Aiyl Bank OJSC

Financial Statements For the Year Ended
31 December 2021 and Independent
Auditor's Report

Aiyl Bank OJSC

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Aiyl Bank OJSC

Statement of Management's Responsibilities
For the Preparation and Approval of the Financial Statements
For the year ended 31 December 2021

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 2021, 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 2021 were approved by the Management of the Bank on 28 March 2022 and signed on its behalf by:

On behalf of the Management Board:

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

28 March 2022
Bishkek

Ms. Kazakova A.Zh.
Chief Accountant

28 March 2022
Bishkek

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors 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 2021, 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 first paragraph and except for the effects on the corresponding figures of the matter described in the second paragraph of 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 2021, 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 disclosed in Note 27 to the financial statements, as at 31 December 2021, the Bank has outstanding loans to certain borrowers issued during the period from 2017 to 2019 with a gross carrying value of KGS 1,650,065 thousand and a corresponding allowance for expected credit losses of KGS 1,305,884 thousand. As at 31 December 2021, the loans were classified as impaired and the expected credit losses were determined based on the recovery from the future sale of the pledged assets under these loans. As of the date of the report, the loan related documentation were partially withdrawn for further investigation by law enforcement agencies of the Kyrgyz Republic. As a result of the ongoing investigation, we were unable to obtain sufficient appropriate audit evidence in respect of valuation of the pledged assets and expected time to sell them. Therefore, we were unable to determine whether any adjustments to the carrying value of the allowance for expected credit losses are necessary as at 31 December 2021. As the closing carrying value of allowance for expected credit losses affects the determination of the statement of profit or loss, we were unable to obtain sufficient appropriate audit evidence on Impairment losses on interest bearing assets recognised in the statement of profit or loss for the year ended 31 December 2021 as well as the related effects on the respective disclosures of the expected credit loss allowance on loans to customers.

Further, as at 1 January 2020, Management of the Bank had not performed an appropriate assessment of expected credit losses for its loans to customers and the recoverable amount of its foreclosed property which is the departure from IFRS. We were unable to determine the effect of this departure on the carrying amount of loans to customers and 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 also unable to determine the effect of this departure on impairment losses recognized in the statement of profit or loss for the year ended 31 December 2020. Our audit opinion on the financial statements for the year ended 31 December 2020 was modified accordingly. Our opinion on the current period's financial statements is also modified because of the effect of this matter on the comparability of the current period's figures and the corresponding figures.

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.

Key Audit Matters

Key audit matters are matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the Basis for Qualified Opinion section we have determined the matter described below to be the key audit matter to be communicated in our report.

Why the matter was determined to be a key audit matter?	**How the matter was addressed in the audit?**
Collective assessment of the expected credit losses on loans to customers As at 31 December 2021, the Bank reported total gross loans of KGS 23,805,006 thousand subject to collective impairment assessment. The expected credit losses ("ECL") resulting from this assessment amounted to KGS 1,327,137 thousand. 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 (collateral value), 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. Significant Increase in Credit Risk ('SICR') - The criteria selected to identify a significant increase in credit risk is a key area of judgement within the Bank's ECL calculation as these criteria determine whether a 12 month or lifetime provision is recorded. Increased judgement exists in the current year relating to the treatment of those customers who were granted one or more COVID-19 payment reliefs. 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, loss given default and SICR as a key audit matter. Refer to Notes 7 and 24 to the financial statements for the description of the Bank's policy and disclosures of gross carrying amounts and related allowances balances.	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. We involved our internal actuarial specialists in evaluating the Bank's IFRS 9 models. We used our knowledge of the Bank and the industry, in which the Bank operates, and our experience to independently challenge the appropriateness of the Bank's IFRS 9 models. We checked that the data inputs and key assumptions used in the models for assessing PDs, LGDs and SICR reflect historical information about incurred credit losses adjusted for relevant forward-looking macroeconomic factors. With the involvement of our actuarial 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 (EAD). 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

28 March 2022
Bishkek, Kyrgyz Republic

Aiyl Bank OJSC

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021
in thousands of Kyrgyz Som ("KGS")

	Note	31 December 2021	31 December 2020
ASSETS:			
Cash and cash equivalents	5,31	9,455,335	6,059,339
Loans and advances to banks and other financial institutions	6	1,088,930	365,270
Loans to customers		22,822,050	21,744,945
Loans to corporate customers	*7,31*	*2,813,957*	*3,260,683*
Loans to retail customers	*7,31*	*20,008,093*	*18,484,262*
Investments in securities at amortised cost	8,31	4,681,582	1,743,972
Property and equipment, Intangible assets and Right of Use asset	9	900,789	812,143
Other assets	10,31	957,904	1,067,289
TOTAL ASSETS		**39,906,590**	**31,792,958**
LIABILITIES:			
Deposits and balances from banks and other financial institutions	11	180,855	117,968
Current accounts and deposits from corporate customers	12,31	14,589,368	9,173,904
Current accounts and deposits from retail customers	12,31	8,272,002	6,799,885
Amounts due to the Ministry of Finance of the Kyrgyz Republic	13,31	3,307,399	3,248,498
Amounts due to the National Bank of the Kyrgyz Republic	14,31	965,256	1,345,913
Government grant	15,31	279,659	286,242
Other borrowed funds	16,31	5,206,209	6,461,652
Funds received from a shareholder	17	2,400,000	-
Lease Liabilities	18	163,242	126,801
Other liabilities	19	313,584	179,497
TOTAL LIABILITIES		**35,677,574**	**27,740,360**
EQUITY:			
Share capital	20	3,524,620	3,476,260
Additional paid-in capital	20	87,225	85,556
General reserves	20	189,696	189,696
Retained earnings		427,475	301,086
TOTAL EQUITY		**4,229,016**	**4,052,598**
TOTAL LIABILITIES AND EQUITY		**39,906,590**	**31,792,958**

On behalf of the Management Board:

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

28 March 2022
Bishkek

Ms. Kazakova A.Zh.
Chief Accountant

28 March 2022
Bishkek

The notes on pages 10-92 form an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021
in thousands of Kyrgyz Som ("KGS")

	Note	2021	2020
Interest income	21,31	3,075,443	2,834,900
Amortisation of government grant	21	240,230	228,233
Interest expense	21,31	(1,375,667)	(1,287,828)
NET INTEREST INCOME BEFORE ALLOWANCE FOR EXPECTED CREDIT LOSSES ON INTEREST BEARING ASSETS	21	**1,940,006**	**1,775,305**
Allowance for expected credit losses on interest bearing assets	22	(617,929)	(180,029)
NET INTEREST INCOME		**1,322,077**	**1,595,276**
Fee and commission income	23,31	365,740	303,864
Fee and commission expense	23,31	(142,103)	(100,077)
Net foreign exchange gain	22	192,328	160,202
Impairment losses and reserves on other assets	24	(126,642)	(499,331)
Impairment losses on credit- related commitments	24	(5,924)	(4,158)
Other income, net		29,168	11,573
OPERATING INCOME		**1,634,644**	**1,467,349**
Operating expenses	25,31	(1,384,340)	(1,270,810)
PROFIT BEFORE INCOME TAX		**250,304**	**196,539**
Income tax expense	26	(27,197)	(32,608)
NET PROFIT FOR THE YEAR		**223,107**	**163,931**
TOTAL COMPREHENSIVE INCOME		**223,107**	**163,931**

On behalf of the Management Board:

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

28 March 2022
Bishkek

Ms. Kazakova A.Zh.
Chief Accountant

28 March 2022
Bishkek

The notes on pages 10-92 form an integral part of these financial statements.

Aiyl Bank OJSC

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021
in thousands of Kyrgyz Som ("KGS")

	Note	Share capital	Additional paid –in capital	General Reserves	Retained earnings	Total equity
As at 1 January 2020		**3,379,200**	**84,478**	**189,696**	**286,493**	**3,939,867**
Profit and total comprehensive income for the period		-	-	-	163,931	163,931
Other movement	20	-	1,078	-	-	1,078
Transfer of retained earnings to share capital	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**
Profit and total comprehensive income for the period		-	-	-	223,107	223,107
Other movement	20	-	1,669	-	-	1,669
Transfer of retained earnings to share capital	20	48,360	-	-	(48,360)	-
Dividends declared	20	-	-	-	(48,358)	(48,358)
As at 31 December 2021		**3,524,620**	**87,225**	**189,696**	**427,475**	**4,229,016**

On behalf of the Management Board:

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

28 March 2022
Bishkek

Ms. Kazakova A.Zh.
Chief Accountant

28 March 2022
Bishkek

The notes on pages 10-92 form an integral part of these financial statements.

Aiyl Bank OJSC

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 December 2021
in thousands of Kyrgyz Som ("KGS")

	Note	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		3,870,011	2,725,233
Interest payments		(1,111,441)	(1,293,181)
Fee and commission receipts		365,740	303,516
Fee and commission payments		(142,103)	(100,077)
Net receipts from foreign exchange		200,977	165,254
Other income receipts		25,287	10,247
Operating expenses payments		(1,177,056)	(1,114,608)
Cash flows from operating activities before changes in operating assets and liabilities		**2,031,415**	**696,384**
(Increase)/decrease in operating assets			
Loans and advances to banks and other financial institutions		(740,324)	(152,036)
Loans to customers		(1,595,847)	(2,296,348)
Other assets		18,428	(371,280)
(Increase)/decrease in operating liabilities			
Deposits and balances from banks and other financial institutions		62,887	(115,944)
Current accounts and deposits from customers		6,789,544	1,464,215
Other liabilities		81,033	(18,881)
Net cash from/(used in) operating activities before income tax paid		**6,647,136**	**(793,890)**
Income tax paid		(25,402)	(16,729)
Net cash from/(used in) operating activities		**6,621,734**	**(810,619)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investments in securities at amortized cost		(20,854,802)	(8,386,043)
Redemption of investments in securities at amortized cost		17,073,560	9,251,232
Proceeds from sale of property and equipment and intangible assets		4,988	3,149
Purchases of property and equipment and intangible assets		(170,585)	(106,588)
Net cash from investing activities		**(3,946,839)**	**761,750**
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts of amounts due to the Ministry of Finance of the Kyrgyz Republic	16	766,504	1,261,052
Repayment of amounts due to the Ministry of Finance of the Kyrgyz Republic	16	(735,555)	(654,840)
Receipts of amounts due to the NBKR	16	-	825,000
Repayments of amounts due to the NBKR	16	(379,220)	(662,407)
Receipts of other borrowed funds	16	1,753,168	234,906
Repayments of other borrowed funds	16	(3,001,395)	(1,775,376)
Contribution from shareholder	17	2,400,000	-
Dividends paid	20	(48,358)	(52,278)
Payment of lease liabilities	18	(62,816)	(52,089)
Net cash from/(used in) financing activities		**692,328**	**(876,032)**
Effect of changes in exchange rates on cash and cash equivalents		34,782	254,212
Net increase/(decrease) in cash and cash equivalents		**3,402,005**	**(670,689)**
CASH AND CASH EQUIVALENTS, beginning of the year	5	6,059,339	6,730,226
Effect of change in ECL on cash and cash equivalents		(6,009)	(198)
CASH AND CASH EQUIVALENTS, end of the year	5	**9,455,335**	**6,059,339**

On behalf of the Management Board:

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

Date 28 March 2022
Bishkek

Ms. Kazakova A.Zh.
Chief Accountant

Date 28 March 2022
Bishkek

The notes on pages 10-92 form an integral part of these financial statements.

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 he 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 2021, the Bank has 37 branches, 25 regional subdivisions and 29 village subdivisions, 60 regional savings offices and 21 mobile cash desks from which it conducts business throughout the Kyrgyz Republic (31 December 2020: 36 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 2021:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform (Phase 2)*
Amendments to IFRS 16	*Covid-19-Related Rent Concessions*

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.

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:

New or revised standard or interpretation	Applicable to annual reporting periods beginning on or after
IFRS 17 "Insurance contracts"	1 January 2023
Amendments to IFRS 17 "Insurance contracts"	1 January 2023
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current" (as part of the project to formulate Annual Improvements to IFRS 2010-2012 cycles).	1 January 2023
Amendments to IAS 8 – "Definition of Accounting Estimates"	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2 – "Disclosure of Accounting Policies"	1 January 2023
Annual Improvements to IFRS Standards 2018-2020:	
Amendments to IFRS 3 – "Reference to the Conceptual Framework"	1 January 2022
Amendments to IAS 16 Property, Plant and Equipment – Revenue Before Intended Use	1 January 2022
Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" – "Onerous Contracts – Cost of Fulfilling a Contract"	1 January 2022
Amendments to IAS 12 Deferred Tax Relating to Assets and Liabilities Arising from a Single Transaction	1 January 2023
Amendment to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Date to be determined by the IASB

The Bank 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.

Going concern. 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 31 December 2021 and 2020 current liabilities of the Bank exceeded current assets by KGS 11,101,352 thousand and by KGS 4,764,371 thousand, respectively. Negative liquidity gap of KGS 11,101,352 thousand is caused by the fact, that during 2021 the Bank was in breach of certain financial covenants under loan agreements as described below. In addition balances of customers' current accounts are included in amounts due in less than one month in the liquidity disclosure while according to management's expectation, these customer accounts provide a long-term and stable source of funding for the Bank as significant amount of customer accounts is attributable to related parties of the Bank (Note 30). Therefore, negative liquidity gap per contractual maturities up to 1 year can be significantly reduced and become positive if behavioral maturities are applied.

