Financial Statements and Independent Auditor's Report

Ayil Bank Open Joint Stock Company

December 31, 2022

Contents

Grant Thornton

Independent auditor's report

ОсОО Грант Торнтон

КР, 720001 Бишкек,
ул. Токтогула 125/1

Т. +996 312 97 94 90,
Ф. +996 312 97 94 91

Grant Thornton LLC
125/1 Toktogul Str.
720010 Bishkek, KR

T + 996 312 97 94 90
F + 996 312 97 94 91
www.grantthornton.kg

To the Shareholders and the Board of Directors of Ayil Bank Open Joint Stock Company

Opinion

We have audited the financial statements of Ayil Bank Open Joint Stock Company (hereinafter –Bank), which comprise the statement of financial position as of December 31, 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as of December 31, 2022 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Kyrgyz Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Important Circumstances

We draw attention to Notes 14, 17 and Note 31 "*Liquidity risk*" to the financial statements, which disclose the Bank's breaches of certain financial ratios by its lenders and the possible impact of these breaches on the Bank's liquidity risk. As a result of violations of these financial ratios, the lenders have the right to demand early repayment of loans, which may lead to a gap in the Bank's liquidity and as a consequence cast doubt on the continuity of the Bank's operations. Circumstances or conditions referred to in Notes 14, 17, 31, along with other matters, indicate the existence of uncertainties that could cause difficulties of a financial nature for the Bank. We do not express a modified opinion on this matter.

Other information

The financial statements of Ayil Bank Open Joint Stock Company for the year ended December 31, 2021 were audited by another auditor, who expressed a modified opinion on those statements on March 28, 2022. As of the date of audit work in the past period, due to the inspection of law enforcement agencies of the Kyrgyz Republic, some documents relating to loans were partially seized, which prevented the auditors from obtaining appropriate and sufficient audit evidence regarding the evaluation and expected period of realization of collateral assets on these loans. In the current period, this documentation was returned to the Bank, and therefore the issue has been resolved.

Key audit issues

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 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, we do not express a separate opinion on these matters.

• Allowance for expected credit losses

Note 4.2 of the financial statements discloses accounting policies and Note 31 discloses credit risk analysis.

The allowance for expected credit losses was considered a key audit matter due to the significance of the loans as well as the subjectivity of the assumptions underlying the impairment assessment. The application of different judgments and assumptions could result in significant differences in the results of the allowance for expected credit losses, which could have a material impact on the Bank's financial results.

Key areas of judgment included: assessment of the business model in which assets are held, assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the outstanding principal amount, interpretation of requirements for determining impairment under the application of IFRS 9 that are reflected in the Bank's expected credit loss model, identification of risks with significant credit quality deterioration, assumptions used in the expected credit loss model such as financial condition of counter

With regard to the classification and measurement of financial assets and financial liabilities, our audit procedures included the following:

- We reviewed the classification and measurement of the Bank's financial assets and financial liabilities policies based on IFRS 9 and compared them to the requirements of IFRS 9;

- We assessed the design and tested the operational effectiveness of appropriate controls over the data used to determine the allowance for impairment, including transactional data obtained at loan origination, current internal credit quality scores, and other data related to the expected credit loss model;

- We evaluated the design and operational effectiveness of appropriate controls over the expected credit loss model, including model construction and validation, ongoing monitoring/validation of model management, and mathematical accuracy;

- We tested the appropriateness of the Bank's definition of a significant increase in credit risk and the basis for classifying risks by various stages;

- For the forward-looking assumptions used by Bank management in its ECL calculations, we held discussions with management and validated the assumptions using publicly available information;

- We verified the completeness of loans and advances, off-balance sheet items, investment securities, and due from other financial institutions included in the ECL calculations as of December 31, 2022;

- We understood the theoretical validity and tested the mathematical integrity of the models;

- We engaged our IT specialists in areas that required expertise (e.g., data reliability and the expected credit loss model);

- We verified the correctness of the opening balance sheet adjustments.

- We evaluated the reliability of financial statement disclosures.

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.

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

Armen Vanyan
Director/Partner
Qualification certificate of the auditor
Series A No. 0264 dated July 11, 2016

March 7, 2023
Bishkek

Grant Thornton LLC
License for auditing
State Service for Regulation and Supervision of the Financial Market
under the Government of the Kyrgyz Republic, on May 3, 2013

Statement of profit or loss and other comprehensive income

In thousands of Kyrgyz soms	Notes	Year ended December 31, 2022	Year ended December 31, 2022
Interest income	22	5,322,897	3,075,443
Amortisation of government grant	22	330,183	240,230
Interest expense	22	(2,028,888)	(1,375,667)
Net interest income before allowance for expected credit losses on interest bearing assets		3,624,192	1,940,006
Allowance for expected credit losses on interest bearing assets	25	(438,932)	(617,929)
Net interest income		3,185,260	1,322,077
Fee and commission income	24	764,351	365,740
Fee and commission expense	24	(409,368)	(142,103)
Net foreign exchange gain	23	4,614,701	192,328
Impairment losses and reserves on other assets	25	(109,650)	(126,642)
Impairment losses on credit- related commitments	25	(138,577)	(5,924)
Other income, net		33,783	29,168
Operating income		7,940,500	1,634,644
Operating expenses	26	(2,135,251)	(1,384,340)
Profit before income tax		5,805,249	250,304
Income tax expense	27	(586,722)	(27,197)
Net profit for the year		5,218,527	223,107
Total comprehensive income		5,218,527	223,107

The statement of profit or loss and other comprehensive is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 93.

Statement of financial position

In thousands of Kyrgyz soms	Notes	December 31, 2022	December 31, 2021
Assets			
Cash and cash equivalents	6	37,708,049	9,455,335
Loans and advances to banks and other financial institutions	7	847,102	1,088,930
Loans to customers	8	30,944,499	22,822,050
Loans to corporate customers		*1,935,126*	*2,813,957*
Loans to retail customers		*29,009,373*	*20,008,093*
Investments in securities at amortised cost	9	10,005,289	4,681,582
Property and equipment, Intangible assets and Right of Use asset	10	1,006,543	900,789
Other assets	11	1,311,869	957,904
Total assets		81,823,351	39,906,590
Liabilities and equity			
Liabilities			
Deposits and balances from banks and other financial institutions	12	195,023	180,855
Current accounts and deposits from corporate customers	13	45,402,159	14,589,368
Current accounts and deposits from retail customers	13	11,846,345	8,272,002
Amounts due to the Ministry of Finance of the Kyrgyz Republic	14	3,843,645	3,307,399
Amounts due to the National Bank of the Kyrgyz Republic	15	-	965,256
Government grant	16	322,829	279,659
Other borrowed funds	17	5,819,475	5,206,209
Funds received from a shareholder	18	1,100,000	2,400,000
Lease Liabilities	19	156,145	163,242
Other liabilities	20	790,469	313,584
Total		69,476,090	35,677,574
Equity	21		
Share capital	21	6,624,620	3,524,620
Additional paid-in capital	21	88,036	87,225
General reserves	21	189,696	189,696
Retained earnings		5,444,909	427,475
Total equity		12,347,261	4,229,016
Total liabilities and equity		81,823,351	39,906,590

The financial statements were approved on March 7, 2023 by:

Mr. Alimdzhanov T.B.
Chairman of the Management Board

Ms. Kazakova A.Zh.
Chief Accountant

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 93.

Statement of changes in equity

In thousands of Kyrgyz soms	Share capital	Additional paid –in capital	General Reserves	Retained earnings	Total equity
As at January 1, 2021	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	-	1,669	-	-	1,669
Transfer of retained earnings to share capital	48,360	-	-	(48,360)	-
Dividends declared	-	-	-	(48,358)	(48,358)
As at December 31, 2021	3,524,620	87,225	189,696	427,475	4,229,016
Profit and total comprehensive income for the period	-	-	-	5,218,527	5,218,527
Other movement	-	811	-	-	811
Issuance of share capital	3,100,000	-		-	3,100,000
Dividends declared	-	-	-	(201,093)	(201,093)
As at December 31, 2022	6,624,620	88,036	189,696	5,444,909	12,347,261

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 93.

Statement of cash flows

In thousands of Kyrgyz soms	December 31, 2022	December 31, 2021
Cash flows from operating activities		
Interest receipts	6,496,453	3,870,011
Interest payments	(1,576,488)	(1,111,441)
Fee and commission receipts	764,351	365,740
Fee and commission payments	(409,368)	(142,103)
Net receipts from foreign exchange	4,576,394	200,977
Other income receipts	30,502	25,287
Operating expenses payments	(1,893,448)	(1,177,056)
Cash flows from operating activities before changes in operating assets and liabilities	7,988,396	2,031,415
(Increase)/decrease in operating assets		
Loans and advances to banks and other financial institutions	273,423	(740,324)
Loans to customers	(8,494,422)	(1,595,847)
Other assets	48,993	18,428
(Increase)/decrease in operating lianilities		
Deposits and balances from banks and other financial institutions	14,936	62,887
Current accounts and deposits from customers	33,459,000	6,789,544
Other liabilities	339,801	81,033
Net cash from/(used in) operating activities before income tax paid	33,630,127	6,647,136
Income tax paid	(721,837)	(25,402)
Net cash from/(used in) operating activities	**32,908,290**	**6,621,734**
Cash flows from investing activities		
Purchases of investments in securities	(6,458,198)	(20,854,802)
Redemption of investments in securities	-	17,073,560
Proceeds from sale of property and equipment and intangible assets	3,369	4,988
Purchases of property and equipment and intangible assets	(223,152)	(170,585)
Net cash from investing activities	**(6,677,981)**	**(3,946,839)**
Cash flows from financing activities		
Receipts of amounts due to the Ministry of Finance of the Kyrgyz Republic	1,211,206	766,504

In thousands of Kyrgyz soms	December 31, 2022	December 31, 2021
Repayment of amounts due to the Ministry of Finance of the Kyrgyz Republic	(720,644)	(735,555)
Receipts of amounts due to the NBKR	-	-
Repayments of amounts due to the NBKR	(961,081)	(379,220)
Receipts of other borrowed funds	3,207,672	1,753,168
Repayments of other borrowed funds	(2,570,830)	(3,001,395)
Contribution from shareholder	1,800,000	2,400,000
Dividends paid	(201,093)	(48,358)
Payment of lease liabilities	(69,035)	(62,816)
Net cash from/(used in) financing activities	**1,696,195**	**692,328**
Effect of changes in exchange rates on cash and cash equivalents	349,047	34,782
Net increase/(decrease) in cash and cash equivalents	**28,275,551**	**3,402,005**
Cash and cash equivalents, beginning of the year	9,455,335	6,059,339
Effect of change in ECL on cash and cash equivalents	(22,837)	(6,009)
Cash and cash equivalents, end of the year	**37,708,049**	**9,455,335**

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 93.

Notes to the financial statements

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 was additionally licensed to open customer accounts and provide banking services to corporate customers and individuals, money transfers and payment card services, agency services, and non-cash foreign currency exchange services. In addition, in December 2009, the Bank was additionally licensed to open deposit accounts for customers and to conduct leasing operations, issue guarantees and letters of credit. In 2016, the Bank additionally obtained a license for operations with precious metals and maintenance of metal accounts. On October 26, 2022, the Bank received license N 048/1 for the right to conduct banking operations in accordance with Islamic principles of banking and financing through the Islamic window in national and/or foreign currency for mudaraba transaction, murabaha transaction, card hasan transaction, but Islamic window activities were not launched during 2022. The activities of the Bank are regulated by the National Bank of the Kyrgyz Republic ("the NBKR"). The Bank is a member of the obligatory deposit insurance system in the Kyrgyz Republic.

As at December 31, 2021, the Bank has 38 branches, 27 regional subdivisions and 10 village subdivisions, 63 regional savings offices and 34 mobile cash desks from which it conducts business throughout the Kyrgyz Republic (December 31, 2021: 37 branches, 25 regional subdivisions and 29 village subdivisions, 60 regional savings offices and 21 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 Cabinet of Ministers of the Kyrgyz Republic (the "Cabinet of Ministers") represented by the State Property Management Fund under the Ministry of Economy and Commerce of the Kyrgyz Republic and the Ministry of Finance of the Kyrgyz Republic.

2 Adoption of new and revised Standards

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

The Bank applied for the first time certain standards and amendments that are effective for annual periods beginning on or after January 1, 2022. The Bank has not applied any other standards, interpretations or amendments that have been issued but are not yet effective.

The new standards and amendments described below and first applied in 2022 did not have any material impact on the Bank's annual financial statements.

- Conceptual Framework References (Amendments to IFRS 3);
- Proceeds from the sale of products produced before the use of property, plant and equipment in accordance with management's intent (amendments to IAS 16);
- Onerous contracts - costs of fulfilling a contract. Amendments to IAS 37;
- IFRS 1, IFRS 9, IAS 41, IFRS 16 Annual Improvements to IFRS, 2018-2021 cycle (Amendments to IFRS 1, IFRS 9, IAS 41, IFRS 16).

New and revised IFRS Standards in issue but not yet effective

At the date of authorization of these financial statements, a number of new standards, amendments to standards and interpretations were published but were not yet effective. The Bank has not yet adopted any of the amendments, interpretations or interpretations.

