is potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the guarantee exposure when the financial guarantee becomes payable.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- borrower type;
- credit risk gradings;
- collateral type;

- date of initial recognition;
- remaining term to maturity;
- industry.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

	Exposure	External benchmarks used	
		PD	LGD
Cash and cash equivalents	5,211,757	Moody's	Moody's
Investments in securities	2,635,719	Moody's	Moody's

5 Net interest income

	2019 KGS'000	2018 KGS'000
Interest income calculated using effective interest method		
Loans to customers	2,308,787	1,982,621
Investments in securities	335,721	247,995
Loans and advances to banks and other financial institutions	23,714	6,456
Cash and cash equivalents	297	4,302
	2,668,519	2,241,374
Amortisation of government grant (Notes 13, 22)	324,997	407,319
Other interest income	114,731	97,804
Interest expense		
Current accounts and deposits from customers	727,852	718,486
Other borrowed funds	395,125	298,597
Amounts owed to the National Bank of the Kyrgyz Republic	74,387	92,234
Amounts owed to the Ministry of Finance of the Kyrgyz Republic	64,927	63,329
Repurchase agreements	5,748	461
Deposits and balances from banks	950	1,287
	1,268,989	1,174,394
	1,839,258	1,572,103

6 Fee and commission income

	2019 KGS'000	2018 KGS'000
Cash transactions fees	216,102	208,820
Settlement	82,682	71,501
Commission income for payment cards	22,649	21,615
Commission fee for storage of valuables	4,406	4,447
Other	3,760	5,956
	329,599	312,339

Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it provides a service to a customer.

Nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies is as follows:

The Bank provides banking services to retail and corporate customers, including account management, cash and settlement transactions, foreign currency transactions and servicing fees.

Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rates separately for retail and corporate customers.

Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place.

Servicing fees are charged on a monthly basis and are based on fixed rates.

Revenue from account service and servicing fees is recognised over time as the services are provided.

Revenue related to transactions is recognised at the point in time when the transaction takes place.

7 Fee and commission expense

	2019 KGS'000	2018 KGS'000
Cash transactions fees	12,910	11,534
Settlement	14,195	9,422
Commission expenses for payment cards	30,027	23,986
Commission fees for storage of valuables	2,670	2,893
Other commission expenses	26,929	22,000
	86,731	69,835

8 Net foreign exchange gain

	2019 KGS'000	2018 KGS'000
Gain on spot transactions	111,656	145,669
Loss from revaluation of financial assets and liabilities	(2,721)	(735)
	108,935	144,934

9 Impairment losses/(recovery)

	2019 KGS'000	2018 KGS'000
On interest-bearing assets		
Loans to customers	711,991	316,775
Investment securities	(23,444)	15,960
Cash and cash equivalents	(753)	(344)
	687,794	332,391
On other assets		
Foreclosed assets	220,863	-
Other assets	700	(26)
	221,563	(26)
On credit-related commitments	(25,838)	15,495

10 Operating expenses

	2019 KGS'000	2018 KGS'000
Employee compensation	703,669	757,171
Payroll related taxes	118,426	129,544
	822,095	886,715
Depreciation and amortisation	101,170	86,378
Security services	49,857	49,917
Depreciation of right of use assets	46,806	-
Repairs and maintenance	42,679	45,940
Rent	22,178	62,550
Stationery and office supplies	14,585	14,981
Professional services	12,542	7,373
Advertising and marketing	12,276	15,422
Utilities	11,004	11,764
Communication and information services	10,617	10,579
Travel expenses	5,942	6,291
Taxes other than on income	3,486	3,475
Training	2,832	10,492
Representative expenses	2,475	4,803
Other	5,765	11,868
	1,166,309	1,228,548

11 Income tax expense

	2019 KGS'000	2018 KGS'000
Current year tax expense	15,135	42,895
Deferred taxation movement due to origination and reversal of temporary differences	(2,653)	6,172
Total income tax expense	12,482	49,067

On 31 December 2019, the applicable tax rate for current and deferred tax is 10% (31 December 2018: 10%).

Reconciliation of effective tax rate:

	2019 KGS'000	%	2018 KGS'000	%
Profit before income tax	157,294	100	421,825	100
Income tax at the applicable tax rate	15,729	10	42,183	10
(Non-taxable income)/non-deductible costs	(3,247)	(2)	6,884	2
	12,482	8	49,067	12

(a) Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liability as at 31 December 2019 and 2018.

Movements in temporary differences during the reporting periods ended 31 December 2019 and 31 December 2018 are presented as follows:

2019 KGS'000	Balance at 1 January 2019	Recognised in profit or loss	Balance at 31 December 2019
Property and equipment	(22,349)	1,085	(21,264)
Right of use assets	-	(14,199)	(14,199)
Loans to customers	(18,026)	1,741	(16,285)
Investment securities	1,916	(748)	1,168
Lease liabilities	-	14,774	14,774
	(38,459)	2,653	(35,806)

2018 KGS'000	Balance at 1 January 2018	Recognised in profit or loss	Recognised in equity	Balance at 31 December 2018
Property and equipment	(18,150)	(4,199)	-	(22,349)
Loans to customers	-	(1,973)	(16,053)	(18,026)
Investment securities	-	-	1,916	1,916
	(18,150)	(6,172)	(14,137)	(38,459)

12 Cash and cash equivalents

	2019 KGS'000	2018 KGS'000
Cash on hand	1,518,469	1,429,368
Nostro accounts with the NBKR	1,031,098	2,566,521
Nostro accounts with other banks		
- rated from A- to AA+	1,098,306	1,114,809
- rated BBB	859,086	790
- rated from BB- to BB+	11,270	339,112
- rated below B+	5,339	252,896
- not rated	6,885	6,236
Total nostro accounts with other banks	1,980,886	1,713,843
Cash equivalents		
- Term deposit with the NBKR with original maturity less than three months, rated B	2,200,000	-
- Notes of the NBKR with original maturity less than three months, rated B	-	99,865
Total cash equivalents	2,200,000	99,865
Total cash and cash equivalents	6,730,453	5,809,597
Less loss allowance	(227)	(1,308)
	6,730,226	5,808,289

The credit ratings are presented by reference to the credit ratings of Moody's credit ratings agency or other agencies converted into Moody's scale. No placements with banks are past due.

As at 31 December 2019 the Bank has balances with 4 banks (31 December 2018: 3 banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2019 is KGS 4,862,878 thousand (31 December 2018: KGS 3,781,456 thousand).

The following tables show reconciliations from the opening to the closing balances of the loss allowance for cash and cash equivalents.

	2019		2018	
	Stage 1	Total	Stage 1	Total
Cash and cash equivalents				
Balance at 1 January	(1,308)	(1,308)	1,653	1,653
Net remeasurement of loss allowance	753	753	(3,305)	(3,305)
Effect of foreign currency translation	328	328	344	344
Balance at 31 December	(227)	(227)	(1,308)	(1,308)

13 Loans to customers

	2019 KGS'000	2018 KGS'000
Loans to corporate customers	5,110,976	5,745,004
Loans to retail customers and other loans		
Loans to small businesses	11,495,133	10,131,864
Mortgage loans	1,732,138	1,618,632
Finance leases	1,471,944	1,406,817
Consumer loans	884,823	849,182
Total loans to retail customers	15,584,038	14,006,495
Gross loans to customers	20,695,014	19,751,499
Impairment allowance	(1,664,485)	(996,916)
Net loans to customers	19,030,529	18,754,583

Agreements with the Ministry of Finance of the Kyrgyz Republic (“MFKR”)

Subsidized agricultural financing

On 12 January 2013, the Government of the Kyrgyz Republic approved the “Financing of agricultural sector” project on provision of subsidised loans to the local banks. Under this project, the Bank signed eight agreements during 2013-2019 with the MFKR for a receipt of a subsidy with a purpose of providing government assistance to agricultural producers for autumn-spring seeding, cattle breeding and agricultural processing in the Kyrgyz Republic (Note 22).

The Bank provides eligible agricultural producers with loans at 6-10% per annum depending on the duration of loans, using its own funds. The MFKR provides additional interest of 11% per annum for loans issued in 2017; 8.33% per annum – for loans issued in 2018 and 7.49% per annum – for loans issued in 2019. The MFKR makes annual prepayments of additional interest for each for the next twelve months periods of the issued loans duration. The Bank recognizes such annual prepayments on a monthly basis under “amortization of government grant” caption in the statement of profit or loss and other comprehensive income (Note 5).

As at 31 December 2019 included in small business loans are loans with net carrying amount of KGS 2,593,206 thousand (31 December 2018: KGS 3,122,776 thousand) issued under this program.

Development of regions

On 11 December 2019 the Bank signed an agreement with the MFKR for provision of KGS 250 million to the Bank for the purpose of issuing and refinancing the projects targeted at regional development in the Kyrgyz Republic. The loans are provided to eligible borrowers at 6-10% depending on the region, term and purpose of the loan (Note 19).

Agreement with the State Mortgage Company

Under implementation of “Affordable Housing 2015-2020” Program (the “Program”) of the Government of the Kyrgyz Republic, the Bank signed a General Agreement for Cooperation with the State Mortgage Company (the “SMC”) on 1 February 2016. In accordance with this agreement, the Bank provides mortgage loans to the citizens of the Kyrgyz Republic for purchase of social housing based on the approved by the SMC list of eligible borrowers at 9-12% per annum with maturity of 15 years (Note 23).

Agreements with Russian Kyrgyz Development Fund

Under the program on development of small and medium enterprises of the Russian Kyrgyz Development Fund (“RKDF”), the Banks receives financing for issuing loans to small and medium enterprises operating in specified sectors of economy in the Kyrgyz Republic at interest rates of 10-13% for KGS loans and 6-8% for USD loans depending on the purpose, term and industry of the loans (Note 23).

At initial recognition the Bank does not discount the loans issued under the above development programs as they are considered separate market segments and provided at market rates (Note 26).

(a) Finance lease

Included in loans to customers are amounts of finance lease receivables for leases of agricultural equipment where the Bank is a lessor are the following:

	2019 KGS'000	2018 KGS'000
Within one year	323,636	360,647
More than one year, but less than five years	1,329,827	1,161,986
More than 5 years	222,520	175,235
Minimum lease payments	1,875,983	1,697,868
Less unearned finance income		
Within one year	(120,471)	(94,674)
More than one year, but less than five years	(266,896)	(183,607)
More than 5 years	(16,672)	(12,770)
Less unearned finance income, total	(404,039)	(291,051)
Less impairment allowance	(48,785)	(92,487)
Net finance lease investments	1,423,159	1,314,330

(b) Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost as at 31 December 2019. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms: Stage 1, Stage 2 and Stage 3 are included in Note 3(e)(iv).