As at 31 December 2021, the Bank was in breach of certain financial covenants prescribed by the loan agreements with the Russian-Kyrgyz Development Fund, INCOFIN CVBA, BlueOrchard Microfinance Fund and the Ministry of Finance of the KR for funds received from KfW (Note 13 and 16). Bank cross defaulted with Frontera Capital Frontier. The Management of the Bank applied to lenders to receive a waiver letter on compliance with the financial covenants. As at 31 December 2021 and at the date of these financial statements, no waiver letters from lenders were yet received due to the process of renegotiation of additional future funding and changes in financial covenants.

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

As a result, the total outstanding amount of these lenders in amount of KGS 2,504,866 thousand (KGS 53,610 thousand in Note 13 and KGS 2,451,256 thousand in Note 16) as of 31 December 2021 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).

In December 2021 the Bank received KGS 2,400,000 thousand from the republican budget as a contribution to increase the share capital of the Bank. As of 31 December 2021, the registration process was not completed yet and final amount of contribution was not confirmed. Therefore, the funds were recorded as liabilities.

The Bank's management believes that based on current forecasts, the Bank has enough funds to continue its activities in the foreseeable future and the going concern assumption is appropriate. Moreover, Management believes that the shareholder will continue to provide sufficient financial support to the Bank to enable it to meet its obligations for the foreseeable future, which management believes is a period of at least 12 months from the date of these financial statements.

Basis of preparation. These financial statements have been prepared on the historical cost basis.

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

	31 December 2021	31 December 2020
Closing exchange rates – KGS		
1 U.S. Dollar ("USD")	84.7586	82.6498
1 Euro	95.7897	101.3204

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 it 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.

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

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

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:

- 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 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.

<u>Debt instruments at amortised cost or at FVTOCI.</u> 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 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 Bank'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 realised

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.

Financial assets at FVTPL. Financial assets at FVTPL are:

- Assets with contractual cash flows that are not SPPI; or/and
- 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 recognizes 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 and credit commitments.

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 30.

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.

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 unlikeliness 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 recognized 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;
- The borrower is unlikely to pay its credit obligations to the Bank in full; or
- The borrower has more than two restructurings due to financial difficulties.

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
- 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.

<u>Modification and derecognition of financial assets.</u> 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.

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 derecognized 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.

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.

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.

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.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognised 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 account.

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. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

Financial guarantee contracts. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

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 and classified as other assets.

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: 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.

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.*

Right-of-use assets are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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.

Interest-free and below market interest rate borrowed funds

Borrowed funds received for a provision of finance lease loans to customers from the Ministry of Finance of the Kyrgyz Republic within the frame of interstate programs with other foreign countries and under programs with international organisations and funds represent government loans and received at below market or zero interest rate.

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 fair value of the loan at initial recognition and the amount of proceeds.

Further, such government grants are amortised using the effective interest rate method over the period of the government loan and recognised in profit or loss as Amortisation of government grants.

Interest prepaid by the MFKR to subsidise agricultural financing

A government assistance from the MFKR represent a reimbursement of the difference in interest rates between stated and market interest rates on loans issued to customers within the program of agricultural financing. The difference in interest rates is recorded as accounts receivable and a government grant.

Amortisation of the government grant is recognised in profit or loss under Amortisation 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. The estimated useful lives range from 5- 10 years. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

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. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

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.

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.

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.

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.

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 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.

Share Capital

Ordinary shares: ordinary shares are classified as equity. Incremental costs directly attributable to theissue 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

Credit risk - Amounts arising from ECL

<u>Inputs, assumptions and techniques used for estimating impairment</u>

<u>Significant increase in credit risk</u>

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;
- overdue – overdue of more than 30 days and less than 90 days
- default ("Stage 3") for the last 12 months. There is a significant increase in credit risk when, despite the fact that at the reporting date the balance is not classified as default, the debt over the past 12 months was at least once in the Stage 3;
- cross default: overdue on other loans of the borrower in the Bank or other financial institutions (if there is an information from other financial institutions or a credit bureau) for more than 30 days and less than 90 days.

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 l2-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.

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:

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- 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.

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 2013-2021, 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 2021 and 31 December 2020 included the following key indicators for the Kyrgyz Republic:

Macroeconomic variables	**2021**	**2020**
GDP, real (percent y/y)	3.2*	-8.6
Inflation (percent y/y)	8.9*	6.3
Import (percent y/y)	0.8**	*n/a*
Unemployment rate (percent y/y)	5.6**	*n/a*
Share of foreign currency loans in the total loan portfolio of commercial banks (interest)	*n/a*	34.5
Official exchange rate (KGS per US dollar, average (percent, y/y)	*n/a*	10.8

** preliminary estimate of the National Statistical Committee of the Kyrgyz Republic*
*** forecasts of the Ministry of Economy and Commerce of the Kyrgyz Republic*

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 12-month weighted average PD (adjusted by macroeconomic factor) for Stage 1 is used, and the weighted average lifetime PD (adjusted by macroeconomic factor) 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.

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.

Separate market borrowed funds

Other borrowed funds received from the MFKR, State Mortgage Company, Russian – Kyrgyz Development Fund ("RKDF") and Bakubat Talas Welfare Fund represent a separate market due to the specific nature of clients and conditions of the lending.

The specific nature of clients and conditions of the lending include specific industry of economy, geographic region, term and maturity and a specific interest rate that a Bank would demand in making a further lending to its clients. This interest rate would reflect the borrower's credit risk, taking into account the purpose of the loan, the loan amount, currency, duration and minimum profit of the Bank which is determined by the creditor.

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.

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.

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 28 for more details on fair value measurement.

4.1 Reclassification

The bank has changed the presentation for amortisation of grant in 2021. Amortization of grant is shown separately instead of netting with interest expense. To conform with 2021 presentation KGS 23,242 thousand was reclassified from interest expense to amortization of grant in 2020.

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5. Cash and cash equivalents

	31 December 2021 000'KGS	31 December 2020 000'KGS
Cash on hand	**3,422,536**	**1,988,220**
Nostro accounts with the NBKR	**2,092,600**	**1,060,570**
Nostro accounts with other banks		
- rated from A- to AA+	1,113,871	817,241
- rated BBB- to BBB+	70,490	551,463
- rated BB- to BB+	29,271	8,153
- rated below B+	25,299	91,165
- not rated	52,407	42,952
Total nostro accounts with other banks	**1,291,338**	**1,510,974**
Cash equivalents		
- Term deposit with the NBKR with original maturity less than three months, rated B	1,600,000	1,500,000
- Securities with maturity of up to 30 days	929,840	-
- Securities purchased REPO	125,431	-
Total cash equivalents	**2,655,271**	**1,500,000**
Total cash and cash equivalents	**9,461,745**	**6,059,764**
Less: allowance for expected credit losses	(6,410)	(425)
Total cash and cash equivalents	**9,455,335**	**6,059,339**

As at 31 December 2021 and 2020, balances with the NBKR include KGS 1,537,794 thousand and KGS 833,804 thousand, 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 2021, the Bank has balances with 2 banks, whose balances exceed 10% of equity (31 December 2020: 4 banks). The gross value of these balances as at 31 December 2021 is KGS 5,351,013 thousand (31 December 2020: KGS 3,372,249 thousand).

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6. Loans and advances to banks and other financial institutions

	31 December 2021	31 December 2020
Deposits in other financial institutions	849,995	2,006
Deposit in NBKR	236,290	283,559
Loans to financial institutions	27,399	79,386
Accrued interest	106	319
Total loans and advances to banks and other financial institutions	**1,113,790**	**365,270**
Less: allowance for expected credit losses	(24,860)	-
Total loans and advances to banks and other financial institutions	**1,088,930**	**365,270**

As at 31 December 2021, deposits in other financial institutions mainly include insurance deposit in Frontera Capital Frontier for amount of KGS 847,586 thousand with maturity date of 26 June 2023, which served as collateral for the loan provided by Frontera Capital Frontier (Note 16) (31 December 2020: nil).

7. Loans to customers

	31 December 2021	31 December 2020
Loans to customers at amortised cost	25,455,071	23,836,195
Less: allowance for expected credit losses	(2,633,021)	(2,091,250)
Total loans to customers net of allowance for impairment losses	**22,822,050**	**21,744,945**

Loans to customers comprise:

	31 December 2021	31 December 2020
Loans to corporate clients		
Loans to corporate clients	4,721,044	4,441,248
Total loans to corporate clients	**4,721,044**	**4,441,248**
Loans to retail customers		
Loans to small and medium businesses	15,028,920	14,368,967
Mortgage loans	2,484,306	2,129,555
Finance lease	2,023,084	1,883,460
Consumer loans	1,197,717	1,012,965
Total loans to retail customers	**20,734,027**	**19,394,947**
Loans to customers before deducting allowance for expected credit losses	**25,455,071**	**23,836,195**
Less: allowance for expected credit losses	(2,633,021)	(2,091,250)
Total loans to customers net of allowance for impairment losses	**22,822,050**	**21,744,945**

As at 31 December 2021 and 2020, 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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(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 2021	31 December 2020
For up to 1 year	624,419	588,970
For more than one year, but less than five years	1,774,443	1,551,613
For more than 5 years	299,030	187,757
Lease payments	**2,697,892**	**2,328,340**
Less: unearned finance income	**(674,808)**	**(444,880)**
	2,023,084	**1,883,460**
Less: allowance for expected credit losses	(129,157)	(103,583)
Net investment in the finance lease	**1,893,927**	**1,779,877**

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 with subsequent purchase upon full repayment by the borrowers. 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 2021. Unless otherwise stated, for financial assets, the amounts in the table represent the gross carrying amounts.

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.

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000' KGS	Stage 1	Stage 2	Stage 3	Total 31 December 2021
Loans to corporate clients				
- No overdue	1,390,475	651,973	500,936	2,543,384
Overdue for less than 30 days	-	44,091	-	44,091
Overdue 30- 59 days	-	13,320	154,703	168,023
Overdue 60- 89 days	-	294,823	-	294,823
Overdue 90-179 days	-	-	480,900	480,900
Overdue for more than 180 days	-	-	1,189,823	1,189,823
	1,390,475	**1,004,207**	**2,326,362**	**4,721,044**
Less: allowance for expected credit losses	(43,695)	(262,562)	(1,600,830)	(1,907,087)
Book Value	**1,346,780**	**741,645**	**725,532**	**2,813,957**
Loans to small businesses				
- No overdue	13,089,881	1,152,745	61,864	14,304,490
Overdue for less than 30 days	51,003	64,599	17,577	133,179
Overdue 30- 59 days	168	48,441	41,301	89,910
Overdue 60- 89 days	-	23,971	47,724	71,695
Overdue 90- 179 days	-	-	74,539	74,539
Overdue for more than 180 days	-	-	355,107	355,107
	13,141,052	**1,289,756**	**598,112**	**15,028,920**
Less: allowance for expected credit losses	(100,005)	(175,218)	(248,732)	(523,955)
Book Value	**13,041,047**	**1,114,538**	**349,380**	**14,504,965**
Mortgage loans				
- No overdue	2,188,739	202,852	32,993	2,424,584
Overdue for less than 30 days	22,835	16,452	1,865	41,152
Overdue 30- 59 days	190	8,237	-	8,427
Overdue 60- 89 days	-	1,940	-	1,940
Overdue 90- 179 days	-	-	5,310	5,310
Overdue for more than 180 days	-	-	2,893	2,893
	2,211,764	**229,481**	**43,061**	**2,484,306**
Less: allowance for expected credit losses	(10,268)	(18,587)	(8,062)	(36,917)
Book Value	**2,201,496**	**210,894**	**34,999**	**2,447,389**
Finance lease				
- No overdue	1,760,022	227,813	16,616	2,004,451
Overdue for less than 30 days	3,984	1,481	-	5,465
Overdue 30- 59 days	-	8,343	97	8,440
Overdue 60- 89 days	-	-	-	-
Overdue 90- 179 days	-	-	3,255	3,255
Overdue for more than 180 days	-	-	1,473	1,473
	1,764,006	**237,637**	**21,441**	**2,023,084**
Less: allowance for expected credit losses	(29,297)	(89,034)	(10,826)	(129,157)
Book Value	**1,734,709**	**148,603**	**10,615**	**1,893,927**

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Consumer loans				
- No overdue	1,061,375	63,623	5,357	1,130,355
Overdue for less than 30 days	5,590	6,181	85	11,856
Overdue 30- 59 days	-	8,963	968	9,931
Overdue 60- 89 days	-	3,240	1,459	4,699
Overdue 90- 179 days	-	-	12,145	12,145
Overdue for more than 180 days	-	-	28,731	28,731
	1,066,965	**82,007**	**48,745**	**1,197,717**
Less: allowance for expected credit losses	(7,071)	(8,312)	(20,522)	(35,905)
Book Value	**1,059,894**	**73,695**	**28,223**	**1,161,812**
Total loans to retail customers	**18,183,787**	**1,838,881**	**711,359**	**20,734,027**
Less: allowance for expected credit losses	(146,641)	(291,151)	(288,142)	(725,934)
Loans to retail customers net of allowance for expected credit losses	**18,037,146**	**1,547,730**	**423,217**	**20,008,093**
Total loan to customers	**19,574,262**	**2,843,088**	**3,037,721**	**25,455,071**
Total allowance for expected credit losses	**(190,336)**	**(553,713)**	**(1,888,972)**	**(2,633,021)**
Total loan to customers less allowance for expected credit losses	**19,383,926**	**2,289,375**	**1,148,749**	**22,822,050**

