

Aiyl Bank OJSC

Financial Statements and
Independent Auditor's Report
For the Year Ended 31 December, 2020

Aiyl Bank OJSC

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Aiyl Bank OJSC

Statement of Management's Responsibilities for the Preparation and Approval of the Financial Statements

Management of Aiyl Bank OJSC ("the Bank") is responsible for the preparation of the financial statements that present fairly the financial position of Aiyl Bank OJSC as at 31 December 2020, and the related statements of profit or loss, comprehensive income for the year then ended, changes in equity and cash flows for the year then ended, and significant accounting policies and notes to the financial statements (the "financial statements") in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank's financial position and financial performance; and
- Making an assessment of the Bank's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Preventing and detecting fraud and other irregularities.

The financial statements for the year ended 31 December, 2020 were approved by the Management of the Bank on 29 March 2021.

On behalf of the Management Board

Mr. Bukabaev U. A.
Chairman of the Management Board

Date 29 March 2021
Bishkek



Ms. Kazakova A.Zh.
Chief Accountant

Date 29 March 2021
Bishkek

INDEPENDENT AUDITOR'S REPORT

To the shareholders and management 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 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter 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 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

As at 1 January 2020, loans to customers are carried at KGS 19,030,529 thousand net of an allowance for expected credit losses in the amount of KGS 1,664,485. As at 1 January 2020, Management of the Bank had not performed an appropriate assessment of expected credit losses for these loans, including but not limited to, the appropriate valuation of underlying collateral used to develop future cash flow assumptions and the related credit staging assessment. As a result, , as at 1 January 2020, the allowance for expected credit losses on loans to customers may be understated. We were unable to determine the effect of this departure from IFRS 9 Financial instruments on the carrying amount of loans to customers as at 1 January 2020.

Further, as at 1 January 2020, included with other assets, the Bank has recorded foreclosed property in the amount of KGS 436,889 thousand. Management of the Bank has not performed an appropriate assessment of the recoverable amount of this foreclosed property as at 1 January 2020.

As the opening carrying value of allowance for expected credit losses and foreclosed assets affects the determination of the statement of profit or loss, we were unable to determine the effect of the above departures on Impairment losses on interest bearing assets and Loss from change in the net realisable value of foreclosed assets recognised in the statement of profit or loss for the year ended 31 December 2020 as well as the related effects on the respective disclosures such as the reconciliation and changes from the opening to the closing balance of the expected credit loss allowance on loans to customers.

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants’ *Code of Ethics for Professional Accountants* (the “IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Matter

The financial statements of the Bank for the year ended 31 December 2019 were audited by another auditor who expressed a qualified opinion on those statements on 5 June 2020.

Key Audit Matter

Key audit matter is a matter that, in our professional judgement, was of most significance in our audit of the financial statements of the current period. This matter was 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 this matter. In addition to the matter 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.

Why the matter was determined to be a key audit matter?	How the matter was addressed in the audit?
<p data-bbox="229 1077 746 1128"><i>Collective assessment of the expected credit losses on loans to customers</i></p> <p data-bbox="229 1160 746 1290">As at 31 December 2020, the Bank reported total gross loans of KGS 23,836,185 thousand subject to collective impairment assessment. The expected credit losses (“ECL”) resulting from this assessment amounted to KGS 2,091,250 thousand.</p> <p data-bbox="229 1321 746 1532">For loans assessed on a collective basis, there is a risk of errors in the underlying data used in assessment of the ECL, including errors in loan data (maturity date or outstanding balances), inaccurate or incomplete inputs and especially assumptions used in assessing probability of default (PD), loss given default data (LGD) and inconsistency of historical and forward-looking information with available market based data.</p> <p data-bbox="229 1563 746 1720">Due to the significance and subjectivity of judgements used by management of the Bank and the volume of loans assessed on a collective basis, we identified the collective assessment of expected credit losses, particularly the assessment of the probability of default, as a key audit matter.</p> <p data-bbox="229 1751 746 1823">Refer to Notes 8 and 24 to the financial statements for the description of the Bank’s policy and disclosures of gross carrying amounts and related allowances balances.</p>	<p data-bbox="794 1077 1267 1182">We obtained an understanding of processes and control procedures related to the loan origination, credit risk management and ECL assessment for loans to customers, assessed on a collective basis.</p> <p data-bbox="794 1214 1267 1319">We challenged the reasonableness of the methodology on collective loan loss provisioning and its compliance with IFRS 9 <i>Financial Instruments</i> requirements.</p> <p data-bbox="794 1350 1267 1480">We checked that the data inputs and key assumptions used in the models for assessing PDs and LGDs reflect historical information about incurred credit losses adjusted for relevant forward-looking macroeconomic factors.</p> <p data-bbox="794 1512 1267 1771">With the involvement of our actuarial and internal valuation specialists, we tested the mathematical accuracy and computation of the ECL on loans to customers assessed on a collective basis by re-performing and calculating elements of the expected credit losses based on relevant source data. This included assessing the appropriateness of model design and formulas used, considering modelling techniques and recalculating PDs, LGDs and Exposure at default.</p>

On a sample basis, we tested the accuracy and completeness of the data used in the ECL models, such as collateral values and statistics for recoveries of loans, we traced historical information used in the ECL models to source data and also assessed the appropriateness of forward-looking information used in the models.

We found no material exceptions in these tests.

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

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

In preparing the financial statements, management is responsible for assessing the 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.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the 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.



Kanyshai Sadyrbekova
Managing Director
LLC Deloitte & Touche
Qualified Auditor of the Kyrgyz Republic
Qualification certificate №0151, Series A
dated 1 June 2012

Roman Sattarov
Engagement partner

29 March 2021
Bishkek, Kyrgyz Republic

Aiyl Bank OJSC

Statement of Financial Position

as at 31 December, 2020

(in thousands of Kyrgyz Som ("KGS"))

	Note	31 December, 2020	31 December, 2019
ASSETS:			
Cash and cash equivalents	6,31	6,059,339	6,730,226
Loans and advances to banks and other financial institutions	7	365,270	418
Loans to customers			
<i>Loans to corporate customers</i>	8	3,260,683	3,877,549
<i>Loans to retail customers</i>	8,31	18,484,262	15,152,980
Investments in securities at amortized cost	9,31	1,743,972	2,635,719
Property and equipment, Intangible assets and Right of Use asset	10	812,143	865,912
Other assets	11,31	1,067,289	700,096
TOTAL ASSETS		31,792,958	29,962,900
LIABILITIES:			
Deposits and balances from banks and other financial institutions	12	117,968	233,912
Current accounts and deposits from corporate customers	13,31	9,173,904	8,104,005
Current accounts and deposits from retail customers	13,31	6,799,885	6,070,514
Amounts due to the Ministry of Finance of the Kyrgyz Republic	14,28	3,248,498	2,633,641
Amounts due to the National Bank of the Kyrgyz Republic	15,31	1,345,913	1,182,746
Government grant	16,31	286,242	304,602
Other borrowed funds	17,31	6,461,652	7,180,694
Lease Liabilities	18	126,801	147,736
Other liabilities	19	179,497	165,183
TOTAL LIABILITIES		27,740,360	26,023,033
EQUITY:			
Share capital	20	3,476,260	3,379,200
Additional paid-in capital	20	85,556	84,478
General reserves	20	189,696	189,696
Retained earnings	20	301,086	286,493
TOTAL EQUITY		4,052,598	3,939,867
TOTAL LIABILITIES AND EQUITY		31,792,958	29,962,900

On behalf of the Management Board

Mr. Bukabaev U. A.
Chairman of the Management Board

Date 29 March 2021
Bishkek



Ms. Kazakova A.Zh.
Chief Accountant

Date 29 March 2021
Bishkek

The notes on pages 10-87 form an integral part of these financial statements.

Aiyl Bank OJSC

Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December, 2020 (in thousands of Kyrgyz Som ("KGS"))

	Note	2020	2019
Interest income	21,31	2,834,900	2,783,250
Amortisation of government grant	21	204,991	324,997
Interest expense	21,31	(1,264,586)	(1,268,989)
Net interest income before impairment losses on interest bearing assets	21	1,775,305	1,839,258
Impairment losses on interest bearing assets	24	(180,029)	(687,794)
Net interest income		1,595,276	1,151,464
Net foreign exchange gain	22	160,202	108,935
Fee and commission income	23,31	303,864	329,599
Fee and commission expense	23,31	(100,077)	(86,731)
Impairment losses and reserves on other assets	24	(499,331)	(221,563)
Impairment (losses)/recovery on credit-related commitments	24	(4,158)	25,838
Other income, net		11,573	16,061
Net non-interest (loss)/income		(127,927)	172,139
Operating income		1,467,349	1,323,603
Operating expenses	25,31	(1,270,810)	(1,166,309)
Profit before income tax		196,539	157,294
Income tax expense	26	(32,608)	(12,482)
Net profit for the year		163,931	144,812
Total comprehensive income		163,931	144,812

On behalf of the Management Board

Mr. Bukabaev U. A.
Chairman of the Management Board

Date 29 March 2021
Bishkek



Ms. Kazakova A.Zh.
Chief Accountant

Date 29 March 2021
Bishkek

The notes on pages 10-87 form an integral part of these financial statements.

Aiyl Bank OJSC

Statement of Changes in Equity for the Year Ended 31 December, 2020 (in thousands of Kyrgyz Som ("KGS"))

	Note	Share capital	Additional paid-in capital	General Reserves	Retained earnings	Total equity
As at 1 January 2019		2,268,760	83,982	155,131	499,991	3,007,864
Transition adjustment IFRS 16		-	-	-	(3,305)	(3,305)
Profit and total comprehensive income for the period		-	-	-	144,812	144,812
Contribution by the Government of the Kyrgyz Republic	20	-	496	-	-	496
Shares issued	20	1,110,440	-	-	(110,440)	1,000,000
Transfer of a part of retained earnings to general reserves		-	-	34,565	(34,565)	-
Dividends declared	20	-	-	-	(210,000)	(210,000)
As at 31 December 2019		3,379,200	84,478	189,696	286,493	3,939,867
Profit and total comprehensive income for the period		-	-	-	163,931	163,931
Contribution by the Government of the Kyrgyz Republic	20	-	1,078	-	-	1,078
Shares issued	20	97,060	-	-	(97,060)	-
Dividends declared	20	-	-	-	(52,278)	(52,278)
As at 31 December 2020		3,476,260	85,556	189,696	301,086	4,052,598

On behalf of the Management Board:

Mr. Bukabaev U. A.
Chairman of the Management Board

Date 29 March 2021
Bishkek



(Handwritten signature)

Ms. Kazakova A.Zh.
Chief Accountant

Date 29 March 2021
Bishkek

The notes on pages 10-87 form an integral part of these financial statements.

Aiyl Bank OJSC

Notes to the Financial Statements

For the Year Ended 31 December, 2020

(in thousands of Kyrgyz Som ("KGS"), unless otherwise indicated)

1. General information

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 No №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 2020, the Bank has 36 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 (31 December 2019: 35 branches, 22 regional subdivisions and 31 village subdivisions, 64 regional savings offices and 16 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 100% owned by the Government of the Kyrgyz Republic (the "Government") through the State Property Management Fund under the Government of the Kyrgyz Republic.

2. Adoption of new and revised Standards

New and amended IFRS Standards that are effective for the current year

The following amendments and interpretations are effective for the Bank effective 1 January 2020:

Amendments to IFRS 9, IFRS 7
Amendments to IFRS 3
Amendments to IAS 1 and IAS 8
Conceptual Framework

*Basic interest rate reform
Definition of a Business
Definition of Materiality
Amendments to References to the Conceptual Framework in
IFRS Standards*

Aiyl Bank OJSC

Notes to the Financial Statements (Continued)

For the Year Ended 31 December, 2020

(in thousands of Kyrgyz Som ("KGS"), unless otherwise indicated)

The above standards and interpretations were reviewed by the Bank's management, but did not have a significant effect on the financial statements of the Bank.

The Bank has applied the amendments to IFRS 16 COVID-19. Relevant rental concessions. This amendment is effective for annual periods beginning on or after 1 June 2020. Applied retrospectively in accordance with IAS 8, but does not require revision of prior periods.

New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, the Bank has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 17 Amendments to IAS 1 (as part of the project to formulate Annual Improvements to IFRS 2010-2012 cycles)	<i>Insurance Contracts Classification of Liabilities as Short-Term or Long-Term</i>
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	<i>Interest Rate Benchmark Reform — Phase 2</i>
Amendments to IFRS 3	<i>Business combinations - Reference to the Conceptual Framework</i>
Amendments to IAS 16 Amendments to IAS 37	<i>Property and equipment - Proceeds before Intended Use Provisions, contingent liabilities and contingent assets - Onerous Contracts – Cost of Fulfilling a Contract</i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
Amendments to IFRS 1, IFRS 9, IAS 41; and illustrative examples accompanying IFRS 16.	<i>Annual Improvements to IFRS 2018-2020 cycles</i>

The management does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Bank in future periods.

3. Basis of preparation and significant accounting

Statement of compliance. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These financial statements are presented in thousands of Kyrgyz Som ("KGS thousand"), unless otherwise indicated.

These financial statements have been prepared assuming that Bank is a going concern and will continue operation for the foreseeable future. In making this assumption, the management considered the Bank's financial position, current intentions, profitability of operations and access to financial resources.

As at December 31, 2020 and 2019 current liabilities of the Bank exceeded current assets by KGS 4,971,319 thousand and by KGS 4,118,180 thousand, respectively.

Negative liquidity gap of KGS 4,971,319 thousand is caused by the fact, that balances of customers' current accounts are included in amounts due in less than one month in the liquidity disclosure, while according to expected maturities, these customer accounts provide a long-term and stable source of

Aiyl Bank OJSC

Notes to the Financial Statements (Continued)

For the Year Ended 31 December, 2020

(in thousands of Kyrgyz Som ("KGS"), unless otherwise indicated)

funding for the Bank. Therefore, negative liquidity gap per contractual maturities up to 1 year is significantly reduced and becomes positive if behavioral maturities are applied.

As at 31 December 2020, the Bank was in breach of certain financial covenants prescribed by the loan agreements with the RKDF, with the MFKR for funds received from KfW and international microfinance companies. As a result, the total outstanding amount of these lenders 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 30).

The Bank's management believes that based on current forecasts and measures and taken into the financial support from the government, the Bank has enough funds to continue its activities in the foreseeable future and the going concern assumption is appropriate.

Operating environment.

Emerging markets such as Kyrgyz Republic are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Kyrgyz Republic continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Kyrgyz Republic is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. The impact of further economic and political developments on future operations and financial position of the Bank might be significant.

In addition, starting from early 2020 a new coronavirus disease (COVID-19) began rapidly spreading in the world. In March 2020, the World Health Organization assigned the situation with the pandemic status. Many countries put in place measures to contain the spread of COVID-19 resulting in significant operational disruption for companies. COVID-19 had an effect on a wide range of economy sectors, including, but not limited to disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing.

The Government of the Kyrgyz Republic introduced a state of emergency in March 2020 and ceased almost all types of economic activities for more than a month, except for selected industries. Temporary cessation of business in the major cities and regions had an adverse effect on the entire economy of the country. Almost all industries of the Kyrgyz economy faced challenges such as a sharp decline of customer demand and decrease in revenues.

In addition, the Bank might continue to face the effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Bank's business largely depends on the duration and the incidence of the pandemic effects on the world and the Kyrgyz Republic economy.

Furthermore, the country witnessed the consequences of an acute political crisis, which erupted in October 2020 and had a negative impact on the overall investment climate of the country.