Management does not expect the amended standards and interpretations to have a material impact on the Bank's financial statements. These standards and amendments are presented below:

- Amendments to IFRS 17 Insurance Contracts, including the extension of the temporary exemption from IFRS 9 (Amendments to IFRS 4);
- Amendments to IAS 12 - Deferred tax relating to assets and liabilities arising from a single transaction;
- Initial Application of IFRS 17 and IFRS 9 - Comparative Information (Amendment to IFRS 17);
- Defining Accounting Estimates (Amendments to IAS 8);
- Accounting Policy Disclosures (Amendments to IAS 1 and Practice Statement 2);
- Classifying Liabilities as Current or Non-Current (Amendments to IAS 1);
- Lease liability on sale and leaseback sale (Amendments to IFRS 16);
- Non-current liabilities with covenants (Amendments to IAS 1).

3 Basis of preparation

3.1 Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") as developed and published by the International Accounting Standards Board (IASB), and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The Bank prepares statements for regulatory purposes in accordance with legislative requirements of the Kyrgyz Republic. These financial statements are based on the Bank's books and records as adjusted and reclassified in order to comply with IFRS.

3.2 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 December 31, 2022 and 2021 current liabilities of the Bank exceeded current assets by KGS 16,950,687 thousand and by KGS 11,101,352 thousand, respectively. Negative liquidity gap of KGS 16,950,687 thousand is caused by the fact, that during 2022 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 31). 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 December 31, 2022, the Bank was in breach of certain financial covenants stipulated by the loan agreements with the Russian-Kyrgyz Development Fund and the Ministry of Finance of the Kyrgyz Republic in relation to the funds received from KfW (Notes 14 and 17). The Bank's management requested the lenders to obtain a waiver letter on compliance with the financial covenants. As at December 31, 2022, the Bank had not received waiver letters from lenders due to the process of reviewing additional future funding and changes in financial terms. As a result, the total amount outstanding from these creditors of KGS 505,024 thousand (KGS 23,805 thousand in Note 14 and KGS 481,219 thousand in Note 17) as of December 31, 2022 was due on demand and therefore presented in the "on demand and less than one month" category in the liquidity risk disclosure (Note 31).

In December 2022, the Bank received KGS 1,100,000 thousand from the state budget as a contribution to increase the share capital of the Bank in accordance with the Decree of the Cabinet of Ministers of the Kyrgyz

Republic No 20-p to the Ministry of Finance of the Kyrgyz Republic within the project "Crediting of agricultural sector". As at December 31, 2022, the process of registration of the share issue has not been completed yet, therefore, the funds received under this transaction are included in 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.

3.3 Basis of measurement

The financial statements have been prepared on a fair value basis for financial instruments at fair value through profit or loss and at fair value through other comprehensive income. Other financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost.

3.4 Functional and presentation currency

The functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The functional and presentation currency of the Bank is the Kyrgyz Som ("KGS") as, being the currency that reflects the economic substance of the underlying events and circumstances relevant to the Bank. The financial statements are presented in thousands of KGS, the national currency of the Kyrgyz Republic, which is not convertible outside of it.

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 translated to the functional currency at the foreign exchange rate ruling at that date.

The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized 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 translated to the functional currency at the exchange rate at the date the fair value was 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.

The exchange rates of foreign currencies in which the Bank transacts are presented as follows:

	December 31, 2022	December 31, 2021
1 US Dollar/KGS	85.6800	84.7586
1 EUR/KGS	91.4377	95.7857

4 Summary of significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied.

4.1 Recognition of income and expenses

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 method

The effective interest rate is the rate that discounts estimated future cash flows of a financial instrument to the net carrying amount over the expected life of the financial asset or liability, or (where appropriate) a shorter period. Future cash flows are estimated by reference to all contractual terms of the instrument.

All fees and other amounts paid or received between the parties that are an integral part of the effective interest rate and that are directly attributable to a given lending arrangement are included, together with transaction costs and all other premiums or discounts. For financial assets at FVTPL, transaction costs are recognized in profit or loss at initial recognition.

Interest income/interest expense is computed by applying the effective interest rate to the gross carrying amount of non-credit-impaired financial assets (i.e., at the amortized cost of the financial asset before adjustment for any expected credit loss rate) or to the amortized cost of financial liabilities. For credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the amortized cost of credit-impaired financial assets (i.e., gross carrying amount less allowance for expected credit losses (ECL)). For financial assets acquired or originated as a result of loan impairment, the effective interest rate reflects the EIR in determining future cash flows expected to be derived 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 24).

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.

4.2 Financial assets

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.

Debt instruments at amortised cost or at FVTOCI

The Bank assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Bank's business model for managing the asset.

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

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

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

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

The Bank has more than one business model for managing its financial instruments that reflect how the Bank manages its financial assets in order to generate cash flows. The Bank's business models 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 31.

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 estimate of expected credit losses is made for individual loans or portfolios of loans with similar risk characteristics. Calculation of the estimated allowance for expected credit losses (whether on an individual or a group basis) is based on the present value of cash flows expected for the asset using the original effective interest rate.

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 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.

Modification and derecognition of financial assets

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

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

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

- Qualitative factors. For example, after a change of conditions, the cash flows stipulated by the contract include not only payments of principal and interest; the currency of the contract or the counterparty has changed. The extent to which interest rates, maturities, and terms have changed is also analyzed.

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

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 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) designated as at FVTPL at initial recognition.

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, 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.

An exchange between the Bank and a creditor of debt instruments with materially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The Bank accounts for a material change in the terms of an existing financial liability or a part thereof as an extinguishment of the original financial liability and recognition of a new financial liability. Similarly, a significant change in the conditions of an existing financial liability or a part thereof (whether this change is attributable to the financial difficulties of the debtor or not) shall be accounted for as extinguishment of the initial financial liability and recognition of a new financial liability. The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished or transferred to another party and the consideration paid, including any non-monetary assets transferred or liabilities assumed, shall be recognized in profit or loss.

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.

4.3 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.

4.4 Amounts due from financial institutions

In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on maturities estimated by management. Amounts due from other financial institutions are carried net of any allowance for impairment losses.

4.5 Sale (purchase) transactions of securities with the obligation of repurchase (sale)

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements and faced as the separate balance sheet item. The corresponding liability is presented within amounts due to financial institutions or customers.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from other financial institutions or loans and advances to customers as appropriate and are not recognized in the statement of financial position. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return the securities is recorded as a trading liability and measured at fair value.

4.6 Leases

For any new contracts the Bank considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Bank assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank,
- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defies scope of the contract,
- the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Bank recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Bank depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist.

At commencement, the Bank measures the lease liability at the present value of the lease payments outstanding at that date, discounted using the interest rate implicit in the lease, if that rate is readily available, or the Bank's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Bank has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

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

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in the other liabilities.

Bank as a lessor

As a lessor the Bank classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

4.7 Repossessed assets

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

4.8 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:

	Useful life (years)	Rate (%)
Buildings	50	2%
Other constructions	10-25	4-10%
Leasehold improvements	3	33%
Computer equipment	3-10	20%-33%
Furniture and equipment	3-15	6,7%-33%
Vehicles	5-10	10-20%

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.

4.9 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 life averages from 5 to 10 years, however, in accordance with the Bank's Accounting Policy, the useful life can be established for assets on an individual basis. 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.

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 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 recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried forward to a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

4.10 Government grants

cGovernment 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.

4.11 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.

4.12 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.

4.13 Taxation

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

Current income 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.

Deffered income 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 income 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.

4.14 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.

4.15 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.

4.16 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.

4.17 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.

4.18 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.

5 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.

5.1 Critical accounting judgements

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information. The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

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

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

- quantitative test based on movement in probability of default (PD);
- qualitative indicators, such as prolongation and restructures;
- 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.

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 I2-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

A financial asset is classified by the Bank as a financial asset that is subject to an event of default in the following cases:

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

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

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

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

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Bank formulates three economic scenarios: a basic case, which is the median scenario and two less likely scenarios, one optimistic and one pessimistic.

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

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 2014-2022, has estimated relationships between macro-economic variables and credit risk and credit losses.

The basic economic scenarios used for loan portfolio as at December 31, 2022 and December 31, 2021 included the following key indicators for the Kyrgyz Republic:

	2022	2021
Macroeconomic variables		
GDP, real (percent, y/y)	6,5*	3,2
Inflation (percent y/y)	5,9*	8,9
Import (percent y/y)	5,3**	0,8
Unemployment rate (percent y/y)	5,5***	5,6
Official exchange rate (KGS per US dollar, average (percent, y/y)	5*	*N/A*
Foreign trade turnover (percent, YoY)	8,4*	*N/A*

Data sources:

* Main Macroeconomic Indicators of the Kyrgyz Republic, NBKR Bulletin. Medium-term forecast of socio-economic development of the Kyrgyz Republic for 2022-2024

** Structure of imports (by HS sections), NBKR Bulletin

*** Data from the National Statistical Committee.

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 9 years. The annual interval is chosen due to the fact that the average loan term is 9 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.

Calculation of 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

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.

Determining the number and relative weights of forward-looking scenarios for each product/market type and identifying forward-looking information related to each scenario. In assessing the ECL, the Bank uses reasonable and supportable forward-looking information that is based on assumptions about the future movement of various economic factors and how these factors will affect each other. (refer to Note 31 for more details), including a sensitivity analysis of the reported ECL to changes in estimated future information.

Fair value measurement and valuation process

In estimating the fair value of a financial asset or a liability, the Bank uses market-observable data to the extent it is available. Where such Level 1 inputs are not available, the Bank uses valuation models to determine the fair value of its financial instruments. Refer to Note 29 for more details on fair value measurement.

Useful life of property, plant and equipment

The useful lives of property, plant and equipment are determined using judgment based on the organization's experience with similar assets. Future economic benefits are embodied in the assets and are consumed principally through use.

However, factors such as operational, technical or commercial depreciation often result in a reduced economic benefit of the asset. Management assesses the remaining useful life in accordance with the current technical condition of the asset and the expected period during which the Bank expects to obtain benefits. The following primary factors are considered in estimating the remaining useful life: expected usage of the asset, depending on operational factors and maintenance program, that is, depreciation and technical and commercial depreciation resulting from changes in market conditions.

Continuation of lease agreement

When the Bank has an option to renew a lease, management uses its judgment to determine whether it is reasonably certain that the option will be exercised. Management considers all facts and circumstances, including its past practices and any costs that would be incurred to replace the asset if the renewal option were not exercised, to determine the lease term.

6 Cash and cash equivalents

In thousand Kyrgyz soms	2022	2021
Cash on hand	2,655,256	3,422,536
Nostro accounts with the NBKR	4,269,087	2,092,600
Nostro accounts with other banks		
– rated from A- to AA+	8,671,273	1,113,871
– rated BBB- to BBB+	312,617	70,490
– rated BB- to BB+	15,019	29,271
– rated below B+	5,564	25,299
– not rated	1,761,045	52,407
	10,765,518	1,291,338
Cash equivalents		
– Term deposit with the NBKR with original maturity less than three months, rated B	9,200,000	1,600,000
– Securities with maturity of up to 30 days	10,831,356	929,840
– Securities purchased REPO	-	125,431
Total cash equvalents	20,031,356	2,655,271
Total cash and cash equivalents	37,721,217	9,461,745
Less: allowance for expected credit losses	(13,168)	(6,410)
Total cash and cash equivalents	37,708,049	9,455,335

As at December 31, 2022 and 2021, balances with the NBKR include KGS 3,932,093 thousand and KGS 1,537,794 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 December 31, 2022, the Bank has balances with 1 banks, whose balances exceed 10% of equity (December 31, 2021: 2 banks). The gross value of these balances as at December 31, 2022 is KGS 8,258,290 thousand (December 31, 2021: KGS 5,351,013 thousand).

7 Loans and advances to banks and other financial institutuions

In thousand Kyrgyz soms	2022	2021
Deposits in other financial institutions	871,595	849,995
Deposit in NBKR	-	236,290
Loans to financial institutions	-	27,399
Accrued interest	-	106
Total loans and advances to banks and other financial institutions	871,595	1,113,790
Less: allowance for expected credit losses	(24,493)	(24,860)
Total loans and advances to banks and other financial institutions	847,102	1,088,930

As at December 31, 2022, deposits in other financial institutions mainly include insurance deposit in Frontera Capital Frontier for amount of KGS 56,800 thousand with maturity date of October 27, 2024, which served as collateral for the loan provided by Frontera Capital Frontier (Note 16) (December 31, 2021: KGS 847,586 thousand).

8 Loans to customers

In thousand Kyrgyz soms	2022	2021
Loans to customers at amortised cost	33,976,474	25,455,071
Less: allowance for expected credit losses	(3,031,975)	(2,633,021)
Total loans to customers net of allowance for impairment losses	30,944,499	22,822,050

Loans to customers comprise:

In thousand Kyrgyz soms	2022	2021
Loans to corporate clients	2,817,233	4,721,044
Loans to retail clients		
Loans to small businesses	21,239,192	15,028,920
Mortgage loans	5,001,784	2,484,306
Finance lease	2,901,819	2,023,084
Consumer loans	2,016,446	1,197,717
Total loans to retail customers	31,159,241	20,734,027
Loans to customers before deducting allowance for expected credit losses	33,976,474	25,455,071
Less: allowance for expected credit losses	(3,031,975)	(2,633,021)
Total loans to customers net of allowance for impairment losses	30,944,499	22,822,050

As at December 31, 2022 and 2021, a significant amount of loans is granted to companies operating in the Kyrgyz Republic, which represents a significant geographical concentration in one region.

