OPEN JOINT STOCK COMMERCIAL BANK KYRGYZSTAN

Financial statements
for the year ended December 31, 2021
(in accordance with IFRS)

and independent auditor's report

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OPEN JOINT STOCK COMPANY COMMERCIAL BANK KYRGYZSTAN

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report, is made with a view to distinguish the respective responsibilities of management and those of the independent auditors in relation to the financial statements of the Open Joint Stock Company Commercial Bank KYRGYSTAN (the "Bank").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at December 31, 2021, the results of its operations, cash flows and changes in shareholders' capital for the year then ended, in accordance with International Financial Reporting Standards (hereinafter the "IFRS").

In preparing the financial statements, management is responsible for:

- selecting suitable accounting policies and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- compliance with IFRS; and
- preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal control, throughout the Bank;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- maintaining statutory accounting records in compliance with legislation, accounting standards of the Kyrgyz Republic and requirements set by the National Bank of the Kyrgyz Republic;
- taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- detecting and preventing fraud and other irregularities.

The financial statements for the year ended December 31, 2021 were approved and authorized for issue on March 15, 2022 by the management of the Bank.

On behalf of the Management of the Bank:

Zharkynbek Sagyndykov	**Elmira Djenbaeva**
Chairman of Management Board	**Chief Accountant**
March 15, 2022	March 15, 2022
Bishkek, the Kyrgyz Republic	Bishkek, the Kyrgyz Republic

103, Ibraimov str.
BC "Victory", 7th floor
Bishkek, 720011
Kyrgyz Republic

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INDEPENDENT AUDITOR'S REPORT

To Shareholders and Board of Directors of the OJSC Commercial Bank KYRGYZSTAN:

Opinion

We have audited the financial statements of the OJSC Commercial Bank KYRGYZSTAN (the "Bank"), which comprise the statement of financial position as at December 31, 2021, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the 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 present fairly, in all material respects, the financial position of the Bank as at December 31, 2021, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (the "IFRS").

Basis for opinion

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

Other matter

The financial statements of the Bank for the year ended December 31, 2020 were audited by another auditor, who expressed an unmodified opinion on these statements on March 31, 2021.

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 general principles of preparation of financial statements and regulations of the NBKR, 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 and regulations of the NBKR, 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.

Kubat Alymkulov

Certified accountant, FCCA
Certificate of auditor of the Kyrgyz Republic
No. A 0069 dated October 19, 2009
Audit Partner,
Director of Baker Tilly Bishkek LLC

Bolot Oskonbaev

Certified accountant, ACCA
Certificate of auditor of the Kyrgyz Republic
No. AD 0033 dated December 23, 2021
Audit Director

Baker Tilly Bishkek LLC,
License Series A No. 0049 dated July 1, 2011 issued by the State Committee on Review and Regulation of the Financial Market of the Kyrgyz Republic

March 15, 2022
Bishkek, the Kyrgyz Republic

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- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
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March 15, 2022
Bishkek, the Kyrgyz Republic

OPEN JOINT STOCK COMPANY COMMERCIAL BANK KYRGYZSTAN

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

	Notes	For the year ended December 31, 2021	For the year ended December 31, 2020
Interest income	6	1,538,927	1,413,925
Interest income on REPO	6	2,014	1,207
Interest expenses	6	(367,225)	(367,008)
NET INTEREST INCOME BEFORE ACCRUAL OF ALLOWANCE FOR EXPECTED CREDIT LOSSES ON INTEREST BEARING ASSETS		1,173,716	1,048,124
Accrual of allowance for expected credit losses on interest bearing assets	7	(60,633)	(156,898)
NET INTEREST INCOME		1,113,083	891,226
Commission income	8	576,108	395,113
Commission expenses	8	(488,739)	(170,743)
Net gains from financial instruments at fair value through profit or loss		69,834	37,542
Net gain on foreign currency transactions	9	426,096	319,415
Other income, net		40,766	7,734
NET NON-INTEREST INCOME		624,065	589,061
Operating expenses	10	(1,392,391)	(1,174,668)
Accrual of allowance for impairment losses on other assets and liabilities	7	(27,986)	(27,319)
OPERATIONAL EXPENSES		(1,420,377)	(1,201,987)
PROFIT BEFORE INCOME TAX		316,771	278,300
Income tax	11	(20,448)	(25,063)
NET PROFIT FOR THE YEAR		296,323	253,237
Other comprehensive income		-	-
Total comprehensive income		296,323	253,237
Earnings per share (soms)	27	0.77	0.73
Weighted average number of ordinary shares		387,349,513	346,832,573

On behalf of the Management of the Bank:

Zharkynbek Sagyndykov
Chairman of Management Board

March 15, 2022
Bishkek, the Kyrgyz Republic

Elmira Djenbaeva
Chief Accountant

March 15, 2022
Bishkek, the Kyrgyz Republic

The notes on pages 10-79 form an integral part of the financial statements. The independent auditor's report is on pages 3-4

OPEN JOINT STOCK COMPANY COMMERCIAL BANK KYRGYZSTAN

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2021
(in thousands of Kyrgyz soms)

	Notes	December 31, 2021	December 31, 2020
ASSETS			
Cash and cash equivalents	12	10,320,314	5,013,592
Amounts due from financial institutions	13	432,438	389,571
Loans to customers	14	8,877,776	8,019,239
Investment securities at amortised cost	15	777,092	802,795
Financial assets at fair value through profit or loss	16	1,148	4,526
Property and equipment	17	545,371	339,996
Intangible assets	18	262,110	205,468
Right-of-use assets	19	34,027	33,796
Deferred tax assets	11	-	-
Other assets	20	562,515	537,736
TOTAL ASSETS		21,812,791	15,346,719
SHAREHOLDERS' EQUITY AND LIABILITIES			
LIABILITIES:			
Customer accounts	21	17,040,239	10,490,012
Amounts due to financial institutions	22	363,711	710,215
Financial liabilities at fair value through profit or loss	16	81,636	106,912
Deferred tax liability	11	8,671	19,587
Other borrowed funds	23	1,463,450	1,595,868
Lease liabilities	24	36,337	39,356
Other liabilities	25	466,020	277,714
		19,460,064	13,239,664
SHAREHOLDERS' EQUITY:			
Share capital	26	1,936,748	1,734,163
Retained earnings		415,979	372,892
		2,352,727	2,107,055
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		21,812,791	15,346,719

On behalf of the Management of the Bank:

Zharkynbek Sagyndykov
Chairman of Management Board

March 15, 2022
Bishkek, the Kyrgyz Republic

Elmira Djenbaeva
Chief Accountant

March 15, 2022
Bishkek, the Kyrgyz Republic

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OPEN JOINT STOCK COMPANY COMMERCIAL BANK KYRGYZSTAN

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2021
(in thousands of Kyrgyz soms)

	Note	Share capital	Retained earnings	Total equity
Balance as at December 31, 2019		1,301,658	576,693	1,878,351
Comprehensive income				
Profit for the year		-	253,237	253,237
Total comprehensive income		-	253,237	253,237
Transactions with owners				
Issue of shares	26	432,505	(432,505)	-
Dividends declared		-	(24,533)	(24,533)
Total transactions with owners		432,505	(457,038)	(24,533)
Balance as at December 31, 2020	26	1,734,163	372,892	2,107,055
Comprehensive income				
Profit for the year		-	296,323	296,323
Total comprehensive income		-	296,323	296,323
Transactions with owners				
Issue of shares	26	202,585	(202,585)	-
Dividends declared		-	(50,651)	(50,651)
Total comprehensive income		202,585	(253,236)	(50,651)
Balance as at December 31, 2021	26	1,936,748	415,979	2,352,727

On behalf of the Management of the Bank:

Zharkynbek Sagyndykov
Chairman of Management Board

March 15, 2022
Bishkek, the Kyrgyz Republic

Elmira Djenbaeva
Chief Accountant

March 15, 2022
Bishkek, the Kyrgyz Republic

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OPEN JOINT STOCK COMPANY COMMERCIAL BANK KYRGYZSTAN

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2021
(in thousands of Kyrgyz soms)

	Notes	For the year ended December 31, 2021	For the year ended December 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received		1,476,179	1,404,051
Interest paid		(367,439)	(366,875)
Commission received	8	576,108	395,113
Commission paid	8	(492,357)	(111,589)
Realised gain less losses from foreign currencies	9	432,534	364,326
Realised gain less losses from financial instruments at fair value through profit and loss		118,581	37,542
Other income		40,766	1,560
Operating expenses paid		(1,196,640)	(1,028,541)
Cash flow from operating activities before changes in operating assets and liabilities		587,732	695,587
Net (increase)/decrease in operating assets:			
Financial assets at fair value through profit or loss		3,378	12,748
Amounts due from financial institutions		(37,497)	25,798
Loans to customers		(945,718)	(1,125,916)
Other assets		59,585	(57,222)
Net increase/(decrease) in operating liabilities:			
Financial liabilities at fair value through profit and loss		(25,276)	88,489
Amounts due to financial institutions		(352,245)	(169,174)
Repurchase agreements		2,014	-
Customer accounts		6,511,361	2,069,093
Other liabilities		60,003	41,346
Cash inflow from operating activities before taxation		5,863,337	1,580,749
Income tax paid		(25,751)	(31,444)
Net cash inflow from operating activities		5,837,586	1,549,305