KGS'000	Stage 1	Stage 2	Stage 3	Total
Loans to corporate customers				
Not overdue	2,842,568	60,876	540,440	3,443,884
Overdue less than 30 days	-	-	240,895	240,895
Overdue 30-89 days	-	-	379,412	379,412
Overdue 90-179 days	-	-	555,673	555,673
Overdue more than 180 days	-	-	491,112	491,112
	2,842,568	60,876	2,207,532	5,110,976
Loss allowance	(136,228)	(10,591)	(1,086,608)	(1,233,427)
Carrying amount	2,706,340	50,285	1,120,924	3,877,549
Loans to small businesses				
Not overdue	10,937,197	28,316	292,441	11,257,954
Overdue less than 30 days	-	4,411	39,795	44,206
Overdue 30-89 days	-	1,526	75,613	77,139
Overdue 90-179 days	-	-	38,890	38,890
Overdue more than 180 days	-	-	76,944	76,944
	10,937,197	34,253	523,683	11,495,133
Loss allowance	(187,445)	(745)	(140,333)	(328,523)
Carrying amount	10,749,752	33,508	383,350	11,166,610
Mortgage loans				
Not overdue	1,689,889	3,102	30,717	1,723,708
Overdue less than 30 days	-	-	7,072	7,072
Overdue 30-89 days	-	-	1,358	1,358
	1,689,889	3,102	39,147	1,732,138
Loss allowance	(13,970)	(68)	(24,826)	(38,864)
Carrying amount	1,675,919	3,034	14,321	1,693,274
Finance leases				
Not overdue	1,260,758	5,021	177,288	1,443,067
Overdue less than 30 days	-	-	1,071	1,071
Overdue 30-89 days	-	-	15,287	15,287
Overdue 90-179 days	-	-	3,051	3,051
Overdue more than 180 days	-	-	9,468	9,468
	1,260,758	5,021	206,165	1,471,944
Loss allowance	(4,070)	-	(44,715)	(48,785)
Carrying amount	1,256,688	5,021	161,450	1,423,159

Consumer loans				
Not overdue	845,909	142	20,911	866,962
Overdue less than 30 days	-	-	3,721	3,721
Overdue 30-89 days	-	-	5,046	5,046
Overdue 90-179 days	-	-	3,352	3,352
Overdue more than 180 days	-	-	5,742	5,742
	845,909	142	38,772	884,823
Loss allowance	(6,082)	-	(8,804)	(14,886)
Carrying amount	839,827	142	29,968	869,937
Total loans to retail customers and other loans				
	14,733,753	42,518	807,767	15,584,038
Loss allowance	(211,567)	(813)	(218,678)	(431,058)
Loans to retail customers net of loss allowance	14,522,186	41,705	589,089	15,152,980
Total loans to customers	17,576,321	103,394	3,015,299	20,695,014
Total loss allowance	(347,795)	(11,404)	(1,305,286)	(1,664,485)
Loans to customers net of impairment allowance	17,228,526	91,990	1,710,013	19,030,529

The following table provides information on the credit quality of loans to customers as at 31 December 2018:

KGS'000	Stage 1	Stage 2	Stage 3	Total
Loans to corporate customers				
Not overdue	4,455,672	-	1,147,746	5,603,418
Overdue less than 30 days	54,965	-	11,276	66,241
Overdue 30-89 days	-	-	16,152	16,152
Overdue 90-179 days	-	-	68	68
Overdue more than 180 days	-	-	59,125	59,125
	4,510,637	-	1,234,367	5,745,004
Loss allowance	(145,597)	-	(407,266)	(552,863)
Carrying amount	4,365,040	-	827,101	5,192,141
Loans to small businesses				
Not overdue	9,692,723	153	265,826	9,958,702
Overdue less than 30 days	26,002	-	33,318	59,320
Overdue 30-89 days	-	-	34,683	34,683
Overdue 90-179 days	-	-	22,265	22,265
Overdue more than 180 days	-	-	56,894	56,894
	9,718,725	153	412,986	10,131,864
Loss allowance	(91,473)	(73)	(209,119)	(300,665)
Carrying amount	9,627,252	80	203,867	9,831,199
Mortgage loans				
Not overdue	1,597,888	-	14,504	1,612,392
Overdue less than 30 days	2,695	-	1,891	4,586
Overdue 30-89 days	-	-	1,654	1,654
	1,600,583	-	18,049	1,618,632
Loss allowance	(15,369)	-	(5,836)	(21,205)
Carrying amount	1,585,214	-	12,213	1,597,427
Finance leases				
Not overdue	1,003,614	-	370,949	1,374,563
Overdue less than 30 days	-	-	28,977	28,977
Overdue 30-89 days	-	-	1,472	1,472
Overdue 90-179 days	-	-	409	409
Overdue more than 180 days	-	-	1,396	1,396
	1,003,614	-	403,203	1,406,817
Loss allowance	(18,835)	-	(73,652)	(92,487)
Carrying amount	984,779	-	329,551	1,314,330

Consumer loans				
Not overdue	813,979	-	17,353	831,332
Overdue less than 30 days	1,674	-	3,761	5,435
Overdue 30-89 days	-	-	3,696	3,696
Overdue 90-179 days	-	-	2,984	2,984
Overdue more than 180 days	-	-	5,735	5,735
	815,653	-	33,529	849,182
Loss allowance	(10,775)	-	(18,921)	(29,696)
Carrying amount	804,878	-	14,608	819,486
Total loans to retail customers and other loans				
	13,138,575	153	867,767	14,006,495
Loss allowance	(136,452)	(73)	(307,528)	(444,053)
Loans to retail customers net of loss allowance	13,002,123	80	560,239	13,562,442
Total loans to customers				
	17,649,212	153	2,102,134	19,751,499
Total loss allowance	(282,049)	(73)	(714,794)	(996,916)
Loans to customers net of impairment allowance	17,367,163	80	1,387,340	18,754,583

Modified financial assets

As at 31 December 2019 and 2018 loans with overdue days less than 90 classified as Stage 3 in the tables above are represented mainly by loans restructured due to financial difficulties of the borrowers and for which cure period has not passed yet.

(c) Collateral held and other credit enhancements

The following tables provides information on collateral and other credit enhancements securing loans to customers by types of collateral as at 31 December 2019:

	Gross carrying amount	Loss allowance	Carrying amount	Collateral			Total
				Real estate	Cash deposit	Collateral-free (unsecured)	
Loans to corporate customers	5,110,976	(1,233,427)	3,877,549	3,794,606	9,354	73,589	3,877,549
Loans to small business	11,495,133	(328,523)	11,166,610	10,942,980	820	222,810	11,166,610
Finance leases	1,471,944	(48,785)	1,423,159	984,788	-	438,371	1,423,159
Mortgage loans	1,732,138	(38,864)	1,693,274	1,693,274	-	-	1,693,274
Consumer loans	884,823	(14,886)	869,937	833,255	-	36,682	869,937
Total loans to customers	20,695,014	(1,664,485)	19,030,529	18,248,903	10,174	771,452	19,030,529

Consumer loans comprise mortgage and consumer loans secured by underlying real estate and unsecured consumer loans.

The following table sets out information about loans to customers that are credit-impaired as at 31 December 2019, and about collateral securing these loans, which have been provided to reduce possible losses:

	Gross carrying amount	Loss allowance	Carrying amount	Fair value of collateral			Total
				Real estate	Cash deposit	Collateral-free (unsecured)	
Loans to corporate customers	2,207,532	(1,086,608)	1,120,924	1,117,182	-	3,742	1,120,924
Loans to small business	523,683	(140,333)	383,350	382,426	-	924	383,350
Finance leases	206,165	(44,715)	161,450	43,957	-	117,493	161,450
Mortgage loans	39,147	(24,826)	14,321	14,321	-	-	14,321
Consumer loans	38,772	(8,804)	29,968	29,013	-	955	29,968
Total loans to customers	3,015,299	(1,305,286)	1,710,013	1,586,899	-	123,114	1,710,013

The amounts shown in the tables above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

(d) Fair value of collateral

The Bank's policy is to issue loans with a loan-to-value ratio of a maximum of 83.3%.

For certain loans the Bank updates the appraised values of collateral obtained at inception of the loan to the current values considering the approximate changes in property values. The Bank may also obtain a specific individual valuation of collateral at each reporting date where there are indications of impairment.

(e) Repossessed collateral

During the year ended 31 December 2019, the Bank obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of KGS 371,036 thousand (2018: KGS 85,996 thousand). Repossessed collaterals are presented in Other Assets line item as foreclosed property. Bank's practice is to sell this property or to transfer it to finance lease.

(f) Pledged assets

As at 31 December 2019 loans issued to corporates and small businesses, with a net carrying amount of KGS 1,810,456 thousand serve as collateral for loans provided to the Bank by the National Bank of the Kyrgyz Republic (31 December 2018: KGS 3,110,931 thousand) (Note 20). In addition, loans to small businesses, with a net carrying amount of KGS 3,082,643 thousand (31 December 2018: KGS 3,621,861 thousand) serve as collateral for the loan provided to the Bank by the Russian-Kyrgyz Development Fund (Note 23).

(g) Sensitivity analysis

Changes in estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the impairment allowance on loans to corporate customers as at 31 December 2019 would be KGS 38,775 thousand lower/higher (31 December 2018: KGS 51,921 thousand lower/higher).

Changes in estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the impairment allowance on loans to retail customers as at 31 December 2019 would be KGS 151,530 thousand lower/higher (31 December 2018: KGS 135,624 thousand).