Aiyl Bank OJSC

Notes to the Financial Statements (Continued)

For the Year Ended 31 December, 2020

(in thousands of Kyrgyz Som ("KGS"), unless otherwise indicated)

There was a significant impact from the economic environment on the Bank's operations during 2020, primarily reflecting the impact of COVID-19:

- Depreciation of the Kyrgyz som against major foreign currencies did not have a significant negative effect on the bank's operations thanks to the Bank's conservative policy to keep open currency positions at a minimum level;
- The allowance for expected credit losses increased by KGS 426,765 thousand compared to prior year,
- Most of employees of administrative functions, as well as employees of the sales and procurement departments, were transferred to the remote work mode from March to August 2020;
- Front office employees have been trained to comply with strict safety precautions in the process of work, including social distancing;
- The Bank has taken a number of steps to mitigate the effect on its portfolios and risk profile, informed by stress-testing of various COVID-19 related scenarios, and it remains vigilant in the light of the developing situation.
- The Bank has adjusted the budget with a decrease in the planned indicators. This budget provides for additional optimization of activities and cost decrease.

In addition, the NBKR introduced a set of regulatory changes aimed at providing relief to the banking sector, which was negatively affected by the global economic slowdown and the COVID-19 pandemic. The main direction of the changes were temporary relaxation of regulations on regulatory loan loss provisioning and decreasing regulatory requirements on capital adequacy. The relief measures came into effect from April till August 2020.

The Bank's management monitors current changes in the economic situation and takes measures that it considers necessary to maintain the stability and development of the Bank in the near future. However, the significance of the effect of COVID-19 on the Bank's business largely depends on the duration and the incidence of the pandemic effects on the world and the Kyrgyz economy. The impact of changes in the economic environment on the future results of operations and the financial position of the Bank is currently difficult to determine.

Based on the results of 2020, management notes that the worst case scenario was not fully realised and the measures taken made it possible to ensure the availability of sufficient resources to continue the Bank's activities, as well as compliance with the economic requirements of the regulator National Bank of the Kyrgyz Republic (NBKR).

The financial statements presented reflect management's assessment of the possible impact of the current business environment on the results of operations and the financial position of the Bank. The actual impact of future business conditions may differ from management's estimates.

Basis of preparation. These financial statements have been prepared on the historical cost basis except for certain properties and financial instruments.

Aiyl Bank OJSC

Notes to the Financial Statements (Continued)

For the Year Ended 31 December, 2020

(in thousands of Kyrgyz Som ("KGS"), unless otherwise indicated)

Exchange rates for the currencies in which the Bank transacts were as follows:

	31 December, 2020	31 December, 2019
Closing exchange rates – KGS		
1 U.S. Dollar ("USD")	82.6498	69.6439
1 Euro	101.3204	77.9803

Foreign currencies. For the purpose of the financial statements, the results and financial position of the Bank are expressed in Kyrgyz Som which is the functional currency of the Bank, and the presentation currency for the financial statements.

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 foreign 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.

Net interest income. Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at fair value through profit or loss (FVTPL) are recognized in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss account using the effective interest method.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition.

The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities. For credit-impaired financial assets, the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets purchased or originated credit-impaired (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

Aiyl Bank OJSC

Notes to the Financial Statements (Continued)

For the Year Ended 31 December, 2020

(in thousands of Kyrgyz Som ("KGS"), unless otherwise indicated)

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 asset¹ measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Fee and commission income/expense. 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 23).

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 recognised in profit or loss when the corresponding service is provided.

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:

Commissions for exchange, operations in foreign currency and overdrafts are charged from the client's account when performing the operation:

- 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 overtime as the services are provided.
- Revenue related to transactions is recognised at the point in time when the transaction takes place.

Financial assets. All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly

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attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI;
- All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

Debt instruments at amortised cost or at FVTOCI. The Bank assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Bank's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is performed at the date of initial application of IFRS 9 to determine the classification of a financial asset. The business model is applied retrospectively to all financial assets existing at the date of initial application of IFRS 9. The Bank determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Bank's business model does not depend on management's intentions for an individual instrument; therefore, the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Bank has more than one business model for managing its financial instruments that reflect how the Bank manages its financial assets in order to generate cash flows. The Bank's business models

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determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Bank considers all relevant information available when making the business model assessment. However, this assessment is not performed based on scenarios that the Bank does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. The Bank takes into account all relevant evidence available such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- How managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

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 realized

At initial recognition of a financial asset, the Bank determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Bank reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current reporting period, the Bank has not identified a change in its business models.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognized in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss but transferred within equity. Debt instruments that are subsequently measured at amortized cost or at FVTOCI are subject to impairment.

Financial assets at FVTPL. Financial assets at FVTPL are:

- Assets with contractual cash flows that are not SPPI; or/and

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- Assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- Assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss.

Reclassifications. 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. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that result in reclassifying the Bank's financial assets. Changes in contractual cash flows are considered under the accounting policy on *Modification and derecognition of financial assets* described below.

Impairment. The Bank recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- Cash and cash equivalents;
- Due from banks;
- Loans to customers;
- Investment securities at amortised cost and at FVOCI;
- Other financial assets (*Cash assets in settlements; Other accounts receivables*);
- Financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

With the exception of POCI financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

For more details about staging refer to Note 8.

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

- For undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the commitment draws down the loan and the cash flows that the Bank expects to receive if the loan is drawn down; and

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- For financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Bank expects to receive from the holder, the debtor or any other party.

The Bank measures ECL on a collective basis for portfolios of loans that share similar risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

Credit-impaired 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. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- The disappearance of an active market for a security because of financial difficulties; or
- The purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event instead; the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortized cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Bank considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikelihood to pay indicators and a backstop if amounts are overdue for 90 days or more.

Purchased or originated credit-impaired (POCI) financial assets. POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Bank recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favorable change for such assets creates an impairment gain.

Definition of default. Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Bank considers the following as constituting an event of default:

- The borrower is past due more than 90 days on any material credit obligation to the Bank; or

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- The borrower is unlikely to pay its credit obligations to the Bank in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Bank uses a variety of sources of information to assess default, which are either developed internally or obtained from external sources.

Significant increase in credit risk. The Bank monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Bank will measure the loss allowance based on lifetime rather than 12-month ECL. The Bank's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result, the Bank monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognized. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Bank's historical experience and expert credit assessment including forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. The weighting of these different scenarios forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

For corporate lending, forward-looking information includes the future prospects of the industries in which the Bank's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think tanks and other similar organizations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail, lending forward-looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behavior. The Bank allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- The remaining lifetime PD at the reporting date; with

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- The remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The PDs used are forward looking and the Bank uses the same methodologies and data used to measure the loss allowance for ECL.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Bank still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated. For retail lending the Bank considers the expectation of forbearance and payment holidays, credit scores and events such as unemployment, bankruptcy, divorce or death.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

As a backstop when an asset becomes 30 days past due, the Bank considers that a significant increase in credit risk has occurred and the asset is in Stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

Modification and derecognition of financial assets. A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Bank renegotiates loans to customers in financial difficulty to maximize collection and minimize the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants. The Bank has an established forbearance policy, which applies for corporate and retail lending.

When a financial asset is modified the Bank assesses whether this modification results in derecognition. In accordance with the Bank's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Bank considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants.

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If these do not clearly indicate a substantial modification, then:

- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest.

If the difference in present value is greater than 10% the Bank deems the arrangement is substantially different leading to derecognition.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated credit-impaired asset. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised paramount because there remains a high risk of default, which has not been reduced by the modification.

The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Bank determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

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

For financial assets modified as part of the Bank's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Bank's ability to collect the modified cash flows taking into account the Bank's previous experience of similar forbearance action, as well as various behavioral indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL.

The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behavior following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Bank calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Bank measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

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The Bank derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity.

If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognized in OCI and accumulated in equity is recognized in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain/loss allocated to it that had been recognized in OCI is recognized in profit or loss. A cumulative gain/loss that had been recognized in OCI is allocated between the part that continues to be recognized and the part that is no longer recognized based on the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss.

Write-off. Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirety or in a portion of it). This is 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. A write-off constitutes a derecognition event. The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities will result in impairment gains.

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:

- For financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- For debt instruments measured at FVTOCI: no loss allowance is recognized in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve;
- For loan commitments and financial guarantee contracts: as a provision.

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Financial liabilities and equity. Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Bank or a contract that will or may be settled in the Bank's own equity instruments and is a non-derivative contract for which the Bank is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Bank's own equity instruments.

Equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Bank's own equity instruments is recognised and deducted directly in equity. No gain/loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

Financial liabilities. Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL. Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

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Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognized in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'Net gain/(loss) on other financial instruments at FVTPL' line item in the profit or loss statement.

However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

For issued loan commitments and financial guarantee contracts that are designated as at FVTPL all gains and losses are recognized in profit or loss.

In making the determination of whether recognizing changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Bank assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition.

Other financial liabilities. Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. For details on EIR see the "net interest income section" above.

Derecognition of financial liabilities. The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognised in profit or loss.

When the Bank exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability.

Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-monetary assets transferred or liabilities assumed, shall be recognized in profit or loss.

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Derivative financial instruments. The Bank is a party to derivative financial instruments, some of which are held for trading and the remainder to manage interest, credit and foreign exchange risks. Derivatives held include foreign currency forward contracts, interest rate swaps, cross currency interest rate swaps.

Financial guarantee contracts issued by Bank are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

- The amount of the loss allowance determined in accordance with IFRS 9; and
- The amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Bank's revenue recognition policies.

Financial guarantee contracts not designated at FVTPL are presented as provisions on the statement of financial position and the remeasurement is presented in other revenue.

The Bank has not designated any financial guarantee contracts as at FVTPL.

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.

Foreclosed assets. In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of carrying amount and fair value less costs to sell.

Property and equipment. Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at their cost less accumulated depreciation and impairment losses.

Construction in progress is carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Bank's accounting policy. Such construction in progress is classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Freehold land is not depreciated.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period.

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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. Estimated useful lives are as follows:

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Government grants

Government grants are assistance provided by the Government, government agencies and state-owned entities in the form of transferring resources to the Bank in exchange for compliance with certain past or future conditions that are relevant to the Bank's operations. Government grants are not recognised unless there is reasonable assurance that the Bank will meet all associated conditions and receive the specified grants.

The benefit from obtaining a government loan at a below-market interest rate is treated as a government grant. The benefit from the below-market interest rate is measured as the difference between the initial carrying amount of the loan and the amount of proceeds.

Government grants are recognised in profit or loss in amortisation of government grants on a systematic basis over the periods in which the Bank recognises as expenses the related costs for which the grant funds are intended to offset.

Amortisation of the government grant in the form of interest prepaid by the Ministry of Finance of the Kyrgyz Republic (Note 16) is recognised under "Amortization of the government grant" on a straight-line basis over the life of the respective loans to customers.

Intangible assets

Intangible assets acquired separately. Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

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Notes to the Financial Statements (Continued)

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Derecognition of intangible assets. An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets other than goodwill. .

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Taxation. Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax. The tax currently payable is based on taxable profit for the year. Taxable profit before tax as reported in the *statement of profit or loss and other comprehensive income* because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax. Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recorded taking into account taxable temporary differences related to subsidiaries, associates and joint ventures, unless the Bank has control over the timing of the reversal of the temporary difference and it is highly probable that the difference will not reverse in the foreseeable future.

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The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from 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.

For the purpose of measuring deferred tax liabilities and deferred tax assets of investment property measured at fair value, it is assumed that the carrying amount of such items is recovered solely through sale, unless such a presumption is rebutted. The assumption is considered biased if the investment property is depreciable and is used in a business model that aims to consume more of the economic benefits embodied in that investment over time than through sale. The Bank's management has reviewed its investment property portfolios and has concluded that none of the Bank's investment properties are used in a business model that aims to consume most of the economic benefits embodied in such an investment over time rather than through a sale. Consequently, the Bank's management determined that the sale assumption described in the amendments to IAS 12 Income Taxes has not been rebutted. As a result, the Bank did not recognize any deferred taxes on changes in the fair value of the Bank's investment property as the Bank is not subject to income tax on disposal of the Bank's investment property.

Current and deferred tax for the year. Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Operating taxes. In the Kyrgyz Republic, where the Bank operates, there are requirements for the accrual and payment of various taxes applicable to the Bank's activities, other than income tax. These taxes are reflected in the income statement / income statement and other comprehensive income as part of operating expenses.

Provisions. Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingencies. Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not

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recognised in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Collateral. The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future customer liabilities.

General reserve. According to the Charter, the Bank creates a reserve from retained earnings, which is not available for payment as dividends. The purpose of the reserve is to maintain the liquidity and capital adequacy of the Bank in the event of deterioration in the Bank's profitability, reinvestment in the Bank's activities and other purposes in accordance with the decision of the general meeting of shareholders. The provision can also be used to cover past losses discovered in the current period.

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.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Bank's accounting policies the Bank management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting judgements

Review of financial risks. This note provides information on the Bank's exposure to financial risks. For information on the Bank's financial risk management framework, see Note 30.

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

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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 for a period other than 30 days. There is a significant increase in credit risk when, although there are less than 30 days in arrears at the reporting date, there has been at least one more than 60 days overdue in the last 6 months.

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.

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 often increase in credit risk, such as delinquency of 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 probation period during which the financial asset is required to demonstrate good behavior 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.

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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 resource 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 2013-2020, 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 2020 and 31 December 2019 included the following key indicators for the Kyrgyz Republic:

<u>Macroeconomic variables</u>	<u>2020</u>	<u>2019</u>
GDP, real (percent y/y)	-8.6*	4.6
Inflation (percent y/y)	6.3	1.1
Share of foreign currency loans in the total loan portfolio of commercial banks (interest)	34.5	36.6
Official exchange rate (KGS per US dollar, average (percent, y/y))	10.8	1.4

* - preliminary estimate of the National Statistical Committee of the Kyrgyz Republic

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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 above.

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 I (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 behavioral indicators.

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 I 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 7 years. The annual interval is chosen due to the fact that the average loan term is 7 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.

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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 grading;
- 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.

Key sources of estimation uncertainty

The below are listed key estimations that the management have used in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

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Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward looking information relevant to each scenario. When measuring ECL the Bank uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Refer to Note 30 for more details, including analysis of the sensitivity of the reported ECL to changes in estimated forward looking information.

Fair value measurement and valuation process. In estimating the fair value of a financial asset or a liability, the Bank uses market-observable data to the extent it is available. Where such Level 1 inputs are not available, the Bank uses valuation models to determine the fair value of its financial instruments. Refer to note 27 for more details on fair value measurement.

5. Reclassification

Certain reclassifications have been made to the financial statements as at 31 December 2019 and for the year then ended to conform to the presentation as at 31 December 2020.