OPEN JOINT STOCK COMPANY COMMERCIAL BANK KYRGYZSTAN

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2021 (CONTINUED)
(in thousands of Kyrgyz soms)

	Notes	For the year ended December 31, 2021	For the year ended December 31, 2020
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities at amortised cost		(859,740)	(3,609,010)
Redemption of investment securities at amortised cost		895,119	4,147,346
Purchase of property equipment and intangible assets	17, 18	(468,345)	(102,184)
Proceeds from disposal of property and equipment		34,885	6,174
Net cash (outflow)/inflow from investing activities		(398,081)	442,326
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from other borrowed funds	23	335,140	471,979
Repayment of other borrowed funds	23	(474,116)	(712,996)
Repayment of lease liabilities		(25,825)	(76,543)
Dividends paid	26	(50,452)	(24,773)
Net cash outflow from financing activities		(215,253)	(342,333)
Effect of foreign exchange differences on cash and cash equivalents		82,470	197,070
NET INCREASE IN CASH AND CASH EQUIVALENTS		5,306,722	1,846,368
CASH AND CASH EQUIVALENTS, at the beginning of the year	12	5,013,592	3,167,224
CASH AND CASH EQUIVALENTS, at the end of the year	12	10,320,314	5,013,592

On behalf of the Management of the Bank:

Zharkynbek Sagyndykov
Chairman of Management Board

March 15, 2022
Bishkek, the Kyrgyz Republic

Elmira Djenbaeva
Chief Accountant

March 15, 2022
Bishkek, the Kyrgyz Republic

The notes on pages 10-79 form an integral part of the financial statements. The independent auditor's report is on pages 3-4.

(in thousands of Kyrgyz soms, unless otherwise stated)

1. BACKGROUND

Organization and operations

Open Joint Stock Company Commercial Bank KYRGYZSTAN (the "Bank") was established in the Kyrgyz Republic on November 6, 1990 on the basis of Kirkontora Zhilsotsbank of the USSR.

The principal activities of the Bank are deposit taking and customer account maintenance, lending, issuing guarantees, cash and settlement transactions and operations with securities, foreign exchange and precious metals. The Bank conducts its activities on the basis of a license for the right to carry out banking operations No. 014, issued by the National Bank of the Kyrgyz Republic (the "NBKR").

As at December 31, 2021, the Bank has 20 operating branches, 33 savings banks and 46 field offices and 9 customer service points through which it conducts business on the territory of the Kyrgyz Republic (December 31, 2020: 21 branches, 39 savings banks and 53 field offices). The legal address of the headquarter is: 54A Togolok Moldo street, Bishkek, 720033, the Kyrgyz Republic.

Number of employees of the Bank as at December 31, 2021 and 2020 amounted to 1,382 and 1,261 people, respectively.

As at December 31, 2021 and 2020 share capital of the Bank was presented as follows:

	December 31, 2021	December 31, 2020
Ms. Babanova A.T.	97.97%	97.97%
Other individual and legal entities	2.03%	2.03%
	100.0%	100.0%

The Bank is a member of the obligatory deposit insurance system. This system operates on the basis of the legislation of the Kyrgyz Republic, and its management is carried out by the state organization "Agency on the Protection of Deposits of the Kyrgyz Republic". The deposit protection system is aimed at protecting depositors of banks (individuals and individual entrepreneurs carrying out individual entrepreneurial activities without the formation of a legal entity) upon the occurrence of a guaranteed event (failure to pay a deposit due to enforcement of a final court decision on forced liquidation or bankruptcy of a bank, and if the procedure for voluntary liquidation initiated in accordance with the legislation of the Kyrgyz Republic has been transferred to the procedure of compulsory liquidation on the grounds provided by the Law of the Kyrgyz Republic On the Conservation, Liquidation and Bankruptcy of Banks in accordance with the final court decision that came into force) by providing compensation in the amount up to 200 thousand soms for each individual.

2. PRESENTATION OF FINANCIAL STATEMENTS

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter the "IFRS") issued by the International Accounting Standards Board and Interpretations issued by the International Financial Reporting Interpretations Committee.

Functional and reporting currency

Items included in the Bank's financial statements are estimated using the currency that best reflects the economic substance of the underlying events and circumstances related to the Bank (the "functional currency"). The functional and reporting currency of the accompanying financial statements is Kyrgyz soms (the "KGS" or "som").

These financial statements are presented in thousands of Kyrgyz soms (the "KGS" or "som"), unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except for the evaluation of certain financial instruments carried at fair value.