(h) Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Kyrgyz Republic who operate in the following economic sectors:

	2019 KGS'000	2018 KGS'000
Agricultural loans		
Animal breeding loans, including:		
- Loans for cattle herd expansion	5,293,148	4,279,779
- Loans for sheep breeding	688,964	651,576
- Loans for horse breeding	1,225,794	1,005,512
- Other	410,585	316,795
Plant production loans, including:		
- Finance leases	1,471,944	1,406,817
- Loans for vegetable farming	341,906	421,701
- Loans for grain crops	200,598	287,923
- Other	350,921	220,815
Poultry, bee-farming and other agricultural loans	93,432	122,796
Total agricultural loans	10,077,292	8,713,714
Trade loans	2,710,228	1,944,500
Manufacturing and primary processing loans	2,742,881	2,905,754
Consumer loans	884,823	849,182
Services loans	986,270	1,438,466
Mortgage loans	1,732,138	1,618,632
Construction loans	998,352	1,793,240
Transportation	339,242	392,732
Other loans to small-sized companies	223,788	95,279
Total loans to customers	20,695,014	19,751,499
Loss allowance	(1,664,485)	(996,916)
Loans to customers net of impairment allowance	19,030,529	18,754,583

(i) Significant credit exposures

As at 31 December 2019 and 2018, the Bank did not have borrowers or groups of related borrowers, whose loan balances exceeded 10% of equity.

(j) Loan maturities

The maturity of the Bank's loan portfolio is presented in Note 26(d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

(k) Classification of loans

During 2019 and 2018 the Bank applied the loan portfolio classification as follows:

- 1) Loans to corporate customers are loans issued to legal entities and entrepreneurs, with loan amount of up to KGS 20 million, and/or having annual turnover of above KGS 30 million, and/or annual volume of certain money transfer transactions and conversion transaction from above KGS 50 million;
- 2) Loans to retail customers are all other loans.

14 Investments in securities

	2019 KGS'000	2018 KGS'000
Held by the Bank and measured at amortised cost		
- Treasury bills of the Ministry of Finance of the Kyrgyz Republic	2,647,394	3,572,947
	2,647,394	3,572,947
Less loss allowance	(11,675)	(35,119)
	2,635,719	3,537,828

As at 31 December 2018 all investments in securities are classified as Stage 1. As at 31 December 2019 no investments in securities are past due.

(a) Pledged assets

As at 31 December 2019 investments in securities of KGS 318,379 thousand serve as collateral for loans provided to the Bank by the National Bank of the Kyrgyz Republic (31 December 2018: KGS 324,442 thousand) (Note 20). As at 31 December 2019 investments in securities of KGS 391,033 thousand serve as collateral for loans provided to the Bank by the Russian-Kyrgyz Development Fund (31 December 2018: there were no investment securities which served as collateral) (Note 23).

(b) Credit quality of investments in securities

	2019		2018	
	Stage 1	Total	Stage 1	Total
- rated BB-	2,635,719	2,635,719	3,537,828	3,537,828
Carrying amount	2,635,719	2,635,719	3,537,828	3,537,828

(c) Analysis of movements in loss allowance

The following tables show reconciliations from the opening to the closing balances of the loss allowance for investment securities.

	2019		2018	
	Stage 1	Total	Stage 1	Total
Balance at 1 January	35,119	35,119	-	-
Net remeasurement of loss allowance	(26,998)	(26,998)	35,119	35,119
New financial assets originated or purchased	3,554	3,554	-	-
Balance at 31 December	11,675	11,675	35,119	35,119

As at 31 December 2019 and 2018 treasury bonds of the Ministry of Finance of the Kyrgyz Republic in the amount of KGS 709,412 thousand and KGS 888,816 thousand, respectively, served as a collateral for the loans received (Note 19).

None of the investment securities are past due.

15 Property, equipment and intangible assets

As at 31 December 2019 and 2018, property, plant and equipment and intangible assets of the Bank consisted of the following:

KGS'000	Land, buildings, construction and leasehold improvements	Office equipment	Computers	Motor vehicles	Computer software	Right-of-use assets	Total
<i>Cost</i>							
Balance at 1 January 2019	231,614	418,249	158,335	76,810	132,657	-	1,017,665
Effect of adopting IFRS 16	-	-	-	-	-	175,251	175,251
Restated balance as at 1 January 2019	231,614	418,249	158,335	76,810	132,657	175,251	1,192,916
Additions	8,228	67,182	61,221	9,862	7,695	13,543	167,731
Disposals	(23)	(13,394)	(7,908)	(3,730)	-	(1,177)	(26,232)
At 31 December 2019	239,819	472,037	211,648	82,942	140,352	187,617	1,334,415
<i>Depreciation and amortization</i>							
Balance at 1 January 2019	(38,203)	(167,146)	(70,942)	(24,488)	(42,438)	-	(343,217)
Depreciation and amortisation for the year	(6,480)	(50,222)	(29,946)	(5,955)	(8,567)	(46,806)	(147,976)
Disposals	68	10,716	7,843	2,886	-	1,177	22,690
At 31 December 2019	(44,615)	(206,652)	(93,045)	(27,557)	(51,005)	(45,629)	(468,503)
<i>Carrying amount</i>							
At 31 December 2019	195,204	265,385	118,603	55,385	89,347	141,988	865,912

KGS'000	Land, buildings, construction and leasehold improvements	Office equipment	Computers	Motor vehicles	Computer software	Total
<i>Cost</i>						
Balance at 1 January 2018	189,706	365,436	144,472	66,123	83,008	848,745
Additions	46,406	64,524	17,982	13,593	49,649	192,154
Disposals	(4,497)	(11,711)	(4,119)	(2,906)	-	(23,233)
At 31 December 2018	231,615	418,249	158,335	76,810	132,657	1,017,666
<i>Depreciation and amortization</i>						
Balance at 1 January 2018	(31,619)	(133,742)	(55,555)	(22,034)	(34,280)	(277,230)
Depreciation and amortisation for the year	(9,336)	(44,591)	(19,408)	(4,885)	(8,158)	(86,378)
Disposals	2,752	11,187	4,021	2,431	-	20,391
At 31 December 2018	(38,203)	(167,146)	(70,942)	(24,488)	(42,438)	(343,217)
<i>Carrying amount</i>						
At 31 December 2018	193,412	251,103	87,393	52,322	90,219	674,449

There are no capitalized borrowing costs related to the acquisition or construction of property and equipment during the year ended 31 December 2019 (31 December 2018: nil).

As at 31 December 2019 and 2018 fully depreciated property, plant and equipment equaled KGS 127,884 thousand and KGS 99,798 thousand, respectively.

16 Other assets

As at 31 December 2019 and 2018 other assets of the Bank consisted of the following:

	2019 KGS'000	2018 KGS'000
Receivables from MFKR related to interest subsidies	39,656	88,175
Cash assets in settlements	35,361	35,890
Other accounts receivable	17,791	18,838
Impairment allowance	(12,240)	(11,540)
Total other financial assets	80,568	131,363
Foreclosed property	701,905	166,272
Prepayments for finance lease equipment	100,523	-
Other prepayments	52,361	73,017
Materials and supplies	15,881	17,665
Assets held for sale	3,329	3,657
Prepayment of income tax	10,545	-
Less: loss allowance	(265,016)	(44,153)
Total other non-financial assets	619,528	216,458
Total other assets	700,096	347,821

Credit quality of other financial assets

The following table sets out information about the credit quality of other financial assets as at 31 December 2019 and 31 December 2018.

	2019		
	Stage 1	Stage 3	Total
<i>Other financial assets</i>			
- not overdue	86,112	-	86,112
- uncollectable	-	6,696	6,696
Total other financial assets	86,112	6,696	92,808
Loss allowance	(5,544)	(6,696)	(12,240)
Total other financial assets net of loss allowance	80,568	-	80,568
	2018		
	Stage 1	Stage 3	Total
<i>Other financial assets</i>			
- not overdue	136,921	-	136,921
- uncollectable	-	5,980	5,980
Total other financial assets	136,921	5,980	142,901
Loss allowance	(5,560)	(5,980)	(11,540)
Total other financial assets net of loss allowance	131,361	-	131,361

Analysis of movements in the impairment allowance

Movements in the impairment allowance for the year ended 31 December 2019 are as follows:

	Other financial assets KGS'000	Other non- financial assets KGS'000	Total KGS'000
Balance at the beginning of the year	11,540	44,153	55,693
Net remeasurement	700	(307)	393
New assets originated	-	221,170	221,170
Balance at the end of the year	12,240	265,016	277,256

Movements in the impairment allowance for the year ended 31 December 2018 are as follows:

	Other financial assets KGS'000	Other non- financial assets KGS'000	Total KGS'000
Balance at the beginning of the year	5,355	50,362	55,717
Net remeasurement	6,185	(6,209)	(24)
Balance at the end of the year	11,540	44,153	55,693

17 Deposits and balances from banks and other financial institutions

	2019 KGS'000	2018 KGS'000
Vostro accounts	233,912	51,389
Current accounts and demand deposits from other financial institutions	-	84,130
	233,912	135,519

As at 31 December 2019 and 2018, the Bank did not have banks or financial institutions, whose loan balances exceeded 10% of equity.

18 Current accounts and deposits from customers

	2019 KGS'000	2018 KGS'000
Current accounts and deposits from corporate customers		
- Current accounts and demand deposits	5,955,691	5,046,658
- Term deposits	2,148,314	1,236,699
	8,104,005	6,283,357
Current accounts and deposits from retail customers		
- Current accounts and demand deposits	1,560,823	1,358,602
- Term deposits	4,509,691	5,101,249
	6,070,514	6,459,851
	14,174,519	12,743,208

As at 31 December 2019, the Bank has four customers (2018: three customers), whose balances exceed 10% of equity. These balances as at 31 December 2019 are KGS 5,735,284 thousand (31 December 2018: KGS 3,237,230 thousand).

19 Amounts due to the Ministry of Finance of the Kyrgyz Republic

	2019 KGS'000	2018 KGS'000
Subordinated debt	908,671	908,278
Subordinated loans for international projects	271,437	346,499
Loans for provision of finance leases to customers	1,201,292	1,232,025
Other	252,241	2,079
	2,633,641	2,488,881

The subordinated liabilities will, in the event of the winding-up of the Bank, be subordinated to the claims of depositors and all other creditors of the Bank.