The table below provides information on the quality of loans to customers as at 31 December 2020:

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- 59 days	-	506,291	46,713	553,004
Overdue 60- 89 days	-	106,030	41,151	147,181
Overdue 90- 179 days	-	-	184,728	184,728
Overdue for more than 180 days	-	-	1,031,621	1,031,621
Total Loans to corporate clients	**1,242,142**	**906,989**	**2,292,117**	**4,441,248**
Less: allowance for expected credit 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- 59 days	-	57,370	17,722	75,092
Overdue 60- 89 days	-	11,938	8,855	20,793
Overdue 90- 179 days	-	-	263,984	263,984
Overdue for more than 180 days	-	-	85,906	85,906
Total Loans to small businesses	**12,417,658**	**842,831**	**1,108,478**	**14,368,967**
Less: allowance for expected credit losses	(92,838)	(165,897)	(328,272)	(587,007)
Book Value	**12,324,820**	**676,934**	**780,206**	**13,781,960**

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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- 59 days	-	6,759	-	6,759
Overdue 60- 89 days	-	1,801	-	1,801
Overdue 90- 179 days	-	-	1,905	1,905
Overdue for more than 180 days	-	-	2,721	2,721
Total loans to mortgage loans	**1,584,396**	**177,503**	**367,656**	**2,129,555**
Less: allowance for expected credit 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- 59 days	-	7,992	81	8,073
Overdue 60- 89 days	-	22,774	205	22,979
Overdue 90- 179 days	-	-	23	23
Overdue for more than 180 days	-	-	19,686	19,686
Total Finance Lease	**1,573,973**	**216,766**	**92,721**	**1,883,460**
Less: allowance for expected credit 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- 59 days	-	6,189	2,054	8,243
Overdue 60- 89 days	-	1,208	566	1,774
Overdue 90- 179 days	-	-	4,087	4,087
Overdue for more than 180 days	-	-	4,226	4,226
Total Consumer Loans	**883,279**	**52,963**	**76,723**	**1,012,965**
Less: allowance for expected credit losses	(15,023)	(9,616)	(21,396)	(46,035)
Book Value	**868,256**	**43,347**	**55,327**	**966,930**
Total loans retail customers	**16,459,306**	**1,290,063**	**1,645,578**	**19,394,947**
Less: allowance for expected credit losses	(147,951)	(265,404)	(497,330)	(910,685)
Loans to retail customers net of allowance for expected credit losses	**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 expected credit losses	**17,528,835**	**1,691,003**	**2,525,107**	**21,744,945**

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

Modified financial assets

As at 31 December 2021 and 31 December 2020, 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 2021 and 2020.

	Gross carrying value	Loss allowance provision	Carrying value	Property and other types of collateral	Cash deposits	Unsecured	Total 31 December 2021
Loans to corporate clients	4,721,044	(1,907,087)	2,813,957	2,445,959	157,702	210,296	2,813,957
Loans to small businesses	15,028,920	(523,955)	14,504,965	12,601,045	16,688	1,887,232	14,504,965
Mortgage loan	2,484,306	(36,917)	2,447,389	2,447,389	-	-	2,447,389
Finance lease	2,023,084	(129,157)	1,893,927	1,893,927	-	-	1,893,927
Consumer loans	1,197,717	(35,905)	1,161,812	927,858	7,129	226,825	1,161,812
Total loan to customers	**25,455,071**	**(2,633,021)**	**22,822,050**	**20,316,178**	**181,519**	**2,324,353**	**22,822,050**

	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	3,242,672	-	18,011	3,260,683
Loans to small businesses	14,368,967	(587,007)	13,781,960	12,149,704	9,205	1,623,051	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	1,778,433	1,444	-	1,779,877
Consumer loans	1,012,965	(46,035)	966,930	733,935	6,602	226,393	966,930
Total loan to customers	**23,836,195**	**(2,091,250)**	**21,744,945**	**19,860,239**	**17,251**	**1,867,455**	**21,744,945**

(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 2021, the Bank acquired a number of assets by obtaining control over collateral for loans to customers with a net carrying amount of KGS 250,418 thousand (year ended 31 December 2020: KGS 1,089,537 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.

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

(f) Pledged assets:

As at 31 December 2021, loans to customers with a net carrying amount of KGS 1,108,761 thousand and fair value of KGS 1,102,530 thousand served as collateral for loans provided by the Bank to the National Bank of the Kyrgyz Republic (31 December 2020: KGS 1,761,012 thousand and KGS 1,751,464 thousand, respectively) (Note 14).

Also, loans to customers with a net carrying amount of KGS 1,730,560 thousand and fair value of KGS 1,545,063 thousand (31 December 2020: KGS 2,542,985 thousand and KGS 2,370,168 thousand, respectively), served as security for loans provided to the Bank by the Russian-Kyrgyz Development Fund (Note 16).

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

As of 31 December 2021, loans were issued primarily to customers operating in the Kyrgyz Republic and operating in the following sectors of the economy:

31 December 2021	Gross carrying value	ECL	Net carrying value
Loans for agriculture			
Livestock raising, including:	**9,453,135**	**(138,394)**	**9,314,741**
- Increase in the number of cattle	7,033,453	(91,452)	6,942,001
- Horse breeding	1,242,104	(9,441)	1,232,663
- Sheep breeding	890,818	(8,529)	882,289
- Other	286,760	(28,972)	257,788
Crop production, including:	**3,155,131**	**(192,868)**	**2,962,263**
- Finance lease	2,233,709	(168,137)	2,065,572
- Cereals	342,512	(3,721)	338,791
- Vegetable growing	220,905	(7,867)	213,038
- Other	358,005	(13,143)	344,862
Poultry, beekeeping and other loans for agriculture	46,842	(6,696)	40,146
Total loans for agriculture	**12,655,108**	**(337,958)**	**12,317,150**
Manufacturing and processing industry	2,929,366	(711,625)	2,217,741
Trade	2,632,415	(582,135)	2,050,280
Mortgage loans	2,484,826	(36,919)	2,447,907
Services	1,777,083	(515,224)	1,261,859
Consumer loans	1,198,700	(35,909)	1,162,791
Construction	637,311	(314,204)	323,107
Transport	603,288	(16,673)	586,615
Other loans to small businesses	536,974	(82,374)	454,600
Total loans to customers	**25,455,071**	**(2,633,021)**	**22,822,050**

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

The table below represents analysis of loan portfolio by industry as of 31 December 2020:

31 December 2020	Gross carrying value	ECL	Net carrying value
Loans for agriculture			
Livestock raising, including:	**9,396,871**	**(211,670)**	**9,185,201**
- Increase in the number of cattle	6,789,712	(117,704)	6,672,008
- Horse breeding	1,329,329	(19,078)	1,310,251
- Sheep breeding	796,623	(7,433)	789,190
- Other	481,207	(67,455)	413,752
Crop production, including:	**2,771,484**	**(130,815)**	**2,640,669**
- Finance lease	1,883,460	(103,583)	1,779,877
- Cereals	274,691	(3,878)	270,813
- Vegetable growing	258,186	(9,035)	249,151
- Other	355,147	(14,319)	340,828
Poultry, beekeeping and other loans for agriculture	32,951	(912)	32,039
Total loans for agriculture	**12,201,306**	**(343,397)**	**11,857,909**
Manufacturing and processing industry	2,842,149	(485,028)	2,357,121
Trade	2,695,435	(463,505)	2,231,930
Mortgage loans	2,129,555	(174,060)	1,955,495
Services	1,729,045	(337,796)	1,391,249
Consumer loans	1,012,965	(46,034)	966,931
Construction	635,177	(211,920)	423,257
Transport	551,463	(28,399)	523,064
Other loans to small businesses	39,100	(1,111)	37,989
Total loans to customers	**23,836,195**	**(2,091,250)**	**21,744,945**

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

(h) Concentration of loans to customers

As at 31 December 2021, the Bank has 1 borrower, which exceeds 10% of equity (31 December 2020: 3 borrowers).

(i) 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.

Below is information on restructured loans to customers who applied to the Bank during 2021 and 2020, 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 position of the borrower. Prolongation of the credit refers to the prolongation of the payment of principle and interest.

Industry	Restructured loans	Prolonged loans	ECL	Total carrying value 31 December 2021
Services	542,596	150,947	534,966)	158,577
Trade	362,971	302,817	(583,135)	82,653
Construction	322,881	41,928	(314,204)	50,605
Manufacturing and processing industry	168,433	655,660	(717,467)	106,626
Livestock raising	88,104	172,490	(147,658)	112,936
Mortgage	36,052	5,762	(36,941)	4,873
Crop Production	23,583	13,093	(24,731)	11,945
Consumer loans	8,185	34,652	(36,032)	6,805
Agro-Service	4,675	477	(5,142)	10
Other	892	4,774	(961)	4,705
Total	**1,558,372**	**1,382,600**	**(1,866,271)**	**539,735**

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

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

8. Investments in securities at amortised cost

	31 December, 2021	Weighted average interest rate	31 December, 2020	Weighted average interest rate
Held by the bank and measured at amortized cost				
Treasury bills of the Ministry of Finance of the Kyrgyz Republic	4,703,785	9.03	1,754,671	10.23
Less: allowance for expected credit losses for investment securities measured at amortised cost	(22,203)		(10,699)	
Total	**4,681,582**		**1,743,972**	

As at 31 December 2020 and 2021, all investments in securities are classified as Stage 1. No investments in securities are past due.

(a) Pledged assets

As at 31 December 2021, investments in securities of KGS 135,000 thousand are pledged as collateral for loans provided to the Bank by the National Bank of the Kyrgyz Republic
(31 December 2020: KGS 240,000 thousand) (Note 14).

As at 31 December 2021, investments in securities of KGS 660,618 thousand are pledged as collateral for loans provided to the Bank by the Russian-Kyrgyz Development Fund (31 December 2020: KGS 511,243 thousand) (Note 16).

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

9. 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, 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**
Additions	9,553	44,351	9,767	1,924	104,990	34,503	205,088
Disposals	(1,599)	(14,196)	(5,627)	(4,565)	(878)	(6,780)	(33,645)
Contract modifications	-	-	-	-	-	63,505	63,505
At 31 December 2021	**247,495**	**518,746**	**217,984**	**91,748**	**279,073**	**241,491**	**1,596,537**
ACCUMULATED DEPRECIATION							
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)**
Depreciation and amortisation for the period	(8,400)	(53,013)	(26,985)	(11,028)	(16,272)	(56,362)	(172,060)
Disposals	1,599	14,196	5,627	3,250	876	210	25,758
At 31 December 2021	(59,069)	(285,862)	(140,056)	(51,086)	(76,934)	(82,741)	(695,748)
Carrying amount							
At 31 December 2021	**188,426**	**232,884**	**77,928**	**40,662**	**202,139**	**158,750**	**900,789**
At 31 December 2020	**187,273**	**241,546**	**95,146**	**51,081**	**113,423**	**123,674**	**812,143**

As at 31 December 2021 and 2020, fully depreciated property, plant and equipment equaled KGS 198,401 thousand and KGS 174,449 thousand, respectively.

Right-of-use assets of the Bank include lease of buildings for branches and savings banks. There is no auto prolongation embedded into lease contracts. The average lease term is 4 years (2020: 3 years). The maturity of lease liabilities is presented in Note 18.

	For the year ended 31 December 2021 000'KGS	For the year ended 31 December 2020 000'KGS
Amounts recognized in the statement of profit and loss		
Depreciation expense	56,362	47,394
Interest expense	8,863	5,339
Rent expense	4,617	6,445

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

10. Other assets

As at 31 December 2021 and 2020, other assets of the Bank consisted of the following:

	31 December 2021 000'KGS	31 December 2020 000'KGS
Other financial assets		
Receivables from MFKR related to interest subsidies	112,698	179,804
Money transfer receivables	181,456	55,013
Other accounts receivables	26,365	12,461
Less: impairment allowance for expected credit losses	(26,948)	(13,940)
Total Other financial assets	**293,571**	**233,338**
Other non-financial assets		
Foreclosed property	593,138	712,806
Prepayment for equipment which will be given for finance lease	25,258	48,943
Other prepayments	21,676	48,559
Materials and supplies	19,092	17,331
Investment property	3,507	3,329
Tax settlements other than income tax	1,662	-
Prepayment of income tax	-	2,983
Total Other non-financial assets	**664,333**	**833,951**
Total other assets	**957,904**	**1,067,289**

During the year ended 31 December 2021, the Bank acquired a number of assets by obtaining control over collateral for loans to customers with a net carrying amount of KGS 250,418 thousand (year ended 31 December 2020: KGS 1,089,537 thousand) (Note 7). These assets are presented as "Foreclosed property". The Bank's practice is to sell this property or lease it under a finance lease.