	<u>As previously reported</u>	<u>Reclassification amount</u>	<u>As reclassified</u>
	December 31, 2019	December 31, 2019	December 31, 2019
Investments in securities (pledged)	709,412	(709,412)	-
Investments in securities (unpledged)	1,926,307	(1,926,307)	-
Investment securities at amortized cost	-	2,635,719	2,635,719
Interest income	-	2,783,250	2,783,250
Interest income calculated using the effective interest method	2,668,519	(2,668,519)	-
Other interest income	114,731	(114,731)	-

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6. Cash and cash equivalents

	31 December, 2020 000'KGS	31 December, 2019 000'KGS
Cash on hand	1,988,220	1,518,469
Nostro accounts with the NBKR	1,060,570	1,031,098
Nostro accounts with other banks		
• rated from A- to AA+	817,241	1,098,306
• rated BBB	551,463	859,086
• rated BB- to BB+	8,153	11,270
• rated below B+	91,165	5,339
• not rated	42,952	6,885
Total nostro accounts with other banks	1,510,974	1,980,886
Cash equivalents		
• Term deposit with the NBKR with original maturity less than three months, rated B	1,500,000	2,200,000
Total cash equivalents	1,500,000	2,200,000
Total cash and cash equivalents	6,059,764	6,730,453
Less: allowance for expected credit losses	(425)	(227)
Total cash and cash equivalents	6,059,339	6,730,226

As at 31 December 2020 and 2019, balances with the NBKR include 2,844,129 thousand KGS and 3,231,098 thousand KGS, respectively, comprising obligatory reserves in the NBKR. The Bank's ability to withdraw from such accounts is not restricted by the Kyrgyz legislation.

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 2020, the Bank has balances with 3 banks, whose balances exceed 10% of equity (31 December 2019: 4 banks). The gross value of these balances as at 31 December 2020 is KGS 3,372,249 thousand (31 December 2019: KGS 4,862,878 thousand).

7. Loans and advances to banks and other financial institutions

	31 December, 2020	31 December, 2019
Deposit in NBRK	283,559	-
Loans to financial institutions	79,386	-
Deposits in other banks	2,016	418
Accrued interest	309	-
Total loans and advances to banks and other financial institutions	365,270	418

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8. Loans to customers

The total balance of loans and advances to customers carried at amortized cost includes 18.6% of corporate customers, 60.3% of small and medium-sized enterprises, 7.9% of finance leasing, 8.9% of mortgage loans and 4.2% of other (31 December 2019: 24.7% of corporate clients, 55.5% of small and medium enterprises, 7.1% of finance leasing, 8.4% of mortgages and 4.3% of others).

	31 December, 2020	31 December, 2019
Loans to customers at amortized cost	23,836,195	20,695,014
Less allowance for expected credit losses	(2,091,250)	(1,664,485)
Total loans to customers	21,744,945	19,030,529

Loans to customers comprise:

	31 December, 2020	31 December, 2019
Loans to corporate clients		
Loans to corporate clients	4,441,248	5,110,976
Total loans to corporate clients	4,441,248	5,110,976
Loans to retail customers and other loans		
Loans to small businesses	14,368,967	11,495,133
Mortgage loans	2,129,555	1,732,138
Finance lease	1,883,460	1,471,944
Consumer loans	1,012,965	884,823
Total loans to retail customers	19,394,947	15,584,038
Loans to customers before deducting allowance for expected credit losses	23,836,195	20,695,014
Less: allowance for expected credit losses	(2,091,250)	(1,664,485)
Total loans to customers net of allowance for impairment losses	21,744,945	19,030,529

As at 31 December 2020 and 2019, a significant amount of loans is granted to companies operating in the Kyrgyz Republic, which represents a significant geographical concentration in one region.

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Notes to the Financial Statements (Continued)

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(a) Finance Lease:

Included in loans to customers are the following amounts of receivables under finance lease agreements for agricultural equipment in which the Bank is the lessor and consisting of:

	31 December, 2020	31 December, 2019
For up to 1 year	588,970	360,812
For more than one year, but less than five years	1,551,613	911,732
For more than 5 years	187,757	633,755
Minimum lease payments	2,328,340	1,906,299
Less: unearned finance income		
For up to 1 year	(154,560)	(120,471)
For more than one year, but less than five years	(275,081)	(266,896)
For more than 5 years	(15,239)	(16,672)
Less: unearned finance income	(444,880)	(404,039)
	1,883,460	1,502,260
Less: allowance for expected credit losses	(103,583)	(48,785)
Net investment in the finance lease	1,779,877	1,453,775

During the year, finance lease receivables increased for the following reasons: increase in prices for machinery due to respective increase in customs duties on imports from countries that are not part of the Eurasian customs union, along with an increase in the foreign exchange rate, as well as an increase in the amount of financial leases on agricultural machinery.

The Bank entered into finance lease agreements as a lessor for tractors, combines, industrial equipment, attachments, special equipment, cars, and breeding cattle. The average finance lease term is 6 years. Typically, these leases do not include renewal or early termination options.

The Bank is not exposed to currency risk under lease agreements, since all leases are denominated in KGS. The risk of the residual value of the leased equipment is not significant due to the existence of the secondary equipment market.

(b) Credit quality analysis:

The following table provides information on the credit quality of financial assets measured at amortised cost as at 31 December 2020. Unless otherwise stated, for financial assets, the amounts in the table represent the gross carrying amounts.

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For an explanation of the terms "Assets related to Stage 1", "Assets related to Stage 2" and "Assets related to Stage 3" refer to Note 3 above.

000' KGS	Stage 1	Stage 2	Stage 3	Total 31 December, 2020
Loans to corporate clients				
- No overdue	1,242,033	280,867	935,480	2,458,380
Overdue for less than 30 days	109	13,801	52,424	66,334
Overdue 30- 89 days	-	612,321	87,864	700,185
Overdue 90- 179 days	-	-	184,728	184,728
Overdue for more than 180 days	-	-	1,031,621	1,031,621
	1,242,142	906,989	2,292,117	4,441,248
Estimated provision for losses	(24,662)	(240,645)	(915,258)	(1,180,565)
Book Value	1,217,480	666,344	1,376,859	3,260,683
Loans to small businesses				
- No overdue	12,330,254	751,304	705,247	13,786,805
Overdue for less than 30 days	87,404	22,219	26,764	136,387
Overdue 30- 89 days	-	69,308	26,577	95,885
Overdue 90- 179 days	-	-	263,984	263,984
Overdue for more than 180 days	-	-	85,906	85,906
	12,417,658	842,831	1,108,478	14,368,967
Estimated provision for losses	(92,838)	(165,897)	(328,272)	(587,007)
Book Value	12,324,820	676,934	780,206	13,781,960
Mortgage loans				
- No overdue	1,581,285	160,083	362,178	2,103,546
Overdue for less than 30 days	3,111	8,860	852	12,823
Overdue 30- 89 days	-	8,560	-	8,560
Overdue 90- 179 days	-	-	1,905	1,905
Overdue for more than 180 days	-	-	2,721	2,721
	1,584,396	177,503	367,656	2,129,555
Estimated provision for losses	(27,058)	(37,499)	(109,503)	(174,060)
Book Value	1,557,338	140,004	258,153	1,955,495
Finance lease				
- No overdue	1,571,615	179,823	72,570	1,824,008
Overdue for less than 30 days	2,358	6,177	156	8,691
Overdue 30- 89 days	-	30,766	286	31,052
Overdue 90- 179 days	-	-	23	23
Overdue for more than 180 days	-	-	19,686	19,686
	1,573,973	216,766	92,721	1,883,460
Estimated provision for losses	(13,032)	(52,392)	(38,159)	(103,583)
Book Value	1,560,941	164,374	54,562	1,779,877
Consumer loans				
- No overdue	872,468	44,124	63,050	979,642
Overdue for less than 30 days	10,811	1,442	2,740	14,993
Overdue 30- 89 days	-	7,397	2,620	10,017
Overdue 90- 179 days	-	-	4,087	4,087
Overdue for more than 180 days	-	-	4,226	4,226
	883,279	52,963	76,723	1,012,965
Estimated provision for losses	(15,023)	(9,616)	(21,396)	(46,035)
Book Value	868,256	43,347	55,327	966,930
Total loans to retail customers and other loans	16,459,306	1,290,063	1,645,578	19,394,947
Estimated provision for losses	(147,951)	(265,404)	(497,330)	(910,685)
Loans to retail customers net of loss allowance	16,311,355	1,024,659	1,148,248	18,484,262
Total loan to customers	17,701,448	2,197,052	3,937,695	23,836,195
Total loss allowance	(172,613)	(506,049)	(1,412,588)	(2,091,250)
Total loan to customers less allowance for impairment losses	17,528,835	1,691,003	2,525,107	21,744,945

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Notes to the Financial Statements (Continued)

For the Year Ended 31 December, 2020

(in thousands of Kyrgyz Som ("KGS"), unless otherwise indicated)

The table below provides information on the quality of loans to customers as at 31 December 2019:

000' KGS	Stage 1	Stage 2	Stage 3	Total 31 December, 2019
Loans to corporate clients				
- No overdue	2,842,568	60,876	540,440	3,443,884
Overdue for 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 for more than 180 days	-	-	491,112	491,112
Total Loans to corporate clients	2,842,568	60,876	2,207,532	5,110,976
Estimated provision for losses	(136,228)	(10,591)	(1,086,608)	(1,233,427)
Book Value	2,706,340	50,285	1,120,924	3,877,549
Loans to small businesses				
- No overdue	10,937,197	28,316	292,441	11,257,954
Overdue for 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 for more than 180 days	-	-	76,944	76,944
Total Loans to small businesses	10,937,197	34,253	523,683	11,495,133
Estimated provision for losses	(187,445)	(745)	(140,333)	(328,523)
Book Value	10,749,752	33,508	383,350	11,166,610
Mortgage loans				
- No overdue	1,689,889	3,102	30,717	1,723,708
Overdue for less than 30 days	-	-	7,072	7,072
Overdue 30- 89 days	-	-	1,358	1,358
Total loans to mortgage loans	1,689,889	3,102	39,147	1,732,138
Estimated provision for losses	(13,970)	(68)	(24,826)	(38,864)
Book Value	1,675,919	3,034	14,321	1,693,274
Finance lease				
- No overdue	1,260,758	5,021	177,288	1,443,067
Overdue for 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 for more than 180 days	-	-	9,468	9,468
Total Finance Lease	1,260,758	5,021	206,165	1,471,944
Estimated provision for losses	(4,070)	-	(44,715)	(48,785)
Book Value	1,256,688	5,021	161,450	1,423,159
Consumer loans				
- No overdue	845,909	142	20,911	866,962
Overdue for 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 for more than 180 days	-	-	5,742	5,742
Total Consumer Loans	845,909	142	38,772	884,823
Estimated provision for losses	(6,082)	-	(8,804)	(14,886)
Book Value	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
Estimated provision for losses	(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 loan 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)
Total loan to customers less allowance for impairment losses	17,228,526	91,990	1,710,013	19,030,529

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Notes to the Financial Statements (Continued)

For the Year Ended 31 December, 2020

(in thousands of Kyrgyz Som ("KGS"), unless otherwise indicated)

Modified financial assets

As at 31 December 2020 and 31 December 2019, loans overdue by less than 90 days and allocated to stage 3 to in the tables above, are mainly represented by loans restructured due to the financial difficulties of the borrowers, for which the stabilisation period have not yet expired.

(c) Available collateral and other means of improving credit quality:

The tables below provide information on collateral and other credit enhancements for loans to customers by type of collateral as at 31 December 2020 and 2019.

	Gross carrying value	Loss allowance provision	Carrying value	Property and other types of collateral	Cash deposits	Unsecured	Total 31 December, 2020
Loans to corporate clients	4,441,248	(1,180,565)	3,260,683	3,101,919	-	158,762	3,260,683
Loans to small businesses	14,368,967	(587,007)	13,781,960	13,510,674	10,983	260,303	13,781,960
Mortgage loan	2,129,555	(174,060)	1,955,495	1,955,495	-	-	1,955,495
Finance lease	1,883,460	(103,583)	1,779,877	1,683,621	4,392	91,864	1,779,877
Consumer loans	1,012,965	(46,035)	966,931	964,762	2,169	-	966,931
Total loan to customers	23,836,195	(2,091,250)	21,744,945	21,216,471	17,544	510,929	21,744,945

000'KGS	Gross carrying value	Loss allowance provision	Carrying value	Property and other types of collateral	Cash deposits	Unsecured	Total 31 December, 2019
Loans to corporate clients	5,110,976	(1,233,427)	3,877,549	3,794,606	9,354	73,589	3,877,549
Loans to small businesses	11,495,133	(328,523)	11,166,610	10,942,980	820	222,810	11,166,610
Mortgage loan	1,732,138	(38,864)	1,693,274	1,693,274	-	-	1,693,274
Finance lease	1,471,944	(48,785)	1,423,159	984,788	-	438,371	1,423,159
Consumer loans	884,823	(14,886)	869,937	833,255	-	36,682	869,937
Total loan to customers	20,695,014	(1,664,485)	19,030,529	18,248,903	10,174	771,452	19,030,529

(d) Fair value of available collateral:

According to the Bank's policy, the ratio between the loan amount and the value of the collateral should be at a minimum 80 %.

For certain loans, the Bank revises the appraised value of collateral as at the date of the loan to its present value, taking into account the estimated changes in the value of real estate objects. The Bank may also make an individual assessment of collateral at each reporting date if any indication of impairment arises.

(e) Withdrawn security:

During the year ended 31 December 2020, the Bank acquired a number of assets by obtaining control over collateral for loans to customers with a net carrying amount of KGS 1,089,537 thousand (year ended 31 December 2019: KGS 371,036 thousand). These assets are presented in the line "Other assets" as seized property. The Bank's practice is to sell this property or lease it under a finance lease.

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Notes to the Financial Statements (Continued)

For the Year Ended 31 December, 2020

(in thousands of Kyrgyz Som ("KGS"), unless otherwise indicated)

(f) Pledged assets:

As at 31 December 2020, loans to corporate customers and small businesses with a net carrying amount of KGS 1,761,012 thousand served as collateral for loans extended to the Bank by the National Bank of the Kyrgyz Republic (31 December 2019: KGS 1,810,456 thousand) (Note 15) Also, loans to corporate customers and small businesses with a net carrying amount of KGS 2,542,985 thousand (31 December 2019: KGS 3,082,643 thousand), served as security for loans provided to the Bank by the Russian-Kyrgyz Development Fund (Note 17).

(g) Sensitivity analysis

Changes in estimates could affect the allowance for loan impairment. For example, if the amortized cost of gross corporate portfolio changes by plus / minus one percent, the allowance for impairment of loans to corporate customers as at 31 December 2020 will be KGS 11,806 thousand lower / higher (31 December, 2019: KGS 12,334 thousand lower / higher).

Changes in estimates could affect the allowance for loan impairment. For example, if the amortized cost of gross retail portfolio changes by plus / minus one percent, the amount of the allowance for impairment of loans to retail customers as of 31 December, 2020 would be KGS 9,107 thousand lower / higher (31 December 2019: KGS 4,311 thousand).

(h) Analysis of the loan portfolio by industry and geographic region:

Loans were issued primarily to customers operating in the Kyrgyz Republic and operating in the following sectors of the economy:

	31 December, 2020	31 December, 2019
Loans for agriculture		
Livestock raising, including:	9,396,871	7,618,491
- Increase in the number of cattle	6,789,712	5,293,148
- Horse breeding	1,329,329	1,225,794
- Sheep breeding	796,623	688,964
- Other	481,207	410,585
Crop production, including:	2,771,484	2,365,369
- Finance lease	1,883,460	1,471,944
- Cereals	274,691	200,598
- Vegetable growing	258,186	341,906
- Other	355,147	350,921
Poultry, beekeeping and other loans for agriculture	32,951	93,432
Total loans for agriculture	12,201,306	10,077,292
Manufacturing and processing industry	2,842,149	2,742,881
Trade	2,695,435	2,710,228
Mortgage loans	2,129,555	1,732,138
Services	1,729,045	986,270
Consumer loans	1,012,965	885,149
Construction	635,177	998,352
Transport	551,463	339,242
Other loans to small businesses	39,100	223,462
Total loans to customers	23,836,195	20,695,014
Estimated provision for losses	(2,091,250)	(1,664,485)
Total loans to customers less allowance for impairment losses	21,744,945	19,030,529

Aiyl Bank OJSC

Notes to the Financial Statements (Continued)

For the Year Ended 31 December, 2020

(in thousands of Kyrgyz Som ("KGS"), unless otherwise indicated)

(i) Concentration of loans to customers

As at 31 December 2020, the Bank has 3 borrowers or groups of related borrowers, each of which exceed 10% of equity (31 December 2019 no such borrowers).