(a) Subordinated debt

On 21 October 2013, the Bank signed an agreement №19-05/31 and addenda in 2014 and 2015 with the Ministry of Finance of the Kyrgyz Republic (“MFKR”) under which the Bank received an interest-free subordinated debt with no maturity and with no collateral. The purpose of the debt was to provide funds for the provision of loans by the Bank for development of agricultural seeding, cattle breeding and other services. According to the terms of the agreements, the Bank has to repay the loans in case of change of the ownership of the Bank or refusal of the Bank to continue the lending projects. Moreover, the MFKR has a right to monitor the proper usage of the provided funds by reviewing quarterly and annual reports of funds utilisation, and by demand of the MFKR, the Bank has to conduct an independent verification of funds utilisation. Management believes that it is an on demand liability as the occurrence of a change of ownership, under which the MFKR may demand repayment of the debt, is out of control of management.

(b) Subordinated loans for international projects

Certain international development organisations provide funds to the MFKR, which are subsequently lent to the Bank as subordinated loans by MFKR. As at 31 December 2019 and 2018, the Bank has the following subordinated loans in respect of international projects:

	Currency	Nominal interest rate	Issue date	Maturity	2019 KGS'000	2018 KGS'000
The Institute regulated by state law and incorporated under the laws of the Federal Republic of Germany (“KfW”)						
Financing of Agricultural Production Supply Chain Project	KGS	6%	9 Nov 2016	9 Nov 2023	113,227	143,059
Asian Development Bank, Agricultural Area Development Project	KGS	Inflation rate	29 May 2002	1 Dec 2021	66,613	100,061
International Development Association, Agro-business and Marketing Project	KGS	Inflation rate	6 Aug 2012	15 Nov 2026	53,523	59,747
International Development Association, Agro-business and Marketing Project	KGS	Inflation rate + 2%	26 Apr 2007	15 Nov 2026	18,992	22,356
International Development Association, Agro-business and Marketing Project	USD	6-m Libor + 1%	2 Nov 2011	15 Nov 2026	15,503	17,292
International Development Association, Assistance in Development of Agricultural Productivity Project	USD	Inflation rate	2 Nov 2011	30 Sep 2026	3,579	3,984
					271,437	346,499

(c) Loans for provision of finance leases to customers

As at 31 December 2019 and 31 December 2018, the Bank has the following loans for provision of finance leases to customers:

	Currency	Nominal interest rate	Issue date	Maturity	2019 KGS'000	2018 KGS'000
Loan from Eurasian Development Bank	KGS	5%	12 Dec 2014	15 Dec 2024	642,445	771,834
Loan for provision of finance lease to customers (assistance from the government of People's Republic of China – Leasing 4)	KGS	0%	27 Jul 2011	15 Dec 2035	222,134	207,117
Loan for provision of finance lease to customers (assistance from the government of Republic of Turkey - Leasing 3)	KGS	2%	18 Mar 2013	19 Feb 2033	174,064	166,773
Loan for provision of finance lease to customers from the government of People's Republic of China (Leasing 5)	KGS	2%	28 Jun 2019	28 Jun 2029	83,757	-
Loan for provision of finance leases on development of agricultural machinery	KGS	0%	1 Aug 2012	15 Sep 2027	78,892	86,301
					1,201,292	1,232,025

On 13 November 2014 the Bank signed an agreement with MFKR and the Ministry of Agriculture and Melioration of the Kyrgyz Republic on provision of a loan in the amount of not greater than equivalent of USD 20,000,000 which were provided to the Kyrgyz Republic by the Eurasian Development Fund from the sources of the Anti-crisis fund of the Eurasian Economic Union. This loan was considered to be received on normal market terms, due to the participation of a development organisation in the provision of the funding for the loan.

Loans received by the Bank from other funds, which were provided to the MFKR by the People's Republic of China and Government of Turkey are considered to be provided under terms equivalent to government grants, due to the fact that the underlying lender is a sovereign state body, and the fact that interest rates are considered to be below the rate of funding for equivalent borrowings provided to the Bank under similar programs from international development institutions. At the origination date these loans were therefore recognised at fair value and resulting discount was recognised as a Government grant (Note 22).

(d) Other loans from MFKR

	Currency	Nominal interest rate	Issue date	Maturity	2019 KGS'000	2018 KGS'000
Development of other regions - for investment projects	KGS	3.5%	27-Dec-19	27-Dec-24	149,151	-
Development of hard to reach regions - for working capital replenishment	KGS	4%	25-Dec-19	25-Dec-22	41,400	-
Development of other regions - for working capital replenishment	KGS	6%	18-Dec-19	18-Dec-21	35,511	-
Development of hard to reach regions - for investment projects	KGS	2%	25-Dec-19	25-Dec-24	24,100	-
Other loans	KGS	0%	12 Feb 2014	23 Apr 2019	2,079	2,079
					252,241	2,079

On 11 December 2019 the Bank signed an agreement with the MFKR for provision of KGS 250 million to the Bank for the purpose of issuing and refinancing the projects targeted at regional development in the Kyrgyz Republic. The Bank considers that the fair value of these loans at initial recognition equates to the amounts received under the loans, as they were received under governmental program aimed at development of regions of the Kyrgyz Republic, specifically, remote mountainous regions. The loans are provided to eligible borrowers at 6-10% depending on the region, term and purpose of the loan.

(e) Covenants

As at 31 December 2019, the Bank was in breach of a financial covenant - portfolio at risk ("PAR") over 90 days - prescribed by the loan agreement with the MFKR on funds received from the KfW. As a result, the total outstanding amount of this lender for KGS 113,227 thousand were presented in "on demand and less than one month" category of the liquidity risk (Note 26). Based on negotiations with the lender, management consider that there are currently no indications the contractual repayment terms will be amended as a result of these breaches.

20 Amounts due to the National Bank of the Kyrgyz Republic

	2019 KGS'000	2018 KGS'000
Loans from the NBKR	1,182,746	2,125,849
	1,182,746	2,125,849

As at 31 December 2019 the short-term loans from the NBKR were collateralised by loans to customers of KGS 1,810,456 thousand (31 December 2018: KGS 3,110,931 thousand) (Note 13), and investments in securities of KGS 318,379 thousand (31 December 2018: KGS 324,442 thousand) (Note 14).

21 Loan from the shareholder

Bank received additional funding from the Shareholder - State Property Fund in the amount of KGS 1 billion on 26 December 2018 with maturity of one month. The main purpose of the funding was to enable Bank to issue loans to customers from its own resources, as the plan was to transfer funding to the Share Capital in the following year. On 21 January 2019 these funds were transferred to the Share Capital by issuing an additional 100,000 shares (Note 25).

22 Government grant

	2019 KGS'000	2018 KGS'000
Interest-free and below market interest rate loans	221,811	222,244
Interest prepaid by the MFKR to subsidise agricultural financing	82,791	163,855
	304,602	386,099

(a) Interest-free and below market interest rate loans

During 2011-2015 and 2019 the Bank recognised government grants arising from interest-free and below market interest rate loans provided by the MFKR for provision of finance leases to customers (Note 19(c)). Subsequent to initial recognition, the benefit is transferred to profit or loss as interest income over the period to maturity of the related loan portfolios.

(b) Interest prepaid by the MFKR to subsidise agricultural financing

On 12 January 2013, the Government of the Kyrgyz Republic approved the "Financing of agricultural sector" project on provision of subsidised loans to the local banks. Under this project, the Bank signed eight agreements during 2013-2019 with the MFKR for a receipt of a subsidy with a purpose of providing government assistance to agricultural producers for autumn-spring seeding, cattle breeding and agricultural processing in the Kyrgyz Republic (Note 13). The Bank provides eligible agricultural producers with loans at 6-10% per annum depending on the duration of loans, using its own funds. The MFKR provides additional interest of 11% per annum for loans issued in 2017; 8.33% per annum – for loans issued in 2018 and 7.49% per annum – for loans issued in 2019. The MFKR makes annual prepayments of additional interest for each for the next twelve months periods of the issued loans duration. The Bank recognizes such annual prepayments on a monthly basis under "amortization of government grant" caption in the statement of profit or loss and other comprehensive income (Note 5).

The MFKR in its turn has a right to monitor the proper usage of the provided funds and to request information relating to the loans issued under this project. If the MFKR is not satisfied with the usage of the funds, the funds may be withdrawn.

23 Other borrowed funds

The table below provides details of other borrowed funds as at 31 December 2019 and 2018:

Counterparty	Currency	Interest rate	Issue date	Maturity	2019 KGS'000	2018 KGS'000
State Mortgage Company	KGS	7% - 9%	1-Oct-16	1-Feb-31	1,604,765	1,371,082
INCOFIN CVBA 1	USD	5%	23-Oct-17	23-Oct-21	985,476	1,058,242
INCOFIN CVBA 2	USD	Libor+3%	26-Apr-18	26-Apr-22	703,141	705,777
Russian-Kyrgyz Development Fund	KGS	7%, 6%, 8%	3-Sep-15	26-Dec-23	297,586	426,623
Russian-Kyrgyz Development Fund	KGS	6%, 8%	5-Mar-16	1-Nov-24	175,286	249,419
Russian-Kyrgyz Development Fund	USD	1%, 3%	20-Jul-16	16-Dec-21	497,784	595,646
Russian-Kyrgyz Development Fund	KGS	5%, 6%, 8%	3-Nov-16	27-Jun-22	94,635	82,578
Russian-Kyrgyz Development Fund	USD	1%	26-Jul-17	26-Jul-22	121,353	129,935
Russian-Kyrgyz Development Fund	KGS	5%, 6%, 8%	26-Jul-17	26-Jul-22	121,844	147,637
Russian-Kyrgyz Development Fund	KGS	5%, 6%, 8%	5-Mar-19	5-Mar-24	185,512	-
Russian-Kyrgyz Development Fund	USD	1%, 3%	5-Mar-19	5-Mar-24	90,503	-
Micro, Small & Medium Enterprises Bond S.A. 3	KGS	11%	24-Jul-18	24-Jul-21	359,184	356,897
Micro, Small & Medium Enterprises Bond S.A. 2	USD	Libor+3%	3-Jul-18	10-Jul-22	251,045	251,124
BlueOrchard Microfinance Fund 1	USD	Libor+4%	15-May-18	16-May-22	264,080	352,376
BlueOrchard Microfinance Fund 2	EUR	4%	18-Jul-18	20-Dec-22	811,800	670,342
Global Impact	EUR	4%	2-Nov-18	2-May-22	337,321	346,251
Eurasian Development Bank	USD	5.45%	8-Sep-17	9-Sep-20	127,873	256,899
BAKUBAT Talas Welfare Fund	KGS	4%	10-Jan-19	10-Jan-24	151,097	-
Public Fund Raiffeisen Cooperative Development Fund in Kyrgyzstan	KGS	10-13%	26-Mar-04	20-Jan-22	409	541
					7,180,694	7,001,369

(a) Loans from Russian-Kyrgyz Development Fund ("RKDF")

On 2 September 2015 and 5 March 2016 within the program of RKDF for the provision of small and medium enterprises with access to loan resources through commercial banks, the Bank signed two agreements with the RKDF for KGS loans in the total amount of KGS 950,000 thousand. The loans should be provided only for the purposes specified in the loan agreements with the RKDF and to borrowers meeting certain criteria. On 11 July 2016, under the same program the Bank signed the third agreement with the RKDF for a USD loan in the amount of USD 10,000,000. On 26 July 2017, The Bank signed an additional agreement with the RKDF for a USD loan of USD 1,500,000 for financing the "Intensive Gardens" program. In 2019, the Bank signed another agreement with the RKDF for USD 5,000,000 under the existing program. The interest rate of loans to customers, issued by the Bank, should not exceed the interest rate at which the Bank borrowed funds by more than 5% per annum (Note 13).