11. Deposits and balances from banks and other financial institutions

	31 December 2021	31 December 2020
Due to banks and other financial institutions (residents)	110,719	56,611
Time deposits of banks and other financial institutions (non-residents)	66,626	58,170
Correspondent accounts of other banks	3,510	3,187
Total	**180,855**	**117,968**

As at 31 December 2021 and 2020, the Bank did not have banks or financial institutions, whose loan balances exceeded 10% of equity.

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

12. Current accounts and deposits from customers

	31 December 2021	31 December 2020
Current accounts and deposits from corporate customers		
- Current accounts and demand deposits	9,678,476	5,774,403
- Term deposits	4,910,892	3,399,501
	14,589,368	**9,173,904**
Current accounts and deposits from retail customers		
- Current accounts and demand deposits	2,095,224	1,895,027
- Term deposits	6,176,778	4,904,858
	8,272,002	**6,799,885**
Total	**22,861,370**	**15,973,789**

As at 31 December 2021 and 2020, customer deposits in the amount of 9,808,414 thousand KGS and 5,816,514 thousand KGS (43% and 36%), respectively, were obtained from 5 clients, which represents a significant concentration.

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

	31 December 2021	31 December 2020
Loans for provision of finance leases to customers	1,479,641	1,007,233
Subordinated debt	909,178	908,877
Loans for financing agricultural sector	391,813	670,591
Loans for financing business entities	399,181	459,553
Subordinated loans for international projects	125,507	200,165
Other	2,079	2,079
	3,307,399	**3,248,498**

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) Loans for provision of finance lease to customers

As at 31 December 2021 and 31 December 2020, the Bank has the following loans for provision of finance leases to customers:

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

	Currency	Nominal interest rate	Issue date	Maturity	31 December 2021	31 December 2020
Loan from Eurasian Development Bank (repayable funds)	KGS	5%	1 Mar 2021	12 April 2028	542,247	-
Loan from Eurasian Development Bank	KGS	5%	12 Dec 2014	15 Dec 2024	354,946	496,513
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	171,622	197,783
Loan for provision of finance lease to customers from the government of Turkey (Leasing 3)	KGS	2%	18 Mar 2013	19 Feb 2033	153,479	165,064
Loan People's Republic of China (Leasing 6)	KGS	1.5%	29 Dec 2021	29 Jun 2029	85,365	-
Loan for provision of finance leases to customers (People's Republic of China)	KGS	2%	28 Jun 2019	28 Jun 2029	69,776	76,909
Loan for provision of finance leases on development of agricultural machinery (Budget loan)	KGS	0%	1 Aug 2012	15 Sep 2027	62,443	70,964
Loan USA USAID (Leasing 6)	KGS	1.5%	29 Dec 2021	29 Dec 2041	29,983	-
Loan Turkey (Leasing 6)	KGS	1.5%	29 Dec 2021	29 Dec 2041	9,780	-
					1,479,641	**1,007,233**

Loans People's Republic of China, USAID and Turkey (Leasing 6)

On 22 December 2021, in order to provide state support to rural producers for the technical equipment and modernization of the machine and tractor fleet, as well as the development of leasing of agricultural machinery, equipment for processing agricultural products, as well as other equipment for agriculture, the Bank signed an agreement with the MFKR for the provision of the loans in the amount of KGS 85,365 thousand, KGS 29,983 thousand and KGS 8,780 thousand a with an interest rate of 1.5% to open a separate credit line and provide agricultural, processing machinery, sprinkler machines and equipment for drip irrigation in leasing. Loans under this program are issued to borrowers in KGS for up to 10 years at a rate of 4.5%.

At the origination date, the Bank recognised these loans at fair value and resulting discount was recognised as a Government grant (Note 15).

Loan from Eurasian Development Bank

On 13 November 2014, the Bank signed an agreement with Ministry of Finance of the Kyrgyz Republic 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. The loan was provided for 10 years with 5% interest rate within the project "Financing of supplies of agricultural machinery to the Kyrgyz Republic". From these funds, Bank issues loans denominated in KGS to agricultural sector for purchase of machinery at 9% interest rate up to 7 years. Own contribution must be made by the lessee in monetary terms in amount of at least 20% of the value of the leased asset, excluding other direct costs.

The Bank believes that the fair value of this loan at initial recognition is consistent with the amounts received from Eurasian Development Bank. As at 31 December 2021, the outstanding amount of the loan is amounted to KGS 354,946 thousand.

Loan from Eurasian Development Bank (repayable funds)

In 2021, there were funds accumulated in the accounts with the National Bank of the Kyrgyz Republic from the previously granted loan under an agreement on the provision of an investment loan from the Anti-Crisis Fund of the Eurasian Economic Community. On 1 March 2011, the Government of the Kyrgyz Republic signed an agreement with Eurasian Development Bank on provision of loan from these funds for the purposes of the provision of agricultural machinery for leasing to agricultural entities at 5% interest rate. The loans from these funds are provided to lessees for up to 7 years at 9% interest rate. Own contribution must be made by the lessee in monetary terms in amount of at least 20% of the value of the leased asset, excluding other direct costs.

The Bank believes that the fair value of this loan at initial recognition is consistent with the amounts received from Eurasian Development Bank. As at 31 December 2021, the outstanding amount is amounted to KGS 542,247 thousand.

Loan for provision of finance lease to customers (assistance from the government of People's Republic of China-Leasing 4)

On 27 July 2011, the Bank signed an agreement with Ministry of Finance of the Kyrgyz Republic for provision of the loans in amount of KGS 197,935 thousand from the financial resources under a grant from the government of People's Republic of China at 0% interest rate. The purpose of the loan is to provide state support and develop leasing of agricultural machinery, equipment for processing agricultural products, as well as other equipment for agriculture. On 12 October 2015, the Bank signed an additional agreement with the MFKR for the provision of funds in amount of KGS 120,500 thousand at 0% interest rate from the financial resources under a grant from the People's Republic of China accumulated on the accounts of the National Bank of the Kyrgyz Republic, to open a separate credit line for leasing agricultural machinery to rural producers.

From these funs the Bank issues loans to purchase agricultural machinery, equipment for processing agricultural products, as well as other equipment for agriculture at 6-9% interest rates depending on amount of own contribution of the borrower.

At the origination date, the Bank recognised these loans at fair value and resulting discount was recognised as a Government grant (Note 15).

Loan for provision of finance lease to customers from the government of Turkey (Leasing 3)

On 18 March 2013, the Bank signed a promissory note with the MFKR on provision of loan in amount of KGS 232,832 thousand with a 2% interest rate. The purpose of the loan is to provide of a technical loan in the form of tractors in the amount of 225 units for their further leasing to rural producers. The leasing of tractors are provided for up to 7 years with interest rates varying from 8 to 11% depending on the amount of own contribution of the borrower.

At the origination date, the Bank recognised this loan at fair value and resulting discount was recognised as a Government grant (Note 15).

Loan for provision of finance leases to customers (People's Republic of China)

On 24 May 2019, the Bank signed a loan agreement with the MFKR on the provision of the loan in the amount of KGS 102,500 thousand with a 2% interest rate from the funds accumulated on repayable accounts with the National Bank of the Kyrgyz Republic on previously provided grants and loans from China, the Republic of Turkey and USAID. Loans under this program are issued to borrowers in KGS for up to 10 years at a rate of 6%.

At the origination date, the Bank recognised this loan at fair value and resulting discount was recognised as a Government grant (Note 15).

Loan for provision of finance leases on development of agricultural machinery (Budget loan)

On 1 August 2012, the Bank signed an agreement with the MFKR on the provision of an interest-free budget loan in the amount of KGS 195,000 thousand, including mutual funds of repayable grants from the Government of Japan in amount of KGS 115,000 thousand and grants from the Government of the People's Republic of China in amount of KGS 80,000 thousand for the development of leasing of agricultural machinery and increase in leasing credit resources. Leasing under this program are issued to borrowers for up to 7 years at a rates with interest rates varying from 6% to 9% depending on the amount own contribution of the borrower.

At the origination date, the Bank recognised this loan at fair value and resulting discount was recognised as a Government grant (Note 15).

(b) Subordinated debt

On 21 October 2013, the Bank signed an agreement № 19-05/31 and addendums in 2014 and 2015 with 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.

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

(c) 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 2021 and 2020, the Bank has the following subordinated loans in respect of international projects:

	Currency	Nominal interest rate	Issue date	Maturity	31 December 2021 KGS'000	31 December 2020 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	53,610	83,419
International Development Association, Agro-business and Marketing Project;	KGS	Inflation rate	12 Oct 2012	15 Nov 2026	41,500	47,606
International Development Association, Agro-business and Marketing Project;	KGS	6-m Libor +1%	1 Nov 2011	15 May 2022	14,621	16,312
International Development Association, Agro-business and Marketing Project;	KGS	Inflation rate +2%	26 Apr 2007	15 May 2022	12,384	15,711
International Development Association, Assistance in Development of Agricultural Productivity Project	KGS	Inflation rate	2 May 2014	15 Nov 2026	3,392	3,772
Asian Development Bank, Agricultural Area Development Project;	KGS	Inflation rate	28 May 2002	1 Dec 2021	-	33,345
					125,507	**200,165**

The Institute regulated by state law and incorporated under the laws of the Federal Republic of German ("KfW")

On 22 September 2016, the Bank signed an agreement with MFKR on provision of the loan in amount of EUR 2,000 thousand with a 6% interest rate within the Financing of Agricultural Production Supply Chain Project. The loan is financed by the Institute regulated by state law and incorporated under the laws of the Federal Republic of German ("KfW"). The purpose of the loan is to finance sub-loans issued by the Bank to eligible sub-borrowers to finance investment projects.

Covenants

As at 31 December 2021, 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 subordinated loan received from KfW. As at 31 December 2021, the outstanding balance is equal to KGS 53,610 thousand and presented in the table with subordinated loans for international projects. As a result, the total amount of the debt to this lender in the amount of KGS 53,610 thousand was presented in the "on demand and less than one month" category of liquidity risk (Note 30).

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

(d) Other Loans from MFKR

	Currency	Nominal interest rate	Issue date	Maturity	31 December 2021	31 December 2020
Financing of business entities	KGS	1.5%	20 Jul 2020	20 Jul 2023	238,953	268,795
Development of other regions - for investment projects	KGS	3.5%	27 Dec 2019	27 Dec 2024	102,347	133,019
Financing of agricultural sector	KGS	1.5%	20 Aug 2020	20 Aug 2025	80,355	100,227
Financing of agricultural sector	KGS	1.5%	8 Apr 2020	8 Apr 2025	78,123	100,227
Financing of agricultural sector	KGS	1.5%	29 May 2020	29 May 2025	78,123	100,227
Financing of business entities	KGS	5.5%	20 Jul 2020	20 Jul 2023	63,140	78,827
Financing of business entities	KGS	1.5%	25 Sep 2020	25 Sep 2025	62,320	70,057
Development of hard to reach regions - for investment projects	KGS	1.5%	25 Dec 2019	25 Dec 2024	33,910	44,923
Financing of business entities	KGS	5.5%	25 Sep 2020	25 Sep 2023	26,456	33,019
Development of other regions - for working capital replenishment	KGS	5.5%	18 Dec 2019	18 Dec 2021	13,456	26,365
Development of hard to reach regions - for working capital replenishment	KGS	3.5%	25 Dec 2019	25 Dec 2022	5,499	15,604
Financing of business entities	KGS	6.5%	20 Jul 2020	20 Jul 2023	2,548	3,181
Financing of business entities	KGS	1%	20 Jul 2020	20 Jul 2025	2,401	3,001
Financing of business entities	KGS	1%	25 Sep 2020	25 Sep 2023	1,600	2,001
Other loans	KGS	0%; 6.5%	27 Dec 2012	31 Dec 2025	3,842	2,750
Financing of agricultural sector-8	KGS	3.5%	20 Mar 2020	20 Mar 2021	-	150,000
					793,073	**1,132,223**

Financing of business entities

In order to restore and ensure economic and social stability, support business entities in the context of the spread of coronavirus, on 9 June 2020 by the Decree of the Government of the Kyrgyz Republic Decree of the Government of the Kyrgyz Republic the Program "Financing Business Entities" was approved. The program is aimed at supporting the following business sectors: tourism; textile production, pharmaceutical industry; transport services; agricultural sector, food production; manufacturing industry, with the exception of the mining industry, and other areas of economic activity. Besides Ayil Bank, 9 commercial banks of the Kyrgyz Republic were selected to participate in this program. The loan terms provided by the banks-participants to the population varies depending on the maturity and purposes. There were no tranches received during 2021 within this project.

The Bank believes that the fair value of loans received within 'Financing of business entities' program at initial recognition is consistent with the amounts received from MFKR because they were obtained within the framework of a state program, which is considered as a separate market with identical terms to all participants.

Development of other regions

On 6 December 2019, the Bank signed an agreement with MFKR to participate in a state program aimed at the development of regions of the Kyrgyz Republic, in particular, remote mountain regions. The terms of the loans provided within this project vary depending on the purpose of the loan: investment projects up to 5 years – 1.5%, for investment projects for more than 5 years – at 3.5%, for working capital replenishment – 5.5%.