(j) Loan maturities

The maturities of loans constituting the Bank's loan portfolio as at the reporting date are disclosed in (Note 30) and represent the periods from the reporting date to the maturity date for loan agreements.

(k) Credit classification

During 2020 and 2019, the Bank applied the following categorisation of the loan portfolio:

- 1) Loans issued to corporate clients are loans issued to legal entities and entrepreneurs with a loan amount of 20 million KGS inclusive per client, and / or having an annual turnover of 30 million KGS, and / or having an annual volume of individual money transfer transactions, conversion transactions from 50 million KGS;
- 2) Loans to retail customers represent all other loans.

Below is information on restructured loans to customers who applied to the Bank during 2020 and 2019, which otherwise would be overdue or impaired. Restructuring is a change in the terms of the loan agreement due to the deterioration of the financial situation of the borrower. Prolongation of the credit refers to the prolongation of the payment of principle and interest.

Segment	Restructured loans	Prolonged loans	ECL	Total carrying value 31 December, 2020
Manufacturing and processing				
industry	170,674	673,562	(316,690)	527,546
Services	562,674	200,864	(259,602)	503,936
Trade	274,574	111,685	(102,618)	283,641
Livestock raising	82,041	240,027	(92,169)	229,899
Construction	322,900	57,654	(177,488)	203,066
Crop Production	31,811	40,216	(13,678)	58,349
Consumer loans	10,678	51,170	(15,409)	46,439
Finance Lease	19,519	44,986	(29,886)	34,619
Mortgage	30,941	5,952	(7,169)	29,724
Agro-Service	7,401	1,972	(3,190)	6,183
Other	1,316	1,505	(662)	2,159
Total	1,514,529	1,429,593	(1,018,561)	1,925,561

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Notes to the Financial Statements (Continued)

For the Year Ended 31 December, 2020

(in thousands of Kyrgyz Som ("KGS"), unless otherwise indicated)

Segment	Restructured loans	Prolonged loans	ECL	Total carrying value 31 December, 2019
Manufacturing and processing industry	197,390	329,860	(303,596)	223,654
Trade	153,450	48,153	(66,652)	201,602
Construction	45,779	101,596	(35,542)	111,833
Livestock raising	104,646	4,374	(26,211)	82,809
Crop production	51,170	2,102	(13,459)	39,813
Finance lease	38,443	1,910	(2,332)	38,021
Consumer loans	6,360	2,154	(1,049)	7,465
Mortgage	8,998	597	(4,019)	5,576
Agro-Service	6,765	681	(2,441)	5,005
Service	318	2,042	(62)	2,298
Poultry, beekeeping and other loans for agriculture	3,514	-	(1,557)	1,957
Others	53,249	5,154	(24,683)	33,720
Total	670,081	498,623	(481,602)	687,102

9. Investments in securities at amortised cost

	31 December, 2020	Weighted average interest rate	31 December, 2019	Weighted average interest rate
Held by the bank and measured at amortized cost				
Treasury bills of the Ministry of Finance of the Kyrgyz Republic	1,754,671	10.23	2,647,394	10.40
Less: allowance for expected credit losses for investment securities measured at amortised cost	(10,699)		(11,675)	
Total	1,743,972		2,635,719	

As at 31 December 2019 and 2020, all investments in securities are classified as Stage 1. No investments in securities are past due.

(a) Pledged assets

As at 31 December 2020, investments in securities of KGS 240,000 thousand are pledged as collateral for loans provided to the Bank by the National Bank of the Kyrgyz Republic (31 December 2019: KGS 318,379 thousand) (Note 15).

As at 31 December 2020, investments in securities of KGS 511,243 thousand are pledged as collateral for loans provided to the Bank by the Russian-Kyrgyz Development Fund (31 December 2019: KGS 391,033 thousand) (Note 17).

As at 31 December 2020 and 2019, treasury bonds of the Ministry of Finance of the Kyrgyz Republic in the amount of KGS 751,243 thousand and KGS 709,412 thousand, respectively are pledged as collateral for the loans received

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Notes to the Financial Statements (Continued)

For the Year Ended 31 December, 2020

(in thousands of Kyrgyz Som ("KGS"), unless otherwise indicated)

10. Property and equipment, Intangible assets and Right of Use asset

At cost	Land, buildings, construction	Office equipment	Computers	Motor vehicles	Computer software	Right of Use Asset	Total
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
At 1 January, 2020	239,819	472,037	211,648	82,942	140,352	187,617	1,334,415
Additions	2,102	26,575	4,957	12,466	34,609	30,902	111,611
Disposals	(2,380)	(10,029)	(2,753)	(1,019)	-	(68,256)	(84,437)
Transfers	-	8	(8)	-	-	-	-
At 31 December, 2020	239,541	488,591	213,844	94,389	174,961	150,263	1,361,589
Accumulated depreciation and impairment							
At 1 January, 2019	(38,203)	(167,146)	(70,942)	(24,488)	(42,438)	-	(343,217)
Depreciation and amortisation for the period	(6,480)	(50,222)	(29,946)	(5,955)	(8,567)	(46,806)	(147,976)
Disposals	23	10,761	7,843	2,886	-	1,177	22,690
At 31 December, 2019	(44,660)	(206,607)	(93,045)	(27,557)	(51,005)	(45,629)	(468,503)
At 1 January, 2020	(44,660)	(206,607)	(93,045)	(27,557)	(51,005)	(45,629)	(468,503)
Depreciation and amortisation for the period	(9,215)	(50,414)	(28,414)	(16,367)	(10,533)	(47,394)	(162,337)
Disposals	1,607	9,984	2,753	616	-	66,434	81,394
Transfers	-	(8)	8	-	-	-	-
At 31 December, 2020	(52,268)	(247,045)	(118,698)	(43,308)	(61,538)	(26,589)	(549,446)
Carrying amount							
At 31 December 2020	187,273	241,546	95,146	51,081	113,423	123,674	812,143
At 31 December 2019	195,159	265,4305	118,603	55,385	89,347	141,988	865,912

As at 31 December 2020 and 2019, fully depreciated property, plant and equipment equaled KGS 174,449 thousand and KGS 139,226 thousand, respectively.

The average lease term is 3 years (2019: 3 years). The maturity of lease liabilities is presented in Note 19.

	For the year ended 31 December, 2020 000'KGS	For the year ended 31 December, 2019 000'KGS
Amounts recognized in the statement of profit and loss		
Depreciation expense	47,394	46,806
Interest expense	5,339	6,305
Expenses related to short-term lease	6,445	22,178

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Notes to the Financial Statements (Continued)

For the Year Ended 31 December, 2020

(in thousands of Kyrgyz Som ("KGS"), unless otherwise indicated)

11. Other assets

As at 31 December 2020 and 2019, other assets of the Bank consisted of the following:

	31 December, 2020 000'KGS	31 December, 2019 000'KGS
Other financial assets		
Receivables from MFKR related to interest subsidies	179,804	39,656
Money transfer receivables	55,013	35,361
Other accounts receivables	12,461	17,791
<i>Less: impairment allowance for expected credit losses</i>	(13,940)	(12,240)
Total Other financial assets	233,338	80,568
Other non-financial assets		
Foreclosed property	712,806	436,889
Prepayment for finance lease equipment	48,943	100,523
Other prepayments	48,560	52,361
Materials and supplies	17,331	15,881
Investment property	3,329	3,329
Prepayment of income tax	2,983	10,545
Total Other non-financial assets	833,952	619,528
Total other assets	1,067,290	700,096

12. Deposits and balances from banks and other financial institutions

	31 December, 2020	31 December, 2019
Time deposits of banks and other financial institutions (non-residents)	58,170	79,137
Due to banks and other financial institutions (residents)	56,611	151,359
Correspondent accounts of other banks	3,187	3,416
Total	117,968	233,912

As at 31 December 2020 and 2019, the Bank did not have banks or financial institutions, whose loan balances exceeded 10% of equity.

13. Current accounts and deposits from customers

	31 December, 2020	31 December, 2019
Current accounts and deposits from corporate customers		
- Current accounts and demand deposits	5,998,431	5,955,691
- Term deposits	3,175,473	2,148,314
	9,173,904	8,104,005
Current accounts and deposits from retail customers		
- Current accounts and demand deposits	1,895,027	1,560,823
- Term deposits	4,904,858	4,509,691
	6,799,885	6,070,514
Total	15,973,789	14,174,519

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Notes to the Financial Statements (Continued)

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(in thousands of Kyrgyz Som ("KGS"), unless otherwise indicated)

As at 31 December 2020 and 2019, customer deposits in the amount of 17,965 thousand KGS and 960 thousand KGS accordingly represented collateral for guarantees issued by the Bank. As at 31 December 2020, accrued interest payable is KGS 86,466 thousand (31 December 2019: KGS 66,228 thousand).

As at 31 December 2020 and 2019, customer deposits in the amount of 5,816,514 thousand KGS and 5,735,284 thousand KGS (36% and 40%), respectively, were obtained from 5 clients, which represents a significant concentration.

14. Amounts due to the Ministry of Finance of the Kyrgyz Republic

	31 December, 2020	31 December, 2019
Loans for provision of finance leases to customers	1,007,233	1,201,292
Subordinated debt	908,877	908,671
Loans for financing agricultural sector	670,591	250,162
Loans for financing business entities	459,553	-
Subordinated loans for international projects	200,165	271,437
Other	2,079	2,079
	3,248,498	2,633,641

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 addendums 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.

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Notes to the Financial Statements (Continued)

For the Year Ended 31 December, 2020

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(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 2020 and 2019, the Bank has the following subordinated loans in respect of international projects:

	Currency	Nominal interest rate	Issue date	Maturity	31 December 2020 KGS'000	31 December 2019 KGS'000
The Institute regulated by state law and incorporated under the laws of the Federal Republic of German ("KfW") Financing of Agricultural Production Supply Chain Project;	KGS	6%	9 Nov 2016	9 Nov 2023	83,419	113,227
International Development Association, Agro-business and Marketing Project;	KGS	Inflation rate	12 Oct 2012	15 Nov 2026	47,606	53,523
Asian Development Bank, Agricultural Area Development Project;	KGS	Inflation rate	28 May 2002	1 Dec 2021	33,345	66,613
International Development Association, Agro-business and Marketing Project;	KGS	6-m Libor +1%	1 Nov 2011	15 May 2022	16,312	15,503
International Development Association, Agro-business and Marketing Project;	KGS	Inflation rate +2%	26 Apr 2007	15 May 2022	15,711	18,992
International Development Association, Assistance in Development of Agricultural Productivity Project	KGS	Inflation rate	2 May 2014	15 Nov 2026	3,772	3,579
					200,165	271,437

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Notes to the Financial Statements (Continued)

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(in thousands of Kyrgyz Som ("KGS"), unless otherwise indicated)

(c) Loans for provision of finance leases to customers

As at 31 December 2020 and 31 December 2019, the Bank has the following loans for provision of finance leases to customers:

	Currency	Nominal interest rate	Issue date	Maturity	31 December 2020	31 December 2019
Loan from Eurasian Development Bank	KGS	5%	12 Dec 2014	15 Dec 2024	496,513	642,445
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	24 Dec 2024	197,783	222,134
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	165,064	174,064
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	76,909	83,757
Loan for provision of finance leases on development of agricultural machinery	KGS	0%	1 Aug 2012	15 Sep 2027	70,964	78,892
					1,007,233	1,201,292

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 thousand 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 16).

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(d) Other Loans from MFKR

	Currency	Nominal interest rate	Issue date	Maturity	31 December 2020	31 December 2019
Financing of business entities	KGS	1.5%	20 Jul 2020	20 Jul 2023	268,795	-
Financing of agricultural sector Development of other regions - for investment projects	KGS	3.5%	20 Mar 2020	20 Mar 2021	150,000	-
	KGS	3.5%	27 Dec 2019	27 Dec 2024	133,019	149,151
Financing of agricultural sector	KGS	1.5%	8 Apr 2020	8 Apr 2025	100,227	-
Financing of agricultural sector	KGS	1.5%	29 May 2020	29 May 2025	100,227	-
Financing of agricultural sector	KGS	1.5%	20 Aug 2020	20 Aug 2025	100,227	-
Financing of business entities	KGS	5.5%	20 Jul 2020	20 Jul 2023	78,827	-
Financing of business entities Development of hard to reach regions - for investment projects	KGS	1.5%	25 Sep 2020	25 Sep 2025	70,057	-
	KGS	1.5%	25 Dec 2019	25 Dec 2024	44,923	24,100
Financing of business entities Development of other regions - for working capital replenishment	KGS	5.5%	25 Sep 2020	25 Sep 2023	33,019	-
	KGS	5.5%	18 Dec 2019	18 Dec 2021	26,365	35,511
Development of hard to reach regions - for working capital replenishment	KGS	3.5%	25 Dec 2019	25 Dec 2022	15,604	41,400
Financing of business entities	KGS	6.5%	20 Jul 2020	20 Jul 2023	3,181	-
Financing of business entities	KGS	1%	20 Jul 2020	20 Jul 2025	3,001	-
Financing of business entities	KGS	1%	25 Sep 2020	25 Sep 2023	2,001	-
Financing of business entities	KGS	6.5%	25 Sep 2020	25 Sep 2023	671	-
Other loans	KGS	0%	27 Dec 2012	31 Dec 2025	2,079	2,079
					1,132,223	252,241

On 20 March 2020, the Bank signed an agreement with the MFKR to provide the Bank with 450 million and 550 million KGS to issue loans for projects aimed at financing Agriculture-8 and loans for projects aimed at financing business entities respectively in the Kyrgyz Republic.

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.

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The Bank believes that the fair value of these loans at initial recognition is consistent with the amounts received under the loans because they were obtained within the framework of a state program aimed at the development of regions of the Kyrgyz Republic, in particular, remote mountain regions. Loans are provided to borrowers who meet the established requirements at a rate of 6-10%, depending on the region, term and purpose of the loan.

(e) Covenants

As at 31 December 2020, the Bank was in breach of a financial covenant - an indicator of risky loans in the portfolio ("PAR") overdue for more than 90 days - stipulated in the loan agreement with the MFKR for funds received from KfW. As a result, the total amount of the credit debt of this lender in the amount of KGS 83,419 thousand was presented in the "on demand and less than one month" category of liquidity risk (Note 30) (As at 31 December 2019 Bank violated financial covenant - indicator of risky loans in a portfolio overdue for more than 90 days). Despite these violations, based on the results of negotiations with creditors, the Bank expects that repayments will continue in accordance with the original terms of the agreement.

15. Amounts due to the National Bank of the Kyrgyz Republic

	31 December, 2020	31 December, 2019
Loans from NBKR	1,345,913	1,182,746
	1,345,913	1,182,746

As at 31 December 2020 the short-term loans from the NBKR were collateralised by loans to customers of KGS 1,761,012 thousand (31 December 2019: KGS 1,810,456 thousand) (Note 8), and investments in securities of KGS 240, 000 thousand (31 December 2019: KGS 318,379 thousand) (Note 9).