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:

In thousand Kyrgyz soms	2022	2021
For up to 1 year	239,699	624,419
For more than one year, but less than five years	2,352,180	1,774,443
For more than 5 years	1,054,948	299,030
Minimum rent payments	3,646,827	2,697,892
Less: unearned financial income	(745,008)	(674,808)
	2,901,819	2,023,084
Less: allowance for expected credit losses	(184,601)	(129,157)
Net investment in the finance lease	2,717,218	1,893,927

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 5 years with subsequent purchase upon full repayment by the borrowers.

The Bank is not significantly exposed to currency risk on leases because at December 31, 2022 5.2% of finance leases are denominated in foreign currencies (2021 - 7.3%). The risk of residual value of leased equipment is not significant due to the existence of a secondary market for the equipment.

Credit quality analysis

The following table provides information on the credit quality of financial assets measured at amortised cost as at December 31, 2022. 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 4 above.

				2022
In thousand Kyrgyz soms	Stage 1	Stage 2	Stage 3	Total
Loans to corporate clients				
No overdue	1,277,544	154,370	216,606	1,648,520
Overdue for less than 30 days	7	30,370	15,535	45,912
Overdue 30- 59 days	-	-	-	-
Overdue 60- 89 days	-	-	-	-
Overdue 90-179 days	-	-	155,005	155,005
Overdue for more than 180 days	-	-	967,796	967,796
	1,277,551	184,740	1,354,942	2,817,233
Less: allowance for expected credit losses	(30,742)	(19,349)	(832,017)	(882,108)
Book value	1,246,809	165,391	522,925	1,935,125

In thousand Kyrgyz soms	Stage 1	Stage 2	Stage 3	2022 Total
Loans to small businesses				
No overdue	17,381,487	1,353,361	274,800	19,009,648
Overdue for less than 30 days	67,664	110,213	172,389	350,266
Overdue 30- 59 days	81	85,046	90,043	175,170
Overdue 60- 89 days	-	35,468	195,805	231,273
Overdue 90-179 days	-	58	184,149	184,207
Overdue for more than 180 days	-	-	1,288,629	1,288,629
	17,449,232	1,584,146	2,205,815	21,239,193
Less: allowance for expected credit losses	(212,762)	(286,620)	(1,362,031)	(1,861,413)
Book value	17,236,470	1,297,526	843,784	19,377,780
Mortgage loans				
No overdue	4,698,944	223,706	36,045	4,958,695
Overdue for less than 30 days	6,796	15,167	-	21,963
Overdue 30- 59 days	23	7,240	-	7,263
Overdue 60- 89 days	-	5,270	-	5,270
Overdue 90-179 days	-	-	4,757	4,757
Overdue for more than 180 days	-	-	3,836	3,836
	4,705,763	251,383	44,638	5,001,784
Less: allowance for expected credit losses	(23,671)	(20,623)	(12,089)	(56,383)
Book value	4,682,092	230,760	32,549	4,945,401
Finance lease				
No overdue	2,571,547	220,960	33,435	2,825,942
Overdue for less than 30 days	13,222	26,676	311	40,209
Overdue 30- 59 days	1,612	8,211	11,518	21,341
Overdue 60- 89 days	-	6,895	-	6,895
Overdue 90-179 days	-	-	6,093	6,093
Overdue for more than 180 days	-	-	1,339	1,339
	2,586,381	262,742	52,696	2,901,819
Less: allowance for expected credit losses	(66,265)	(80,252)	(38,084)	(184,601)
Book value	2,520,116	182,490	14,612	2,717,218
Consumer loans				
No overdue	1,868,464	74,394	3,836	1,946,694
Overdue for less than 30 days	11,332	6,314	1,465	19,111
Overdue 30- 59 days	104	3,517	2,273	5,894
Overdue 60- 89 days	-	8,601	3,287	11,888
Overdue 90-179 days	-	-	9,185	9,185
Overdue for more than 180 days	-	-	23,673	23,673
	1,879,900	92,826	43,719	2,016,445
Less: allowance for expected credit losses	(13,102)	(11,221)	(23,147)	(47,470)
Book value	1,866,798	81,605	20,572	1,968,975
Total loans to retail customers	26,621,276	2,191,097	2,346,868	31,159,241
Less: allowance for expected credit losses	(315,800)	(398,716)	(1,435,351)	(2,149,867)
Loans to retail customers net of allowance for expected credit losses	26,305,476	1,792,381	911,517	29,009,374

In thousand Kyrgyz soms	Stage 1	Stage 2	Stage 3	2022 Total
Total loan to customers	27,898,827	2,375,837	3,701,810	33,976,474
Total allowance for expected credit losses	(346,542)	(418,065)	(2,267,368)	(3,031,975)
Total loan to customers less allowance for expected credit losses	27,552,285	1,957,772	1,434,442	30,944,499

The table below provides information on the quality of loans to customers as at December 31, 2021

In thousand Kyrgyz soms	Stage 1	Stage 2	Stage 3	2021 Total
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

In thousand Kyrgyz soms	Stage 1	Stage 2	Stage 3	2021 Total
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
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

Modified financial assets

As at December 31, 2022 and December 31, 2021, 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.

Available collateral and other means of improving loan quality

The tables below provide information on collateral and other credit enhancements for loans to customers by type of collateral as at December 31, 2022 and 2021.

2022

In thousand Kyrgyz soms	Gross carrying value	Loss allowance provision	Carrying value	Property and other types of collateral	Cash deposits	Unsecured	Total
Loans to corporate clients	4,721,044	(1,907,087)	2,813,957	2,445,959	157,702	210,296	1,935,125
Loans to small businesses	21,239,193	(1,861,413)	19,377,780	18,277,427	3,550	1,096,803	19,377,780
Mortgage loan	5,001,784	(56,383)	4,945,401	4,945,401	-	-	4,945,401
Finance lease	2,901,819	(184,601)	2,717,218	1,274,254	-	1,442,964	2,717,218
Consumer loans	2,016,445	(47,470)	1,968,975	1,672,199	6,112	290,664	1,968,975
Total	33,976,474	(3,031,975)	30,944,499	28,002,172	14,097	2,928,230	30,944,499

2021

In thousand Kyrgyz soms	Gross carrying value	Loss allowance provision	Carrying value	Property and other types of collateral	Cash deposits	Unsecured	Total
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	25,455,071	(2,633,021)	22,822,050	20,316,178	181,519	2,324,353	22,822,050

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.

Withdraw security

During the year ended December 31, 2022, the Bank acquired a number of assets by obtaining control over collateral for loans to customers with a net carrying amount of KGS 460,482 thousand (year ended December 31, 2021: KGS 250,418 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.

Pledged assets

Also, loans with a carrying amount of KGS 926,526 thousand (December 31, 2021: KGS 1,730,560 thousand) served as collateral for loans provided to the Bank by the Russian-Kyrgyz Development Fund (Note 17).

Analysis of the loan portfolio by industry

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

In thousand Kyrgyz soms	Gross carrying value	ECL	2022 Net carrying value
Loans for agriculture			
Livestock raising, including:	10,272,641	(197,422)	10,075,219
- Increase in the number of cattle	7,623,392	(113,110)	7,510,282
- Horse breeding	1,175,181	(13,561)	1,161,620
- Sheep breeding	1,105,271	(13,556)	1,091,715
- Other	368,797	(57,195)	311,602
Crop production, including:	4,622,740	(232,329)	4,390,411
- Finance lease	3,004,667	(197,915)	2,806,752
- Cereals	695,786	(10,944)	684,842
- Vegetable growing	270,339	(4,747)	265,592
- Other	651,948	(18,723)	633,225
Poultry, beekeeping and other loans for agriculture	102,380	(5,132)	97,248
Total loans for agriculture	14,997,761	(434,883)	14,562,878
Manufacturing and processing industry	3,869,650	(732,323)	3,137,327
Trade	3,982,611	(815,699)	3,166,912
Mortgage loans	5,001,784	(56,383)	4,945,401
Services	1,564,264	(583,693)	980,571
Consumer loans	2,016,573	(47,472)	1,969,101
Construction	1,196,051	(297,236)	898,815
Transport	958,716	(34,995)	923,721
Other loans to small businesses	389,064	(29,291)	359,773
Total	33,976,474	(3,031,975)	30,944,499

The table below represents analysis of loan portfolio by industry as of December 31, 2021:

In thousand Kyrgyz soms	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	25,455,071	(2,633,021)	22,822,050

Concentration of loans to customers

As at December 31, 2022 there were no borrowers accounting for more than 10% of equity (December 31, 2021: 1 borrower).

Loan maturities

The maturities of loans constituting the Bank's loan portfolio as at the reporting date are disclosed in (Note 31) 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 2022 and 2021, 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.

				2022
Industry	Restructured loans	Prolonged loans	ECL	Total carrying value
Services	345,146	89,859	(247,058)	187,947
Construction	299,233	30,219	(211,026)	118,426
Trade	244,787	250,735	(268,799)	226,723
Manufacturing and processing industry	118,611	592,794	(441,574)	269,831
Livestock raising	74,856	98,168	(43,788)	129,236

2022

Industry	Restructured loans	Prolonged loans	ECL	Total carrying value
Mortgage	30,746	9,047	(4,083)	35,710
Crop Production	22,944	6,415	(11,574)	17,785
Finance lease	13,720	29,107	(17,111)	25,716
Other	6,905	3,777	(3,320)	7,362
Consumer loans	3,765	19,851	(7,376)	16,240
Agro-Service	1,602	232	(404)	1,430
Total	1,162,315	1,130,204	(1,256,113)	1,036,406

2021

Industry	Restructured loans	Prolonged loans	ECL	Total carrying value
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	(2,401,237)	539,735

9 Investment in securities at amortised cost

In thousand Kyrgyz soms	2022	Weighted average interest rate	2021	Weighted average interest rate
Held by the bank and measured at amortized cost				
Treasury bills of the Ministry of Finance of the Kyrgyz Republic	10,056,448	7.8	4,703,785	9,03
Less: allowance for expected credit losses for investment securities measured at amortised cost	(51,159)		(22,203)	
Total	10,005,289		4,681,582	

As of December 31, 2022 and 2021, investment securities are in Stage 1. Investment securities are not overdue.

As at December 31, 2022 investment securities totaling KGS 641,729 thousand were pledged as collateral for loans received by the Bank (NBKR - KGS 35,000 thousand and RKDF - KGS 606,729 thousand) (as at December 31, 2021 KGS 135,000 thousand and KGS 660,618 thousand, respectively).

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

In thousand Kyrgyz soms	Land, buildings, construction	Office equipment	Computers	Motor vehicles	Computer software	Right of Use Asset	Total
Initial cost							
At December 31, 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)
Transfers	-	-	-	-	-	63,505	63,505
At December 31, 2021	247,495	518,746	217,984	91,748	279,073	241,491	1,596,537
Additions	7,053	158,382	39,528	20,419	18,438	21,094	264,914
Disposals	(2,121)	(17,725)	(8,934)	(529)	-	(3,796)	(33,105)
Transfers	-	-	-	-	-	11,888	11,888
At December 31, 2022	252,427	659,403	248,578	111,638	297,511	270,677	1,840,234
Accumulated depreciation							
At December 31, 2020	(52,268)	(247,045)	(118,698)	(43,308)	(61,538)	(26,589)	(549,446)
Depreciation	(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
Transfers	-	-	-	-	-	-	-
At December 31, 2021	(59,069)	(285,862)	(140,056)	(51,086)	(76,934)	(82,741)	(695,748)
Depreciation	(9,101)	(55,586)	(26,711)	(10,334)	(29,300)	(60,653)	(191,685)
Disposals	2,121	17,725	8,934	529	-	2,892	32,201
Transfers	-	-	-	-	-	21,541	21,541
At December 31, 2022	(66,049)	(323,723)	(157,833)	(60,891)	(106,234)	(118,961)	(833,691)
At December 31, 2021	188,426	232,884	77,928	40,662	202,139	158,750	900,789
At December 31, 2022	186,378	335,680	90,745	50,747	191,277	151,716	1,006,543

As at December 31, 2022 and 2021 fully depreciated fixed assets amounted to KGS 279,035 thousand and KGS 198,401 thousand, respectively.

Assets in the form of the Bank's right to use include the lease of buildings for branches and savings banks. The leases do not have an automatic renewal option. The average lease term is 3 years (2021: 4 years).