Basis of measurement

These financial statements have been prepared under the historical cost convention except for certain financial instruments that are carried at fair value as explained below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign currency translation

The financial statements are presented in Kyrgyz som, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of profit or loss and other comprehensive income as "Net gains from foreign currencies". Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBKR official exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official NBKR exchange rates at December 31, 2021 and 2020, were as follows:

	December 31, 2021	December 31, 2020
US Dollar / Kyrgyz som	84.7586	82.6498
Euro / Kyrgyz som	95.7857	101.3204
Russian ruble / Kyrgyz som	1.1409	1.1188
Kazakhstani tenge / Kyrgyz som	0.1964	0.1966

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

The Bank calculates interest income on debt financial assets measured at amortised cost by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired assets.

Effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

Fee and commission income and expenses

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period as respective performance obligations are satisfied. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as purchase or sale of currency, transfer transactions or cash transactions are recognised on completion of such transaction.

The Bank's expenses for the agent's services are recognized as fee and commission expenses in the statement of comprehensive income.

Net gain/(loss) on trading assets and other financial assets measured at FVTPL and trading liabilities

Net gain/(loss) on trading assets and other financial assets measured at FVTPL and trading liabilities includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading.

Financial assets and liabilities

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets and liabilities are recognised on the trade date i.e., the date that the Bank commits to purchase the asset or liability. Regular way purchases or sales are purchases or sales of financial assets and liabilities that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

Initial measurement

Financial assets and liabilities are initially measured at their fair value. Transaction costs directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss), respectively, increase or decrease the fair value of financial assets or financial liabilities on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are charged directly to profit or loss.

Measurement categories of financial assets and liabilities

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost;
- FVOCI;
- FVPL.

The Bank classifies and measures its derivative and trading portfolio at FVPL. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies. The Bank classifies and measures its derivative and trading portfolio at FVPL.

The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

The Bank only measures amounts due from financial institutions, loans to customers and other financial investments at amortised cost if both of the following conditions are met:

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

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation is applied.

The details of these conditions are outlined below.

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Financial guarantees, and undrawn loan commitments

The Bank issues financial guarantees and loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of profit or loss, and allowance for impairment.

Undrawn loan commitments are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Loan commitments are described in IFRS 9 as firm commitments to provide credit under specified terms and conditions. These commitments are in the scope of the requirements for evaluating impairment allowance.

The Bank sometimes issues commitments to provide loans at below market interest rates. Such liabilities are initially recognised at fair value and subsequently measured at the higher of the allowance for impairment losses and the amount initially recognised less, where relevant, any accumulated income recognised.

Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank changes the business model for managing financial assets. Financial liabilities are never reclassified.

Impairment of financial assets

Calculation of expected credit losses ('ECL') – definitions

ECL is a probability-weighted measurement of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and should be determined by evaluating a range of possible outcomes.

Default – it is the recognition by the Bank of the fact of non-fulfillment or incomplete fulfillment by the counterparty of its financial obligations to the Bank.

A default occurs no later than when a financial asset is 90 days overdue, unless the Bank has a reasonable and supportable information, that demonstrate that the use of the other default criteria with more overdue days is more appropriate. The definition of default used for these purposes is applied consistently to all financial instruments, except when there is available information demonstrating that a different definition of default is more appropriate for a particular financial instrument.

The Bank recognises the default of a counterparty if either of the following criteria is met or both:

Qualitative criteria - the Bank has a reasonable evidence to believe that the counterparty is unlikely to fulfill the requirements of the Bank in full without the use of such measures as the foreclosure of collateral (if any).

Qualitative criteria - the Bank has a reasonable evidence to believe that the counterparty is unlikely to fulfill the requirements of the Bank in full without the use of such measures as the foreclosure of collateral (if any).

Qualitative criteria for the recognition of default

The qualitative criteria for the recognition of default are an analysis of indicators of financial stability, liquidity and profitability, as well as liquidity of the collateral, and its creditworthiness.

The most significant criteria which characterise the financial position of the counterparty include the stability of financial cash flows, the sufficiency of own funds and the amount of total debt or total liabilities. A qualitative assessment assumes the monitoring of loan operations, as well as control over the issuance of loans.

The basic indicators for a recognition of default are the following:

- Failure to comply with the terms of the contract;
- Restructuring requirements;
- Bankruptcy of the counterpart;
- Other events.

In case of revealing a direct or indirect evidence of a high probability of negative outcome, a recognition of default can be made based on a professional judgment.

In forming a professional judgment, the following facts should be taken into account:

- upon request for payment (of the Bank or other creditors) to the counterparty (for payment of principal, interest, commissions and other payments);
- according to the requirements of the Bank a provision was made due to the expected significant decrease in a credit quality;
- claims sold (assigned) by the Bank with an economic loss;
- claims restructured on unfavorable conditions for the Bank;
- there were significant negative changes in the financial and economic activities of the counterparty;
- the fact of a financial abuse by the counterparty (in relation to the Bank or third parties) was detected and confirmed.