	Currency	Nominal interest rate	Issue date	Maturity	31 December, 2020	31 December, 2019
Borrowing from NBKR (auction)	KGS	5.90%	6 Jun 2018	5 June 2021	382,870	452,182
Borrowing from NBKR (auction)	KGS	5.00%	28 May 2020	27 May 2021	277,791	-
Borrowing from NBKR (auction)	KGS	4.50%	26 Mar 2019	25 Mar 2021	170,514	176,775
Borrowing from NBKR (auction)	KGS	5.00%	9 Apr 2020	8 Apr 2021	150,616	-
Borrowing from NBKR (auction)	KGS	5.00%	28 Aug 2020	9 Apr 2021	100,411	-
Borrowing from NBKR (auction)	KGS	4.25%	10 Oct 2019	27 Feb 2021	100,348	100,349
Borrowing from NBKR (auction)	KGS	5.00%	11 Jun 2020	10 June 2021	88,100	-
Borrowing from NBKR (auction)	KGS	4.25%	21 Feb 2020	20 Feb 2021	75,263	-
Borrowing from NBKR (auction)	KGS	5.00%	5 Apr 2018	Jun 2020	-	453,440
Total loans from NBKR					1,345,913	1,182,746

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16. Government grant

	31 December, 2020	31 December, 2019
Interest-free and below market interest rate loans	198,487	221,811
Interest prepaid by the MFKR to subsidise agricultural Financing	87,755	82,791
	286,242	304,602

The following tables represent the movement of government grant for the year ended 31 December 2020 and 2019:

Opening balance as at 1 January 2020	304,602
Additions in subsidies	214,055
Recognition of government subsidy	(228,233)
Other changes	(4,182)
Closing balance as at 31 December 2020	286,242

Opening balance as at 1 January 2019	386,099
Additions in subsidies	250,432
Interest income	(325,299)
Other changes	(6,630)
Closing balance as at 31 December 2019	304,602

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

During 2011 to 2015 and 2020, 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 14). 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 2013-2020 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 8). 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, 7.49% per annum – for loans issued in 2019 and 6.04% per annum - for loans issued in 2020. The MFKR makes annual prepayments of additional interest for each for the next twelve months periods of the issued loans duration. The Bank recognises such annual prepayments on a monthly basis under "amortisation of government grant" caption in the statement of profit or loss and other comprehensive income (Note 21).

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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.

17. Other borrowed funds

The table below provides details of other borrowed funds as at 31 December 2020 and 2019.

	Currency	Interest rate	Issues date	Maturity	31 December, 2020	31 December, 2019
State Mortgage Company	KGS	7%, 8%, 9%	1 Oct 2016	1 Feb 2031	1,658,806	1,604,765
Incofin CVBA- 1	USD	5%	23 Oct 2017	23 Oct 2021	833,468	985,476
BlueOrchard Microfinance Fund 2	EUR	3.78 %	18 Jul 2018	20 Dec 2022	751,639	811,800
Russian-Kyrgyz Development Fund 3	USD	1%, 3%	20 Jul 2016	26 Dec 2022	747,161	804,648
Incofin CVBA- 2	USD	Libor +3 %	26 Apr 2018	26 Apr 2022	541,420	703,141
Russian-Kyrgyz Development Fund 1	KGS	6%, 8%	3 Sep 2015	26 Dec 2023	479,337	779,855
Global Impact	EUR	3.65 %	2 Nov 2018	2 May 2022	438,284	337,321
Micro, Small & Medium Enterprises Bond S.A. 3	KGS	10.5 %	24 Jul 2018	24 Jul 2021	358,289	359,184
Micro, Small & Medium Enterprises Bond S.A. 1	USD	Libor +3 %	3 Jul 2018	10 Jul 2022	293,990	251,045
BlueOrchard Microfinance Fund 1	USD	Libor +4 %	15 May 2018	16 May 2022	207,746	264,080
BAKUBAT Talas Welfare Fund	KGS	4%	10 Jan 2019	10 Jan 2024	151,512	151,097
Eurasian Development Bank 2	USD	6.54%	8 Sep 2017	9 Sep 2020	-	127,873
Public Fund Raiffeisen Cooperative Development Fund in Kyrgyzstan	KGS	11%	26 Mar 2004	20 Jan 2022	-	409
Total other borrowed funds					6,461,652	7,180,694

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

On 2 September 2015 and 5 March 2016, within the framework of the program of the 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 RKDF for a loan in the amount of USD 10,000,000. On 26 July 2017, the Bank signed an additional agreement with RKDF for a loan in the amount of USD 1,500,000 to fund the "Intensive Gardens" program. In 2019, the Bank signed another agreement with RKDF for USD 5,000,000 under the existing program. The interest rate on loans to customers issued by the Bank should not exceed the interest rate on loans received by the Bank by more than 5% per annum.

Due to the lack of an actual market for this type of financing provided by international organisations, aimed to aid the small and medium-sized enterprises, operating in the specific sectors of the economy, these RKFR loans represent a separate market segment.

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As at 31 December 2020, the loans received from the RKDF were collateralised by loans to customers with a carrying amount of KGS 2,542,985 thousand (31 December 2019: KGS 3,082,643 thousand) (Note 8) and investments in securities worth KGS 511,243 thousand (31 December 2019: KGS 391,033 thousand) (Note 9).

(b) Loan from State Mortgage Company

Under the 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. 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%.

(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 5,000,000 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 3,000,000 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 respectively 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.

Management of the Bank believes that there are no other financial instruments similar to the other borrowed funds received from RKDF, State Mortgage Company and Bakubat Talas Welfare Fund and due to the specific nature of clients, these products represent a separate market. As a result, other borrowed funds from the RKDF at at 4.3-5%, SMC at 4% and Bakubat Talas Welfare Fund at 4% were received in an orderly transaction and as such have been recorded at fair value at the recognition date.

(e) Covenants

The Bank is obligated to comply with financial covenants in relation to funds and loans from banks and financial institutions. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios.

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Notes to the Financial Statements (Continued)

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As at 31 December 2020, the Bank breached the following covenants:

- Portfolio quality ratio (PAR30) of not more than 12% and portfolio quality ratio (PAR90) not more than 10% as required under the loan agreements with BlueOrchard Microfinance Fund.
- PAR over 30+ restructured not more than 5% and Risk coverage ratio for loan losses (PAR30 + above than 70%) as required under the loan agreements with INCOFIN CVBA.
- Max Risk on capital of not more than 25% as required under the loan agreements with Micro-Small & Medium Enterprises Bonds S.A.
- Maximum risk on capital of not more than 25% and share of classified loans in credit portfolio not more than 10% as required under the loan agreements with Russian-Kyrgyz Development Fund.
- Share of classified loans in credit portfolio not more than 10% as required under the loan agreement with Eurasian Development Bank.
- Loan portfolio at PAR90 risk not more than 5% as required under the loan agreement with Ministry of Finance of the KR.

As at 31 December 2020, the total outstanding amount of these lenders has accounted to KGS 4,213,050 thousand became contractually due on demand, and is therefore presented in the "on demand and less than one month". Management believes that the global COVID-19 pandemic has affected the Bank's ability to comply with these covenants as at 31 December 2020. Management confirms that there are no cross default breaches under the terms and conditions of the loan agreements. The Management of the Bank applied to microfinance companies for a waiver of the ratios. As at 31 December 2020, the Bank received waivers from INCOFIN on 30 October 2020. The Bank received waiver from following lenders in 2021: Micro-Small&Medium Enterprises Bonds S.A., Russian Kyrgyz Development Fund, Eurasian Development Bank. Since the Bank did not obtain a waiver from these creditors as at 31 December 2020 and did not have an unconditional right to defer settlement for at least twelve months after the reporting date of 31 December 2020, the loans were classified as a current liability. The Bank has not received waiver from BlueOrchard and Ministry of Finance of KR.

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 30). 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 30).

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

000'KGS	Liabilities			Total
	Amounts due to MFKR (Note 14)	Amounts due to NBKR (Note 15)	Other Borrowed funds (Note 16)	
Balance at 1 January 2020	2,633,641	1,182,746	7,180,694	10,997,081
Changes from financing cash flows				
Proceeds from amounts due to the Ministry of Finance of the Kyrgyz Republic	1,261,052	-	-	1,261,052
Repayment of amounts due to the Ministry of Finance of the Kyrgyz Republic	(654,840)	-	-	(654,840)
Proceeds from amounts due to the National Bank of the Kyrgyz Republic	-	825,000	-	825,000
Repayment of amounts due to the National Bank of the Kyrgyz Republic	-	(662,407)	-	(662,407)
Proceeds from other borrowed funds	-	-	234,906	234,906
Repayment of other borrowed funds	-	-	(1,775,376)	(1,775,376)
Total changes from financing cash flows	606,212	162,593	(1,540,470)	(771,665)
Flows	606,212	162,593	(1,540,470)	(771,665)
Effect of changes in foreign exchange Rates	1,942	-	849,136	851,078
Other changes				
Change in accrued interest	6,703	574	(27,708)	(20,431)
Balance as at 31 December 2020	3,248,498	1,345,913	6,461,652	11,056,063

000'KGS	Liabilities				Total
	Amounts due to MFKR (Note 14)	Amounts due to NBKR (Note 15)	Other Borrowed funds (Note 16)	Loans from Shareholder	
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)
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

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18. Other liabilities

	31 December, 2020	31 December, 2019
Other financial liabilities:		
Other financial liabilities	28,163	11,327
Other non-financial liabilities:		
Other taxes payable	22,345	29,557
Vacation reserve	43,566	39,229
Deferred tax liabilities	44,123	35,806
Credit line commitments and guarantee provision	11,745	7,874
Precious metals deposits of customers	12,971	10,865
Other non-financial liabilities	16,585	30,525
Total other liabilities	179,497	165,183

19. Lease liabilities

Opening balance as at 1 January 2020	147,736
Additions	30,902
Lease termination	(8,845)
Lease payments	(52,089)
Interest expense	5,339
Foreign exchange difference	3,758
Closing balance as at 31 December 2020	126,801

Opening balance as at 1 January 2019	-
Additions	178,559
Transition to IFRS 16s	14,362
Lease termination	-
Lease payments	(38,880)
Interest expense	(6,305)
Foreign exchange difference	-
Closing balance as at 31 December 2019	147,736

	31 December, 2020	31 December, 2019
Year 1	34,117	51,773
Year 2	25,985	26,378
Year 3	22,414	19,522
Year 4	27,930	17,820
Year 5	9,930	16,705
More than 5 years	16,170	27,707
Total lease liabilities	136,546	159,905
Unearned interest	(9,745)	(12,169)
Carrying amount of lease liability	126,801	147,736
Current lease liability	30,107	47,823
Non-current lease liability	96,694	99,913

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20. Share capital

(a) Issued Capital

As at 31 December 2020, the authorised, issued and outstanding share capital of the Bank consists of 347,626 ordinary shares (31 December 2019: 337,920 ordinary shares). All shares have a nominal value of KGS 10 thousand.

On 30 June 2020, according to the decision of the General Meeting of Shareholders, the issue of an additional 9,706 ordinary shares was approved by directing 97,060 thousand KGS from retained earnings to increase the authorised and issued share capital of the Bank (31 December 2019: the issue of additional 11,044 ordinary shares was approved by directing 110,440 thousand KGS).

The holders of ordinary shares are entitled to receive dividends as they are declared, and also have the right to one vote per share at the annual and general meetings of the Bank's shareholders

(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. During year ended 31 December 2020, the increase of additional paid-in capital of KGS 1,078 thousand includes expenses for that property, which is annually determined based on fair value of assets, calculated by independent appraiser (2019: 496 thousand KGS).

The Bank's share capital comprises of the following number of shares (in thousand):

	Authorised and issued Shares	Shares Issued
Ordinary shares (par value of KGS)		
1 January, 2019	226,876	226,876
Issue of shares	111,044	111,044
As at 31 December, 2019	337,920	337,920
Issue of shares	9,706	9,706
As at 31 December, 2020	347,626	347,626

(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 2020 and 2019, the general reserve amounted 189,696 thousand for both years. In 2020, due to the pandemic, there was no provision for future requirements. The rest of the retained earnings after the payment of dividends is for increasing the authorized capital.

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(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 30 June 2020, by the decision of the General Meeting of Shareholders, dividends in the total amount of 52,278 thousand KGS (150 KGS per ordinary share) (2019: 210,000 thousand KGS (643 KGS per ordinary share) were declared and paid.

According to the NBKR Instruction "On establishment of capital adequacy standards for commercial banks of the Kyrgyz Republic" approved by the Resolution №.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 decisions 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 2020, the requirement for the value of the capital buffer index was at the level of not less than 20%. The size of the buffer was within the standards required for the distribution of dividends. (2019: At least 24%).

21. Net interest income

	2020	2019
Interest income at effective interest rate		
Loans to customers	2,483,225	2,423,518
Investment in securities at amortized cost	256,947	335,721
Loans and advances to banks and other financial institutions	93,759	23,714
Cash and cash equivalents	969	297
Total interest income at effective interest rate	2,834,900	2,783,250
Amortisation of government grant	204,991	324,997
Current accounts and deposits from customers	(714,791)	(721,547)
Amounts due to the Ministry of Finance of the Kyrgyz Republic	(131,391)	(64,927)
Other borrowed funds	(337,915)	(395,125)
Amounts due to the National Bank of the Kyrgyz Republic	(62,581)	(74,387)
Interest expense on finance lease	(5,339)	(6,305)
Repurchase agreements	(3,105)	(5,748)
Deposits and balances from banks	(1,084)	(950)
Other	(8,380)	-
Total interest expense	(1,264,586)	(1,268,989)
Net interest income on interest bearing assets before allowance for expected credit losses	1,775,305	1,839,258

22. Net foreign exchange translation gain

	2020	2019
Realised gain on foreign exchange transactions	166,595	111,656
Unrealized loss from revaluation	(6,393)	(2,721)
Total	160,202	108,935

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23. Fee and commission income and expense

	2020	2019
Fee and commission income:		
Money Transfers	190,405	216,102
Settlements	76,847	82,682
Commission income for payment cards	24,889	22,649
Commission fee for storage of valuables	5,774	4,406
Other	5,949	3,760
Total fee and commission income	303,864	329,599
Fee and commission expense:		
Commission expenses for payment cards	(34,064)	(30,027)
Money transfer fees	(13,031)	(12,910)
Settlements	(10,362)	(14,195)
Commission fees for storage of valuables	(2,900)	(2,670)
Other commission expenses	(39,720)	(26,929)
Total fee and commission expense	(100,077)	(86,731)

24. Impairment losses/(recovery)

	2020	2019
Impairment losses on interest bearing assets:		
Impairment losses on loans to customers	(181,215)	(711,991)
Impairment losses on investments in securities	976	23,444
Impairment losses on cash and cash equivalents	210	753
	(180,029)	(687,794)
Impairment losses on other assets:		
Other financial assets	(1,641)	(700)
Non-financial assets	(497,690)	(220,863)
	(499,331)	(221,563)
Recovery of impairment losses on credit-related commitments:		
Credit related commitments	(4,158)	25,838
Total impairment losses/(recovery)	(4,158)	25,838

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25. Operating expenses

	2020	2019
Employee compensation	761,245	703,669
Payroll related taxes	130,565	118,426
Depreciation and amortization	114,943	101,170
Security services	52,691	49,857
Depreciation of right of use assets	47,394	46,806
Repairs and maintenance	55,837	42,679
Taxes other than on income	31,072	3,486
Stationery and office supplies	13,672	14,585
Professional services	14,856	12,542
Utilities	11,965	11,004
Communication and information services	9,512	10,617
Rent	6,445	22,178
Advertising and marketing	6,216	12,276
Travel expenses	2,909	5,942
Representative expenses	2,610	2,475
Training	1,073	2,832
Other expenses	7,805	5,765
Total operating expenses	1,270,810	1,166,309

26. Income tax expense

The Bank measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the Kyrgyz Republic where the Bank operate, which may differ from IFRS.