In thousand Kyrgyz soms	2022	2021
Amounts recognized in the statement of profit and loss		
Depreciation expense	60,653	56,362
Interest expense	8,908	7,280
Rent expense	10,399	4,817

11 Other assets

In thousand Kyrgyz soms	2022	2021
Other financial assets		
Receivables from MFKR related to interest subsidies	6,539	112,698
Money transfer receivables	302,956	181,456
Other accounts receivables	41,272	26,365
Less: impairment allowance for expected credit losses	(17,722)	(26,948)
Total other financial assets	333,045	293,571
Other non-financial assets		
Foreclosed property	416,878	593,138
Prepayment for equipment which will be given for finance lease	195,530	25,258
Other prepayments	93,629	21,676
Materials and supplies	28,750	19,092
Tax settlements other than income tax	7,417	1,662
Investment property	404	3,507
Prepayment of income tax	236,216	-
Total other non-financial assets	978,824	664,333
Total other assets	1,311,869	957,904

During the year ended December 31, 2022 the Bank acquired a number of assets by taking control of collateral securing loans to customers with a net carrying amount of KGS 460,482 thousand (2021: KGS 250,418 thousand). These assets are presented within other assets as repossessed assets. The Bank's practice is to sell these assets or finance lease them.

12 Deposits and balances from banks and other financial institutions

In thousand Kyrgyz soms	2022	2021
Due to banks and other financial institutions (residents)	104,239	110,719
Time deposits of banks and other financial institutions (non-residents)	87,511	66,626
Correspondent accounts of other banks	3,273	3,510
Total	195,023	180,855

As at December 31, 2022 and 2021, the Bank did not have banks or financial institutions, whose loan balances exceeded 10% of equity.

13 Current accounts and deposits from customers

In thousand Kyrgyz soms	2022	2021
Current accounts and deposits from corporate customers		
- Current accounts and demand deposits	38,914,663	9,678,476
- Term deposits	6,487,496	4,910,892
	45,402,159	14,589,368
Current accounts and deposits from retail customers		
- Current accounts and demand deposits	4,479,160	2,095,224
- Term deposits	7,367,185	6,176,778
	11,846,345	8,272,002
Total	57,248,504	22,861,370

As at December 31, 2022 and 2021, customer deposits of KGS 32,083,021 thousand and KGS 9,808,414 thousand (56% and 43%), respectively, were received from 5 customers, which represents a significant concentration.

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

In thousand Kyrgyz soms	2022	2021
Loans for provision of finance leases to customers	1,448,561	1,479,641
Subordinated debt	914,965	909,178
Loans for financing business entities	844,629	399,181
Loans for financing agricultural sector	555,738	391,813
Subordinated loans for international projects	77,673	125,507
Other	2,079	2,079
Total	3,843,645	3,307,399

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.

Loans for provision of finance lease to customers

As at December 31, 2022 and 2021, the Bank has the following loans for provision of finance leases to customers:

In thousand Kyrgyz soms	Currency	Nominal interest rate	Issue date	Maturity	December 31, 2022	December 31, 2021
Loan from Eurasian Development Bank (repayable funds)	KGS	5%	March 1, 2021	April, 12 2028	426,051	542,247
Loan from Eurasian Development Bank (repayable funds)	KGS	3%	April 22, 2022	June 15, 2032	272,100	-
Loan from Eurasian Development Bank	KGS	5%	December 12, 2014	December 15, 2024	223,461	354,946
Loan for provision of finance lease to customers (assistance from the government of People's Republic of China-Leasing 4)	KGS	0%	July 29, 2011	December 24, 2024	143,563	171,622
Loan for provision of finance lease to customers from the government of Turkey (Leasing 3)	KGS	2%	March14, 2013	February 19, 2033	142,592	153,479
Loan People's Republic of China (Leasing 6)	KGS	1.5%	December 22, 2021	December 29, 2041	85,376	85,365
Loan for provision of finance leases to customers (People's Republic of China)	KGS	2.%	June 28, 2019	June 28, 2029	62,345	69,776
Loan for provision of finance leases on development of agricultural machinery (Budget loan)	KGS	0%	August 2, 2012	September 15, 2027	53,305	62,443
Loan USA USAID (Leasing 6)	KGS	1.5%	December 22, 2021	December 29, 2041	29,987	29,983
Loan Turkey (Leasing 6)	KGS	1.5%	December 22, 2021	December 29, 2041	9,781	9,780
Total					1,448,561	1,479,641

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 9,779 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.

Loan from Eurasian Development Bank

On November 13, 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 December 31, 2022, the outstanding amount of the loan is amounted to KGS 223,461 thousand.

Loan from Eurasian Development Bank (repayable funds)

In 2021, on the return account of the National Bank of the Kyrgyz Republic were accumulated funds from the Anti-Crisis Fund of the Eurasian Economic Community under the previously provided loan under the agreement on investment loan from the Anti-Crisis Fund of the Eurasian Economic Community.

On March 1, 2011 the Cabinet of Ministers of the Kyrgyz Republic signed an agreement with the Eurasian Development Bank on providing a loan from these funds for leasing agricultural equipment to agricultural entities at the rate of 5% .Loans from these funds are provided to lessees for up to 7 years at the rate of 9% .Own contribution should be made by lessee in money terms of not less than 20% of the leased item cost excluding other direct costs.

On April 22, 2022, additional funds in the amount of KGS 271,715 thousand were received in accordance with the terms of agreement No 19-04-01/26.

The Bank believes that the fair value of this loan on initial recognition corresponds to the amounts received from Eurasian Development Bank. As at December 31, 2022 the amount outstanding under this loan is KGS 698,151 thousand.

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

On July 27, 2011, the Bank signed an agreement with MFKR for an interest-free loan of KGS 197,935 thousand from financing under a grant of the Government of the People's Republic of China. The purpose of the loan is to provide state support and development of leasing of agricultural machinery, equipment for processing of agricultural products and other equipment for agriculture. On October 12, 2015, the Bank signed an additional agreement with the MFKR to provide additional funds in the amount of KGS 120,500 thousand with a zero interest rate from the financial resources under the grant of the People's Republic of China, accumulated in the accounts of the National Bank of the Kyrgyz Republic, to open a separate credit line for leasing of agricultural machinery to agricultural producers.

From these funds, the Bank extends loans for the purchase of agricultural machinery, agricultural processing equipment and other agricultural equipment at interest rates ranging from 6% to 9%, depending on the amount of the borrower's own contribution.

As of the origination date, this loan was recognized at fair value and the resulting discount was recognized as part of the government grant. As at December 31, 2022, the amount outstanding under this loan is KGS 143,563 thousand.

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

On March 18, 2013, the Bank signed a loan agreement with MFKR for the amount of 232,832 thousand KGS with an interest rate of 2% . The purpose of the loan is to provide technical credit in the form of 225 tractors for their further leasing to agricultural producers. Leasing of tractors is provided for up to 7 years with interest rates ranging from 8% to 11% depending on the amount of the borrower's own contribution.

As of the date of origination, this loan was recognized at fair value and the resulting discount was recognized as part of the government grant. As at December 31, 2022, the outstanding amount under this loan is 142,593 thousand KGS.

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

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

As of the origination date, this loan was recognized at fair value and the resulting discount was recognized as part of the government grant. As at December 31, 2022, the amount outstanding under this loan is KGS 62,345 thousand.

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

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

As of the origination date, this loan was recognized at fair value and the resulting discount was recognized as part of the government grant. As of December 31, 2022, the outstanding amount on this loan is 53,305 thousand KGS.

Subordinated debt

On October 21, 2013, the Bank signed an agreement No 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.

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 December 31, 2022 and 2021, the Bank has the following subordinated loans in respect of international projects:

In thousand Kyrgyz soms	Currency	Nominal interest rate	Issue date	Maturity	December 31, 2022	December 31, 2021
International Development Association, Agro-business and Marketing Project;	KGS	LIBOR (6,65%)	December 10, 2012	May, 15 2029	35,503	41,500
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%, 5%	November 9, 2016	November 9, 2023	23,805	53,610
International Development Association, Agro-business and Marketing Project;	USD	LIBOR+1% (1,155% 1,52957% 4,37614%)	November 1, 2011	May 15, 2027	8,643	14,621
International Development Association, Agro-business and Marketing Project;	KGS	LIBOR+2% (8,65%10%,6 % 11%,5%)	April 26, 2007	November 15, 2026	6,762	12,384
International Development Association, Assistance in Development of Agricultural Productivity Project	USD	LIBOR (0,155%)	May 2, 2014	May 15, 2029	2,960	3,392
Total					77,673	125,507

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

On September 22, 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 December 31, 2022, 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 a result, the total amount of the debt to this lender in the amount of KGS 23,805 thousand was presented in the "on demand and less than one month" category of liquidity risk.

Other loans from Ministry of Finance of the Kyrgyz Republic

In thousand Kyrgyz soms	Currency	Nominal interest rate	Issue date	Maturity	December 31, 2022	December 31, 2021
MSME Emergency Support Project	KGS	0%	September 20, 2021	September 20, 2025	541,575	1,225
Commodity credit from the Ministry of Agriculture and Water Resources	KGS	0.5%	February 24, 2022	-	288,670	-
Financing of business entities	KGS	1.5%	July 20, 2020	July 20, 2023	179,237	238,953
Development of other regions - for investment projects	KGS	3.5%	December 27, 2019	December 27, 2024	68,251	102,347
Financing of agricultural sector	KGS	1.5%	August 20, 2020	August 20, 2025	60,266	80,355
Financing of agricultural sector	KGS	1.5%	April 8, 2020	April 8, 2025	55,802	78,123

In thousand Kyrgyz soms	Currency	Nominal interest rate	Issue date	Maturity	December 31, 2022	December 31, 2021
Financing of agricultural sector	KGS	1.5%	May 29, 2020	May 29, 2025	55,802	78,123
Development of hard to reach regions - for investment projects	KGS	1.5%	September 25, 2020	September 25, 2025	46,740	62,320
Financing of business entities	KGS	5.5%	July 20, 2020	July 20, 2023	31,556	63,140
Loans from AIIB (Asian Infrastructure Investment Bank)	KGS	0%	September 19, 2022	September 19, 2026	28,750	-
Financing of business entities	KGS	1.5%	December 25, 2019	December 25, 2024	22,697	33,910
Development of other regions - for working capital replenishment	KGS	5.5%	September 25, 2020	September 25, 2023	13,228	26,456
Financing of business entities	KGS	6.5%	July 20, 2020	July 20, 2023	1,273	2,548
Financing of business entities	KGS	0.1%	July 20, 2020	July 20, 2025	1,201	2,401
Financing of business entities	KGS	0.1%	September 25, 2020	September 25, 2023	800	1,600
Development of hard to reach regions - for working capital replenishment	KGS	5.5%	December 18, 2019	December 18, 2021	-	13,456
Financing of business entities	KGS	3.5%	December 25, 2019	December 25, 2022	-	5,499
Other	KGS	0% - 3.5%			6,598	2,617
Total					1,402,446	793,073

Loans from AIIB (Asian Infrastructure Investment Bank)

On August 13, 2021 an agreement was signed between the Ministry of Economy and Finance on the project of emergency support of micro, small and medium enterprises on the basis of the Loan Agreement between the Kyrgyz Republic and the Asian Infrastructure Investment Bank. On September 19, 2022 an amount of 42,000 thousand KGS was received for the implementation of infrastructure projects. The amounts received are to be repaid 48 months after they are fully disbursed by the Bank. The amount received is to be utilized by the Bank within one quarter from the date of receipt. Upon expiration of the term, the undisbursed amount shall be repaid. Disbursement schedules should be made only for the disbursed part. As at December 31, 2022, the amount outstanding is KGS 28,750 thousand. The Bank believes that the fair value of this loan on initial recognition corresponds to the amounts received from AIIB.

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 June 9, 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.

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.

Commodity credit from the Ministry of Agriculture and Water Resources

With the aim of state support in provision of agricultural producers with seeds of high-yielding varieties of cereals, oilseeds and legumes, and also for timely carrying out spring sowing in 2022, the Cabinet of Ministers of KR approved the Order №24-p dated 25.01.2022. According to this Order it was assigned to State Material Reserves Fund under Ministry of Emergency Situations to purchase seeds of crops from Russian companies according to technical specification and volumes. In turn, the Ministry of Agriculture has been instructed to carry out laboratory quality control of seeds in the process of reception, storage and release of seeds according to technical specifications of the Kyrgyz Republic. In the order, the Bank is instructed to conclude loan agreements with customers on the basis of applications under the following conditions:

- entity must meet the criteria of solvency;
- interest rate - 4.5 percent per annum, of which 0.5 percent is transferred to the national budget, and the remaining 4 percent remains in the Bank as income
- condition of repayment of loans - repayment of 50 percent by November 15, 2022, 50 percent - November 15, 2023.

If desired, the customer can pay at the Bank's cashier's desk for the seeds. Once the seeds arrive in the country, the Ministry of Agriculture raps them to the regions based on requests from District Agricultural Development Offices (DADS's). When the client applies, the employees of the DADS refer to the Bank, then, if desired, the client can pay for the seeds received in cash, or apply for a loan and write an application.

The Bank began to consider applications from customers for the purchase of spring seeds in February 2022, the issuance of loans began on March 2, 2022. For 2022, the Bank issued 6,927 loans for a total of KGS 249,775 thousand for spring sowing seeds. Of this amount for 2022 repaid 139, 186 thousand soms, which were transferred to the budget.

On the basis of the Decree № 522-p of the Cabinet of Ministers of the Kyrgyz Republic dated September 28, 2022 the Bank started considering applications for the seeds for winter sowing for the harvest in 2023 and the spring sowing in 2023. The repayment schedule for customers is set as follows:

- 30% principal through Nov. 15, 2023;
- 35% of principal through Nov. 15, 2024;
- 35% of principal through November 15, 2025.