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

The Bank believes that the fair value of the loans received within 'Development of other regions' program at initial recognition is consistent with the amounts received from MFKR because they were obtained within the framework of a state program aimed at the development of regions of the Kyrgyz Republic, which is considered as a separate market with identical terms to all participants.

Financing of agricultural sector

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 commercial banks. Under this project, the Bank signed nine agreements during 2013-2021 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.

Within this project, 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 2020 and 6.04% per annum - for loans issued in 2021. The Bank issues loans to customers at 6% rate for enterprises and individual enterpreneurs engaged in food and processing industry, at 8% for enterprises and individual enterpreneurs engaged in the processing of grain and milling wheat, at 10% enterprises and individual enterpreneurs engaged in cattle breeding, crop production and gardening. The difference in interest between stated interest and market is recorded as accounts receivable from MFKR (Note 10) and government grant (Note 15). The MFKR makes quarterly reimbursement of the difference in interest during the next twelve months after the issuance of loans to customers made by the Bank.

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

	31 December 2021	31 December 2020
Loans from NBKR	965,256	1,345,913
	965,256	**1,345,913**

Amounts due to the National Bank of the Kyrgyz Republic represents loans received on an auction basis for the purposes of refinancing and maintaining liquidity. As at 31 December 2021 the short-term loans from the NBKR were collateralised by loans to customers of KGS 1,089,852 thousand (31 December 2020: KGS 1,761,012 thousand) (Note 7), and investments in securities of KGS 135,000 thousand (31 December 2020: KGS 240,000 thousand) (Note 8).

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

	Currency	Nominal interest rate	Issue date	Maturity	31 December 2021	31 December 2020
Borrowing from NBKR	KGS	5.90%	6 Jun 2018	5 Jun 2022	366,219	382,870
Borrowing from NBKR	KGS	5.00%	28 May 2020	28 May 2022	264,702	277,791
Borrowing from NBKR	KGS	5.00%	9 Apr 2020	9 Apr 2022	132,804	150,616
Borrowing from NBKR	KGS	5.00%	28 Aug 2020	28 Feb 2022	91,366	100,411
Borrowing from NBKR	KGS	4.25%	21 Feb 2020	21 Feb 2022	73,682	75,263
Borrowing from NBKR	KGS	5.00%	11 Jun 2020	11 Jun 2022	36,483	88,100
Borrowing from NBKR	KGS	4.50%	26 Mar 2019	25 Mar 2021	-	170,514
Borrowing from NBKR	KGS	4.25%	10 Oct 2019	27 Feb 2021	-	100,348
Total loans from NBKR					**965,256**	**1,345,913**

15. Government grant

	31 December 2021	31 December 2020
Interest-free and below market interest rate loans	175,226	198,487
Interest prepaid by the MFKR to subsidise agricultural financing	104,433	87,755
	279,659	**286,242**

The following tables represent the movement of government grant for the year ended 31 December 2021 and 2020:

Opening balance as at 1 January 2021	**286,242**
Additions in subsidies	238,459
Amortisation of government grant	(240,230)
Other changes	(4,812)
Closing balance as at 31 December 2021	**279,659**

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

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

During 2021 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 13). Subsequent to initial recognition, the benefit is transferred to profit or loss under amortisation of government grant over the period to maturity of the related loan portfolios.

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

The Bank provides eligible agricultural producers with loans at 6-10% per annum depending on the duration of loans, using its own funds.

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

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 2020 and 6.04% per annum - for loans issued in 2021. The Bank issues loans to customers at 6% rate for enterprises and individual enterpreneurs engaged in food and processing industry, at 8% for enterprises and individual enterpreneurs engaged in the processing of grain and milling wheat, at 10% enterprises and individual enterpreneurs engaged in cattle breeding, crop production and gardening . The difference in interest between stated interest and market is recorded as accounts receivable from MFKR (Note 10) and government grant. The MFKR makes quarterly reimbursement of the difference in interest during the next twelve months after the issuance of loans to customers made by the Bank. The Bank recognises such reimbursement on a monthly basis under amortisation of government grant in the statement of profit or loss and other comprehensive income (Note 21).

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 for both current previous periods based on the annual inspections, the funds may be withdrawn.

16. Other borrowed funds

The table below provides details of other borrowed funds as at 31 December 2021 and 2020.

	Currency	Interest rate	Issues date	Maturity	31 December, 2021	31 December, 2020
State Mortgage Company	KGS	7%, 8%, 9%	1 Oct 2016	1 Feb 2031	2,154,713	1,658,806
Frontera Capital Frontier Market	KGS	10.5%	27 Dec 2021	27 Oct 2024	863,822	-
Russian-Kyrgyz Development Fund 3	USD	1%, 3%	20 Jul 2016	26 Dec 2022	506,868	747,161
BlueOrchard Microfinance Fund 2	EUR	3.78%	18 Jul 2018	20 Dec 2022	374,748	751,639
Russian-Kyrgyz Development Fund 1	KGS	6%, 8%	3 Sep 2015	26 Dec 2023	354,120	479,337
Incofin CVBA- 2	USD	Libor +3 %	26 Apr 2018	26 Apr 2022	298,432	541,420
BAKUBAT Talas Welfare Fund	KGS	4%	10 Jan 2019	10 Jan 2024	242,420	151,512
Global Impact	EUR	3.65%	2 Nov 2018	2 May 2022	207,192	438,284
Micro, Small & Medium Enterprise Bonds S.A. 1	USD	Libor +3 %	3 Jul 2018	10 Jul 2022	150,628	293,990
BlueOrchard Microfinance Fund 1	USD	Libor +4 %	15 May 2018	16 May 2022	53,266	207,746
Incofin CVBA- 1	USD	5%	23 Oct 2017	23 Oct 2021	-	833,468
Micro, Small & Medium Enterprise Bonds S.A. 3	KGS	10.5 %	24 Jul 2018	24 Jul 2021	-	358,289
Total other borrowed funds					**5,206,209**	**6,461,652**

(a) Loan from State Mortgage Company

On 1 February 2016 under the implementation of "Affordable Housing 2015-2021" 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"). In accordance with this agreement, the SMC provided 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%. The Bank obliges to issue loans using the received investment funds according to the list of borrowers approved by the SMC in accordance with the requirements of the SMC.

On September 15, 2021, the Bank signed an Addendum to the General Cooperation Agreement with the SMC within the framework of the "My Home 2021-2026" Program. According to the agreement, the SMC provided the Bank with additional funds for issuing and refinancing loans to citizens of the Kyrgyz Republic. The interest rate on mortgage loans issued by the Bank from these funds should not exceed 4% per annum for the purchase of residential real estate and 8% per annum for housing construction, the rate of which is reduced by 4% per annum after construction is completed.

On 29 December 2021, the Bank signed an addendum to the General Agreement for Cooperation with the SMC. According to the addendum, the SMC provided the Bank with additional funds within the program for the following purposes:
• for the purchase of housing and construction of housing in the direction of "Preferential mortgage";
• for the purchase of housing and construction of housing in the direction of "Affordable Mortgage".

(b) 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 the fourth agreement with RKDF for a loan in the amount of USD 1,500,000 to fund the "Intensive Gardens" program. In 2020, the Bank signed the fifth 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.

As at 31 December 2021, the loans received from the RKDF were collateralised by loans to customers with a carrying amount of KGS 1,545,063 thousand (31 December 2020: KGS 2,542,985 thousand) (Note 7).

As at 31 December 2021, investments in securities of KGS 660,618 thousand are pledged as collateral for loans provided to the Bank by the Russian-Kyrgyz Development Fund (31 December 2020: KGS 511,243 thousand) (Note 8).

(c) Bakubat Talas Welfare Fund

During 2020, 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 to customer who are engaged in the business oriented to the development of Talas region.

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 and conditions of the lending, availability of the funds to other participants such as other commercial banks, these products represent a separate market. As a result, other borrowed funds from the RKDF, SMC and Bakubat Talas Welfare Fund were received in an orderly transaction and as such have been recorded at fair value at the initial recognition date.

(d) Loans from international microfinance organisations

On 27 December 2021, the Bank has signed a new agreement with Frontera Capital Frontier to receive a loan of KGS 848,000 thousand with interest rate of 10.5%. The loan is provided for general corporate purposes. As at 31 December 2021, the loan was collaterised by insurance deposit in Frontera Capital Frontier in amount of KGS 847,586 thousand. (Note 6).

During 2018, the Bank has signed loan agreements with several international financial institutions. All borrowed funds from international microfinance organisations were obtained for financing of the small and medium enterprises in the Kyrgyz Republic.

On 5 May 2018, the Bank signed an agreement with BlueOrchard Microfinance Company for the amount of USD 5,000 thousand for the period of four years with interest rate Libor +4%.

On 26 Apr 2018, the Bank signed agreement with INCOFIN CVBA to receive a loan of USD 10,000 thousand with interest rate of Libor+3%.

On 3 July 2018 and 1 August 2018, the Bank signed agreements with Micro Small & Medium Enterprise Bonds SA to receive loans of USD 3,000 thousand and USD 500 thousand, respectively, with interest rate of Libor+3%.

On 2 November 2018, the Bank signed agreement with Dual Return Fund SICAV (Global Impact) to receive a loan of USD 4,300 thousand with interest rate of 3.65%.

As at 31 December 2021 and 2020, total outstanding balance of these loans from international microfinance companies amounted to KGS 1,948,088 thousand and KGS 3,424,835 thousand, respectively.

(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.
As at 31 December 2021, 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;
- Liquidity surplus ratio of not more than 30%, 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;
- 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.

Bank cross defaulted with Frontera Capital Frontier on incurred event of default.

As at 31 December 2021, the total outstanding amount to these lenders was equal to KGS 2,451,256 thousand. The Management of the Bank applied to BlueOrchard Microfinance Fund, INCOFIN CVBA and Russian-Kyrgyz Development Fund for a waivers. The Bank did not receive waivers from these institutions at the date of issuance of these financial statements due to the process of renegotiation of additional future funding and changes in financial covenants. Since the Bank did not obtain waiver letters from these creditors as at 31 December 2021 and did not have an unconditional right to defer settlement for at least twelve months after the reporting date of 31 December 2021, the loans were classified as a on demand and presented as current liability in the liquidity table in Note 30.

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 other 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. The Bank has not received waiver from BlueOrchard and Ministry of Finance of KR. 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 on demand and presented as current liability in the liquidity table in Note 30.

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

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

	Liabilities				Total
000'KGS	**Amounts due to MFKR (Note 13)**	**Amounts due to NBKR (Note 14)**	**Other Borrowed funds (Note 16)**	**Funds received from a shareholder (Note 17)**	
Balance at 1 January 2021	**3,248,498**	**1,345,913**	**6,461,652**	-	**11,056,063**
Changes from financing cash flows					
Proceeds from amounts due to the Ministry of Finance of the Kyrgyz Republic	766,504	-	-	-	766,504
Repayment of amounts due to the Ministry of Finance of the Kyrgyz Republic	(735,555)	-	-	-	(735,555)
Repayment of amounts due to the National Bank of the Kyrgyz Republic	-	(379,220)	-	-	(379,220)
Proceeds from other borrowed funds	-	-	1,753,168		1,753,168
Repayment of other borrowed funds	-	-	(3,001,395)		(3,001,395)
Funds received from a shareholder	-	-	-	2,400,000	2,400,000
Total changes from financing cash Flows	**30,949**	**(379,220)**	**(1,248,227)**	**2,400,000**	**803,502**
Effect of changes in foreign exchange rates	407	-	14,241	-	14,648
Other changes					
Change in accrued interest	27,545	(1,437)	(21,457)	-	4,651
Balance as at 31 December 2021	**3,307,399**	**965,256**	**5,206,209**	**2,400,000**	**11,878,864**

	Liabilities			Total
000'KGS	**Amounts due to MFKR (Note 13)**	**Amounts due to NBKR (Note 14)**	**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)**
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**

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

17. Funds received from a shareholder

	31 December, 2021	31 December 2020
Funds received from a shareholder	2,400,000	-
Total funds received from a shareholder	**2,400,000**	**-**

On 29 November 2021, by the Order of the Cabinet of Ministers of the Kyrgyz Republic, it was approved to increase the share capital of the Bank from the state budget funds. The Bank received funds in three tranches: KGS 800,000 thousand on 2 December 2021, KGS 834,000 on 9 December 2021 and KGS 766,000 thousand on 16 December 2021. As of 31 December 2021, the registration of the emission of the shares was not complete and the final amount was not confirmed, so the received funds could be returned back. Therefore, the received contribution was recorded in liabilities of the Bank.