To calculate ECL, the Bank uses four main indicators, namely:

- Exposure at default (hereinafter - “EAD”) - the estimated value of credit claims that are at risk on the date of default, taking into account the expected change in the value of credit claims after the reporting date, including payments of principal and interest, and the expected use of unconditional credit line;
- Probability of default (hereinafter - “PD”) - the estimated value of the probability of a default occurring within a certain period of time;
- Loss given default (hereinafter - “LGD”) - the estimated value of losses as a result of default, based on the difference in the amounts of contractual cash flows receivable and cash flows that the lender expects to receive, including proceeds from the sale of collateral;
- Discount rate - a tool to discount the expected credit loss to the present value at the reporting date. The discount rate is the effective interest rate (hereinafter - “EIR”) on a financial instrument or a rate close to it.

Significant increase in credit risk

The Bank's management applies judgment to estimate a significant increase in credit risk, which is a critical element in estimating expected credit losses. The following factors are taken into account by the Bank when assessing a possible significant increase in credit risk:

- continuous overdue debt of the counterparty to the Bank for more than 30 calendar days;
- loan restructuring due to the inability to service debt on current terms;
- the use of significant interventions by the Bank to reduce the credit risk, such as direct control (management) over operating activities;
- over the next 12 months, substantially insufficient cash flows are projected for servicing debt on current terms;
- actual or expected significant adverse change in the external credit rating of a financial instrument;
- existing or projected adverse changes in commercial, financial or economic conditions that are expected to lead to a significant change in the borrower's ability to meet its obligations;
- a significant increase in credit risk on other financial instruments of the same borrower;
- provision a grace period for the payment of principal and interest;
- availability of information on the involvement of the counterparty in legal proceedings, which may worsen the financial position.

Credit risk is low for financial instruments if:

- the risk of a default on a financial asset/liability is low;
- the borrower has a substantial margin of safety in order to fulfill his obligations to pay the contractual cash flows in the nearest future; and
- adverse changes in economic conditions in a more distant future may lead, but not necessarily lead to a decrease in the borrower's ability to fulfill its obligations.

As part of its activities, the Bank excludes an increase in credit risk on government securities denominated in national currency, as well as balances in financial institutions with a high credit rating.

ECL measurement - description of estimation techniques

For financial assets that are not purchased or originated credit impaired ("POCI") assets ECLs are generally measured based on the risk of default over one of two different time periods, depending on whether the borrower's credit risk has increased significantly in a three-stage model for ECL measurement:

Stage 1: The expected credit loss arises in case of a possible default within 12 months from the reporting date and interest income is calculated on the gross book value of the loan.

Stage 2: Expected credit loss, which arises in the event of a possible default during the maximum contractual period during which the Bank is exposed to credit risk on financial instruments, the credit risk on which has increased significantly since the date of initial recognition. Interest income is calculated on the gross book value of the loan.

Stage 3: The expected credit loss, which arises in the event of a possible default during the maximum contractual period, while interest income is calculated at the effective interest rate to the gross book value less the impairment provision.

ECL for POCI financial assets is always measured on a lifetime basis (Stage 3), and at the reporting date, the Bank only recognises the cumulative changes in lifetime expected credit losses since initial recognition.

On a collective basis, the Bank assesses the following types of loans: legal entities (corporate borrowers, small and medium businesses, excluding banks), individuals, financial institutions, securities and contingent liabilities (guarantees, letters of credit, credit lines). This separation was due to both economic logic and the availability of information for the necessary assessment of activities.

Impact of macroeconomic factors and macroeconomic scenarios

In accordance with IFRS 9, the Bank included forecast information both in its assessment of a significant increase in credit risk from the date of initial recognition and into the assessment of expected credit losses.

The Bank uses expert judgment to evaluate the use of a forecast information. This estimate is also based on the information obtained from external sources. External information may include economic data and forecasts published by government agencies and monetary authorities in the countries, in which the Bank operates, such as the National Bank of the Kyrgyz Republic ("NBKR"), as well as other external sources, such as the International Monetary Fund and the Eurasian Economic Commission, as well as individual and scientific forecasts.

ECL measurement - description of estimation techniques

Principles of portfolio assessments - to assess the staging of exposure and to measure a loss allowance on a collective basis, the Bank combines its exposures into segments on the basis of shared credit risk characteristics, so that exposure to risk within a group are homogeneous.