For 2022, the Bank originated 199 loans totaling 15, 277 thousand soms for winter seeding seeds. As at December 31, 2022 the amount outstanding was KGS 288,113 thousand.

Development of other regions

On December 6, 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%.

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 January 12, 2013, the Cabinet of Ministers of the Kyrgyz Republic approved the project "Financing Agriculture" to provide subsidized loans to local commercial banks. Under this project, the Bank entered into ten subsidy agreements with the MFKR during 2023-2027 to provide state assistance to agricultural producers for autumn and spring sowing, livestock breeding and processing of agricultural products in the Kyrgyz Republic. The MFKR provides an additional interest rate of 8.33% per annum on loans made in 2018, 7.49% per annum on loans made in 2019, 6.04% per annum on loans made in 2020, 6.69% per annum on loans made in 2021 and 11.75% per annum on loans made in 2022. The bank gives loans to customers at a rate of 6% - for businesses and individual entrepreneurs engaged in food and processing industry, at 8% - for businesses and individual entrepreneurs involved in the processing of grain and milling wheat, at a rate of 10% for businesses and individual entrepreneurs engaged in livestock, crop and horticulture. The difference in percentage between the stated interest and the market is reported as an MFKR receivable and a government subsidy. MFKR makes quarterly reimbursement of the interest difference for the next twelve months after the issuance of loans to customers by the Bank.

15 Amounts due to the National Bank of the Kyrgyz Republic

In thousand Kyrgyz soms	2022	2021
Loans from NBKR	-	965,256
Total	-	965,256

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 December 31, 2021 the short-term loans from the NBKR were collateralised by loans to customers of KGS 1,089,852 thousand (Note 8), and investments in securities of KGS 135,000 thousand (Note 9).

In thousand Kyrgyz soms	Currency	Nominal interest rate	Issue date	Maturity	December 31, 2022	December 31, 2021
Borrowing from NBKR	KGS	5.90%	June 6, 2018	June 5, 2022	-	366,219
Borrowing from NBKR	KGS	5.00%	May 28, 2020	May 28, 2022	-	264,702
Borrowing from NBKR	KGS	5.00%	April 9, 2020	April 9, 2022	-	132,804
Borrowing from NBKR	KGS	5.00%	August 28, 2020	February 25, 2022	-	91,366
Borrowing from NBKR	KGS	4.25%	February 21, 2020	February 21, 2022	-	73,682
Borrowing from NBKR	KGS	5.00%	June 11, 2020	June 11, 022	-	36,483
Total					-	965,256

16 Government grant

In thousand Kyrgyz soms	2022	2021
Interest prepaid by the MFKR to subsidise agricultural financing	170,864	104,433
Interest-free and below market interest rate loans	151,965	175,226
Total	322,829	279,659

The following tables represent the movement of government grant for the year ended December 31, 2022 and 2021:

In thousand Kyrgyz soms	
Opening balance as at January 1, 2022	279,659
Additions in subsidies	398,339
Amortisation of government grant	(330,183)
Other changes	(24,986)
Closing balance as at December 31, 2022	322,829

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

Interest-free and below market interest rate loans

During 2022 and 2021, 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. 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.

Interest prepaid by the MFKR to subsidise agricultural financing

The Bank provides loans to qualifying agricultural producers at 6%-10% per annum depending on the term of the loans, using its own funds. MFKR provides an additional interest rate of 8.33% per annum on loans made in 2018, 7.49% per annum on loans made in 2019, 6.04% per annum on loans made in 2020, 6.69% per annum on loans made in 2021 and 11.75% per annum on loans made in 2022. The bank grants loans to customers at a rate of 6% - for enterprises and individual entrepreneurs engaged in food and processing industry, at a rate of 8% - for enterprises and individual entrepreneurs involved in the processing of grain and milling wheat, at a rate of 10% - for enterprises and individual entrepreneurs engaged in cattle breeding, crop farming and horticulture. The difference in percentage between the declared interest and the market is reflected as receivables from MFKR and the state subsidy. MFKR makes quarterly reimbursement of the interest difference during the next twelve months after the Bank originates loans to customers.

The Bank recognizes such reimbursement under "amortization of government subsidy" in the statement of profit or loss and other comprehensive income (Note 22).

The MFKR, in turn, has the right to monitor the intended use of the funds provided and request information on loans issued under this project. If the MFKR is dissatisfied with the use of current and past funds based on annual audits, funds may be withdrawn.

17 Other borrowed funds

In thousand Kyrgyz soms	2022	2021
State Mortgage Company	4,231,843	2,154,713
Russian-Kyrgyz Development Fund	481,219	860,988
Other borrowed funds	1,106,413	2,190,508
Total	5,819,475	5,206,209

The table below provides details of other borrowed funds as at December 31, 2022 and 2021.

In thousand Kyrgyz soms	Currency	Interest rate	Issues date	Maturity	December 31, 2022	31 December, 2021
State Mortgage Company	KGS	4-5-6-8%	March 24, 2016	February 1, 2020	4,231,843	2,154,713
Frontera Capital Frontier Market	KGS	10,5%	December 27, 2021	October 27, 2024	863,993	863,822
Russian-Kyrgyz Development Fund	USD	1-3%	July 20, 2016	December 26, 2022	293,191	506,868
Russian-Kyrgyz Development Fund	KGS	5-8%	September 3, 2015	December 27, 2028	188,028	354,120
BAKUBAT Talas Welfare Fund	KGS	4%	January 15, 2019	November 11, 2024	242,420	242,420
BlueOrchard Microfinance Fund 2	EUR	4%	July 18, 2018	December 20, 2022	-	374,748
Incofin CVBA – 2	USD	6 month LIBOR +3 (3,21063%)	April 26, 2018	April 26, 2022	-	298,432
Global Impact	EUR	4%	November 2, 2018	May 2, 2022	-	207,192
Micro, Small and Medium Enterprises Bond S.A. 3	USD	3,2465% (6 month LIBOR +3)	July 3, 2018	July 10, 2022	-	150,628
BlueOrchard Microfinance Fund 1	USD	4,19013% (6 month LIBOR +4)	May 15, 2018	May 16, 2022	-	53,266

In thousand Kyrgyz soms	Currency	Interest rate	Issues date	Maturity	December 31, 2022	31 December, 2021
Incofin CVBA - 1	USD	5%	October 23, 2017	October 23, 2021	-	-
Micro, Small and Medium Enterprises	KGS	11%	July 24, 2018	July 24, 2021	-	-
Total					5,819,475	5,206,209

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 SIC will provide the Bank with funds for issuing and refinancing mortgage loans to citizens of the Kyrgyz Republic. At the same time, the interest rate on mortgage loans issued by the Bank shall not exceed the interest rate on loans received by the Bank by more than 5%. On 15 September 2021, the Bank signed an additional agreement to the General Agreement on cooperation with the SIC under the Programme "My Home 2021-2026". Under the agreement, the SIC provided additional funds to the Bank to issue and refinance loans to citizens of the Kyrgyz Republic. The interest rate on mortgage loans issued by the Bank from these funds shall not exceed 4% per annum for the purchase of residential real estate and 8% per annum for the construction of housing, the rate on which is reduced by 4% per annum after completion of construction. On 29 December 2021, the Bank signed an additional agreement to the General Agreement on Cooperation with the GIC dated 1 February 2016 to provide investment funds to the Bank in the amount of KGS 3,500,000 thousand for the following purposes: for purchase of housing and construction of housing under the "Preferential Mortgage" for purchase and construction of housing under the "Affordable Mortgage" program.

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

On September 2, 2015 and March 5, 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 July 11, 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 July 26, 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.

Due to changes in the quality of the loan portfolio, at the suggestion of the RKDF, since June 2019, the Fund provides tranches of loans to the Bank secured by highly liquid assets. As at December 31, 2022, the borrowings from RKDF are secured by loans issued to customers with a carrying amount of KGS 926,526 thousand (December 31, 2021: KGS 1,730,560 thousand), (Note 8).

As at December 31, 2022, investments in securities of KGS 606,729 thousand are pledged as collateral for loans provided to the Bank by the Russian-Kyrgyz Development Fund (December 31, 2020: KGS 660,618 thousand) (Note 9).

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.

The Bank's management believes that there are no other financial instruments similar to the other borrowed funds received from the RKDF, the State Mortgage Company. These products represent a separate market due to the nature of their customers. As a result, other borrowings from RKDF, State Mortgage Company were received in the ordinary course of business and, as such, were recorded at fair value at the recognition date.

Loans from international microfinance organisations

On December 27, 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 December 31, 2022, the loan was collaterised by insurance deposit in Frontera Capital Frontier in amount of KGS 856,800 thousand. (Note 7) (December 31, 2021: 847,586 thousand KGS).

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 December 31, 2022, the Bank breached the following covenants:

- Maximum amount of risk on loans, the share of classified loans in the loan portfolio not exceeding 10% under the loan agreement with the Russian-Kyrgyz Development Fund;
- The maximum amount of risk on operations with insiders and affiliated persons not exceeding 35% under the loan agreement with the Russian-Kyrgyz Development Fund (not exceeding 60% at the request of the National Bank of the Kyrgyz Republic). Violation of the maximum amount of risk on operations with insiders and affiliates is due to the fact that this indicator is calculated taking into account operations with the Bank's insiders, in particular with the Ministry of Finance of the Kyrgyz Republic, which has become a significant shareholder of the Bank since August 2022.

As at December 31, 2022, the total amount due to RKDF was KGS 481,219 thousand. The Bank's management applied to the RKDF for waiver letters. The Bank has not received any waiver letters from those creditors as at the date of issuance of these financial statements. As at 31 December 2022, the Bank had not received a waiver from the lender and did not have an unconditional right to defer settlement for at least twelve months after the reporting date of December 31, 2022, loans from RKDF are classified as "on demand" and are presented as a current liability in the liquidity table in Note 31.

As of December 31, 2021, the Bank breached the following financial 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.

The Bank also committed a cross violation under Frontera Capital Frontier.

As at 31 December 2021, the total amount due to these creditors comprised KGS 2,451,256 thousand. The Bank's management applied to BlueOrchard Microfinance Fund, INCOFIN CVBA and RKDF for waiver letters. The Bank has not received waiver letters from these lenders as at the date of these financial statements due to the process of revising the terms of additional financing in the future and changes in financial conditions. As the Bank had not received a waiver letter from these lenders as of December 31, 2021 and did not have an unconditional right to defer settlement for at least twelve months after the December 31, 2021 reporting date, the loans are classified as "on demand" and presented as a current liability in the liquidity table in Note 31.

Reconciliation of movements of liabilities to cash flows arising from financing activities

In thousand Kyrgyz soms	Amounts due to MFKR (Note 14)	Amounts due to NBKR (Note 15)	Other borrowed funds (Note 17)	Funds received from a shareholdes (Note 18)	Total
Balance at January 1, 2022	3,307,399	965,256	5,206,209	2,400,000	11,878,864
Changes from financing cash flows					
Proceeds from amounts due to the Ministry of Finance of the Kyrgyz Republic	1,211,206	-	-	-	1,211,206
Repayment of amounts due to the Ministry of Finance of the Kyrgyz Republic	(720,644)	-	-	-	(720,644)
Repayment of amounts due to the National Bank of the Kyrgyz Republic	-	(961,081)	-	-	(961,081)
Proceeds from other borrowed funds	-	-	3,207,672	-	3,207,672
Repayment of other borrowed funds	-	-	(2,570,830)	-	(2,570,830)
Funds received from a shareholder	-	-	-	1,800,000	1,800,000
Issue of shares	-	-	-	(3,100,000)	(3,100,000)
Total changes from financing cash	490,562	(961,081)	636,842	(1,300,000)	(1,133,677)
Effect of changes in foreign exchange rates	(166)	-	(16,127)	-	(16,293)
Other changes					
Change in accrued interest	(2,200)	(4,175)	(7,449)	-	(13,824)
Other changes (issuance of commodity credit by seeds)	48,050	-	-	-	48,050
Balance as at December 31, 2022	3,843,645	-	5,819,475	1,100,000	10,763,120

In thousand Kyrgyz soms	Amounts due to MFKR (Note 14)	Amounts due to NBKR (Note 15)	Other borrowed funds (Note 17)	Funds received from a shareholdes (Note 18)	Total
Balance at January 1, 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

In thousand Kyrgyz soms	Amounts due to MFKR (Note 14)	Amounts due to NBKR (Note 15)	Other borrowed funds (Note 17)	Funds received from a shareholdes (Note 18)	Total
Total changes from financing cash	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 December 31, 2021	3,307,399	965,256	5,206,209	2,400,000	11,878,864

18 Funds received from a shareholder

In thousand Kyrgyz soms	2022	2021
Funds received from a shareholder	1,100,000	2,400,000
Total funds received from a shareholder	1,100,000	2,400,000

On March 16, 2022, by Resolution No. 120-p of the Cabinet of Ministers of the Kyrgyz Republic the Ministry of Finance of the Kyrgyz Republic was authorized to allocate KGS 5,500,000 thousand to increase the Bank's share capital for granting soft loans and financing within the project "Crediting of agricultural sector". Part of these funds in the amount of KGS 700,000 thousand were used to increase the authorized capital of the Bank. The Bank also received funds in two tranches: KGS 1,000,000 thousand on June 3, 2022, and KGS 100,000 thousand on December 22, 2022. As at December 31, 2022 the registration of the share issue had not been finalized and the final amount had not been approved, therefore the funds could be reversed. Accordingly, the funds received were recorded as a liability of the Bank.