18. Lease liabilities

Opening balance as at 1 January 2021	**126,801**
Additions	34,503
Lease termination	(6,780)
Contract modifications	63,505
Lease payments	(62,816)
Interest expense	7,280
Foreign exchange difference	749
Closing balance as at 31 December 2021	**163,242**

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**

The maturity analysis of lease liabilities as of 31 December 2021 and 2020 is presented in the table below:

	31 December 2021	31 December 2020
Year 1	51,464	34,117
Year 2	55,806	25,985
Year 3	28,068	22,414
Year 4	20,746	27,930
Year 5	11,910	9,930
More than 5 years	12,670	16,170
Total lease liabilities	**180,664**	**136,546**
Unearned interest	(17,422)	(9,745)
Carrying amount of lease liability	**163,242**	**126,801**
Current lease liability	47,852	30,107
Non-current lease liability	115,390	96,694

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

19. Other liabilities

	31 December 2021	31 December 2020
Other financial liabilities:		
Settlements with creditors	38,134	-
Credit line commitments and guarantee provision	15,762	11,745
Other liabilities	44,550	28,163
Total other financial liabilities	**98,446**	**39,908**
Other non-financial liabilities:		
Vacation reserve	60,780	43,566
Other taxes payable	55,900	22,345
Deferred tax liabilities	43,008	44,123
Precious metals deposits of customers	12,289	12,971
Accrued income tax payable	4,164	-
Other non-financial liabilities	38,997	16,584
Total non-financial liablities	**215,138**	**139,589**
Total other liabilities	**313,584**	**179,497**

20. Share capital

(a) Issued Capital

As at 31 December 2021, the authorised, issued and outstanding share capital of the Bank consists of 352,464 ordinary shares (31 December 2020: 347,626 ordinary shares). All shares have a nominal value of KGS 10 thousand.

On 10 August 2021, according to the decision of the General Meeting of Shareholders, the issue of an additional 4,836 ordinary shares was approved by directing 48,360 thousand KGS from retained earnings to increase the authorised and issued share capital of the Bank (31 December 2020: the issue of additional 9,706 ordinary shares was approved by directing 97,060 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.

The Bank's share capital comprises of the following:

	Number of shares	Total amount, KGS'000
Ordinary shares		
1 January, 2020	**337,920**	**3,379,200**
Issue of shares	9,706	97,060
As at 31 December 2020	**347,626**	**3,476,260**
Issue of shares	4,836	48,360
As at 31 December 2021	**352,462**	**3,524,620**

(b) Additional paid-in capital

Since November 2017, the Government of the Kyrgyz Republic provided the Bank vehicles, office equipment and computers free of charge for temporary use. The property and equipment was recorded at fair value as additions to property and equipment and additional paid-in capital. The Bank did not account furniture and IT equipment as finance lease under IFRS 16 due to low value of items. During year ended 31 December 2021, the increase of additional paid-in capital of KGS 1,669 thousand includes expenses for the rent of that property free of charge. (2020: 1,078 thousand KGS).

(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 2021 and 2020, the general reserve amounted 189,696 thousand for both years. In 2021, 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.

(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 22 April 2021, by the decision of the General Meeting of Shareholders dated 30 March 2021, dividends in the total amount of 48,358 thousand KGS were declared and paid (2020: 52,278 thousand KGS).

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 2021, 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. (2020: At least 20%).

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

21. Net interest income

	2021	2020
Interest income at effective interest rate		
Loans to customers	2,750,765	2,483,225
Investment in securities at amortised cost	266,297	256,947
Loans and advances to banks and other financial institutions	56,816	93,759
Cash and cash equivalents	1,565	969
Total interest income at effective interest rate	**3,075,443**	**2,834,900**
Amortisation of grant	240,230	228,233
Interest expense		
Current accounts and deposits from customers	(911,869)	(714,791)
Other borrowed funds	(224,067)	(337,915)
Amounts due to the Ministry of Finance of the Kyrgyz Republic	(82,493)	(131,391)
Amounts due to the National Bank of the Kyrgz Republic	(59,670)	(62,581)
Interest expense on finance lease	(7,280)	(5,339)
Repurchase agreements	(434)	(3,105)
Deposits and balances from banks	(5,337)	(1,084)
Discount on interest income on loans to customers	(59,805)	(8,380)
Other	(24,712)	(23,242)
Total interest expense	**(1,375,667)**	**(1,287,828)**
Net interest income on interest bearing assets before allowance for expected credit losses	**1,940,006**	**1,775,305**

22. Net foreign exchange translation gain

	2021	2020
Realised gain on foreign exchange transactions	200,977	166,595
Unrealized loss from revaluation	(8,649)	(6,393)
Total	**192,328**	**160,202**

23. Fee and commission income and expense

	2021	2020
Fee and commission income:		
Money Transfers	227,260	190,405
Settlements	89,097	76,847
Commission income for payment cards	37,464	24,889
Commission fee for storage of valuables	7,237	5,774
Other	4,682	5,949
Total fee and commission income	**365,740**	**303,864**
Fee and commission expense:		
Commission expenses for payment cards	(46,900)	(34,064)
Money transfer fees	(44,977)	(13,031)
Settlements	(14,190)	(10,362)
Commission fees for storage of valuables	(3,068)	(2,900)
Other commission expenses	(32,968)	(39,720)
Total fee and commission expense	**(142,103)**	**(100,077)**

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

24. Allowance for expected credit losses on interest bearing assets and Impairment losses on other transactions

	2021	2020
Allowance for expected credit losses on interest bearing assets:		
Allowance for expected credit losses on loans to customers	(575,556)	(181,215)
Allowance for expected credit losses on loans and advances to banks	(24,860)	-
Allowance for expected credit losses on investments in securities	(11,504)	976
Allowance for expected credit losses on cash and cash equivalents	(6,009)	210
	(617,929)	**(180,029)**
Impairment losses on other assets:		
Other financial assets	(10,279)	(1,641)
Non-financial assets	(116,363)	(497,690)
	(126,642)	**(499,331)**
Impairment losses on credit-related commitments:		
Guarantees and credit related commitments	(5,924)	(4,158)

25. Operating expenses

	2021	2020
Employee compensation	838,345	761,245
Depreciation and amortization	172,060	162,337
Payroll related taxes	141,383	130,565
Repairs and maintenance	60,975	55,837
Security services	58,050	52,691
Professional services	29,498	14,856
Stationery and office supplies	14,540	13,672
Utilities	12,462	11,965
Taxes other than on income	12,169	31,072
Communication and information services	9,893	9,512
Advertising and marketing	9,539	6,216
Representative expenses	5,736	2,610
Travel expenses	4,668	2,909
Rent	4,617	6,445
Training	2,507	1,073
Other expenses	7,898	7,805
Total operating expenses	**1,384,340**	**1,270,810**

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 ethe Kyrgyz Republic where the Bank operate, which may differ from IFRS.

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

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 2021 and 2020 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.

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 2021 and 2020 comprise:

	31 December 2021	31 December 2020
Deferred tax (liabilities)/assets in relation to		
Loans and advances from banks and loans to customers	(33,122)	(27,760)
Property and equipment	(20,851)	(22,439)
Right-of-use asset	(15,875)	(26,566)
Investment securities	2,220	1,957
Provision	8,296	3,231
Lease liability	16,324	27,454
Net deferred tax liability	**(43,008)**	**(44,123)**
Current income tax expense	28,312	24,291
Deferred tax expense	(1,115)	8,317
Income tax expense	**27,197**	**32,608**

The effective tax rate reconciliation is as follows for the years ended 31 December 2021 and 2020:

	2021	2020
Profit before income tax	**250,304**	**196,539**
Tax at the statutory tax rate (10%)	25,030	19,654
Non-deductible costs	2,167	12,954
Income tax expense	**27,197**	**32,608**

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

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.

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.

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 and financial guarantees 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 2021	31 December 2020
Contingent liabilities and credit commitments		
Loan and credit line commitments	252,302	179,155
Guarantees	73,353	62,129
Overdrafts	1,319	3,792
	326,974	**245,076**
Provisions	(15,762)	(11,745)
Total contingent liabilities and credit commitments	**311,212**	**233,331**

Credit quality of other contingent liabilities:

The following table provides information on the credit quality of the contingent liabilities as at 31 December 2021 and 2020:

	Stage 1	Stage 2	Stage 3	31 December 2021 Total
Credit related commitments				
Loan and credit line commitments	249,856	2,441	5	252,302
Guarantees	66,369	6,984	-	73,353
Overdrafts	1,054	245	20	1,319
Total credit related commitments	**317,279**	**9,670**	**25**	**326,974**
Loss allowance	(12,421)	(3,328)	(13)	(15,762)
Net credit related commitments	**304,858**	**6,342**	**12**	**311,212**

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

			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	(5,438)	(6,307)	(11,745)
Net credit related commitments	**225,200**	**8,131**	**233,331**

As at 31 December 2021 and 2020 the Bank did not have significant credit concentrations related to credit related commitments.

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 party 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

On 29 November 2021, The State Committee for National Security (SCNS) has launched an investigation in regards to certain non-performing loans of the Bank issued during 2017-2019 years. The gross carrying value of these loans equal to KGS 1,650,065 thousand and a corresponding allowance for expected credit losses is equal to KGS 1,305,884 thousand. The credit files on these loans were partially seized by the government law enforcement officials. As of the date of these financial statements, there were no final statements made regarding the investigation process of the above mentioned loans and no litigation was initiated.

Management is unaware of any other 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.

27.4 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 2021 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. The measures taken by many countries to contain the spread of COVID-19 are causing significant operational difficulties for many companies and have a significant impact on global financial markets. As such, the Bank may face even greater impact from COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the impact of COVID-19 on the Bank's operations depends to a large extent on the duration and extent of the impact of the virus on the global and Kyrgyz economies.

In 2021, the Government of the Kyrgyz Republic continued to take measures aimed at preventing the spread of COVID-19 and its impact, mainly by encouraging the population to get vaccinated, which helped to smooth out subsequent waves of the pandemic against the backdrop of the emergence of new strains of the virus. The authorities did not introduce quarantine measures in response to new waves of COVID-19.

Gross domestic product showed an increase of 3.6% compared to a decrease of 8.4% in 2020, which indicates a steady recovery of the Kyrgyz economy. However, inflation remained high due to unrecovered supply chains, which negatively affects the purchasing power of the population. This makes many people extremely vulnerable to the economic impact of the pandemic. After all, demand for private sector loans is still lower than before the pandemic.

The political situation in the country also stabilized after the referendum on changes to the Constitution and parliamentary elections, the transparency of which was confirmed by international observers.

The Bank's management continues monitoring 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.

The impact of these and further developments on future operations and financial position of the Bank at this stage is difficult to determine.

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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 financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

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 2021		31 December 2020	
	Book Value	**Fair Value**	**Book Value**	**Fair Value**
Loans to customers	22,820,050	22,701,459	21,744,945	21,639,473
Investments in securities at amortised cost	4,681,582	4,416,992	1,743,972	1,519,901
Current accounts and deposits from customers	22,861,370	22,663,527	15,973,789	16,020,887
Amounts due to Ministry of the Kyrgyz Republic	3,307,399	3,291,075	3,248,498	3,238,295
Amounts due to National Bank of the Kyrgyz Republic	965,256	958,587	1,345,913	1,261,648
Other borrowed funds	5,206,209	5,197,695	6,461,652	6,448,203

	31 December 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Loans to customers	-	21,445,125	1,256,334	22,701,459
Investments in securities at amortised cost	-	4,416,992	-	4,416,992
Current accounts and deposits from customers	-	22,663,527	-	22,663,527
Amounts due to Ministry of the Kyrgyz Republic	-	-	3,291,075	3,291,075
Amounts due to National Bank of the Kyrgyz Republic	-	958,587	-	958,587
Other borrowed funds	-	3,263,500	1,934,195	5,197,695

	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 amortised cost	-	1,519,901	-	1,519,901
Current accounts and deposits from customers	-	16,020,887	-	16,020,887
Amounts due to Ministry of the Kyrgyz Republic	-	-	3,238,925	3,238,925
Amounts due to National Bank of the Kyrgyz Republic	-	1,261,648	-	1,261,648
Other borrowed funds	-	3,058,010	3,420,193	6,478,203

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 market rates not adjusted for credit risk. 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.

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 2021 according to new requirement of NBKR. As at 31 December 2021 and 31 December 2020, 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 2021 and 31 December 2020:

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

	31 December 2021	31 December 2020
Net total capital	4,940,463	4,998,317
Risk – weighted assets	25,235,470	22,224,245
Total capital adequacy ratio	**19.6%**	**22.5%**
Total tier 1 capital	4,508,358	4,589,189
Risk – weighted assets	25,235,470	22,224,245
Tier 1 Capital adequacy ratio	**17.9%**	**20.6%**
Base tier 1 capital	3,511,955	3,594,756
Risk – weighted assets	25,235,470	22,224,245
Tier 1 Capital adequacy ratio	**13.9%**	**16.2%**
Total capital	4,940,463	4,998,317
Total assets	39,897,033	31,792,958
Leverage	**12.4%**	**15.7%**

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.

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.

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.

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. The Bank determines the annual cyclical (TTC average) matrix by excluding the macroeconomic effect from the analyzed time (PIT) transition matrices.
2. The Bank adjusts the averaged annual cyclical transition matrix for the predicted macroeconomic factors (the beta regression equation is used, determined at the modeling stage and the predictive macro factors are incorporated into the regression equation).
3. The Bank calculates PD levels for Stages 1, 2, 3 for several years (+12 months, +24 months and +36 months): based on Markov chains 12-month PD and Lifetime PD are calculated.

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.

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 credit default swap (CDS) or 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 2021.

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:

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 7 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.