As there is no actual market for this type of financing, provided by international organisations, aimed to aid the small and medium enterprises, operating in the specific sectors of economy, these RKDF loans represent a separate market segment. Accordingly, at the initial recognition the Bank considers that their fair value represents the amounts received under the loan agreements, and considers them to be provided at market interest rates.

As at 31 December 2019 the loans from RKDF were collateralised by loans to customers with a carrying amount of KGS 3,082,643 thousand (31 December 2018: KGS 3,621,861 thousand) (Note 13) and investments in securities with a carrying amount of KGS 391,033 thousand (31 December 2018: none) (Note 14).

(b) Loan from State Mortgage Company

Under implementation of “Affordable Housing 2015-2020” Program (the “Program”) of the Government of the Kyrgyz Republic, the Bank signed a General Agreement for Cooperation with the State Mortgage Company (the “SMC”) on 1 February 2016. In accordance with this agreement, the SMC will provide funds to the Bank to issue and refinance mortgage loans of the citizens of the Kyrgyz Republic (Note 13). The interest rate on mortgage loans issued by the Bank should not exceed the interest rate on loans received by the Bank by more than 5%. The Bank considers that these loans represent a separate market segment, and are therefore on market terms.

(c) Loans from international microfinance companies

During 2018 the Bank has signed new agreements with several international financial institutions. The borrowed funds were obtained for financing small-medium enterprises. On 5 May 2018 the Bank signed an agreement with BlueOrchad Microfinance Company for the amount of USD 5 million for the period of four years with interest rate Libor +4%. On 7 July 2017 the Bank signed an agreement with Micro, Small & Medium Enterprises Bond S.A for the amount of USD 3 million with maturity in four years and interest rate Libor+3%.

During 2018 and 2017 the Bank signed agreements with INCOFIN CVBA to receive loans of USD 10,000,000 and USD 15,000,000 with interest rates Libor+3% and 5% respectively.

(d) Bakubat Talas Welfare Fund

During 2019 the Bank signed two agreements with Bakubat Talas Welfare Fund for a total amount of KGS 150,000 thousand for development of small and medium business and agricultural projects in the Talas region. The Bank provides loans not exceeding 4% of the interest rate paid to Bakubat Talas Welfare Fund.

(e) Covenants

As at 31 December 2019, the Bank was in breach of certain financial covenants prescribed by the loan agreements with the RKDF and international microfinance companies. As a result, the total outstanding amount of these lenders for KGS 5,424,832 thousand became contractually due on demand, and is therefore presented in the “on demand and less than one month” category of the liquidity risk disclosure (Note 26). Based on negotiations with these lenders, management consider that there are currently no indications the contractual terms repayment terms will be amended as a result of these breaches. (Note 26).

(f) Reconciliation of movements of liabilities to cash flows arising from financing activities

	Liabilities			Total
	Amounts due to the Ministry of Finance of the Kyrgyz Republic (Note 19)	Amounts due to the National Bank of the Kyrgyz Republic (Note 20)	Other borrowed funds (Note 23)	
KGS'000				
Balance at 1 January 2019	2,488,881	2,125,849	7,001,369	11,616,099
Changes from financing cash flows				
Proceeds from amounts due to the Ministry of Finance of the Kyrgyz Republic	352,500	-	-	352,500
Repayment of amounts due to the Ministry of Finance of the Kyrgyz Republic	(208,077)	-	-	(208,077)
Proceeds from amounts due to the National Bank of the Kyrgyz Republic	-	300,000	-	300,000
Repayment of amounts due to the National Bank of the Kyrgyz Republic	-	(1,239,100)	-	(1,239,100)
Proceeds from other borrowed funds	-	-	1,215,453	1,215,453
Repayment of other borrowed funds	-	-	(997,379)	(997,379)
Total changes from financing cash flows	144,423	(939,100)	218,074	(576,603)
Effect of changes in foreign exchange rates	(56)	-	(36,641)	(36,697)
Other changes				
Interest expense	62,978	74,387	397,074	534,439
Interest paid	(62,585)	(78,390)	(399,182)	(540,157)
Balance as at 31 December 2019	2,633,641	1,182,746	7,180,694	10,997,081

KGS'000	Liabilities				Total
	Amounts due to the Ministry of Finance of the Kyrgyz Republic (Note 19)	Amounts due to the National Bank of the Kyrgyz Republic (Note 20)	Other borrowed funds (Note 23)	Loan from the shareholder (Note 21)	
Balance at 1 January 2018	2,437,866	1,201,063	3,963,532	-	7,602,461
Changes from financing cash flows					
Proceeds from amounts due to the Ministry of Finance of the Kyrgyz Republic	203,988	-	-	-	203,988
Repayment of amounts due to the Ministry of Finance of the Kyrgyz Republic	(181,518)	-	-	-	(181,518)
Proceeds from amounts due to the National Bank of the Kyrgyz Republic	-	920,833	-	-	920,833
Repayment of amounts due to the National Bank of the Kyrgyz Republic	-	-	-	-	-
Proceeds from other borrowed funds	-	-	3,932,660	-	3,932,660
Repayment of other borrowed funds	-	-	(1,006,147)	-	(1,006,147)
Loan from the shareholder	-	-	-	1,000,000	1,000,000
Total changes from financing cash flows	22,470	920,833	2,926,513	1,000,000	4,869,816
Effect of changes in foreign exchange rates	315	-	65,763	-	66,078
Other changes					
Interest expense	63,330	92,234	298,596	-	454,160
Interest paid	(35,100)	(88,281)	(253,035)	-	(376,416)
Balance as at 31 December 2018	2,488,881	2,125,849	7,001,369	1,000,000	12,616,099

24 Other liabilities

	2019 KGS'000	2018 KGS'000
Other financial liabilities	11,327	38,885
Total other financial liabilities	11,327	38,885
Lease liabilities	147,736	-
Vacation reserve	39,229	29,359
Deferred tax liabilities	35,806	38,459
Other taxes payable	29,557	47,988
Precious metals deposits of customers	10,865	-
Provision for credit related commitments	7,874	34,142
Income tax payable	-	13,589
Other non-financial liabilities	30,525	32,178
Total other non-financial liabilities	301,592	195,715
Total other liabilities	312,919	234,600

25 Equity

(a) Issued capital

As at 31 December 2019 the authorised, issued and outstanding share capital comprises 337,920 ordinary shares (31 December 2018: 226,876 KGS thousand). All shares have a nominal value of KGS 10 thousand.

On 21 January 2019 according to the Decision of the shareholder dated 16 November 2018, the Bank transferred interest-free funds in the amount of KGS 1 billion received from the shareholder on 26 December 2018, to the Share Capital by issuing an additional 100,000 shares (Note 21).

On 29 March 2019 the General Meeting of Shareholders approved the issue of an additional 11,044 ordinary shares at their nominal value through the transfer of KGS 110,044 thousand from retained earnings to share capital of the Bank.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

(b) Additional paid-in capital

Since November 2017 the Government of the Kyrgyz Republic provided the Bank vehicles, office equipment and computers free of charge for temporary use. The increase of additional paid-in capital of KGS 496 thousand includes expenses for that property, which is annually determined based on fair value of assets, calculated by independent appraiser.

(c) General reserve

According to the Charter of the Bank, the Bank creates reserve from retained earnings which is not available for future dividends payments. The purpose of the reserve is to maintain liquidity and capital adequacy of the Bank, in case of worsening of profitability, to reinvest into operations and other purposes according to the decision of the General Shareholder Meeting. The reserve may also be used to cover for losses related to prior periods which were detected in the current period. As at 31 December 2019 and 2018 the general reserve amounted to KGS 189,696 thousand and KGS 155,131 thousand, respectively.

(d) Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to the legislation of the Kyrgyz Republic. On 29 March 2019 by the decision of the General Meeting of the Shareholder dividends for the total amount of KGS 210,000 thousand (KGS 643 per one ordinary share) were declared (2018: KGS 100,000 thousand (441 per one ordinary share)).

According to the NBKR Instruction "On establishment of capital adequacy standards for commercial banks of the Kyrgyz Republic" approved by the Resolution No.18/2 dated 21 July 2004 of the Management Board of the NBKR (last revised on 27 December 2019), banks are not allowed to make decision on payment of dividends, if the "capital buffer" index calculated with due account of deduction of the amount of dividends planned to be paid, is below the value established by the NBKR. As at 31 December 2019 the requirement for the value of the capital buffer index was at the level of not less than 24% (2018: at least 20%).

26 Risk management

(a) Risk management policies and procedures

The Bank's risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor continuously risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors of the Bank has overall responsibility for the oversight of the risk management framework including the following principal duties:

- determining the critical parameters for managing the risks that the Bank faces and determining acceptable levels for these risks;
- supervision of the actions taken by the Bank's management in order to detect, evaluate, monitor and control risks;
- approval of large transactions equal to between 5% and 20% of the Bank's total assets, depending on the nature of the transaction, as well as all active operations with related parties of the Bank.

The Board of Directors meets as necessary, but at least once a month.

The Management Board of the Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters by delegating authorities and determining who is responsible for the implementation of policies and procedures to minimise the Bank's risks.

The Management Board meets as necessary, but at least once a week.