19 Lease liabilities

With the exception of short-term leases and leases of underlying low-value assets, each lease is presented on the balance sheet as a right-of-use asset and as a lease liability. Right-of-use assets are presented within property, plant and equipment, intangible assets and right-of-use assets in the statement of financial position (Note 10). Lease payments are fixed.

The following is a summary of the change in lease obligations during the period.

In thousand Kyrgyz soms	
Opening balance as at January 1, 2022	163,242
Additions	19,946
Lease termination	(816)
Contract modifications	33,705
Lease payments	(69,035)
Interest expense	8,908
Foreign exchange difference	195
Closing balance as at December 31, 2022	156,145

In thousand Kyrgyz soms	
Opening balance as at January 1, 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 December 31, 2021	163,242

20 Other liabilities

In thousand Kyrgyz soms	2022	2021
Other financial liabilities		
Credit line commitments and guarantee provision	155,232	15,762
Settlements with creditors	81,889	38,134
Other liabilities	69,796	44,550
Total other financial liabilities	306,917	98,446
Other non-financial liabilities		
Deferred tax liabilities	148,274	43,008
Other taxes payable	126,747	55,900
Vacation reserve	61,780	60,780
Precious metals deposits of customers	13,551	12,289
Accrued income tax payable	-	4,164
Other non-financial liabilities	133,200	38,997
Total non-financial liablities	483,552	215,138
Total other liabilities	790,469	313,584

21 Share capital

Issued capital

As at December 31, 2022, the authorised, issued and outstanding share capital of the Bank consists of 662,462 ordinary shares (December 31, 2021: 352,462 ordinary shares). All shares have a nominal value of KGS 10 thousand.

- On January 13, 2022 by Resolution of the Extraordinary Meeting of Shareholders it was approved the issue of 240,000 additional copies of common shares at the expense of the state budget in accordance with the Resolution No 297 and No 299 dated November 29, 2021 of the Cabinet of Ministers of the Kyrgyz Republic dated December 10, 2021 at the placement price (nominal value) of KGS 10,000 (ten thousand) each, totaling KGS 2,400,000,000 (two billion four hundred million);

- June 1, 2022 Extraordinary Meeting of shareholders approved the issue of additional 70,000 copies of ordinary shares at the expense of the State Budget in accordance with the order of the Cabinet of Ministers of the Kyrgyz Republic on March 16, 2022 at the price of placement (nominal value) of KGS 10,000 (ten thousand) each, total - KGS 700,000,000 (seven hundred million). The order of placement of shares - closed placement by personal offering to the Ministry of Finance of the Kyrgyz Republic.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank. The share capital of the Bank is represented by the following number of shares (in thousands)

	Number of shares	Total (KGS '000)
Ordinary shares		
January 1, 2021	347,626	3,476,260
Issue of shares	4,836	48,360
December 31, 2021	352,462	3,524,620
Issue of shares	310,000	3,100,000
December 31, 2022	662,462	6,624,620

Additional paid-in capital

In November 2017, the Cabinet of Ministers of the Kyrgyz Republic provided the Bank with free of charge transportation, office furniture, technical and computer equipment for temporary use on a non-refundable basis. Property, plant and equipment were recorded at fair value as additions to property, plant and equipment and additional paid-in capital. The Bank did not account for furniture and IT equipment as finance leases under IFRS 16 due to their low value. During the year ended December 31, 2022, the increase in additional paid-in capital of KGS 810 thousand includes expenses for the lease of this property, as well as expenses related to the registration of the issue of securities (at December 31, 2021 KGS 1,669 thousand).

General reserve

According to the Charter, the Bank creates a reserve out of retained earnings, which is not available for dividend payments. The purpose of the reserve is to preserve liquidity and capital adequacy of the Bank in case of deterioration of the Bank's profitability, reinvestment in the Bank and other purposes in accordance with the decision of the General Meeting of Shareholders. As at December 31, 2022 and December 31, 2021, the total reserve amounted to KGS 189,696 thousand. In 2022, there were no transfers to the reserve for future needs.

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 March 31, 2022, by the decision of the General Meeting of Shareholders dated March 29, 2022, dividends in the total amount of 201,093 thousand KGS were declared and paid (2021: 48,358 thousand KGS).

According to the NBKR Instruction "On establishment of capital adequacy standards for commercial banks of the Kyrgyz Republic" approved by the Resolution No 18/2 dated July 21, 2004 of the Management Board of the NBKR (last revised on March 23, 2022), 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 December 31, 2022, the requirement for the value of the capital buffer index was at the level of not less than 25%. The size of the buffer was within the standards required for the distribution of dividends. (2021: At least 20%).

22 Net interest income

In thousand Kyrgyz soms	2022	2021
Interest income at effective interest rate		
Loans to customers	3,375,297	2,750,765
Investment in securities	1,287,232	266,297
Loans and advances to banks and other financial institutions	656,412	56,816
Cash and cash equivalents	3,956	1,565
Total interest income at effective interest rate	5,322,897	3,075,443
Amortisation of grant	330,183	240,230
Interest expense		
Current accounts and deposits from customers	(1,686,667)	(911,869)
Other borrowed funds	(203,481)	(224,067)
Amounts due to the Ministry of Finance of the Kyrgyz Republic	(76,567)	(82,493)
Amounts due to the National Bank of the Kyrgz Republic	(19,777)	(59,670)
Interest expense on finance lease	(8,908)	(7,280)
Repurchase agreements	-	(434)
Deposits and balances from banks	(5,738)	(5,337)
Discount on interest income on loans to customers	(27,733)	(59,805)
Other	(17)	(24,712)
Total interest expense	(2,028,888)	(1,375,667)
Net interest income on interest bearing assets before allowance for expected credit losses	3,624,192	1,940,006

23 Net foreign exchange translation gain

In thousand Kyrgyz soms	2022	2021
Realised gain on foreign exchange transactions	4,576,394	200,977
Unrealized loss from revaluation	38,307	(8,649)
Total net profit from foreign currency translation	4,614,701	192,328

24 Fee and commission income and expense

In thousand Kyrgyz soms	2022	2021
Fee and commission income		
Money Transfers	410,851	227,260
Settlements	276,547	89,097
Commission income for payment cards	62,864	37,464
Commission fee for storage of valuables	7,965	7,237
Other	6,124	4,682
Total fee and commission income	764,351	365,740

Fee and commission expense		
Money transfer fees	(218,191)	(44,977)
Commission expenses for payment cards	(83,874)	(46,900)
Settlements	(49,481)	(14,190)
Commission fees for storage of valuables	(3,166)	(3,068)
Other commission expenses	(54,656)	(32,968)
Total fee and commission expense	(409,368)	(142,103)
Total net income from fee and commissions	354,983	223,637

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

In thousand Kyrgyz soms	2022	2021
Allowance for expected credit losses on interest bearing assets:		
Allowance for expected credit losses on loans to customers	(387,506)	(575,556)
Allowance for expected credit losses on investments in securities	(28,956)	(11,504)
Allowance for expected credit losses on cash and cash equivalents	(22,837)	(6,009)
Allowance for expected credit losses on loans and advances to banks	367	(24,860)
	(438,932)	(617,929)
Impairment losses on other assets		
Other financial assets	9,335	(10,279)
Non-financial assets	(118,985)	(116,363)
	(109,650)	(126,642)

In thousand Kyrgyz soms	2022	2021
Impairment losses on credit-related commitments		
Guarantees and credit related commitments	(138,577)	(5,924)
Total	(687,159)	(750,495)

26 Operating expenses

In thousand Kyrgyz soms	2022	2021
Employee compensation	(1,399,611)	(838,345)
Payroll related taxes	(240,480)	(141,383)
Depreciation and amortization	(191,685)	(172,060)
Repairs and maintenance	(94,535)	(60,975)
Security services	(59,296)	(58,050)
Stationery and office supplies	(28,355)	(14,540)
Taxes other than on income	(17,645)	(12,169)
Advertising and marketing	(17,318)	(9,539)
Utilities	(14,158)	(12,462)
Representative expenses	(12,948)	(5,736)
Communication and information services	(11,994)	(9,893)
Travel expenses	(10,567)	(4,668)
Rent	(10,399)	(4,617)
Training	(7,616)	(2,507)
Professional services	(3,824)	(29,498)
Other expenses	(14,820)	(7,898)
	(2,135,251)	(1,384,340)

27 Income tax expense

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

Current income tax

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

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2022 and 2021 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.

In accordance with the Tax Code of the Kyrgyz Republic, which came into force on January 1, 2022 (according to the Law of the Kyrgyz Republic dated January 18, 2022 No 4) the amount of reserves formed by the Bank in accordance with the regulatory requirements of the National Bank is subject to deduction from the total annual income for the purposes of calculation of taxable income. The amounts of the provisions are calculated in accordance with the "Regulation of the NBKR on the Classification of Assets and Related Provisions for Potential Losses and Losses" No 95-04, registered with the Ministry of Justice of the Kyrgyz Republic dated August 23, 2004. The amount of provisions for potential losses in these financial statements are 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 December 31, 2022 and 2021 comprise:

In thousand Kyrgyz soms	2022	2021
Deferred tax (liabilities)/assets in relation to		
Loans and advances from banks and loans to customers	(128,643)	(33,122)
Property and equipment	(21,076)	(20,851)
Right-of-use asset	(15,171)	(15,875)
Provision	(4,115)	8,296
Investment securities	5,116	2,220
Lease liability	15,615	16,324
Net deferred tax liability	(148,274)	(43,008)
Current income tax expense	481,457	28,312
Deferred tax expense	105,265	(1,115)
Income tax expense	586,722	27,197

The effective tax rate reconciliation is as follows for the years ended December 31, 2022 and 2021:

In thousand Kyrgyz soms	2022	2021
Profit before income tax	5,805,249	250,304
Tax at the statutory tax rate (10%)	580,525	25,030
Non-deductible costs	6,197	2,167
Income tax expense	586,722	27,197

28 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 policy 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.

In thousand Kyrgyz soms	2022	2021
Loan and credit line commitments	960,905	252,302
Overdrafts	117,187	1,319
Guarantees	66,656	73,353
Provisions	(155,232)	(15,762)
Total contingent liabilities and credit commitments	989,516	311,212

Credit quality of other contingent liabilities

The following table provides information on the credit quality of the contingent liabilities as at December 31, 2022 and 2021:

In thousand Kyrgyz soms	Stage 1	Stage 2	Stage 3	2022 Total
Credit related commitments				
Loan and credit line commitments	683,892	74,313	202,700	960,905
Guarantees	115,228	1,934	25	117,187
Overdrafts	66,656	-	-	66,656
Loss allowance	(19,990)	(379)	(134,863)	(155,232)
Net credit related commitments	845,786	75,868	67,862	989,516

In thousand Kyrgyz soms	Stage 1	Stage 2	Stage 3	2021 Total
Credit related commitments				
Loan and credit line commitments	249,856	2,441	5	252,302
Guarantees	1,054	245	20	1,319
Overdrafts	66,369	6,984	-	73,353
Loss allowance	(12,421)	(3,328)	(13)	(15,762)
Net credit related commitments	304,858	6,342	12	311,212

As at December 31, 2022 and 2021 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.

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.

Legal proceedings

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

Taxation

The taxation system in the Kyrgyz Republic is relatively new and is characterized 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 revenue, expenses and other items in the financial statements prepared in accordance with IFRS. 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 subsequent 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 Kyrgyz tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the Bank, if the authorities were successful in enforcing their interpretations, could be significant.

Operating environment

Changes in the political and economic environment and the development of the legal, tax and legislative systems in the Kyrgyz Republic are ongoing. The stability and development of the Kyrgyz Republic's economy largely depends on these changes. The Cabinet reaffirmed its commitment to good governance, including anti-corruption efforts, as well as transparency and accountability in its operations.

The conflict that erupted in Ukraine on February 24 has developed rapidly, having a significant impact on the rest of the world. The U.S. and European countries have imposed tough sanctions against the Russian Federation. Western countries are discussing the expansion of existing sanctions. The Russian Federation is an important trading partner of the Kyrgyz Republic, so the sanctions imposed against Russia as of the date of these financial statements and the escalation of those sanctions have had a strong impact on the Kyrgyz Republic's economy and financial markets. The immediate global effects have been higher inflation, lower growth and some disruption in the financial markets as the deeper sanctions have been implemented.

The conflict in Ukraine caused thousands of Russians and Ukrainians to relocate to the Kyrgyz Republic. This included not only individuals, but also businesses that were established and operating in those countries. This resulted in an increased inflow of foreign currency into the Kyrgyz Republic market, while creating a deficit against the U.S. dollar.

The Bank's management considers its current liquidity to be sufficient for sustainable functioning. In addition, the Bank's management regularly monitors the liquidity position and intends to use appropriate liquidity instruments if necessary.

Management also believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

These financial statements reflect management's assessment of the impact of the Kyrgyz Republic business environment on the operations of the Bank. However, future economic and political conditions and their impact on the Bank's operations may differ from management's current expectations. Nevertheless, these financial statements do not reflect the potential impact of the above uncertainties in the future on the Bank's operations.