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

	Maximum exposure to credit risk as at 31 December, 2021	Collateral pledged	Net exposure to credit risk as at 31 December, 2021
Cash equivalents*	6,032,799	-	6,032,799
Loans and advances to banks and other financial institutions	1,088,930	-	1,088,930
Loans to customers	22,822,050	(20,497,697)	2,324,353
Investments in securities at amortized cost	4,681,582	-	4,681,582
Other financial assets	293,571	-	293,571
Total	**34,918,932**	**(20,497,697)**	**14,421,235**
Guarantees and credit related commitments	326,974	(73,353)	253,621
Total exposure to credit risk	**35,245,906**	**(20,571,050)**	**14,674,856**

	Maximum exposure to credit risk as at 31 December, 2020	Collateral pledged	Net exposure to credit risk as at 31 December, 2020
Cash equivalents*	4,071,119	-	4,071,119
Loans and advances to banks and other financial institutions	365,270	-	365,270
Loans to customers	21,744,945	(19,877,490)	1,867,455
Investments in securities at amortized cost	1,743,972	-	1,743,972
Other financial assets	233,338	-	233,338
Total	**28,158,644**	**(19,877,490)**	**8,281,154**
Guarantees and credit related commitments	245,076	(62,129)	182,947
Total exposure to credit risk	**28,403,720**	**(19,939,619)**	**8,464,101**

*Cash equivalents do not include cash on hand.

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 allowance for expected credit losses during 2021 and 2020:

	Stage 1, 12 month ECL	Stage 2, Lifetime ECL	Stage ,3 Lifetime ECL	Total
Gross carrying amount as at 1 January 2021	**17,701,448**	**2,197,052**	**3,937,695**	**23,836,195**
Changes in the gross carrying amount				
- Transfer to stage 1	65,404	(65,404)	-	-
- Transfer to stage 2	(1,573,431)	2,516,006	(942,575)	-
- Transfer to stage 3	-	(894,771)	894,771	-
New financial assets originated or purchased	11,222,698	-	-	11,222,698
Financial assets that have been derecognized	(3,588,248)	(350,964)	(615,693)	(4,554,905)
Principal payments	(4,209,616)	(527,280)	34,591	(4,702,305)
Change in interest accrued	(43,993)	(31,141)	(270,733)	(345,867)
Write-offs	-	(410)	(335)	(745)
Gross carrying amount as at 31 December 2021	**19,574,262**	**2,843,088**	**3,037,721**	**25,455,071**

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

	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	(14,417)	-	-
- Transfer to stage 2	(3,221,296)	3,391,978	(170,682)	-
- Transfer to stage 3	-	(1,612,581)	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)	(1,033,435)	(7,772,865)
Write-offs	-	-	(403)	(403)
Other changes	12,855	470,424	514,335	997,614
Gross carrying amount as at 31 December 2020	**17,701,448**	**2,197,052**	**3,937,695**	**23,836,195**

	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Allowance for expected credit losses – Loans and advances to customers at amortized cost				
Allowance for expected credit losses as at 1 January, 2021	**172,613**	**506,049**	**1,412,588**	**2,091,250**
Changes in the loss allowance				
- Transfer to stage 1	7,583	(7,583)	-	-
- Transfer to stage 2	(119,922)	412,629	(292,707)	-
- Transfer to stage 3	-	(199,226)	199,226	-
- Increases due to change in credit risk	-	156,007	199,771	355,778
- Decreases due to change in credit risk	(4,280)	(164,441)	12,711	(156,010)
Changes in models/risk parameters	(64,737)	(57,153)	550,608	428,718
New financial assets originated or purchased	229,610	-	-	229,610
Financial assets that have been derecognized	(27,484)	(89,339)	(165,717)	(282,540)
Write-offs	-	(410)	(335)	(745)
Foreign exchange and other movements	(3,047)	(2,820)	(27,173)	(33,040)
Allowance for expected credit losses as at 31 December 2021	**190,336**	**553,713**	**1,888,972**	**2,633,021**

	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Allowance for expected credit losses – Loans and advances to customers at amortized cost				
Allowance for expected credit losses as at 1 January, 2020	**347,795**	**11,404**	**1,305,286**	**1,664,485**
Changes in the loss allowance				
- Transfer to stage 1	7,488	(7,488)	-	-
- Transfer to stage 2	(66,500)	99,034	(32,534)	-
- Transfer to stage 3	-	(41,105)	41,105	-
- Increases due to change in credit risk	-	316,234	97,938	414,172
New financial assets originated or purchased	112,717	-	-	112,717
Financial assets that have been derecognized	(228,887)	(6,616)	(110,170)	(345,673)
Foreign exchange and other movements	-	134,586	110,963	245,549
Allowance for expected credit losses as at 31 December 2020	**172,613**	**506,049**	**1,412,588**	**2,091,250**

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

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

		2021
Cash and cash equivalents	**Stage 1**	**Total**
Balance as at 1 January	6,059,339	6,059,339
Change in balance	3,367,624	3,367,624
Foreign exchange effect	34,782	34,782
Balance as at 31 December	**9,461,745**	**9,461,745**

		2020
Cash and cash equivalents	**Stage 1**	**Total**
Balance as at 1 January	6,730,453	6,730,453
Change in balance	(924,901)	(924,901)
Foreign exchange effect	254,212	254,212
Balance as at 31 December	**6,059,764**	**6,059,764**

The following tables show reconciliations from the opening to the closing balances of the allowance for expected credit losses on cash and cash equivalents:

		2021		2020
Cash and cash equivalents	**Stage 1**	**Total**	**Stage 1**	**Total**
Balance at 1 January	425	425	227	227
Net remeasurement of net allowance	6,009	6,009	210	210
Effect of foreign currency translation	(24)	(24)	(12)	(12)
Balance at 31 December	**6,410**	**6,410**	**425**	**425**

The following tables show reconciliations from the opening to the closing balances of the loans and advances to banks and other financial institutions:

		2020
Loans and advances to banks and other financial institutions	**Stage 1**	**Total**
Balance as at 1 January	365,270	365,270
Additions	848,586	848,586
Decrease in balance	(108,249)	(108,249)
Foreign exchange effect	8,183	8,183
Balance as at 31 December	**1,113,790**	**1,113,790**

		2020
Loans and advances to banks and other financial institutions	**Stage 1**	**Total**
Balance as at 1 January	418	418
Change in balance	365,139	365,139
Foreign exchange effect	(287)	(287)
Balance as at 31 December	**365,270**	**365,270**

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

The following tables show reconciliations from the opening to the closing balances of the allowance for expected credit losses on the loans and advances to banks and other financial institutions:

Loans and advances to banks and other financial institutions	2021 Stage 1	2021 Total	2020 Stage 1	2020 Total
Balance at 1 January	-	-	-	-
Additions	24,860	24,860	-	-
Effect of foreign currency translation	-	-	-	-
Balance at 31 December	**24,860**	**24,860**	-	-

The following tables show reconciliations from the opening to the closing balances of investments at amortised cost:

Investment in securities at amortised cost	2021 Stage 1	2021 Total	2020 Stage 1	2020 Total
Balance at 1 January	1,754,671	1,754,671	2,647,394	2,647,394
Change in discount	(832,128)	(832,128)	(27,534)	(27,534)
New financial assets originated or purchased	20,854,802	20,854,802	8,386,043	8,386,043
Financial assets that have been derecognised	(17,073,560)	(17,073,560)	(9,251,232)	(9,251,232)
Balance at 31 December	**4,703,785**	**4,703,785**	**1,754,671**	**1,754,671**

The following tables show reconciliations from the opening to the closing balances of the allowance for expected credit losses on investment securities:

	2021 Stage 1	2021 Total	2020 Stage 1	2020 Total
Balance at 1 January	10,699	10,699	11,675	11,675
New financial assets originated or purchased	12,721	12,721	2,070	2,070
Financial assets that have been derecognised	(1,217)	(1,217)	(3,046)	(3,046)
Balance at 31 December	**22,203**	**22,203**	**10,699**	**10,699**

The following table sets out information about the credit quality of other financial assets as at 31 December 2021 and 2020:

KGS'000	2021 Stage 1	2021 Stage 3	2021 Total	2020 Stage 1	2020 Stage 3	2020 Total
Other financial assets						
Balance at January 1	219,398	13,940	**233,338**	86,112	6,696	**92,808**
Change in balance	27,382	29,861	**57,243**	133,286	7,282	**140,568**
Effect of foreign exchange	(49)	3,039	**2,990**	-	(38)	**(38)**
Balance as at 31 December	**246,731**	**46,840**	**293,571**	**219,398**	**13,940**	**233,338**

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

Movements in the allowance for expected credit losses for the year ended 31 December 2021 are as follows:

	Stage 1	Stage 2	2021 Total	Stage 1	Stage 2	2020 Total
Other financial assets						
Balance at January 1	-	**13,940**	**13,940**	**5,544**	**6,696**	**12,240**
Change in balance	108	10,171	10,279	(5,544)	7,185	1,641
Effect of foreign exchange rate	-	2,729	2,729	-	59	59
Balance at 31 December	**108**	**26,840**	**26,948**	**-**	**13,940**	**13,940**

The following table sets out information about the credit quality of credit related commitments as at 31 December 2021 and 2020:

Credit related commitments	**Stage 1**	**Stage 2**	**Stage 3**	**2021 Total**
Balance as at 1 January	230,638	14,438	-	245,076
Change in balance	89,412	(4,768)	**25**	84,669
Foreign exchange effect	(2,771)	-	-	(2,771)
Balance as at 31 December	**317,279**	**9,670**	**25**	**326,974**

Credit related commitments	**Stage 1**	**Stage 2**	**Stage 3**	**2020 Total**
Balance as at 1 January	174,928	-	-	174,928
Change in balance	56,428	14,438	-	70,866
Foreign exchange effect	(718)	-	-	(718)
Balance as at 31 December	**230,638**	**14,438**	**-**	**245,076**

The following tables show reconciliations from the opening to the closing balances of the allowance for expected credit losses on credit related commitments:

Credit related commitments	**Stage 1**	**Stage 2**	**Stage 3**	**2021 Total**
Balance at 1 January	5,438	6,307	-	11,745
Change in balance	8,890	(2,979)	13	5,924
Effect of foreign currency translation	(1,907)	-	-	(1,907)
Balance as at 31 December	**12,421**	**3,328**	**13**	**15,762**

Credit related commitments	**Stage 1**	**Stage 2**	**Stage 3**	**2020 Total**
Balance at 1 January	3,570	4,304	-	7,874
Net remeasurement of net allowance	2,155	2,003	-	4,158
Effect of foreign currency translation	(287)	-	-	(287)
Balance as at 31 December	**5,438**	**6,307**	**-**	**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.

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.

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 2021. It should be noted that the negative balance of the Bank's liquidity is associated with the violation of financial covenants established by credit agreements with some financial institutions (Note 13 and 16), 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. Moreover, management believes that the shareholder will continue to provide sufficient financial support to the Bank to enable it to meet its obligations for the foreseeable future, which management believes is a period of at least 12 months from the date of these financial statements.

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

	Weighted average interest rate	Up to 1 month	1 to 3 months	From 3 to 12 months	1 to 5 year	More than 5 year	31 December, 2021
Cash and cash equivalents	5.36	2,650,091	-	-	-	-	2,650,091
Loans and advances to banks and other financial institutions	6.03	-	-	27,505	-	-	27,505
Loans to customers	12.21	205,434	326,179	2,227,574	16,217,649	3,845,214	22,822,050
Investment in securities at amortized cost	8.88	-	-	-	1,521,387	3,160,195	4,681,582
Total interest bearing financial assets		**2,855,525**	**326,179**	**2,255,079**	**17,739,036**	**7,005,409**	**30,181,228**
Cash and cash equivalents		6,805,244					6,805,244
Loans and advances to banks and other financial institutions		2,408	236,177	-	822,840	-	1,061,425
Other financial assets		293,571	-	-	-	-	293,571
Total non-interest financial assets		7,101,223	236,177	-	822,840	-	8,160,240
Total financial assets		**9,956,748**	**562,356**	**2,255,079**	**18,561,876**	**7,005,409**	**38,341,468**
Deposits and balances from banks and other financial institutions	1.00	9,127	-	-	-	-	9,127
Current accounts and deposits from customers	7.90	1,173,805	536,874	4,769,717	4,607,225	49	11,087,670
Amounts due to the Ministry of Finance of the Kyrgyz Republic	3.10	63,730	94,622	452,424	1,338,569	448,876	2,398,221
Amounts due to the National Bank of the Kyrgyz Republic	5.13	11,055	160,599	793,602	-	-	965,256
Other borrowed funds	5.37	2,451,256	-	357,820	242,420	2,154,713	5,206,209
Total interest bearing financial liabilities		**3,708,973**	**792,095**	**6,373,563**	**6,188,214**	**2,603,638**	**19,666,483**
Deposits and balances from banks and other financial institutions		171,728	-	-	-	-	171,728
Current accounts and deposits from customers		11,773,700	-	-	-	-	11,773,700
Amounts due to the Ministry of Finance of the Kyrgyz Republic		909,178	-	-	-	-	909,178
Lease liabilities		4,186	8,042	35,624	103,103	12,287	163,242
Other financial liabilities		98,446	-	-	-	-	98,446
Total non-interest financial liabilities		**12,957,238**	**8,042**	**35,624**	**103,103**	**12,287**	**13,116,294**
Total financial liabilities		**16,666,211**	**800,137**	**6,409,187**	**6,291,317**	**2,615,925**	**32,782,777**
Difference between financial assets and liabilities		(6,709,463)	(237,781)	(4,154,108)	12,270,559	4,389,484	
Difference between financial assets and liabilities, generated interest income		(853,448)	(465,916)	(4,118,484)	11,550,822	4,401,771	
Cumulative difference between financial assets and liabilities,, generated interest income		(853,448)	(1,319,364)	(5,437,848)	6,112,974	10,514,745	
Cumulative difference between financial assets and liabilities, generated interest income, as a percentage of financial assets		-2.23%	-3.44%	-14.18%	15.94%	27,42%	