The assessment of the Bank's risks implies the detection and analysis of internal and external factors which influence the business activity of the Bank. This function is carried out by the Bank's Risk Manager, who is responsible for the general risk management, the implementation of risk management policies and procedures, and the control of the methods used for identifying, measuring, managing and reporting both financial and non-financial risks. The Risk Manager reports directly to the Board of Directors and reports potential increase in banking risks monthly.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committees, an Asset and Liability Management Committee and a Liquidity Committee. In order to facilitate efficient decision-making, the Bank has established a hierarchy of credit committees depending on the type and amount of the exposure.

Credit committees bear the responsibility for approving and issuing loans within established limits. Credit committees are divided between the Bank's Credit Committee and Branch Credit Committees. Credit Committees are appointed by the Board of Directors and have the following limits:

- Bank's Credit Committee - authority to approve loans within the limits not exceeding the powers of the Board of Directors.
- Branch Credit Committees – authority to approve loans within an established limits up to KGS 1,400 thousand.

Assets and Liabilities Committee (ALCO) - the main responsibilities of the ALCO are the following: regulation of the assets and liabilities structure to sustain liquidity, maintenance of interest margin and spread stability, regulation of assets and liabilities to comply with prudential norms, operational risk management related to financial instruments.

Liquidity Committee (LC) - the main objectives of the LC are the effective management of the liquidity of the Bank and making decisions on treasury transactions within the limits established by the ALCO. The LC's principal responsibilities include:

- attracting and allocating financial resources and exchanging assets on the interbank market;
- determining the allocation of the Bank's short-term resources and the volume of transactions in foreign currencies;
- establishing foreign currency buy and sell rates as well as the amounts of assets and liabilities maintained in foreign currencies.

Both external and internal risk factors are identified and managed throughout the Bank's organisational structure. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

In accordance with the requirements of the legislation of the Kyrgyz Republic, the Bank has formed a Risk Management Committee.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk is vested in the ALCO, which is chaired by the Chairman of the ALCO. Market risk limits are approved by ALCO based on recommendations of the Risk Department.

The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the ALCO.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rates. A summary of the interest gap position for major financial instruments is as follows:

KGS'000 2019	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Interest-free	Carrying amount
ASSETS							
Cash and cash equivalents	3,231,547	-	-	-	-	3,498,679	6,730,226
Loans and advances to banks and other financial institutions	-	-	-	-	-	418	418
Loans to customers	1,557,664	1,005,418	5,100,313	10,143,310	1,223,824	-	19,030,529
Investments in securities	43,394	104,421	781,632	740,741	965,487	44	2,635,719
Other financial assets	80,568	-	-	-	-	-	80,568
	4,913,173	1,109,839	5,881,945	10,884,051	2,189,311	3,499,141	28,477,460
LIABILITIES							
Deposits and balances from banks and other financial institutions	233,912	-	-	-	-	-	233,912
Current accounts and deposits from customers	429,356	465,499	3,693,004	2,092,054	34	7,494,572	14,174,519
Amounts due to the Ministry of Finance of the Kyrgyz Republic	117,595	13,106	354,577	747,554	189,033	1,211,776	2,633,641
Amounts due to the National Bank of the Kyrgyz Republic	-	176,775	1,005,971	-	-	-	1,182,746
Other borrowed funds	5,446,479	13,913	66,148	694,959	959,195	-	7,180,694
Other financial liabilities	11,327	-	-	-	-	-	11,327
	6,238,669	669,293	5,119,700	3,534,567	1,148,262	8,706,348	25,416,839
	(1,325,496)	440,546	762,245	7,349,484	1,041,049	(5,207,207)	3,060,621

	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Interest-free	Carrying amount
KGS'000							
2018							
ASSETS							
Cash and cash equivalents	2,312,565	354,298	-	--	-	3,141,426	5,808,289
Loans and advances to banks and other financial institutions	-	-	-	-	-	419	419
Loans to customers	1,865,926	1,134,232	4,439,745	9,438,341	1,876,339	-	18,754,583
Investments in securities	809,851	-	432,243	1,178,791	1,116,943	-	3,537,828
	4,988,342	1,488,530	4,871,988	10,617,132	2,993,282	3,141,845	28,101,119
LIABILITIES							
Deposits and balances from banks and other financial institutions	51,407	-	-	-	-	84,112	135,519
Current accounts and deposits from customers	306,944	543,241	3,968,632	1,524,615	51	6,399,725	12,743,208
Amounts due to the Ministry of Finance of the Kyrgyz Republic	3,229	-	354,823	979,441	234,706	916,682	2,488,881
Amounts due to the National Bank of the Kyrgyz Republic	9,042	300,000	1,816,807	-	-	-	2,125,849
Other borrowed funds	488,450	368,894	1,652,402	3,665,587	826,036	-	7,001,369
Loan from the shareholder	-	-	-	-	-	1,000,000	1,000,000
	859,072	1,212,135	7,792,664	6,169,643	1,060,793	8,400,519	25,494,826
	4,129,270	276,395	(2,920,676)	4,447,489	1,932,489	(5,258,674)	2,606,293

(ii) **Average interest rates**

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2019 and 2018. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2019			2018		
	Average effective interest rate, %			Average effective interest rate, %		
	KGS	USD	Other currencies	KGS	USD	Other currencies
Interest bearing assets						
Cash and cash equivalents	2.03	-	-	3.9	-	-
Loans to customers	15.09	9.91	8.57	16.21	9.97	8.79
Investments in securities	10.4	-	-	11.61	-	-
Interest bearing liabilities						
Deposits and balances from banks and other financial institutions	-	-	-	-	1.06	-
Current accounts and deposits from customers						
- Term deposits	9.56	3.77	5.29	11.17	3.73	5.91
Amounts due to the Ministry of Finance of the Kyrgyz Republic	3.91	3.00		5.56	2.80	-
Amounts due to the National Bank of the Kyrgyz Republic	5.21	-	-	5.20	-	-
Other borrowed funds	7.25	4.35	3.77	7.10	4.55	3.77

(iii) **Interest rate sensitivity analysis**

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2019 and 2018 is as follows:

	2019	2018
	KGS'000	KGS'000
100 bp parallel fall	5,529	(26,849)
100 bp parallel rise	(5,529)	26,849

(iv) **Currency risk**

The Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2019:

	KGS KGS'000	USD KGS'000	Other currencies KGS'000	Total KGS'000
ASSETS				
Cash and cash equivalents	4,023,172	2,184,089	522,965	6,730,226
Loans and advances to banks and other financial institutions	-	418	-	418
Loans to customers	15,094,751	3,033,115	902,663	19,030,529
Investments in securities	2,635,719	-	-	2,635,719
Other financial assets	60,094	6,233	14,241	80,568
Total assets	21,813,736	5,223,855	1,439,869	28,477,460
LIABILITIES				
Deposits and balances from banks and other financial institutions	154,182	55,540	24,190	233,912
Current accounts and deposits from customers	12,485,334	1,386,837	302,348	14,174,519
Amounts due to the Ministry of Finance of the Kyrgyz Republic	2,545,087	88,554	-	2,633,641
Amounts due to the National Bank of the Kyrgyz Republic	1,182,746	-	-	1,182,746
Other borrowed funds	2,891,368	3,140,205	1,149,121	7,180,694
Other financial liabilities	11,327	-	-	11,327
Total liabilities	19,270,044	4,671,136	1,475,659	25,416,839
Net position	2,543,692	552,719	(35,790)	3,060,621

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2018:

	KGS KGS'000	USD KGS'000	Other currencies KGS'000	Total KGS'000
ASSETS				
Cash and cash equivalents	3,502,723	1,889,368	416,198	5,808,289
Loans and advances to banks and other financial institutions	-	419	-	419
Loans to customers	13,663,712	4,282,001	808,870	18,754,583
Investments in securities	3,537,828	-	-	3,537,828
Other financial assets	108,516	9,081	13,766	131,363
Total assets	20,812,779	6,180,869	1,238,834	28,232,482
LIABILITIES				
Deposits and balances from banks and other financial institutions	97,097	8,032	30,390	135,519
Current accounts and deposits from customers	10,333,497	2,064,577	345,134	12,743,208
Amounts due to the Ministry of Finance of the Kyrgyz Republic	2,467,605	21,276	-	2,488,881
Amounts due to the National Bank of the Kyrgyz Republic	2,125,849	-	-	2,125,849
Other borrowed funds	2,634,773	3,349,999	1,016,597	7,001,369
Loan from the shareholder	1,000,000	-	-	1,000,000
Other financial liabilities	38,830	-	55	38,885
Total liabilities	18,697,651	5,443,884	1,392,176	25,533,711
Net position	2,115,128	736,985	(153,342)	2,698,771

A weakening of the KGS, as indicated below, against the following currencies at 31 December 2019 and 2018 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2019 KGS'000	2018 KGS'000
30% appreciation of USD against KGS	149,234	198,986
30% appreciation of other currencies against KGS	(9,663)	(41,402)

A strengthening of the KGS against the above currencies at 31 December 2019 and 2018 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(c) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Board of Directors.

The credit policy establishes:

- procedures for review and approval of loan applications;
- methodology for the credit assessment of borrowers;
- methodology for the evaluation of collateral;
- credit documentation requirements;
- procedures for the ongoing monitoring of loans and other credit exposures.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank.

The current market value of collateral is regularly assessed by the Bank's specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position and unrecognised contractual commitments. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2019 KGS'000	2018 KGS'000
ASSETS		
Nostro accounts and cash equivalents	5,211,757	4,621,182
Loans and advances to banks and other financial institutions	418	419
Loans to customers	19,030,529	18,754,583
Investments in securities	2,635,719	3,537,828
Other financial assets	11,327	144,553
	26,889,750	27,058,565

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to Note 13.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 28.

As at 31 December 2019 and 2018 the Bank has one debtor, credit risk exposure to whom exceeds 10% of maximum credit risk exposure. The credit risk exposure for this debtor as at 31 December 2019 is KGS 3,231,098 thousand (2018: KGS 2,666,386 thousand).

(d) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Board of Directors.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

The Liquidity Committee carries out daily monitoring of the liquidity position and performs regular “stress tests” taking into the account various possible market development scenarios both in normal and adverse conditions. Under normal market conditions, liquidity reports covering the liquidity of the Bank are presented to the Management of the Bank on a daily basis. Decisions on the Bank’s liquidity management are made by the ALCO and implemented by the LC and Treasury Department of the Bank.