Two types of PDs are used to calculate ECLs: 12- month and lifetime PD:

- 12-month PDs - the estimated probability of a default occurring within the next 12 months (or over the remaining life of a financial instrument if less than 12 months). This parameter is used to calculate 12-month ECLs. An assessment of a 12-month PD is based on the latest available historical default data and adjusted for forward-looking information.
- Lifetime PDs - the estimated probability of a default occurring over the remaining life of a financial instrument. This parameter is used to calculate lifetime ECLs. An assessment of a lifetime PD is based on the latest available historic default data and adjusted for forward looking information.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised from the separate statement of financial position where:

- The rights to receive cash flows from the asset have expired;
- The Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- The Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

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.

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

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

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

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

If the difference in present value is greater than 10% the Bank deems the arrangement is substantially different leading to derecognition. In the case where the financial asset is derecognized the loss allowance for expected credit losses 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 recognized at a significant discount to its revised par amount because there remains a high risk of default, which has not been reduced by the modification. 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). Where a modification does not lead to derecognition the Bank also reassesses whether there has been a significant increase in credit risk or whether the assets need to be classified as credit-impaired.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default;
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

When these conditions are not met, the related assets and liabilities are recognised in the statement of financial position in full.

Fair value measurement

The Bank measures financial instruments carried at FVPL and FVOCI and at fair value at each reporting date. Information on fair value of financial instruments measured at amortised cost is disclosed in Note 30.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, unrestricted balances on corresponded and term deposits with the National Bank of the Kyrgyz Republic with original maturity of less or equal to 3 months and amounts due from financial institutions with original maturity of less or equal to 3 months and are free from contractual encumbrances.

Mandatory cash balances with the National Bank of the Kyrgyz Republic

Mandatory cash balances with the National Bank of the Kyrgyz Republic represent mandatory reserve deposits with the National Bank of the Kyrgyz Republic. In accordance with the requirements of the NBKR, the Bank is obliged to maintain the amount of funds on correspondent accounts to meet the required reserve requirements on a daily basis not less than the minimum threshold level of the volume of required reserves. The Bank’s ability to withdraw from such accounts is not restricted by the Kyrgyz legislation.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including forwards and swaps in the foreign exchange markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in profit or loss within transactions with trading securities or within foreign currency transactions (trading operations), depending on the nature of the financial instrument.

Withdrawn assets

Withdrawn assets are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Buildings and constructions	20 to 30 years;
Furniture and office equipment	5 to 10 years;
Computer equipment	3 to 5 years;
Motor vehicles	7 years;
Improvements to leasehold property	The shortest of useful life and the lease term

Intangible assets

Intangible assets include software and licenses and are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over the useful economic lives from 3 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Leases

The Bank leases offices. Rental contracts are typically made for fixed periods but may have extension options. Contracts may contain both lease and non-lease components. The Bank allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Bank under residual value guarantees;
- the exercise price of a purchase option if the Bank is reasonably certain to exercise that option, and;
- payments of penalties for terminating the lease, if the lease term reflects the Bank exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Bank, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Bank:

- where possible, uses recent third-party financing received by the Bank as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Bank, which does not have recent third-party financing, and;
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and;
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The Bank is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Payments associated with short-term leases of offices, premises and equipment and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less and probability to extend the lease contract is very low.

Income from operating leases where the Bank is a lessor is recognised in income on a straight-line basis over the lease term. Initial significant direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The Bank did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

Impairment of tangible and intangible assets

At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

Borrowing

Borrowings are initially recognized at fair value. Subsequently received amounts are reflected at amortized cost and difference between the carrying and the redemption value is recognized in the statement of profit or loss and other comprehensive income over the period of the borrowings using the effective interest method within interest expense.

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.

Provisions

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Retirement and other employee benefit obligations

In accordance with the requirements of the Kyrgyz legislation certain percentages of pension payments are withheld from total disbursements to staff to be transferred to state pension fund. Such pension system provides for the calculation of current payments by the employer as a percentage of current total payments to staff. Such costs are recognized in the period the related salaries are earned. Upon retirement, all retirement benefit payments are made by the state pension fund.

Share capital

Common shares are classified as equity. Charter capital is measured at the fair value of consideration received. External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Kyrgyz Republic. Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method.

Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Kyrgyz Republic also has various operating taxes, that are assessed on the Bank’s activities. These taxes are included as a component of other operating expenses.

Application of new and revised international financial reporting standards (IFRSs)

The Bank has adopted the following new or revised standards and interpretations issued by International Accounting Standards Board and the International Financial Reporting Interpretations Committee (the “IFRIC”) which became effective for the Bank’s financial statement for the year ended December 31, 2021:

- The amendment to IFRS 16 Leases COVID-19 related rent concessions provides lessees with an exemption from assessing whether a COVID-19 related rent concession is a lease modification.
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest rate benchmark reform – Phase 2 provides a practical expedient for modifications required by the reform, clarify that hedge accounting is not discontinued solely because of the IBOR reform, and introduce disclosures that allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed to and how the entity manages those risks as well as the entity’s progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition.