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

	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
Cash and cash equivalents	2.75	1,500,000	-	-	-	-	1,500,000
Loans and advances to banks and 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		**2,650,554**	**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**
Current accounts and deposits from customers	5.67	333,990	409,637	4,796,000	2,540,670	224,062	8,304,359
Amounts due to the Ministry of Finance of the Kyrgyz Republic	2.20	137,114	128,696	439,172	1,225,041	131,720	2,061,743
Amounts due to the National Bank of the Kyrgyz Republic	5.09	5,612	344,886	995,415	-	-	1,345,913
Other borrowed funds	4.81	4,686,553	18,281	78,505	630,158	1,048,155	6,461,652
Total interest bearing financial liabilities		**5,163,269**	**901,500**	**6,309,092**	**4,395,869**	**1,403,937**	**18,173,667**
Deposits and balances from banks and other financial institutions		117,968	-	-	-	-	117,968
Current accounts and deposits from customers		7,669,430	-	-	-	-	7,669,430
Amounts due to the Ministry of Finance of the Kyrgyz Republic		-	-	-	-	1,186,755	1,186,755
Lease liabilities		208	143	4,985	68,633	52,832	126,801
Other financial liabilities		39,908	-	-	-	-	39,908
Total non-interest financial liabilities		**7,827,514**	**143**	**4,985**	**68,633**	**1,239,587**	**9,140,862**
Totale financial liabilities		**12,990,783**	**901,643**	**6,314,077**	**4,464,502**	**2,643,524**	**27,314,529**
Difference between financial assets and liabilities		(5,547,552)	917,246	(134,065)	6,858,077	738,629	
Difference between financial assets and liabilities, generated interest income		(2,512,715)	917,389	(129,080)	6,926,710	1,978,216	
Cumulative difference between financial assets and liabilities,, generated interest income		(2,512,715)	(1,595,326)	(1,724,406)	5,202,304	7,180,520	
Cumulative difference between financial assets and liabilities, generated interest income, as a percentage of financial assets		-8.33%	-5.29%	-5.72%	17.26%	23.82%	

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

The table below shows an analysis of undiscounted financial liabilities by maturity at 31 December 2021:

31 December 2021	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
Deposits and balances from banks and other financial institutions	181,767	-	-	-	181,767	180,855
Current accounts and deposits from customers	13,049,565	526,463	4,998,089	5,435,005	24,009,122	22,861,370
Amounts due to the Ministry of Finance of the Kyrgyz Republic	965,649	4,779	183,139	2,166,358	3,319,925	3,307,399
Amounts due to the National Bank of the Kyrgyz Republic	15,369	168,729	803,730	-	987,828	965,256
Other borrowed funds	1,600,011	18,094	374,671	3,285,809	5,278,585	5,206,209
Lease liabilities	4,974	9,547	41,283	124,859	180,663	163,242
Other financial liabilities	98,446	-	-	-	98,446	98,446
Total non-derivative financial liabilities	**15,915,781**	**727,612**	**6,400,912**	**11,012,031**	**34,056,336**	**32,782,777**
Credit related commitments	323,952	-	-	-	323,952	323,952

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 than1 year	Total gross amount outflow	Carrying amount
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
Lease liabilities	1,837	178	5,697	135,486	143,198	126,801
Other financial liabilities	39,908	-	-	-	39,908	39,908
Total non-derivative financial liabilities	**13,502,978**	**935,628**	**6,642,545**	**7,835,967**	**28,917,118**	**27,314,529**
Credit related commitments	228,188	-	-	-	228,188	228,188

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 574,223 thousand (2020: 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.

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.

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

Structure of financial assets and liabilities by currency as at 31 December 2020 and 31 December 2021 can be represented as follows:

	KGS	USD	Other currencies	Total
31 December 2021				
Assets				
Cash and cash equivalents	5,763,844	2,858,387	833,104	9,455,335
Loans and advances to banks and other financial institutions	27,968	1,059,525	1,437	1,088,930
Loans to customers	20,174,081	2,250,298	397,671	22,822,050
Investment in securities at amortized cost	4,681,582	-	-	4,681,582
Other financial assets	293,571	-	-	293,571
Total Assets	**30,941,046**	**6,168,210**	**1,232,212**	**38,341,468**
Liabilities				
Deposits and balances from banks and other financial institutions	76,248	90,030	14,577	180,855
Current accounts and deposits from customers	18,357,440	4,174,194	329,736	22,861,370
Amounts due to Ministry of Finance of the Kyrgyz Republic	3,307,399	-	-	3,307,399
Amounts due to the National Bank of the Kyrgyz Republic	965,256	-	-	965,256
Other borrower funds	3,615,075	1,009,194	581,940	5,206,209
Lease liabilities	138,552	24,690	-	163,242
Other financial liabilities	59,746	35,564	3,136	98,446
Total Liabilities	**26,519,716**	**5,333,672**	**929,389**	**32,782,777**
Net position	**4,421,330**	**834,538**	**302,823**	**5,558,691**

	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
Investments 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
Current accounts and deposits from customers	13,000,041	2,398,068	575,680	15,973,789
Amounts to the 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
Lease liabilities	97,108	29,693	-	126,801
Other financial liabilities	30,480	7,350	2,078	39,908
Total Liabilities	**20,403,682**	**5,124,774**	**1,786,073**	**27,314,529**
Net position	**2,687,873**	**524,513**	**(380,051)**	**2,832,335**

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

(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 activities.

The geographical concentration of assets and liabilities as at 31 December 2021 is set out below:

	Kyrgyz Republic	Other CIS countries	Other non-OECD countries	OECD countries	Total 31 December 2021
ASSETS					
Cash and cash equivalents	8,215,308	126,192	-	1,113,835	9,455,335
Loans and advances to banks and financial institutions	266,089	-	-	822,841	1,088,930
Loans to customers	22,822,050	-	-	-	22,822,050
Investments in securities at amortized cost	4,681,582	-	-	-	4,681,582
Other financial assets	293,571	-	-	-	293,571
Total assets	**36,278,600**	**126,192**	**-**	**1,936,676**	**38,341,468**
LIABILITIES					
Deposits and balances from banks and other financial institutions	110,719	37,978	-	32,158	180,855
Current accounts and deposits from customers	22,628,096	216,944	14,753	1,577	22,861,370
Amounts due to the Ministry of Finance of the Kyrgyz Republic	3,307,399	-	-	-	3,307,399
Amounts due to the National Bank of the Kyrgyz Republic	965,256	-	-	-	965,256
Other borrowed funds	3,258,120	-	863,822	1,084,267	5,206,209
Lease liabilities	163,242	-	-	-	163,242
Other financial liabilities	98,446	-	-	-	98,446
Total liabilities	**30,531,278**	**254,922**	**878,575**	**1,118,002**	**32,782,777**
Net position	**5,747,322**	**(128,730)**	**(878,575)**	**818,674**	**5,558,691**

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

The geographical concentration of assets and liabilities as at 31 December 2020 is set out below:

	Kyrgyz Republic	Other CIS countries	Other non-OECD countries	OECD countries	Total 31 December 2020
ASSETS					
Cash and cash equivalents	4,587,743	621,151	1,886	848,559	6,059,339
Loans and advances to banks	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	**28,675,268**	**621,151**	**1,886**	**848,559**	**30,146,864**
LIABILITIES					
Deposits and balances from banks and other financial institutions	117,968				117,968
Current accounts and deposits from customers	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
Lease liabilities	126,801	-	-	-	126,801
Other financial liabilities	39,908	-	-	-	39,908
Total liabilities	**23,575,098**	**332,719**	**3,332**	**3,403,380**	**27,314,529**
Net position	**5,100,170**	**288,432**	**(1,446)**	**(2,554,821)**	**2,832,335**

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

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 2021 and 31 December 2020 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.

	2021	2020
30% appreciation of the US dollar against the KGS	250,361	151,505
30% appreciation in the exchange rate of other currencies against the KGS	90,847	(102,053)
30% depreciation of the US dollar against the KGS	(250,361)	(151,505)
30% depreciation in the exchange rate of other currencies against the KGS	(90,847)	102,053

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 2021 and 2020 can be presented as follows:

	2021	2020
Members of the board of directors	3,451	3,855
Management Board members	21,187	18,959
	24,638	**22,814**

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

As at 31 December 2021 and 2020, account balances and average effective interest rates on transactions with members of the Board of Directors and the Management Board were:

	31 December 2021			31 December 2020		
	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
Current accounts and deposits from customers	7,824	4.77%	22,861,370	10,708	8.11	15,973,789

Other related parties include companies and government agencies where the Government of the Kyrgyz Republic has the control, joint control or significant influence. Information about the Bank's transactions with other related parties is presented below.

	31 December, 2021	Average Interest rate, %	Total category as per the financial statements caption	31 December 2020	Average Interest rate, %	Total category as per the financial statements caption
Statement of financial position						
Assets						
Cash and cash equivalents						
- in KGS	4,828,015	6.04	9,455,335	2,560,570	2.75	6,059,339
Loans to customers						
-in KGS	223,916	13.05	22,820,050	91,698	13.46	21,744,945
Investment in securities at amortized cost						
- in KGS	4,665,582	9.03	4,681,582	1,755,071	10.23	1,743,972
Other assets						
- in KGS	94,861	-	957,904	179,804	-	1,067,289

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

	31 December, 2021	Average Interest rate, %	Total category as per the financial statements caption	31 December 2020	Average Interest rate, %	Total category as per the financial statements caption
Liabilities						
Current accounts and customer deposits						
- in KGS	8,946,618	5.47	18,357,440	6,192,942	6.55	13,000,041
- in USD	1,100,399	6.60	4,174,194	706,562	2.78	2,398,068
-in other currency	11,689		329,736	7,437	1.00	575,680
Amounts due to the Ministry of Finance of the Kyrgyz Republic						
- in KGS	3,307,399	3.09	3,307,399	2,513,165	3.28	3,228,414
- in USD	-	-	-	16,157	1.08	20,084
Amounts due to the National Bank of the Kyrgyz Republic						
- in KGS	965,256	5.29	965,256	1,345,913	5.09	1,345,913
Government grant						
- in KGS	279,659	-	279,659	286,242	-	286,242
Other borrowed funds						
Funds raised from the Russian-Kyrgyz Development Fund						
- in KGS	354,120	5.90	5,206,209	479,337	6.26	6,461,652
- in USD	506,868	1.07	5,206,209	747,161	1.07	6,461,652
State mortgage company						
- in KGS	2,172,763	5.40	5,206,209	1,658,806	8.18	6,461,652

Amounts included in profit or loss for 2021 and 2020 in respect of transactions with other related parties amounted to:

	2021	Total category as per the financial statements caption	2020	Total category as per the financial statements caption
Profit/ (Loss)				
Interest income	538,270	3,075,443	554,597	2,834,900
Amortisation of government grant	240,230	240,230	228,233	228,233
Interest expenses	(477,651)	(1,375,667)	(570,654)	(1,287,828)
Fee and commission income	15,279	365,740	30,848	303,864
Commission expenses	(4,429)	(142,103)	(39,573)	(100,077)
Operating expenses	(153,513)	(1,384,340)	(142,212)	(1,270,810)

32. Events after reporting period

On 3 March 2022, an increase of share capital by KGS 2,400,000 thousand was registered within the Unified State Register of Securities in the Kyrgyz Republic based on the results of the issue and placement of ordinary registered shares of the Bank.

In February 2022, Kyrgyz som depreciated significantly against major foreign currencies amid the external geopolitical situation. In order to reduce the negative impact of external factors on the Kyrgyz Republic economy, the NBKR raised the policy rate from 8.25% to 14.0% per annum, and interventions on the currency market were performed to support Kyrgyz som exchange rate against foreign currencies. However, there is uncertainty exists related to the future development of the geopolitical risks and their impact on the economy of the Kyrgyz Republic.

Since 24 February 2022, in order to reduce possible future risks, the Bank, transferred amounts from correspondent accounts at sanctioned Russian banks to other correspondent accounts in commercial banks in South Korea and Germany, leaving only the amounts for the Bank's liabilities for money transfer systems and service client balances in Russian Rubles.

Management of the Bank is monitoring developments in the economic and political situation and taking measures it considers necessary in order to support the sustainability and development of the Bank's business for the foreseeable future.

33. Approval for issuance

These financial statements were approved by the Management of the Bank and authorised for issue on 28 March 2022.