Current Income tax

Current income tax is calculated based on the estimated taxable profit for the year, taking into account income tax rates in force or substantively enacted at the reporting date, as well as adjustments for income tax of previous years.

The Bank is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December, 2020 and 2019 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

According to the Tax Code of Kyrgyz Republic for the computation of taxable profit, the Bank is entitled to deduct impairment reserves for loans to customers and foreclosed assets from the aggregated annual income, accrued in accordance with NBKR "Regulation on classification of assets and accruals of provision for covering potential losses" #9504 registered in Ministry of Justice of the Kyrgyz Republic dated 15 June 2017. The amount of loan loss provisions in financial statements is formed in accordance with the requirements of IFRS.

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The tax rate used for the reconciliations below is the corporate tax rate of 10% payable by corporate entities in the Kyrgyz Republic on taxable profits (as defined) under tax law in that jurisdiction.

Deferred tax assets/(liabilities) as at 31 December, 2020 and 2019 comprise:

	31 December, 2020	31 December, 2019
Deferred tax (liabilities)/assets in relation to		
Loans and advances from banks and loans to customers	(27,760)	(16,285)
Right-of-use asset	(26,566)	(14,199)
Property and equipment	(22,439)	(21,264)
Investment securities	1,957	1,168
Provision	3,231	-
Lease liability	27,454	14,774
Net deferred tax liability	(44,123)	(35,806)

The effective tax rate reconciliation is as follows for the years ended 31 December, 2020 and 2019:

	2020	2019
Profit before income tax	196,359	157,294
Tax at the statutory tax rate (10%)	19,636	15,729
Non-deductible costs/(non-taxable income)	12,972	(3,247)
Income tax expense	32,608	12,482
Current income tax expense	24,291	15,135
Deferred tax expense	8,317	(2,653)
Income tax expense	32,608	12,482

27. Commitments and contingencies

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position.

The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

Provision for losses on contingent liabilities totaled KGS 16,888 thousand and KGS 648 thousand as at 31 December 2020 and 2019, respectively (Note 18).

As at 31 December, 2020 and 2019 contingent liabilities comprise:

Credit related commitments:

The Bank has outstanding credit related commitments to extend loans. These credit related commitments take the form of approved loans and credit card limits and overdraft facilities.

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The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Bank applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	31 December, 2020	31 December, 2019
Contingent liabilities and credit commitments		
Loan and credit line commitments	179,155	115,181
Guarantees	62,129	54,567
Overdrafts	3,792	5,180
	245,076	174,928
Provisions	(16,888)	(648)
Total contingent liabilities and credit commitments	228,188	174,280

Credit quality of other contingent liabilities:

The following table provides information on the credit quality of the contingent liabilities as at 31 December 2020 and 31 December 2019.

	31 December, 2020		
	Stage 1	Stage 2	Total
Credit related commitments			
Loan and credit line commitments	164,717	14,438	179,155
Guarantees	62,129	-	62,129
Overdrafts	3,792	-	3,792
Total credit related commitments	230,638	14,438	245,076
Loss allowance	(10,581)	(6,307)	(16,888)
Net credit related commitments	220,057	8,131	228,188
	31 December, 2019		
	Stage 1		Total
Credit related commitments			
Loan and credit line commitments	115,180		115,180
Overdrafts	5,181		5,181
Guarantees	54,567		54,567
Total credit related commitments	174,928		174,928
Loss allowance		(648)	(648)
Net credit related commitments		174,280	174,280

As at 31 December 2020 and 2019 the Bank did not have significant credit concentrations related to credit related commitments.

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Extension of loans to customers within credit line limits is approved by the Bank on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions.

27.1. 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.

27.2. Legal proceedings

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

27.3. Taxation

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.

28. Fair value of financial instruments

IFRS defines fair value as 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.

28.1. Fair value of the Bank's financial assets and financial liabilities measured at fair value on a recurring basis

Some of the Bank's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

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Except as disclosed in the following table, in the opinion of the Bank's management, the carrying amounts of the Bank's financial assets and liabilities as reported in the financial statements approximate their fair values.

	31 December, 2020		31 December, 2019	
	Book Value	Fair Value	Book Value	Fair Value
Loans to customers	21,744,945	21,639,473	19,030,529	19,142,741
Investments in securities at amortized cost	1,743,972	1,519,901	2,635,719	1,789,577
Customers accounts and deposits	15,973,789	16,020,887	14,174,519	14,197,686

	31 December, 2020			
	Level 1	Level 2	Level 3	Total
Loans to customers	-	18,362,504	3,276,969	21,639,473
Investments in securities at amortized cost	-	1,519,901	-	1,519,901
Customers accounts and deposits	-	16,020,887	-	16,020,887

	31 December, 2019			
	Level 1	Level 2	Level 3	Total
Loans to customers	-	18,021,817	1,120,924	19,142,741
Investments in securities at amortized cost	-	1,789,577	-	1,789,577
Customers accounts and deposits	-	14,197,686	-	14,197,686

The fair values of financial assets and financial liabilities included in the Level 2 and Level 3 categories above have been determined in accordance with generally accepted valuation techniques based on discounted cash flow analysis, with the discount rate that reflects the credit risk of the counterparty being the most important input. During this period, there were no transfers between Level 1 and 2

There were no transfers between Levels during the period.

Hierarchy of fair value measurements:

The Bank estimates fair value using the following hierarchy of fair value measurements, which takes into account the materiality of the inputs used in generating those estimates.

- Level 1: quoted prices in an active market (unadjusted) for identical financial instruments;
- Level 2: data, other than quoted prices, related to Level 1, available directly (quotes) or indirectly (data derived from quotes). This category includes instruments that are valued using: quoted market prices in active markets for similar instruments, quoted market prices for identical or similar instruments in markets that are not considered active, or other valuation techniques all of which are based directly or indirectly on observable market prices.
- Level 3: data that is not available. This category includes instruments that are valued using information that is not based on observable inputs, where such unobservable inputs have a significant effect on the instrument's measurement. This category includes quoted instruments for similar instruments that require the use of significant unobservable adjustments or judgments to reflect differences between the instruments.

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29. Capital risk management

The National Bank of the Kyrgyz Republic establishes and monitors the fulfillment of requirements for the level of the Bank's equity capital.

The Bank defines as equity those items that are defined in accordance with the legislation of the Kyrgyz Republic as items constituting equity of credit institutions.

In accordance with the current requirements for equity capital established by the NBKR, banks must maintain the following normatives:

- ratio of the ratio of total capital to the value of risk-weighted assets (capital adequacy ratio) above the prescribed minimum level of 12%;
- the ratio of Tier 1 capital to assets risk-weighted above the prescribed minimum level of 6%;
- adequacy ratio of Tier 1 base capital above the prescribed minimum level of 4.5%;
- and the ratio of total capital to total assets above the prescribed minimum level of 8%.

The Bank started to calculate adequacy ratio of Tier 1 base capital starting from 2020 according to new requirement of NBKR.

As at 31 December 2020 and 31 December 2019, the Bank's capital adequacy ratio was in compliance with the statutory requirements.

The table below shows an analysis of the composition of the Bank's equity, calculated in accordance with the requirements of the NBKR, as at 31 December 2020 and 31 December 2019:

	Unaudited 31 December, 2020	Unaudited 31 December, 2019
Total capital	4,998,317	4,939,203
Risk – weighted assets	22,224,245	20,752,986
Total capital adequacy ratio	22.5%	23.8%
Total tier 1 capital	4,589,189	3,598,900
Risk – weighted assets	22,224,245	20,752,986
Tier 1 Capital adequacy ratio	20.6%	17.3%
Base tier 1 capital	3,594,756	-
Risk – weighted assets	22,224,245	-
Tier 1 Capital adequacy ratio	16.2%	-
Total capital	4,998,317	4,939,203
Total assets	31,792,958	30,616,181
Leverage	15.5%	16.1%

Risk-weighted assets are valued using a risk weighting system, graded according to the nature of the risk and reflecting an assessment of the credit, market and other risks associated with each asset and counterparty, taking into account any acceptable collateral or guarantees. A similar valuation methodology is used for unrecognized contractual commitments, with some adjustments to reflect the more contingent nature of potential losses.

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In accordance with the quantitative indicators established to ensure capital adequacy, the Bank is obliged to comply with the requirements regarding the minimum amounts and the ratio of the total capital (12%) and Tier 1 capital (6%) to the total amount of risk-weighted assets.

30. Risk management policies

Management of risk is fundamental to the Bank's banking business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to;

- Credit exposures;
- Liquidity risk;
- Market risk.

The Bank recognises that it is essential to have efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework, whose main purpose is to protect the Bank from risk and allow it to achieve its performance objectives.

The Bank's risk management policy is aimed at identifying, analyzing and managing the risks to which the Bank is exposed, at setting risk limits and corresponding controls, as well as at continually assessing the level of risk and its compliance with the established limits. Risk management policies and procedures are reviewed on a regular basis to reflect changes in the market situation, offered banking products and services, and best international practice.

The Board of Directors of the Bank is responsible for the proper functioning of the risk management control system and, within the framework of this responsibility, its main responsibilities are:

- determination of the main parameters for risk management, which the Bank is exposed to, and the establishment of acceptable levels for these risks;
- exercising supervision over the actions of the Management Board of the Bank undertaken to identify, assess, monitor and control risks;
- approval of major transactions for amounts ranging from 5% to 20% of the total assets of the Bank, depending on the nature of the transaction, as well as all active transactions with related parties of the Bank.

Meetings of the Board of Directors are held as required, but at least once a month.

The Management Board of the Bank is responsible for monitoring and implementing risk mitigation measures, as well as ensuring that the Bank operates within the established risk limits by empowering and identifying responsible persons in relation to the implementation of policies and measures to mitigate the Bank's risks. Meetings of the Management Board are held as needed, but at least once a week.

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Assessment of banking risks provides for the identification and analysis of internal and external factors affecting the Bank's activities, which is carried out by the Bank's risk manager. The responsibilities of the risk manager of the Bank include general risk management, implementation of risk policies and procedures and control over their observance, as well as control over the use of general principles and methods for detection, assessment, management and reporting, both on financial and on non-financial risks. The risk manager of the Bank reports directly to the Board of Directors and on a monthly basis submits a report to the Board of Directors on the factors affecting the increase in banking risks.

30.1 Credit risk management:

Credit, market and liquidity risk are managed and monitored by the system of Credit Committees, the Asset and Liability Management Committee (ALCO) and the Liquidity Management Committee, both at the level of the portfolio as a whole and at the level of individual transactions.

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.

The first level: the Bank's Credit Committee, which is authorized to carry out credit operations in relation to the total loan debt of one borrower in an amount not exceeding 0.8% of the Bank's net total capital, as well as credit operations, regardless of size, if funds are provided as collateral on a separate deposit account with the Bank. The Bank's Credit Committee is not entitled to carry out credit transactions with related parties and interbank placements.

Second level: Branch Credit Committees and Small Credit Committee of the Bank.

Credit committees of branches are authorized to perform operations in relation to the total credit debt of one borrower, with the exception of loans to related parties, in the amount of:

- for loans and credit substitutes - up to (and inclusive) 10,000,000 (ten million) KGS.

The Small Credit Committee of the Bank is authorized to perform operations in relation to the total credit debt of one borrower, except for loans to related parties, in the amount of:

- for loans and credit substitutes - up to (and inclusive) 10,000,000 (ten million) KGS.

Asset and Liability Management Committee (ALCO) - the main functions of the ALCO are:

regulation of the structure of assets and liabilities in order to maintain liquidity, ensuring a stable interest margin and spread, regulation of assets and liabilities in order to comply with economic standards, management of operational risks associated with work with financial tools.

Liquidity Management Committee (CFM) - the main functions of CFM are to effectively manage the Bank's liquidity and make decisions on treasury operations within the limits set by the ALCO, and within this responsibility, its main responsibilities are:

- making decisions on direct placement and attraction of funds, as well as exchange of assets in the interbank market;
- determination of the directions and conditions for the placement of short-term funds of the Bank, the volume of transactions with foreign currency;
- setting limits on exchange rates, volumes of assets and liabilities in foreign currency for daily operations in foreign currency, etc.

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Both external and internal risk factors are identified and managed within organizational structure of the Bank. Particular attention is paid to the development of risk maps, which are used to identify the entire list of risk factors and serve as the basis for determining the level of adequacy of current risk mitigation procedures. In addition to the standard analysis of credit and market risks, the Risk Management Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert assessments in specific areas.

In accordance with the requirements of the legislation of the Kyrgyz Republic, the Risk Management Committee has been established in the Bank. It is created and formed by the decision of the Board of Directors, is accountable to the Board of Directors and acts within the framework of the powers delegated to it by the Board of Directors.

Use of forecast information.

When assessing for a significant increase in credit risk, as well as when measuring expected credit losses, the Bank uses forward-looking information that can be obtained without undue financial or labor costs. The Bank engages experts who use external and internal information to create a "baseline scenario" of the future dynamics of relevant economic indicators, as well as a representative set of other possible forecast scenarios. External information used includes economic data and forecasts published by government and monetary authorities.

The Bank analyzes the likelihood of these forecast scenarios. The baseline scenario represents the single most likely scenario and includes information used by the Bank for strategic planning and budgeting purposes. The Bank has identified and documented the main factors of credit risk and credit losses for each portfolio of financial instruments and, through statistical analysis of historical data, assessed the relationship between macroeconomic variables, credit risk and credit losses. The Bank did not change the valuation methods or significant assumptions made during the reporting period.

The approach to the construction and analysis of forecast scenarios used by the Bank to estimate expected credit losses is as follows.

1. Macroeconomic variables are identified, the change of which affects the default behavior of borrowers by constructing a regression and its statistical assessment;
2. Macroeconomic variables are projected for future periods using the ARIMA model;
3. Scenarios of economic development are determined, after which PD is adjusted for future periods.

Implementing a robust credit risk assessment and measurement procedure for accounting purposes that provides a solid foundation for the common systems, tools and data used to assess credit risk and account for expected credit losses. Providing consultations, recommendations and specialists to various business units in order to introduce advanced methods of credit risk management within the Bank.

The Internal Audit Service conducts regular audits to ensure that existing internal controls and procedures are properly developed and implemented.

Significant increase in credit risk. As explained in Note 3, the Bank has monitored all financial assets that qualify for impairment for significant increases in credit risk since initial recognition. If a significant increase in credit risk is identified, the Bank calculates an estimate based on the amount of credit losses expected over the entire loan period, and not just the next 12 months.

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Internal credit risk ratings. In order to minimize credit risk, the Bank instructed the credit management committee to develop and ensure the functioning of the Bank's credit rating system to categorize risks depending on the degree of default risk. The Bank's credit rating system includes ten categories. Credit rating information is based on a set of data that is defined as forward-looking data in relation to default risk and uses expert judgment in relation to credit risk. The analysis takes into account the nature of the risk and the type of borrower. Credit ratings are determined using qualitative and quantitative factors that indicate the risk of default.