The adoption of the new or revised standards did not have significant effect on the financial position or performance of the Bank in the financial statements.

New and revised IFRSs in issue but not yet effective

A number of new Standards and Interpretations has been issued and not yet adopted as at December 31, 2021 and had not been applied in preparation of these financial statements. Following Standards and Interpretations might be relevant to operations of the Bank. The Bank intends to adopt these Standards and Interpretations from their effective dates. The Bank has not analyzed potential effect of adoption of these standards on its financial statements.

At the date of authorization of this financial reporting, the following new standards and interpretations were in issue, but not mandatorily yet effective, and which the Bank has not early adopted:

- Amendments to IAS 16 Property, plant and equipment - proceeds before intended use. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss. Annual reporting periods beginning on or after 1 January 2022.
- Amendments to IAS 37 Provisions, contingent liabilities and contingent assets onerous contracts - cost of fulfilling a contract. The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). Annual reporting periods beginning on or after 1 January 2022.
- The amendment to IFRS 9 Financial instruments – clarifies which fees an entity includes when it applies the 10 per cent test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. Annual reporting periods beginning on or after 1 January 2022.
- IFRS 17 Insurance contracts requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. Applicable to annual reporting periods beginning on or after January 1, 2023.
- Amendments to IAS 1 Presentation of financial statements classification of liabilities as current or non-current. The amendments aim to promote consistency in applying the requirements by helping entities determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. Annual reporting periods beginning on or after January 1, 2023.
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. To support the amendment, the Board has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2. Annual reporting periods beginning on or after 1 January 2023.
- Definition of Accounting Estimates (Amendments to IAS 8) replaces the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error. Annual reporting periods beginning on or after 1 January 2023.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) clarifies that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. Annual reporting periods beginning on or after 1 January 2023.

The Bank intends to adopt these new standards and amendments, if applicable, when they become effective.

4. SIGNIFICANT ACCOUNTING ESTIMATES

Estimation uncertainty

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

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

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the Bank management has made 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.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Allowance for expected credit losses on loans to customers and receivable

The Bank regularly reviews its loans for impairment. Reserves of the Bank's loan impairment are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Bank considers accounting estimates related to the allowance for expected credit loss of loans and receivables, a key source of uncertainty of estimation due to the fact that (i) they are highly susceptible to change from period to period as the assumptions on future non-compliance indicators and assessment of potential losses related to impaired loans and receivables, based on recent work, and (ii) any significant difference between the estimated losses and actual losses of the Bank requires from the Bank to create reserves, which could have a material impact on its financial statements in future periods.

The Bank uses management judgment to estimate the amount of any impairment loss in cases where the borrower has financial difficulties and there is little historical data relating to similar borrowers.

Analogously, the Bank estimates changes in future cash flows based on past experience, the client's behavior in the past, the available data, indicating an adverse change in the status of repayment by borrowers in the group, as well as national or local economic conditions that correlate with defaults on assets in this group. Management uses estimates based on historical experience of losses on assets with credit risk characteristics and objective evidence of impairment similar to those in this group of loans. The Bank uses an assessment of Management for adjusting the available data on a group of loans to reflect current circumstances not reflected in historical data.

It should be taken into account that the assessment of expected credit losses includes a subjective factor. The Bank's management believes that the amount of the recognized impairment is sufficient to cover losses incurred on assets subject to risks at the reporting date, although it is possible that in certain periods the Bank may incur losses greater than the created allowance for expected credit losses.

The allowances for expected credit losses of financial assets in the financial statements have been determined on the basis of existing economic conditions.

As at December 31, 2021 and 2020 the carrying amount of the allowance for expected credit losses on loans to customers amounted to 490,035 thousand soms and 419,932 thousand soms, respectively (Note 14).

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 30.

Leases − estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available (such as for the Bank that did not enter into financing transactions for the appropriate period) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when the lease term differs from the financing term).

The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the stand-alone credit rating).

Taxes

The Kyrgyz Republic currently has a single Tax Code that regulates main taxation matters. The existing taxes include income tax, value added tax, income tax, social and other taxes. Implementing regulations are often unclear or nonexistent and insignificant amount of precedents has been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations; thus, creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in the Kyrgyz Republic substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Bank is in compliance with the tax laws of the Kyrgyz Republic regulating its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive tax issues.

5. RECLASSIFICATIONS

Certain reclassifications have been made to the financial statements as at December 31, 2020 and for the year then ended to conform to the presentation as at December 31, 2021 and for the year then ended as current year presentation provides better view of the financial position of the Bank.