Based on stress testing results and historical data on diversified and stable funding base, as well as portfolio of longer maturity highly liquid assets easily convertible to cash, such as investment securities, Management estimates that the Bank has sufficient liquidity to cover negative liquidity gap up to 1 month, without incurring unacceptable losses or risking damage to the Banks’s reputation.

The Bank also calculates mandatory liquidity ratios in accordance with the requirements of the NBKR.

The following tables show the undiscounted cash flows on financial assets, liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial assets, liability or credit related commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

The maturity analysis for financial liabilities as at 31 December 2019 is as follows:

KGS'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities						
Deposits and balances from banks and other financial institutions	233,912	-	-	-	233,912	233,912
Current accounts and deposits from customers	8,003,025	473,596	3,918,547	2,483,419	14,878,587	14,174,519
Amounts due to the Ministry of Finance of the Kyrgyz Republic	117,930	26,343	319,654	2,316,378	2,780,305	2,633,641
Amounts due to the National Bank of the Kyrgyz Republic	-	178,643	1,024,441	-	1,203,084	1,182,746
Other borrowed funds	5,446,648	27,982	126,596	2,202,753	7,803,979	7,180,694
Other financial liabilities	11,327	-	-	-	11,327	11,327
Total financial liabilities	13,812,842	706,564	5,389,238	7,002,550	26,911,194	25,416,839
Credit related commitments	174,928	-	-	-	174,928	174,928

Included in "demand and less than 1 month" category are amounts owed to lenders whose financial covenants were breached as at 31 December 2019 and which are therefore contractually due on demand. Such amounts include due to the Ministry of Finance of the Kyrgyz Republic for KGS 113,227 thousand (Note 19(e)) and other borrowed funds for KGS 5,424,832 thousand (Note 23(e)). Based on negotiations with these lenders, the Bank expects that the lenders will not require an early repayment of the full amounts of loans and repayment will be done in accordance with the original contractual terms.

The maturity analysis for financial liabilities as at 31 December 2018 is as follows:

KGS'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities						
Deposits and balances from banks and other financial institutions	135,519	-	-	-	135,519	135,519
Current accounts and deposits from customers	6,707,837	552,130	4,241,898	1,740,761	13,242,626	12,743,208
Amounts due to the Ministry of Finance of the Kyrgyz Republic	3,229	2,466	262,202	2,417,919	2,685,816	2,488,881
Amounts due to the National Bank of the Kyrgyz Republic	9,042	303,006	1,842,278	-	2,154,326	2,125,849
Other borrowed funds	268,915	195,481	800,107	6,352,629	7,617,132	7,001,369
Loan from the shareholder	-	1,000,000	-	-	1,000,000	1,000,000
Other financial liabilities	38,885	-	-	-	38,885	38,885
Total financial liabilities	7,163,427	2,053,083	7,146,485	10,511,309	26,874,304	25,533,711
Credit related commitments	399,488	-	-	-	399,488	399,488

In accordance with legislation of the Kyrgyz Republic, individuals can withdraw their term deposits at any time, losing in most of the cases the accrued interest. These deposits are classified in accordance with set terms of maturity in contracts. Contractual maturities of term deposits, included in current accounts and deposits from customers above, are as follows:

	2019	2018
	KGS'000	KGS'000
Demand and less than 1 month	348,528	241,374
From 1 to 3 months	420,892	502,372
From 3 to 12 months	1,969,632	3,100,260
More than 1 year	1,704,184	1,202,874
	4,443,236	5,046,880

The table above contains information on the contractual undiscounted cash flows relating to non-derivative financial liabilities referring to the earliest possible contractual date of maturity.

The following tables provide an analysis, by expected maturities, of amounts recognised in the statement of financial position.

Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms.

In the tables below these assets and liabilities are presented on a discounted basis and are based on their expected cash flows:

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2019:

	Demand and less than 1 month	1 to 3 months	3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
KGS'000								
Non-derivative assets								
Cash and cash equivalents	6,730,226	-	-	-	-	-	-	6,730,226
Loans and advances to banks and other financial institutions	418	-	-	-	-	-	-	418
Loans to customers	410,714	1,005,418	5,100,313	10,143,310	1,223,824	-	1,146,950	19,030,529
Investments in securities	43,394	104,421	781,632	740,741	965,487	44	-	2,635,719
Property, equipment and intangible assets	-	-	-	-	-	865,912	-	865,912
Other assets	51,114	124,577	97,538	364,789	-	48,039	14,039	700,096
Total assets	7,235,866	1,234,416	5,979,483	11,248,840	2,189,311	913,995	1,160,989	29,962,900
Non-derivative liabilities								
Deposits and balances from banks and other financial institutions	233,912	-	-	-	-	-	-	233,912
Current accounts and deposits from customers	7,853,569	466,405	3,718,230	2,136,277	38	-	-	14,174,519
Amounts due to the Ministry of Finance of the Kyrgyz Republic	117,594	23,896	280,461	995,838	307,181	908,671	-	2,633,641
Amounts due to the National Bank of the Kyrgyz Republic	-	176,775	1,005,971	-	-	-	-	1,182,746
Other borrowed funds	5,446,478	13,913	66,148	694,959	959,196	-	-	7,180,694
Other liabilities	154,516	9,176	41,283	92,692	-	15,252	-	312,919
Total liabilities	13,806,069	690,165	5,112,093	3,919,766	1,266,415	923,923	-	25,718,431
Net position	(6,570,203)	544,251	867,390	7,329,074	922,896	(9,928)	1,160,989	4,244,469

The Bank's liquidity gap is due to breach of financial covenants prescribed by loan agreements with certain financial institutions (Notes 19(e) and 23(e)) which resulted in presenting the total amounts owed to these lenders as "on demand and less than 1 month" and current accounts and demand deposits of corporate clients. Although these amounts have been included in the Demand and less than one month category, in accordance with the contractual terms, the Management believes that there is a low possibility that these lenders will require an early repayment of the amounts owed to them as well as that such clients will withdraw majority their funds. The Bank's plan to manage liquidity gap is to renegotiate the limits of financial covenants and to attract more term deposits.

Credit quality of other contingent liabilities

The following table provides information on the credit quality of the contingent liabilities as at 31 December 2019 and 31 December 2018.

	2019		2018	
	Stage 1	Total	Stage 1	Total
<i>Credit related commitments</i>				
Loan and credit line commitments	115,181	115,181	356,375	356,375
Overdrafts	5,180	5,180	-	-
Guarantees	54,567	54,567	43,113	43,113
Total credit related commitments	174,928	174,928	399,488	399,488
Loss allowance	(648)	(648)	(34,142)	(34,142)

As at 31 December 2019 and 2018 the Bank did not have significant credit concentrations related to credit related commitments.

29 Contingencies

(a) Insurance

The insurance industry in the Kyrgyz Republic is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

(b) Litigation

Management is unaware of any significant actual, pending or threatened claims against the Bank.

(c) Taxation contingencies

The taxation system in the Kyrgyz Republic is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open for six calendar years.

These circumstances may create tax risks in the Kyrgyz Republic that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Kyrgyzstan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

30 Related party transactions

(a) Control relationship

The Bank's ultimate controlling party is the Government of the Kyrgyz Republic through the State Property Management Fund under the Government of the Kyrgyz Republic. No publicly available financial statements are produced by the Bank's ultimate controlling party.

(b) Transactions with the members of the Board of Directors and the Management Board

Total remuneration included in personnel expenses for the reporting periods ended 31 December 2019 and 2018 is as follows:

	2019	2018
	KGS'000	KGS'000
Board of Directors members	3,715	4,894
Management Board members	20,169	16,084
	23,884	20,978

The outstanding balances and average interest rates as at 31 December 2019 and 2018 for transactions with the members of the Board of Directors and the Management Board are as follows:

	2019 KGS'000	Average interest rate, %	2018 KGS'000	Average interest rate, %
Statement of financial position				
Current accounts and deposits from customers	5,878	8.17%	5,150	11.95%

(c) Other related party transactions

Other related parties include the Government of the Kyrgyz Republic and other state-owned entities. The outstanding balances and the related average interest rates as at 31 December 2019 and 2018 and related profit or loss amounts of transactions for the reporting periods ended 31 December 2019 and 2018 with other related parties are as follows.

	2019 KGS'000	Average interest rate, %	2018 KGS'000	Average interest rate, %
Statement of financial position				
ASSETS				
Cash and cash equivalents				
- In KGS	3,231,098	2.00	2,666,386	3.90
Loans to customers				
- In KGS	84,800	13.33	35,421	13.43
Investments in securities				
- In KGS	2,635,719	10.40	3,537,828	9.10
Other assets				
- In KGS	39,656	-	88,175	-
LIABILITIES				
Current accounts and deposits from customers				
- In KGS	6,031,490	10.12	3,730,885	10.40
- In USD	541,315	5.00	1,049,651	5.30
- In other currency	11,810	-	2,386	-
Amounts due to the Ministry of Finance of the Kyrgyz Republic				
- In KGS	2,545,087	3.96	2,467,605	3.37
- In USD	88,554	3.00	21,276	2.80
Amounts due to the National Bank of the Kyrgyz Republic				
- In KGS	1,182,746	5.20	2,125,849	5.20
Loan from the shareholder				
- In KGS	-	-	1,000,000	-
Government grant				
- In KGS	304,602	-	386,099	7.00
Amounts due to the Russian-Kyrgyz Development Fund				
- In KGS	874,863	6.44	906,257	6.85
- In USD	709,640	1.06	725,581	1.00
State Mortgage Company				
- In KGS	1,604,765	8.92	1,371,082	7.41

Amounts included in profit and loss in relation to transactions with the other related parties are as follows:

	2019 KGS'000	2018 KGS'000
Profit/(loss)		
Interest income	681,070	603,760
Amortisation of government grant	22,200	22,425
Interest expense	(362,979)	(584,699)
Fee and commission income	9,749	13,340
Fee and commission expense	(36,214)	(4,218)
Operating expenses	(130,536)	(142,501)

Interest income includes amortisation of government grant from subsidized interest from MFKR (Notes 4 and 22).

Amortisation of government grant represents amortisation of government grant from zero/below market interest rate loans provided by MFKR for provision of finance leases to customers (Notes 19 and 22).