Credit ratings are designed and calibrated to reflect the risk of default as credit risk increases. As credit risk increases, so do the differences in default risk between different credit ratings. At initial recognition, each risk is assigned to a specific credit rating based on available counterparty information. Then all risks are monitored and the credit rating is updated with the latest information. Both standard monitoring procedures and procedures adapted to specific types of risk are applied. To monitor the Bank's risks, as a rule, the following data are used:

- Payment history, including payment ratios and maturity analysis;
- The degree of use of the provided limit;
- Cases of refusal of sanctions (both at the request of the client and at the initiative of the Bank);
- Changes in commercial conditions, financial situation and economic situation;
- Information about the credit rating assigned by independent rating agencies;
- For risks related to lending to individuals: internal data on customer behavior, indicators of product availability, etc.;
- For corporate lending risks: information obtained through periodic review of customer files (including review of audited financial statements), market data such as quoted bond prices (if any), and changes in the financial sector, in which the client works.

Credit ratings are used as the main input for assessing the term structure of the probability of default for various risks. The Bank collects data on performance and probability of default and analyzes them by jurisdiction / region, as well as by product and borrower type and by credit rating. In this case, both internal and external information can be used, depending on the analyzed portfolio. The table below provides a comparison of the Bank's internal and external credit ratings.

The predicted relationships between key metrics and default and loss rates for various portfolios of financial assets have been developed based on an analysis of historical data over the past 10 years. When constructing predictive relationships and indicators, the Bank assumed that the effect of the pandemic was included in the data for 2020.

The procedure for calculating expected credit losses for accounting purposes differs from the procedure for calculating expected credit losses for regulatory purposes, although many of the inputs used are similar. The Bank has ensured that proper methodology is used in calculating expected credit losses for both accounting and regulatory purposes. The main differences between the methodology used to measure expected credit losses in accordance with IFRS 9 and the methodology used to comply with regulatory requirements are as follows:

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Estimating expected credit losses in accordance with IFRS 9 takes into account forward-looking information about future economic conditions:

- When estimating expected credit losses in accordance with IFRS 9, the calculated value of expected losses is weighted by the likelihood of the corresponding scenarios of forecasts of macroeconomic variables.
- When estimating expected credit losses in accordance with IFRS 9 based on probability transition matrices, historical data for 5 years is used.

The table below presents the maximum exposure to credit risk by line item in the statement of financial position, including derivatives. The maximum exposure is presented without considering the impact of mitigation measures such as the use of master netting and collateral agreements.

	Maximum exposure to credit risk as at 31 December, 2020	Maximum exposure to credit risk as at 31 December, 2019
Cash and Cash equivalents*	4,071,119	5,211,757
Loans and advances to banks and other financial institutions	365,270	418
Loans to customers	21,744,945	19,030,529
Investments in securities at amortized cost	1,743,972	2,635,719
Other financial assets	233,338	80,568
Total	28,158,644	26,958,991
Credit related commitments	228,188	174,928
Total exposure to credit risk	28,386,832	27,133,919

*Cash equivalents include nostro accounts and term deposit with NBKR, nostro accounts and term deposits with other banks.

The tables below analyze information about the significant changes in the gross carrying amount of loans to customers during the period that contributed to changes in the loss allowance as well as the movement of the loss allowance during 2020 and 2019:

	Stage 1, 12 month ECL	Stage 2, Lifetime ECL	Stage ,3 Lifetime ECL	Total
Gross carrying amount as at 1 January , 2020	17,576,321	103,394	3,015,299	20,695,014
Changes in the gross carrying amount				
- Transfer to stage 1	14,417	(855)	(13,563)	-
- Transfer to stage 2	(1,690,879)	1,847,998	(157,119)	-
- Transfer to stage 3	(1,530,417)	(82,164)	1,612,581	-
New financial assets originated or purchased	9,916,835	-	-	9,916,835
Financial assets that have been derecognized	(6,597,684)	(141,746)	(1,033,437)	(7,772,866)
Write-offs	-	-	(403)	(403)
Foreign exchange and other movements	12,855	470,424	514,335	997,614
Gross carrying amount as at 31 December , 2020	17,701,449	2,197,053	3,937,693	23,836,195

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	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 1 January, 2019	17,649,212	153	2,102,134	19,751,499
Changes in the gross carrying amount				
- Transfer to stage 1	123,121	(10,230)	(112,891)	-
- Transfer to stage 2	(90,645)	90,645	-	-
- Transfer to stage 3	(1,724,217)	(37)	1,724,254	-
New financial assets originated or purchased	9,150,467	-	-	9,150,467
Financial assets that have been derecognized	(7,000,352)	(79)	(538,952)	(7,539,382)
Foreign exchange and other movements	(531,265)	22,942	(159,246)	(667,569)
Gross carrying amount as at 31 December, 2019	17,576,321	103,394	3,015,299	20,695,014
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance – Loans and advances to customers at amortized cost				
Loss allowance as at 1 January, 2020	347,795	11,404	1,305,286	1,664,485
Changes in the loss allowance				
- Transfer to stage 1	7,489	(89)	(7,399)	-
- Transfer to stage 2	(34,500)	59,635	(25,135)	-
- Transfer to stage 3	(32,000)	(9,105)	41,105	-
- Increases due to change in credit risk	-	316,234	97,938	414,172
- Decreases due to change in credit risk	-	-	-	-
New financial assets originated or purchased	112,717	-	-	112,717
Financial assets that have been derecognized	(228,886)	(6,616)	(110,170)	(345,672)
Foreign exchange and other movements	-	134,586	110,962	245,548
Loss allowance as at 31 December, 2020	172,615	506,049	1,412,586	2,091,250
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance – Loans and advances to customers at amortized cost				
Loss allowance as at 1 January, 2019	282,049	73	714,794	996,916
Changes in the loss allowance				
- Transfer to stage 1	75,008	(8)	(75,000)	-
- Transfer to stage 2	(11,331)	11,331	-	-
- Transfer to stage 3	(590,492)	(20)	590,512	-
- Increases due to change in credit risk	65,746	-	-	65,746
New financial assets originated or purchased	711,823	-	-	711,823
Financial assets that have been derecognized	(185,008)	(15)	(350)	(185,373)
Changes in models/risk parameters	-	-	67,797	67,797
Foreign exchange and other movements	-	43	7,533	7,576
Loss allowance as at 31 December, 2019	347,795	11,404	1,305,286	1,664,485

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

Cash and cash equivalents	2020		2019	
	Stage 1	Total	Stage 1	Total
Balance at 1 January	6,730,453.0	6,730,453	5,809,597	5,809,597
Change in balance	(924,901)	(924,901)	933,001	933,001
Foreign exchange effect	254,212	254,212	(12,144)	(12,144)
Balance at 31 December	6,059,764	6,059,764	6,730,454	6,730,454

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

Cash and cash equivalents	2020		2019	
	Stage 1	Total	Stage 1	Total
Balance at 1 January	(227)	(227)	(1,308)	(1,308)
Net remeasurement of net allowance	(210)	(210)	753	753
Effect of foreign currency translation	12	12	328	328
Balance at 31 December	(425)	(425)	(227)	(227)

Investment in securities at amortised cost	2020		2019	
	Stage 1	Total	Stage 1	Total
Balance at 1 January	2,647,394	2,647,394	3,537,873	3,537,873
Change in balance	(1,232,349)	(1,232,349)	(3,981,479)	(3,981,479)
New financial assets originated or purchased	339,626	339,626	3,091,000	3,091,000
Balance at 31 December	1,754,671	1,754,671	2,647,394	2,647,394

	31 December, 2020		31 December, 2019	
	Stage 1	Total	Stage 1	Total
- rated BB-	1,743,972	1,743,972	2,635,719	2,635,719
Carrying amount	1,743,972	1,743,972	2,635,719	2,635,719

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

	2020		2019	
	Stage 1	Total	Stage 1	Total
Balance at 1 January	11,675	11,675	35,119	35,119
Net remeasurement of loss allowance	(3,046)	(3,046)	(26,998)	(26,998)
New financial assets originated or purchased	2,070	2,070	3,554	3,554
Balance at 31 December	10,699	10,699	11,675	11,675

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The following table sets out information about the credit quality of other financial assets as at 31 December 2020 and 2019.

KGS'000	2020			2019		
	Stage 1	Stage 3	Total	Stage 1	Stage 3	Total
Other financial assets						
Balance at January 1	86,112	6,696	92,808	136,921	5,980	142,901
Change in balance	147,226	7,282	154,508	(50,809)	-	(50,809)
Effect of foreign exchange	-	(36)	(36)	-	716	716
Total other financial assets at 31 December	233,338	13,940	247,278	86,112	6,696	92,808

Movements in the impairment allowance for the year ended 31 December 2020 are as follows:

	2020			2019		
	Stage 1	Stage 3	Total	Stage 1	Stage 3	Total
Other financial assets						
Balance at January 1	5,544	6,696	12,240	5,376	5,980	11,357
Change in balance	(5,544)	7,185	1,641	168	-	168
Effect of foreign exchange rate	-	59	59	-	716	716
Total other financial assets at 31 December	-	13,940	13,940	5,544	6,696	12,240

	Other reserves 000'KGS
1 January 2019	34,142
Reversal of reserves	(25,838)
Exchange differences	(430)
31 December 2019	7,874
Reversal of reserves	4,158
Exchange differences	(287)
31 December 2020	11,745

30.2 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.

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Notes to the Financial Statements (Continued)

For the Year Ended 31 December, 2020

(in thousands of Kyrgyz Som ("KGS"), unless otherwise indicated)

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 following elements are involved in the Bank's liquidity management:

1. Committee on Management and Liabilities (ALCO). The main functions of the ALCO are: regulation of financial assets and liabilities in order to maintain liquidity, ensuring a stable interest margin and spread, regulation of assets and liabilities in compliance with the requirements of economic instruments, management of operational risks associated with working with financial instruments.

2. Committee for liquidity management (CFM). The main functions of CFM are to effectively manage the Bank's liquidity and make decisions on treasury operations within the limits established by the ALCO, and within this responsibility, its main responsibilities are:

- making decisions on direct placement and attraction of funds, as well as exchange of assets in the interbank market;
- determination of directions and conditions for placement of short-term funds of the Bank, volumes of transactions with foreign currency;
- setting limits on exchange rates, volumes of assets and liabilities in foreign currency for daily operations in foreign currency, etc.

3. Risk management department. The Risk Management Department identifies, measures, analyzes and monitors liquidity risk, conducts stress testing of liquidity. Independently of the Treasury, the Risk Management Department conducts a gap analysis of the Bank's liquidity on a quarterly basis, which it submits for consideration by the Risk Management Committee as part of a monthly report, brings it to the attention of the Board of Directors and the Management Board of the Bank.

4. Treasury. The Treasury Department manages the current and medium-term liquidity of the Bank, as well as conducts gap analysis on a monthly basis, followed by the submission of the analysis results to the ALCO. The Treasury is also responsible for keeping the ALCO and CFM informed on a potential liquidity risk in a timely manner.

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The Bank manages liquidity risk based on cash flows through the construction of a gap. The quantitative measurement and analysis of liquidity risk includes cash flows generated by assets, liabilities, and balance sheet and off-balance sheet positions within daily, weekly, monthly, annual and other time horizons, which should be used to:

- monitoring net funding requirements under normal business conditions on a daily basis and;
- Conducting regular cash flow analysis based on a range of shock scenarios.

The table below provides a maturity analysis of the amounts recognized in the statement of financial position as at 31 December 2020. It should be noted that the imbalance of the Bank's liquidity is associated with the violation of financial covenants established by credit agreements with some financial institutions (Note 15), as a result of which the total amount of debt to these creditors is presented in the time interval "Up to 1 month", as well as current accounts and deposits on demand of corporate clients and the Social Fund of the Kyrgyz Republic.

Despite the fact that these amounts have been included in the "Up to 1 month" category in accordance with the terms of the loan agreements, Management believes that there is a low probability that these creditors and customers will demand early repayment of the amounts owed or decide to withdraw most of the funds from accounts. The Bank's plans to manage the liquidity imbalance include revising the limits set by lenders on financial covenants and attracting more time deposits.

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(in thousands of Kyrgyz Som ("KGS")), unless otherwise indicated)

000'KGS	Weighted average interest rate	Up to 1 month	1 to 3 months	From 3 to 12 months	1 y to 5 year	More than 5 year	31 December, 2020
Financial assets							
Cash and cash equivalents	2.75	1,500,000	-	-	-	-	1,500,000
Loans and advances to banks and other financial institutions	7.00	2,016	283,559	79,695	-	-	365,270
Loans to customers	11.87	1,148,538	1,535,330	6,100,317	10,079,660	2,881,100	21,744,945
Investment in securities at amortized cost	10.23	-	-	-	1,242,919	501,053	1,743,972
Total interest bearing financial assets		2,650,553	1,818,889	6,180,012	11,322,579	3,382,153	25,354,187
Cash and cash equivalents		4,559,339	-	-	-	-	4,559,339
Other financial assets		233,338	-	-	-	-	233,338
Total non-interest financial assets		4,792,677	-	-	-	-	4,792,677
Total financial assets		7,443,231	1,818,889	6,180,012	11,322,579	3,382,153	30,146,864
Non-derivative financial liabilities							
Current accounts and deposits from customers							
Amounts due to the Ministry of Finance of the Kyrgyz Republic	5.67	333,990	409,637	4,796,000	2,540,670	34	8,080,331
Amounts due to the National Bank of the Kyrgyz Republic	2.20	137,114	128,696	439,172	1,225,041	131,720	2,061,743
Other borrowed funds	5.09	5,612	344,886	995,414	-	-	1,345,913
Total interest bearing financial liabilities	4.81	4,686,553	18,281	78,505	630,158	1,048,155	6,461,652
Deposits and balances from banks and other financial institutions							
Current accounts and deposits from customers		5,163,270	901,500	6,309,091	4,395,869	1,179,909	17,949,639
Amounts due to the Ministry of Finance of the Kyrgyz Republic		117,968	-	-	-	-	117,968
Other financial liabilities		7,893,458	-	-	-	-	7,893,458
Total non-interest financial liabilities		28,163	-	-	-	1,186,755	1,186,755
Total non-derivative financial liabilities		8,038,589	-	-	-	1,186,755	9,225,344
Difference between financial assets and liabilities							
Difference between financial assets and liabilities, generated interest income		13,202,859	901,500	6,309,091	4,395,869	2,366,664	27,175,983
Cumulative difference between financial assets and liabilities, generated interest income							
Cumulative difference between financial assets and liabilities, generated interest income, as a percentage of financial assets		(5,759,629)	917,389	(129,079)	6,926,710	1,015,489	2,970,881
		(2,512,717)	917,389	(129,079)	6,926,710	2,202,244	7,404,548

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Notes to the Financial Statements (Continued) For the Year Ended 31 December, 2020

(in thousands of Kyrgyz Som ("KGS"), unless otherwise indicated)