29 Fair value of financial instruments

The Bank's management determines the policies and procedures for both recurring fair value measurement, as in the case of unquoted trading and available-for-sale securities, unquoted derivatives, investment property and buildings, and for non-recurring measurement, as in the case of assets held for sale.

At each reporting date the Bank analyses changes in the value of assets and liabilities which require revaluation or reassessment according to the Bank's accounting policy. For this analysis, the Bank verifies the major inputs used in the previous valuation by comparing the information in the valuation computations with contracts and other relevant documents. The Bank also compares each change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

In thousand Kyrgyz soms	December 31, 2022		December 31, 2021	
	Book value	Fair value	Book value	Fair value
Loans to customers	30,944,499	30,944,498	22,822,050	22,701,459
Investments in securities at amortised cost	10,005,289	13,792,132	4,681,582	4,416,992
Current accounts and deposits from customers	57,248,555	57,248,504	22,861,370	22,663,527
Amounts due to Ministry of the Kyrgyz Republic	3,843,645	3,843,645	3,307,399	3,291,075

In thousand Kyrgyz soms	December 31, 2022		December 31, 2021	
	Book value	Fair value	Book value	Fair value
Amounts due to National Bank of the Kyrgyz Republic	-	-	965,256	958,587
Other borrowed funds	5,819,475	5,819,475	5,206,209	5,197,695

				2022
In thousand Kyrgyz soms	Stage 1	Stage 2	Stage 3	Total
Loans to customers	-	30,578,550	365,949	30,944,499
Investments in securities at amortised cost	-	13,792,132	-	13,792,132
Current accounts and deposits from customers	-	57,248,504	-	57,248,504
Amounts due to Ministry of the Kyrgyz Republic	-	-	3,843,645	3,843,645
Amounts due to National Bank of the Kyrgyz Republic	-	-	-	-
Other borrowed funds	-	4,713,062	1,106,413	5,819,475

				2021
In thousand Kyrgyz soms	Stage 1	Stage 2	Stage 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

The fair values of the financial assets and financial liabilities included in the above Level 2 and Level 3 categories were determined in accordance with generally accepted valuation methods, using market rates not adjusted for credit risk.

There were no transfers between Level 1 and Level 2 during the period.

The financial and non-financial assets and liabilities that are measured at fair value in the statement of financial position are presented below. This hierarchy categorizes financial and non-financial assets and liabilities into three levels based on the significance of the instruments used to measure the fair values of financial assets and liabilities. The fair value hierarchy has the following levels.

- Level 1: quoted prices in an active market (unadjusted) for identical financial instruments;
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as quoted prices) or indirectly (i.e., derived from quoted prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data;

- Level 3: inputs that are not observable. This category includes instruments valued using inputs not based on observable market data provided that the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

30 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. As at December 31, 2022 and December 31, 2021, the Bank's capital adequacy ratio was in compliance with the statutory requirements.

The following table shows an analysis of the composition of the Bank's equity capital, calculated in accordance with the requirements of the regulator, as of December 31, 2022 and December 31, 2021:

	Unaudited data	
In thousand Kyrgyz soms	2022	2021
Net total capital	12,202,963	4,940,463
Risk – weighted assets	37,189,293	25,235,470
Total capital adequacy ratio	**32.8%**	**19.6%**
Total tier 1 capital	7,626,753	4,508,358
Risk – weighted assets	31,704,500	25,235,470
Tier 1 Capital adequacy ratio	**24.1%**	**17.9%**
Base tier 1 capital	6,623,752	3,511,955
Risk – weighted assets	31,704,500	25,235,470
Tier 1 Capital adequacy ratio	**20.9%**	**13.9%**
Total capital	12,202,963	4,940,463
Total assets	81,587,135	39,906,590
	15.0%	**12.4%**

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.

31 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:

- determining the main parameters for managing the risks to which the Bank is exposed and establishing acceptable levels for these risks;
- exercising supervision over the actions taken by the Bank's Management Board to identify, assess, monitor and control risks;
- approving major transactions in amounts from 5% to 20% of the Bank's total assets, depending on the nature of the transaction, as well as all active related party transactions of the Bank;
- Meetings of the Board of Directors are held as necessary, 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.

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.

- First level - the Credit Committee of the Bank, which is authorized to perform credit operations in relation to the aggregate credit debt of one borrower in the amount not exceeding 1.3% of the net total capital of the Bank. The Credit Committee of the Bank is not authorized to perform credit operations on related persons and interbank placements.
- Second level - Small Credit Committee of the Bank, authorized to approve credit transactions from KGS 9,000 thousand to KGS 15,000 thousand;
- Third level - Credit Committee of the Credit/Leasing Department, authorized to approve credit deals from KGS 7,000 thousand to KGS 9,000 thousand;
- Fourth level - Regional Credit Committees, authorized to approve credit deals from KGS 6,000 thousand to KGS 7,000 thousand;
- Fifth level - Credit Committee of the branch, authorized to approve credit deals from KGS 1,000 thousand to KGS 6,000 thousand;
- Sixth level - Credit Committee at regional level, authorized to approve credit deals of KGS 700,000 to KGS 1,000,000 thousand.

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 the Bank's organizational structure. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise. The Bank has established the Risk Management Committee in accordance with the requirements of the Kyrgyz legislation. It is created and formed by the decision of the Board of Directors, is accountable to the Board of Directors and acts within the authority granted 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 macroeconomic effect PD forecasting 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 4, 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 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.

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 9 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 Kyrgyz soms	Maximum exposure to credit risk as at December 31, 2022	Collateral pledged	Amount of credit risk as of December 31, 2022 less collateral
Cash equivalents*	35,052,793	-	35,052,793
Loans and advances to banks and other financial institutions	847,102	-	847,102
Loans to customers	30,944,499	(28,016,269)	2,928,230
Investments in securities at amortized cost	10,005,289	-	10,005,289
Other financial assets	333,045	-	333,045
	77,182,728	(28,016,269)	49,166,459
Guarantees and credit related commitments	1,144,748	(66,656)	1,078,092
Total exposure to credit risk	78,327,476	(28,082,926)	50,244,551

* Cash equivalents do not include cash on hand

In thousands Kyrgyz soms	Maximum exposure to credit risk as at December 31, 2021	Collateral pledged	Amount of credit risk as of December 31, 2021 less collateral
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	(28,016,269)	2,324,353
Investments in securities at amortized cost	4,681,582	-	4,681,582
Other financial assets	293,571	-	293,571
	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

* 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 2022 and 2021:

2022

In thousands Kyrgyz soms	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1	19,574,262	2,843,088	3,037,721	25,455,071
Changes in the gross carrying amount				
- Transfer to stage 1	967,696	(550,372)	(417,324)	-
- Transfer to stage 2	(851,867)	1,358,493	(506,626)	-
- Transfer to stage 3	(296,075)	(507,898)	803,973	-
New financial assets originated or purchased	18,179,663	-	-	18,179,663
Financial assets that have been derecognized	(4,014,439)	(504,611)	(639,983)	(5,159,033)
Principal payments	(5,535,499)	(244,890)	1,487,402	(4,292,987)
Change in interest accrued	(122,789)	(17,836)	(47,185)	(187,810)
Write-offs	(2,125)	(137)	(16,167)	(18,429)
Gross carrying amount as at December 31	27,898,827	2,375,837	3,701,811	33,976,475

2021

In thousands Kyrgyz soms	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1	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 December 31	19,574,262	2,843,088	3,037,721	25,455,071

The following tables analyze changes in the allowance for expected credit losses on loans to customers for the years ended December 31, 2022 and December 31, 2021:

2022

In thousands Kyrgyz soms	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Allowance for expected credit losses as at January 1	190,336	553,713	1,888,972	2,633,021
Changes in the loss allowance				-
- Transfer to stage 1	14,222	(13,735)	(487)	-
- Transfer to stage 2	(9,660)	17,116	(7,456)	-
- Transfer to stage 3	(14,857)	(275,116)	289,973	-
- Increases due to change in credit risk	-	219,652	309,060	528,712
- Decreases due to change in credit risk	(59,059)	(61,220)	(284,399)	(404,678)
Changes in models/risk parameters	(6,419)	39,590	208,699	241,870
New financial assets originated or purchased	258,350	-	-	258,350
Financial assets that have been derecognized	(26,297)	(62,524)	(147,927)	(236,748)
Write-offs	(151)	-	-	(151)
Foreign exchange and other movements	74	590	10,935	11,599
Allowance for expected credit losses as at December 31	346,539	418,066	2,267,370	3,031,975

2021

In thousands Kyrgyz soms	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Allowance for expected credit losses as at January 1	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 December 31	190,336	553,713	1,888,972	2,633,021

The following tables show comparisons from beginning to ending cash and cash equivalents balances:

2022

In thousands Kyrgyz soms	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Cash and cash equivalents				
Balance as at January 1	9,461,745	-	-	9,461,745
Change in balance	27,910,425	-	-	27,910,425
Foreign exchange effect	349,047	-	-	349,047
Balance as at December 31	37,721,217	-	-	37,721,217

2021

In thousands Kyrgyz soms	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Cash and cash equivalents				
Balance as at January 1	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 December 31	9,461,745	-	-	9,461,745

Movements in the allowance for expected credit losses for the years ended December 31, 2022 and December 31, 2021, are as follows

2022

In thousands Kyrgyz soms	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Cash and cash equivalents				
Balance at January 1	6,410	-	-	6,410
Net remeasurement of net allowance	22,837	-	-	22,837
Effect of foreign currency translation	(16,079)	-	-	(16,079)
Balance at December 31	13,168	-	-	13,168

2021

In thousands Kyrgyz soms	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Cash and cash equivalents				
Balance at January 1	425	-	-	425
Net remeasurement of net allowance	6,009	-	-	6,009
Effect of foreign currency translation	(24)	-	-	(24)
Balance at December 31	6,410	-	-	6,410

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

2022

In thousands Kyrgyz soms	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loans and advances to banks and other financial institutions				
Balance at January 1	1,113,790	-	-	1,113,790
Decrease in balance	(272,606)	-	-	(272,606)
Foreign exchange effect	30,411	-	-	30,411
Balance at December 31	871,595	-	-	871,595

2021

In thousands Kyrgyz soms	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loans and advances to banks and other financial institutions				
Balance at January 1	365,270	-	-	365,270
Additions	848,586	-	-	848,586
Decrease in balance	(108,249)	-	-	(108,249)
Foreign exchange effect	8,183	-	-	8,183
Balance at December 31	1,113,790	-	-	1,113,790

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 for the years ended December 31, 2022 and December 31, 2021.

2022

In thousands Kyrgyz soms	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loans and advances to banks and other financial institutions				
Balance at January 1	24,860	-	-	24,860
Decrease in balance	(367)	-	-	(367)
Foreign exchange effect	-	-	-	-
Balance at December 31	24,493	-	-	24,493

2021

In thousands Kyrgyz soms	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loans and advances to banks and other financial institutions				
Balance at January 1	-	-	-	-
Increase in balance	24,860	-	-	24,860
Foreign exchange effect	-	-	-	-
Balance at December 31	24,860	-	-	24,860

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

2022

In thousands Kyrgyz soms	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Investment in securities at amortised cost				
Balance at January 1	4,703,785	-	-	4,703,785
Change in discount	202,603			202,603
Redemption of securities	(30,000)	-	-	(30,000)
New financial assets originated or purchased	5,147,669			5,147,669
Foreign exchange effect	32,391	-	-	32,391
Balance at December 31	10,056,448	-	-	10,056,448

2021

In thousands Kyrgyz soms	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Investment in securities at amortised cost				
Balance at January 1	1,754,671	-	-	1,754,671
Change in discount	(832,128)			(832,128)
Redemption of securities	(17,073,560)	-	-	(17,073,560)
New financial assets originated or purchased	20,854,802			20,854,802
Foreign exchange effect	4,703,785	-	-	4,703,785
Balance at December 31	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:

2022

In thousands Kyrgyz soms	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Investment in securities at amortised cost				
Balance at January 1	22,203	-	-	22,203
Change in balance	28,956	-	-	28,956
Balance at December 31	51,159	-	-	51,159

2021

In thousands Kyrgyz soms	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Investment in securities at amortised cost				
Balance at January 1	10,699	-	-	10,699
Change in balance	11,504	-	-	11,504
Balance at December 31	22,203	-	-	22,203

The following table sets out information about the credit quality of other financial assets as at December 31, 2022 and 2021:

2022

In thousands Kyrgyz soms	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Other financial assets				
Balance at January 1	246,731	-	46,840	293,571
Change in balance	127,948	-	(23,103)	104,845
Foreign exchange effect	(50,900)	-	3,251	(47,649)
Balance at December 31	323,779	-	26,988	350,767

2021

In thousands Kyrgyz soms	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Other financial assets				
Balance at January 1	219,398	-	13,940	233,338
Change in balance	27,382	-	29,861	57,243
Foreign exchange effect	(49)	-	3,039	2,990
Balance at December 31	246,731	-	46,840	293,571

The movements in the allowance for expected credit losses on other financial assets for the years ended December 31, 2022 and December 31, 2021 were as follows

2022

In thousands Kyrgyz soms	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Other financial assets				
Balance at January 1	108	-	26,840	26,948
Change in balance	(72)	-	(9,262)	(9,334)
Foreign exchange effect	-	-	109	109
Balance at December 31	36	-	17,687	17,723

2021

In thousands Kyrgyz soms	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Other financial assets				
Balance at January 1	-	-	13,940	13,940
Change in balance	108	-	10,171	10,279
Foreign exchange effect	-	-	2,729	2,729
Balance at December 31	108	-	26,840	26,948

The following table sets out information about the credit quality of credit related commitments as at December 31, 2022 and 2021:

				2022
In thousands Kyrgyz soms	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit related commitments				
Balance at January 1	317,279	9,670	25	326,974
Change in balance	547,668	66,577	202,701	816,946
Foreign exchange effect	829	-	-	829
Balance at December 31	865,776	76,247	202,726	1,144,749

				2021
In thousands Kyrgyz soms	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit related commitments				
Balance at January 1	230,638	14,438	-	245,076
Change in balance	89,412	(4,768)	25	84,669
Foreign exchange effect	(2,771)	-	-	(2,771)
Balance at December 31	317,279	9,670	25	326,974

Movements in the provision for expected credit losses on credit related commitments for the years ended December 31, 2022 and December 2021 were as follows

				2022
In thousands Kyrgyz soms	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit related commitments				
Balance at January 1	12,421	3,328	13	15,762
Change in balance	6,676	(2,949)	134,850	138,577
Foreign exchange effect	893	-	-	893
Balance at December 31	19,990	379	134,863	155,232

				2021
In thousands Kyrgyz soms	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit related commitments				
Balance at January 1	5,438	6,307	-	11,745
Change in balance	8,890	(2,979)	13	5,924
Foreign exchange effect	(1,907)		-	(1,907)
Balance at December 31	12,421	3,328	13	15,762

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:

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.