31 Financial assets and liabilities: fair values and accounting classifications

The contractual future cash flows relating to amounts due to the Ministry of Finance of the Kyrgyz Republic received interest-free or at below-market rate for provision of finance leases to customers are discounted at the market rate of interest for the similar borrowings received by the Bank under governmental development programs (Notes 19 and 22), in order to estimate their fair value on initial recognition. Amounts due to the National Bank of the Kyrgyz Republic and other borrowings are not discounted on initial recognition as they are provided at market rates (Notes 20 and 23).

Management believes that borrowing received by the Bank from the RKDF represent a separate market segment of borrowings aimed at development of the Kyrgyz economy by provision of favourable financing to the small and medium businesses and agricultural producers in the Kyrgyz Republic.

Management believes that loans issued under the project subsidised by the MFKR provided to agricultural producers at 6-10% per annum represent a separate market segment of loans aimed to provide government assistance to agricultural producers for autumn-spring seeding, cattle breeding and agricultural processing in the Kyrgyz Republic (Notes 13 and 22).

Management believes that loans issued under the project "Development of regions" financed by the MFKR provided to SME in remote regions of the Kyrgyz Republic at 6-10% per annum represent a separate market segment of loans aimed to economic development of remote regions of the Kyrgyz Republic (Notes 13 and 19).

(a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2019:

KGS'000	Amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	6,730,226	6,730,226	6,730,226
Loans and advances to banks and other financial institution	418	418	418
Loans to customers	19,030,529	19,030,529	19,142,741
Investments in securities	2,635,719	2,635,719	2,635,719
Other financial assets	80,568	80,568	80,568
	28,477,460	28,477,460	28,589,672
Deposits and balances from banks and other financial institutions	233,912	233,912	233,912
Current accounts and deposits from customers	14,174,519	14,174,519	14,197,686
Amounts due to the Ministry of Finance of the Kyrgyz Republic	2,633,641	2,633,641	2,633,641
Amounts due to the National Bank of the Kyrgyz Republic	1,182,746	1,182,746	1,182,746
Government grant	304,602	304,602	304,602
Other borrowed funds	7,180,694	7,180,694	7,180,694
Other financial liabilities	11,327	11,327	11,327
	25,721,441	25,721,441	25,744,608

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2018:

KGS'000	Amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	5,808,289	5,808,289	5,808,289
Loans and advances to banks and other financial institutions	419	419	419
Loans to customers	18,754,583	18,754,583	18,622,218
Investments in securities	3,537,828	3,537,828	3,537,828
Other financial assets	131,363	131,363	131,363
	28,232,482	28,232,482	28,100,117
Deposits and balances from banks and other financial institutions	135,519	135,519	135,519
Current accounts and deposits from customers	12,743,208	12,743,208	12,613,225
Amounts due to the Ministry of Finance of the Kyrgyz Republic	2,488,881	2,488,881	2,488,881
Amounts due to the National Bank of the Kyrgyz Republic	2,125,849	2,125,849	2,125,849
Government grant	386,099	386,099	386,099
Other borrowed funds	7,001,369	7,001,369	6,999,738
Loan from the shareholder	1,000,000	1,000,000	1,000,000
Other financial liabilities	38,885	38,885	38,885
	25,919,810	25,919,810	25,788,196

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations.

(b) Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorized as at 31 December 2019:

KGS'000	Level 2	Level 3	Fair value	Total carrying amount
Cash and cash equivalents	6,730,226	-	6,730,226	6,730,226
Loans and advances to banks and other financial institutions	418	-	418	418
Investments in securities	2,635,719	-	2,635,719	2,635,719
Loans to customers	18,021,817	1,120,924	19,142,741	19,030,529
Other financial assets	80,568	-	80,568	80,568
	27,468,748	1,120,924	28,589,672	28,477,460
Deposits and balances from banks and other financial institutions	233,912	-	233,912	233,912
Current accounts and deposits from customers	14,197,686	-	14,197,686	14,174,519
Amounts due to the Ministry of Finance of the Kyrgyz Republic	2,633,641	-	2,633,641	2,633,641
Amounts due to the National Bank of the Kyrgyz Republic	1,182,746	-	1,182,746	1,182,746
Government grant	304,602	-	304,602	304,602
Other financial liabilities	11,327	-	11,327	11,327
	18,563,914	-	18,563,914	18,540,747

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorized as at 31 December 2018:

KGS'000	Level 2	Level 3	Fair value	Total carrying amount
Cash and cash equivalents	5,808,289	-	5,808,289	5,808,289
Investments in securities	3,537,828	-	3,537,828	3,537,828
Loans and advances to banks and other financial institutions	419	-	419	419
Loans to customers	17,795,117	827,101	18,622,218	18,754,583
Other financial assets	131,363	-	131,363	131,363
	27,273,016	827,101	28,100,117	28,232,482
Deposits and balances from banks and other financial institutions	135,519	-	135,519	135,519
Current accounts and deposits from customers	12,613,225	-	12,613,225	12,743,208
Amounts due to the Ministry of Finance of the Kyrgyz Republic	2,488,880	-	2,488,880	2,488,881
Amounts due to the National Bank of the Kyrgyz Republic	2,125,849	-	2,125,849	2,125,849
Government grant	386,099	-	386,099	386,099
Loan from the shareholder	1,000,000	-	1,000,000	1,000,000
Other financial liabilities	38,885	-	38,885	38,885
	18,788,457	-	18,788,457	18,918,440

32 Subsequent events

On 11 March 2020, the World Health Organization declared the coronavirus outbreak a pandemic. Responding to the potentially serious threat the COVID-19 presents to public health, the government authorities of the Kyrgyz Republic have taken measures to contain the outbreak, including imposing temporary restrictions on the cross-border movement of people and entry restrictions for foreign visitors as well restrictions to movements of citizens of the Kyrgyz Republic.

By the Decree of the President of the Kyrgyz Republic dated 24 March 2020, a state of emergency was introduced in the territory of the Kyrgyz Republic which required lockdown of the majority of cities and regions until 15 April 2020. Subsequently, the lockdown was extended to 30 April and further to 31 of May 2020.

Due to lockdown and business disruption in many countries, and negative anticipation of developments in the global economy, the first quarter of 2020 has seen a high level of volatility in the global financial markets, which profoundly affected the economic behaviour of players in the global markets. This, in its turn, has an impact on condition of the financial markets of the countries – trade partners of the Kyrgyz Republic. As a result of effect of a complex of factors (including COVID-19 and sharp fall in oil prices), subsequent to devaluation of rouble in Russia and tenge in Kazakhstan, the national currency – KGS – remains under heavy pressure. Thus, the outside world risks for the economy of the Kyrgyz Republic have increased.

These events as a whole will have wider adverse effects on the economy of the Kyrgyz Republic, including:

- Disruption to business operations and economic activity, with a negative impact on supply chains and breach of contracts;
- Significant disruption to businesses in certain sectors, both operating on domestic market and export-oriented businesses with high reliance on foreign markets. Mostly affected sectors include retail, travel and tourism, entertainment and hospitality sector, transportation, agricultural sector, construction, automotive, insurance and financial sector;
- Significant decrease in demand for non-essential goods and services;
- An increase in economic uncertainty, reflected in more volatile asset prices and currency exchange rates.

In March 2020 the NBKR approved a resolution that recommends the banks, among other things, to provide delay for three months in repayment of loans to certain borrowers and allows not to increase the loan loss allowance on such borrowers. Management expects that it will affect the banking sector with certain time gap. The reduction in economic activity will result in a fall in asset prices in Kyrgyzstan. It may also lead to a reduction in the carrying amounts of the Bank's assets during 2020, in particular its loans to customers, whose values are sensitive to changes in the value of underlying collateral and expected realization periods.

Since the date when a state of emergency has been introduced in the country, the Bank's operations were not significantly interrupted. Based on the publicly available information at the date these financial statements were authorised for issue, management has considered the potential development of the outbreak and its expected impact on the Bank and economic environment, in which the Bank operates, including the measures already taken by the Kyrgyz government and governments in other countries, where the Bank's major business partners are located.

In order to safeguard uninterrupted operating activities and the Bank's liquidity position, management has implemented a number of measures, which include:

- implementation of work from home program for a significant group of administrative employees as well as employees in sales and procurement departments;
- front office employees have been trained to adhere to very strict precautionary standards including social distancing;
- adjustment to the Bank's budget to respond to possible deterioration of quality of assets.

Taking into account the above mentioned measures and the Bank's current operating indicators, management expects two scenarios of developments in 2020. The first scenario - *baseline* scenario, assumes that KGS rate would be on average KGS 85 for one USD and KGS 96 for one EUR. In accordance with this scenario management has adjusted the Bank's budget for 2020 as follows:

- Impairment loss allowance ratio to the portfolio of gross loans to customers in 2020 will increase by 18.1% compared to 2019;
- Interest income will decrease in 2020 by 5.3% compared to 2019;
- Net interest income will decrease by 4.5% compared to 2019;
- At the year-end the net financial result will be within a positive zone (KGS 52.7 million).

In accordance with the second scenario – *stress* scenario, management assumes that KGS rate would be on average KGS 85 for one USD and KGS 95 for one EUR during 2020; however, the quality of the loan portfolio will deteriorate and loan loss allowance would increase from 8% to 13% of the gross loans to customers. This would result in the following financial outcomes:

- Impairment loss allowance ratio to the portfolio of loans to customers in 2020 will increase by 62.5% compared to 2019;
- Interest income will decrease in 2020 by 5.8% compared to 2019;

- Net interest income will decrease by 4.7% compared to 2019;
- At the year-end the net loss will reach KGS 555.8 million.

In addition, management performed stress tests for liquidity risk based on various scenarios including significant outflows of customer accounts and deposits and requirement by lenders of early repayment of borrowed funds due to the breach of financial covenants. Based on the worst case scenario which assumes outflow of the whole amount of borrowed funds for which there is a breach of covenants (KGS 5,538 million), the Bank will still have liquidity coefficient of 36% which is higher than currently required ratio of 30%.

Management believes that a gradual recovery of the quality of assets and growth of net interest margin of the Bank will begin only during the first quarter of 2021. Despite the expected significant deterioration of the Bank's financial performance during 2020, management reasonably considers that the measures taken are sufficient to secure that the Bank has adequate resources to continue its operations for the foreseeable future without significant disruptions.