000'KGS	Weighted average interest rate	Up to 1 month	1 to 3 months	From 3 to 12 months	1 y to 5 year	More than 5 year	31 December, 2019
Non-derivative financial assets							
Cash and cash equivalents	2.03	3,231,547	-	-	-	-	3,231,547
Loans to customers	11.19	1,557,664	1,005,418	5,100,313	10,143,310	1,223,824	19,030,529
Investment in securities at amortized cost	10.40	43,394	104,421	781,632	740,741	965,531	2,635,719
Total interest bearing financial assets		4,832,605	1,109,839	5,881,945	10,884,051	2,189,355	24,897,795
Cash and cash equivalents		3,498,679	-	-	-	-	3,498,679
Loans and advances to banks and other financial institutions		418	-	-	-	-	418
Other financial assets		80,568	-	-	-	-	80,568
Total non-interest financial assets		3,579,665	-	-	-	-	3,579,665
Total non-derivative financial assets		8,412,270	1,109,839	5,881,945	10,884,051	2,189,355	28,477,460
Non-derivative financial liabilities							
Current accounts and deposits from customers		429,356	465,499	3,693,004	2,097,054	34	6,679,947
Amounts due to the Ministry of Finance of the Kyrgyz Republic	6.21	117,595	13,106	354,577	747,554	189,033	1,421,865
Amounts due to the National Bank of the Kyrgyz Republic	3.46	0	176,775	1,005,971	0	0	1,182,746
Other borrowed funds	5.21	5,446,479	13,913	66,148	694,959	959,195	7,180,694
Total interest bearing financial liabilities	5.12	5,993,430	669,293	5,119,700	3,534,567	1,148,262	16,465,252
Deposits and balances from banks and other financial institutions		233,912	-	-	-	-	233,912
Current accounts and deposits from customers		7,494,572	-	-	-	-	7,494,572
Amounts due to the Ministry of Finance of the Kyrgyz Republic		-	-	-	-	1,211,776	1,211,776
Other financial liabilities		11,327	-	-	-	-	11,327
Total non-interest financial liabilities		7,739,811	-	-	-	1,211,776	8,951,587
Total non-derivative financial liabilities		13,733,241	669,293	5,119,700	3,534,567	2,360,038	25,416,839
Difference between financial assets and liabilities		(5,320,971)	440,546	762,245	7,349,484	(170,683)	3,060,621
Difference between financial assets and liabilities, generated interest income		(1,160,825)	440,546	762,245	7,349,484	1,041,093	8,432,543
Cumulative difference between financial assets and liabilities, generated interest income		(1,160,825)	(720,279)	41,966	7,391,450	8,432,543	-
Cumulative difference between financial assets and liabilities, generated interest income, as a percentage of financial assets		(13.8%)	(64.9%)	0.7%	67.9%	385.2%	59.2%

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(in thousands of Kyrgyz Som ("KGS"), unless otherwise indicated)

The table below shows an analysis of undiscounted financial liabilities by maturity at 31 December 2020:

31 December, 2020	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 financial liabilities						
Deposits and balances from banks and other financial institutions	117,968	-	-	-	117,968	117,968
Current accounts and deposits from customers	8,415,098	414,313	5,045,590	2,916,811	16,791,812	15,973,789
Amounts due to the Ministry of Finance of the Kyrgyz Republic	144,834	143,844	443,653	2,662,937	3,395,268	3,248,498
Amounts due to the National Bank of the Kyrgyz Republic	5,612	347,885	1,015,695	-	1,369,192	1,345,913
Other borrowed funds	4,777,721	29,408	131,910	2,120,733	7,059,772	6,461,652
Other financial liabilities	26,663	-	-	-	26,663	26,663
Total non-derivative financial liabilities	13,487,896	935,450	6,636,848	7,700,481	28,760,675	27,174,483
Credit related commitments	228,188	-	-	-	228,188	228,188

The table below shows an analysis of undiscounted financial liabilities by maturity at 31 December 2019:

31 December, 2019	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 financial 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	5,446,647	27,982	126,596	2,202,753	7,803,978	7,180,694
Other financial liabilities	11,327	-	-	-	11,327	11,327
Total non-derivative financial liabilities	13,812,841	706,564	5,389,238	7,002,550	26,911,193	25,416,839
Credit related commitments	174,928	-	-	-	174,928	174,928

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30.3 Financing Instruments

Market risk is the risk that the Bank's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level of stability in market rates or prices. Market risk consists of foreign exchange 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 in market prices.

The objective of market risk management is to manage and control that the exposure to market risk does not go beyond the acceptable parameters, while ensuring the optimization of the profitability received for the accepted risk.

General market risk management is carried out by the ALCO, under the leadership of the ALCO Chairman. Market risk limits are approved by the ALCO, based on recommendations received from the Risk Management Department. An independent assessment of market risks and monitoring of compliance with market risks is carried out by the Risk Management Department, which reports on a monthly basis to the Risk Management Committee.

The Bank manages market risk by setting open position limits in relation to the size of the portfolio for individual financial instruments, the timing of changes in interest rates, foreign exchange position, loss limits and regular monitoring of their compliance, the results of which are reviewed and approved by the ALCO.

The majority of the Bank's loan agreements and other financial assets and liabilities that bear interest have a fixed interest rate.

Sensitivity analysis to changes in interest rates:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to 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. Such fluctuations can increase the level of the interest margin, but they can also decrease it or, in the event of an unexpected change in interest rates, lead to losses.

The volume of positions on instruments on which the Bank pays interest using a floating interest rate (mainly 6-month USD-based Libor) at the reporting date is KGS 1,159,901 thousand (2019: KGS 1,376,476 thousand).

Interest rate risk management based on an analysis of the timing of interest rate revisions is complemented by monitoring the sensitivity of financial assets and liabilities.

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Analysis of the sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (interest rate revision risk) based on a simplified scenario of a parallel shift of yield curves by 100 basis points towards increases or decreases in interest rates and revised interest positions assets and liabilities effective as at 31 December 2020 and 31 December 2019 can be represented as follows.

	2020	2019
Parallel shift of 100 basis points towards decreasing rates	14,870	5,570
Parallel shift of 100 basis points towards higher rates	(14,870)	(5,570)

Currency risk

Foreign exchange risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has assets and liabilities denominated in various foreign currencies. Despite the fact that the Bank hedges its exposure to foreign exchange risk, such transactions do not meet the definition of a hedging relationship in accordance with IFRS.

Structure of financial assets and liabilities by currency as at 31 December 2019 and 31 December 2020 can be represented as follows:

c	KGS	USD	Other currencies	Total
31 December 2020				
Assets				
Cash and Cash equivalents	3,450,002	2,330,987	278,350	6,059,339
Loans and advances to banks and other financial institutions	79,695	123,462	162,113	365,270
Loans to customers	17,629,568	3,191,370	924,007	21,744,945
Investment in securities at amortized cost	1,743,972			1,743,972
Other financial assets	188,318	3,468	41,552	233,338
Total Assets	23,091,555	5,649,287	1,406,022	30,146,864
Liabilities				
Deposits and balances from banks and other financial institutions	53,782	45,795	18,391	117,968
Customer accounts and deposits	13,000,041	2,398,068	575,680	15,973,789
Amounts due to Ministry of Finance of the Kyrgyz Republic	3,228,414	20,084		3,248,498
Amounts due to the National Bank of the Kyrgyz Republic	1,345,913			1,345,913
Other borrower funds	2,647,944	2,623,784	1,189,924	6,461,652
Other financial liabilities	28,163			28,163
Total Liabilities	20,304,257	5,087,731	1,783,995	27,175,983
Net position	2,787,298	561,556	(377,973)	2,970,881

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	KGS	USD	Other currencies	Total
31 December, 2019				
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 at amortized cost	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
Customer accounts and deposits	12,485,334	1,386,837	302,348	14,174,519
Amounts 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 borrower 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

(a) Country risk

Country risk is the risk of losses to the bank due to changes in economic, social conditions and other events in foreign countries owing to international lending, foreign investments and other trans-boundary operations.

The ALCO exercises control over the risk in the legislative and regulatory arena and assesses its influence on the Bank's activity. This approach allows the Bank to minimize potential losses from investment climate fluctuations in Kyrgyz Republic.

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The geographical concentration of assets and liabilities is set out below:

	Kyrgyz Republic	Other CIS countries	Other non-OECD countries	OECD countries	Total 31 December, 2020
31 December 2020					
ASSETS					
Cash and cash equivalents	4,587,742	621,151	1,888	848,559	6,059,339
Loans and advances to banks and financial institutions	365,270	-	-	-	365,270
Loans to customers	21,744,945	-	-	-	21,744,945
Investments in securities at amortized cost	1,743,972	-	-	-	1,743,972
Other financial assets	233,338	-	-	-	233,338
Total assets	28,675,267	621,151	1,888	848,559	30,146,864
LIABILITIES					
Deposits and balances from banks and other financial institutions	117,968	-	-	-	117,968
Customers accounts and deposits	15,615,251	332,719	3,332	22,487	15,973,789
Amounts due to the Ministry of Finance of the Kyrgyz Republic	3,248,498	-	-	-	3,248,498
Amounts due to the National Bank of the Kyrgyz Republic	1,345,913	-	-	-	1,345,913
Other borrowed funds	3,080,759	-	-	3,380,893	6,461,652
Other financial liabilities	28,163	-	-	-	28,163
Total liabilities	23,436,552	332,719	3,332	3,403,380	27,175,983
Net position	5,238,715	288,432	(1,445)	(2,554,821)	2,970,881
31 December 2019					
ASSETS					
Cash and cash equivalents	4,755,361	550,869	896	1,423,100	6,730,226
Loans and advances to banks	418	-	-	-	418
Loans to customers	19,030,529	-	-	-	19,030,529
Investments in securities at amortized cost	2,635,719	-	-	-	2,635,719
Other financial assets	80,568	-	-	-	80,568
Total assets	26,502,595	550,869	896	1,423,100	28,477,460
LIABILITIES					
Deposits and balances from banks and other financial institutions	233,912	-	-	-	233,912
Customers accounts and deposits	13,827,294	333,318	-	13,906	14,174,519
Amounts due to the Ministry of Finance of the Kyrgyz Republic	2,633,641	-	-	-	2,633,641
Amounts due to the National Bank of the Kyrgyz Republic	1,182,746	-	-	-	1,182,746
Other borrowed funds	3,340,774	127,873	-	3,712,047	7,180,694
Other financial liabilities	11,327	-	-	-	11,327
Total liabilities	21,229,694	461,191	-	3,725,953	25,416,839

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Notes to the Financial Statements (Continued)

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Net position	5,272,901	89,678	896	(2,302,853)	3,060,621
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Analysis of sensitivity to foreign exchange risk. The table below provides an analysis of how a movement of the KGS against the respective currencies as at 31 December 2020 and 31 December 2019 would cause the increase (decrease) in equity and profit or loss described below. This analysis was carried out net of taxes and is based on changes in foreign exchange rates that, in the Bank's view, are reasonably possible at the end of the reporting period.

	2020	2019
30% appreciation of the US dollar against the KGS	151,505	149,234
30% appreciation in the exchange rate of other currencies against the KGS	(102,053)	(9,663)
30% depreciation of the US dollar against the KGS	(151,505)	(149,234)
30% depreciation in the exchange rate of other currencies against the KGS	102,053	9,663

Limitations of Sensitivity Analysis. The above table shows the effect of a change based on a leading assumption. In fact, there is a link between assumptions and other factors. It should also be noted that the sensitivity is non-linear, so no interpolation or extrapolation of the results should be performed.

The sensitivity analysis does not take into account that the Bank is actively managing its assets and liabilities. In addition, the financial position of the Bank may be affected by changes in the market. Other limitations in the above sensitivity analysis include the use of hypothetical market movements to disclose potential risk, which only represent the Bank's forecast of impending market changes that cannot be predicted with any degree of certainty. Another limitation is the assumption that all interest rates change in the same way.

Operational risk. Operational risk is the risk of losses due to system failures, employee errors, fraud, and as a result of external events. If it is impossible to manage operational risks, the presence of such risks may damage the Bank's reputation, lead to legislative and regulatory consequences, or cause financial loss to the Bank. It is assumed that the Bank is not able to eliminate all operational risks, but it seeks to manage such risks by applying a control system, as well as by monitoring and responding to potential risks. Control activities include effective segregation of duties, procedures for granting access, authorization and reconciliation, staff training and assessment procedures.

31. Transactions with related parties

Control relationships. The party with ultimate control over the Bank is the Government of the Kyrgyz Republic represented by the State Property Management Fund under the Government of the Kyrgyz Republic. The party with ultimate control over the Bank does not prepare financial statements that are available to external users.

Transactions involving members of the Board of Directors and the Management Board. The total benefits included in staff costs for the years ended 31 December 2020 and 2019 can be presented as follows:

	2020	2019
Members of the board of directors	3,855	3,715
Management Board members	18,959	20,169
	22,814	23,884

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For the Year Ended 31 December, 2020

(in thousands of Kyrgyz Som ("KGS"), unless otherwise indicated)

As at 31 December 2020 and 2019, account balances and average effective interest rates on transactions with members of the Board of Directors and the Management Board were:

	31 December, 2020			31 December, 2019		
	Related party balances	Average Interest rate, %	Total category as per the financial statements caption	Related party balances	Average Interest rate, %	Total category as per the financial statements caption
Customers accounts and customer deposits	10,708	8.11	15,973,789	5,878	8.17	14,174,519

Information about the Bank's transactions with other related parties is presented below.

	31 December, 2020	Average Interest rate, %	Total category as per the financial statements caption	31 December, 2019	Average Interest rate, %	Total category as per the financial statements caption
Statement of financial position						
Assets						
Cash and cash equivalents						
- in KGS	2,560,570	2.75	6,059,339	3,231,098	2.00	6,730,226
Loans to customers						
- in KGS	91,698	13.46	21,744,945	84,800	13.33	19,030,529
Investment in securities at amortized cost						
- in KGS	1,743,971	10.23	1,743,972	2,635,719	10.40	2,635,719
Other assets						
- in KGS	179,804	-	1,067,289	39,656	-	700,096
Liabilities						
Current accounts and customer deposits						
- in KGS	6,192,942	6.55	13,000,041	6,031,490	10.12	12,485,334
- in USD	706,562	2.78	2,398,068	541,315	5.00	1,386,837
- in other currency	7,437	1.00	575,680	11,810	-	302,348c
Amounts due to the Ministry of Finance of the Kyrgyz Republic						
- in KGS	2,513,165	3.28%	3,228,414	2,545,087	3.96	2,545,087
- in USD	16,157	1.08%	20,084	88,554	3.00	88,554
Amounts due to the National Bank of the Kyrgyz Republic						
- in KGS	1,345,913	5.09%	1,345,913	1,182,746	5.20	1,182,746
Government grant						
- in KGS	286,242		286,242	304,602	-	304,602
Funds raised from the Russian-Kyrgyz Development Fund						
- in KGS	479,337	6.26%	6,461,652	874,863	6.44	7,180,694
- in USD	747,161	1.07%	6,461,652	709,640	1.06	7,180,694
State mortgage company						
- in KGS	1,658,806	8.18%	6,461,652	1,604,765	8.92	7,180,694

Aiyl Bank OJSC

Notes to the Financial Statements (Continued)

For the Year Ended 31 December, 2020

(in thousands of Kyrgyz Som ("KGS"), unless otherwise indicated)

Amounts included in profit or loss for 2020 and 2019 in respect of transactions with other related parties amounted to:

Profit/ (Loss)	Total category as per the financial statements caption		Total category as per the financial statements caption	
	2020		2019	
Interest income	554,597	2,834,900	703,270	2,783,250
Amortisation of government grant	204,991	204,991	324,997	324,997
Interest expenses	(570,654)	(1,264,586)	(362,979)	(1,268,989)
Fee and commission income	30,848	303,864	9,749	329,599
Commission expenses	(39,573)	(100,077)	(36,214)	(86,731)
Operating expenses	(142,212)	(1,270,810)	(130,536)	(1,166,309)

32. Events after reporting period

On 6 January, 2021, an agreement No. 3 was signed on cooperation on targeted financing of small and medium-sized businesses in Talas region between the Bakubat Talas Fund and the Bank in the amount of KGS 90,000 thousand. On 12 January, 2021, the Bank received the funds.