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.

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.

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 December 31, 2022. 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 14 and 17), 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.

The following table analyzes financial assets and liabilities according to their expected maturities.

						2022
	Up to 1 month	1 to 3 months	From 3 to 12 months	1 to 5 year	More than 5 year	Total
FINANCIAL ASSETS						
Cash and cash equivalents	37,708,049	-	-	-	-	37,708,049
Loans and advances to banks and other financial institutions	14,789	832,313	-	-	-	847,102
Loans to customers	203,961	219,622	2,937,000	21,203,005	6,380,911	30,944,499
Investment in securities at amortized cost	-	14,771	245,114	3,110,175	6,635,229	10,005,289
Other financial assets	333,045	-	-	-	-	333,045
	38,259,844	1,066,706	3,182,114	24,313,180	13,016,140	79,837,984
FINANCIAL LIANILITIES						
Deposits and balances from banks and other financial institutions	195,023	-	-	-	-	195,023
Current accounts and deposits from customers	45,404,659	1,202,973	6,727,039	3,913,779	54	57,248,504
Amounts due to the Ministry of Finance of the Kyrgyz Republic	405,330	63,006	377,601	1,595,776	1,401,932	3,843,645
Other borrowed funds	4,713,061	-	-	1,106,414	-	5,819,475
Lease liabilities	5,633	10,597	47,511	86,576	5,828	156,145
Other financial liabilities	306,917	-	-	-	-	306,917
	51,030,623	1,276,576	7,152,151	6,702,545	1,407,814	67,569,709
Difference between financial assets and liabilities	(12,770,779)	(209,870)	(3,970,037)	17,610,635	11,608,326	12,268,275

	Up to 1 month	1 to 3 months	From 3 to 12 months	1 to 5 year	More than 5 year	2021 Total
FINANCIAL ASSETS						
Cash and cash equivalents	9,455,335	-	-	-	-	9,455,335
Loans and advances to banks and other financial institutions	2,408	236,177	27,505	822,840	-	1,088,930
Loans to customers	205,434	326,179	2,227,574	16,217,649	3,845,214	22,822,050
Investment in securities at amortized cost	-	-	-	1,521,387	3,160,195	4,681,582
Other financial assets	293,571	-	-	-	-	293,571
	9,956,748	562,356	2,255,079	18,561,876	7,005,409	38,341,468
FINANCIAL LIANILITIES						
Deposits and balances from banks and other financial institutions	180,855	-	-	-	-	180,855
Current accounts and deposits from customers	12,947,505	536,874	4,769,717	4,607,225	49	22,861,370
Amounts due to the Ministry of Finance of the Kyrgyz Republic	972,908	94,622	452,424	1,338,569	448,876	3,307,399
Amounts due to the National Bank of the Kyrgyz Republic	11,055	160,599	793,602	-	-	965,256
Other borrowed funds	2,451,256	-	357,820	242,420	2,154,713	5,206,209
Lease liabilities	4,186	8,042	35,624	103,103	12,287	163,242
Other financial liabilities	98,446	-	-	-	-	98,446
	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	5,558,691

The following table provides a maturity analysis of undiscounted financial liabilities as of December 31, 2022 and December 31, 2021:

In thousands Kyrgyz soms						2022
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
NON-DERIVATIVE FINANCIAL LIABILITIES						
Deposits and balances from banks and other financial institutions	195,023	-	-	-	195,023	195,023
Current accounts and deposits from customers	45,451,493	1,351,600	7,181,575	4,584,743	58,569,411	57,248,504
Amounts due to the Ministry of Finance of the Kyrgyz Republic	411,619	69,920	383,940	3,006,284	3,871,763	3,843,645
Other borrowed funds	4,720,462	38,926	38,927	1,137,939	5,936,254	5,819,475
Lease liabilities	6,050	11,937	52,121	98,328	168,436	156,145
Other financial liabilities	306,917	-	-	-	306,917	306,917
Total non-derivative financial liabilities	51,091,564	1,472,384	7,656,562	8,827,294	69,047,804	67,569,709

In thousands Kyrgyz soms						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
NON-DERIVATIVE FINANCIAL LIABILITIES						
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	9547	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

Market risk

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 53,868 thousand (2021: KGS 574,223 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.

Structure of financial assets and liabilities by currency as at December 31, 2022 and December 31, 2021 can be represented as follows:

In thousands Kyrgyz soms	KGS	USD	Other currencies	Total
FINANCIAL ASSETS				
Cash and cash equivalents	25,798,749	10,509,278	1,400,022	37,708,049
Loans and advances to banks and other financial institutions	12,908	832,826	1,368	847,102
Loans to customers	28,321,646	2,368,470	254,383	30,944,499
Investment in securities at amortized cost	7,786,963	2,218,326	-	10,005,289
Other financial assets	298,100	6,504	28,441	333,045
	62,218,366	15,935,404	1,684,214	79,837,984
FINANCIAL LIABILITIES				
Deposits and balances from banks and other financial institutions	106,642	53,187	35,194	195,023
Current accounts and deposits from customers	41,443,133	14,514,400	1,290,971	57,248,504
Amounts due to Ministry of Finance of the Kyrgyz Republic	3,832,042	11,603	-	3,843,645
Other borrower funds	5,510,290	309,184	-	5,819,475
Lease liabilities	137,723	18,422	-	156,145
Other financial liabilities	256,616	45,741	4,560	306,917
	51,286,446	14,952,537	1,330,725	67,569,709
Net balance sheet position as of December 31, 2022	10,931,920	982,867	353,489	12,268,275

In thousands Kyrgyz soms	KGS	USD	Other currencies	Total
FINANCIAL 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
	30,941,046	6,168,210	1,232,212	38,341,468
FINANCIAL 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
	26,519,716	5,333,672	929,389	32,782,777
Net balance sheet position as of December 31, 2021	4,421,330	834,538	302,823	5,558,691

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 is shown below:

In thousands Kyrgyz soms	Kyrgyz Republic	Other CIS countries	Other non-OECD countries	OECD countries	Total
ASSETS					
Cash and cash equivalents	26,991,414	758,014	1,287,242	8,671,379	37,708,049
Loans and advances to banks and financial institutions	14,789	-	-	832,313	847,102
Loans to customers	30,944,499	-	-	-	30,944,499
Investments in securities at amortized cost	10,005,289	-	-	-	10,005,289
Other financial assets	333,045	-	-	-	333,045
	68,289,036	758,014	1,287,242	9,503,692	79,837,984
LIABILITIES					
Deposits and balances from banks and other financial institutions	104,238	77,658	-	13,127	195,023
Current accounts and deposits from customers	56,907,143	260,898	80,128	335	57,248,504
Amounts due to the Ministry of Finance of the Kyrgyz Republic	3,843,645	-	-	-	3,843,645
Other borrowed funds	4,971,475	-	-	848,000	5,819,475
Lease liabilities	156,145	-	-	-	156,145
Other financial liabilities	306,917	-	-	-	306,917
	66,289,563	338,556	80,128	861,462	67,569,709
Net position as of December 31, 2022	1,999,473	419,458	1,207,114	8,642,230	12,268,275

In thousands Kyrgyz soms	Kyrgyz Republic	Other CIS countries	Other non-OECD countries	OECD countries	Total
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
	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
	30,531,278	254,922	878,575	1,118,002	32,782,777
Net position as of December 31, 2022	5,747,322	(128,730)	(878,575)	818,674	5,558,691

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 December 31, 2022 and December 31, 2021 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.

In thousands Kyrgyz soms	2022	2021
30% appreciation of the US dollar against the KGS	294,860	250,361
30% appreciation in the exchange rate of other currencies against the KGS	106,047	90,847
30% depreciation of the US dollar against the KGS	(294,860)	(250,361)
30% depreciation in the exchange rate of other currencies against the KGS	(106,047)	(90,847)

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.

32 Transactions with related parties

Control relationships

The party with ultimate control over the Bank is the Cabinet of Ministers of the Kyrgyz Republic represented by the State Property Management Fund under the Ministry of Economy and Commerce of the Kyrgyz Republic and the Ministry of Finance of the Kyrgyz Republic. The parties with ultimate control over the Bank do not prepare publicly available financial statements.

Transactions involving members of the Board of Directors and the Management Board

Total compensation included in personnel costs for the years ended December 31, 2022 and 2021 is as follows:

In thousands Kyrgyz soms	2022	2021
Members of the board of directors	5,440	3,451
Management Board members	35,563	21,187
Total	41,003	24,638

As of December 31, 2022 and December 31, 2021, the account balances and average effective interest rates for transactions with members of the Board of Directors and the Board were:

In thousands Kyrgyz soms	December 31, 2022			December 31, 2021		
	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	5	8,00%	57,248,504	7,824	4.77%	22,861,370

Other related parties include the Bank's shareholders as well as entities over which the Bank's shareholders have control, joint control or significant influence. Details of the Bank's other related party transactions are disclosed below.

In thousands Kyrgyz soms	December 31, 2022	Average Interest rate, %	Total category as per the financial statements caption	December 31, 2021	Average Interest rate, %	Total category as per the financial statements caption
ASSETS						
Loans to customers						
- in KGS	3,251	15,00%	30,944,499	223,916	13.05%	22,822,050
Investment in securities at amortized cost						
- in KGS	7,786,963	8.10%	7,786,963	4,665,581	8.88%	4,665,581
- in USD	2,218,326	1.00%	2,218,326			
Property, plant and equipment, intangible assets and right-of-use assets						
- in KGS	14,783	-	1,006,543	29,574	-	900,789
Other assets						
- in KGS	6,539	-	1,075,653	94,861	-	957,904
LIABILITIES						
Current accounts and customer deposits						
- in KGS	1,967,808	4.91%	41,443,133	8,946,618	5.47%	18,357,440
- in USD	1,283,993	2,5%	14,514,401	1,100,399	6.60%	4,174,194
- in other currency	20,903	-	1,290,971	11,689	-	329,736
Amounts due to the Ministry of Finance of the Kyrgyz Republic						
- in KGS	3,832,042	2.19%	3,832,042	3,307,399	3.09%	3,307,399
- in USD	11,603	3.30%	11,603	-	-	-
Government grant						
- in KGS	322,829	-	322,829	279,659	-	279,659

State mortgage company						
- *in KGS*	4,231,843	3.21%	5,819,475	2,172,763	5.40%	5,206,209
Lease liabilities						
- *in KGS*	16,511	10.50%	156,145	31,097	10.50%	163,242

Amounts included in profit or loss for 2022 and 2021 in respect of transactions with other related parties amounted to:

In thousands Kyrgyz soms	December 31, 2022	Total category as per the financial statements caption	December 31, 2021	Total category as per the financial statements caption
Interest income	827,250	5,322,897	454,234	3,075,443
Amortisation of government grant	330,183	330,183	240,230	240,230
Interest expenses	(386,927)	(2,028,888)	(389,982)	(1,375,667)
Commission expenses	517	764,351	15,279	365,740
Operating expenses	(22,785)	(2,135,251)	(168,300)	(1,384,340)

Transactions with related parties were performed on an arm's length basis.

The Bank applies the exemption from the disclosure requirements of IAS 24 for related party transactions and balances as it is a government-related entity.

33 Events after reporting date

On January 9, 2023, an increase in share capital by KGS 1,000,000 thousand was registered in the Unified State Register of Securities of the Kyrgyz Republic as a result of issue and placement of 100,000 common registered shares of the Bank with a nominal value of KGS 10 thousand per share. The Ministry of Finance of the Kyrgyz Republic became the owner of these securities.