Impact of changes on the financial statements of the Bank for the year ended December 31, 2020 are provided below:

	As previously reported December 31, 2020	**Reclassification amount**	**As reclassified December 31, 2020**
Commission expense	111,589	59,154	170,743
Administrative and operating expenses	1,233,822	(59,154)	1,174,668

6. NET INTEREST INCOME

Interest income and expenses of the Bank for the years ended December 31, 2021 and 2020 are as follows:

	For the year ended December 31, 2021	For the year ended December 31, 2020
Interest income from financial assets measured at amortised cost:		
Loans to customers	1,386,551	1,236,687
Investment securities at amotrised cost	100,959	115,968
Amounts due from financial institutions	41,432	55,604
Cash and cash equivalents	9,985	5,666
Total interest income on financial assets measured at amortised cost	1,538,927	1,413,925
Interest income from repurchase agreements	2,014	1,207
Interest income	1,540,941	1,415,132
Interest expenses on financial liabilities measured at amortised cost:		
Amounts due to customers	309,245	303,916
Other borrowed funds	52,523	56,057
Lease liabilities	2,901	5,779
Amounts due to financial institutions	658	1,095
Other	1,898	161
Interest expenses	367,225	367,008
Net interest income before accrual of allowance for expected credit losses on interest bearing assets	1,173,716	1,048,124

7. ALLOWANCE FOR EXPECTED CREDIT LOSSES

The allowance for expected credit losses for the year ended December 31, 2021 and 2020 on interest bearing assets consisted of the following:

	Loans issued to legal entities	Loans issued to individuals	Amounts due from financial institutions (Note 13)	Total
December 31, 2019	28,909	206,077	2,098	237,084
Provision	140,639	12,987	3,272	156,898
Write-off of loans	-	(322)	-	(322)
Recovery of earlier written-off loans	-	24,508	-	24,508
Foreign exchange difference	2,365	4,769	-	7,134
December 31, 2020	171,913	248,019	5,370	425,302
Provision/(recovery)	128,697	(62,694)	(5,370)	60,633
Write-off of loans	-	(1,614)	-	(1,614)
Recovery of earlier written-off loans	3,158	34	-	3,192
Foreign exchange difference	1,683	839	-	2,522
December 31, 2021	305,451	184,584	-	490,035

The movement in allowance for expected credit losses on other assets for the years ended December 31, 2021 and 2020 is presented as follows:

	Other financial assets (Note 20)	Cash and cash equivalents (Note 12)	Other non-financial assets (Note 20)	Guarantees and other credit line commitments (Note 28)	Total
December 31, 2019	5,388	4,912	35,557	1,345	47,202
(Recovery)/provision	(1,595)	-	28,279	635	27,319
Write off	(929)	-	(1,220)	-	(2,149)
Recovery of earlier written off assets	3,762	-	308	-	4,070
Foreign exchange difference	1	398	-	267	666
December 31, 2020	6,627	5,310	62,924	2,247	77,108
Provision/(recovery)	35,863	-	(12,401)	4,524	27,986
Write off	(399)	-	-	-	(399)
Recovery of earlier written off assets	91	-	-	-	91
Foreign exchange difference	3	104	-	(9)	98
December 31, 2021	42,185	5,414	50,523	6,762	104,884

8. COMMISSION INCOME AND EXPENSES

Commission income and expenses of the Bank for the years ended December 31, 2021 and 2020 are as follows:

	For the year ended December 31, 2021	For the year ended December 31, 2020
Commission income		
Servicing of payment cards	318,137	166,474
Cash operations	227,582	202,314
Bank guarantees	10,143	12,564
Other	20,246	13,761
	576,108	395,113

	For the year ended December 31, 2021	For the year ended December 31, 2020
Commission expenses		
Commission expenses on money transfers	227,268	53,659
Processing fees	189,619	77,347
Cash operations	43,334	6,596
Settlements operations	10,869	8,733
Commission expenses for issue of banking cards	17,649	24,408
	488,739	170,743

9. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations of the Bank for the years ended December 31, 2021 and 2020 comprises:

	For the year ended December 31, 2021	For the year ended December 31, 2020
Dealing, net	432,534	364,326
Foreign exchange differences, net	(6,438)	(44,911)
	426,096	319,415

10. OPERATING EXPENSES

Operating expenses of the Bank for the years ended December 31, 2021 and 2020 comprise:

	For the year ended December 31, 2021	For the year ended December 31, 2020
Salary and bonuses	579,027	508,681
Contributions to Social Fund	97,968	84,823
Personnel expenses	676,995	593,504
Software maintenance	168,998	148,037
Depreciation and amortization (Notes 17, 18)	148,658	182,385
Advertising and marketing	67,056	21,806
Rent	67,128	6,177
Security	41,514	48,344
Plastic cards	30,992	18,194
Repair and maintenance	28,477	22,508
Depreciation of right-of-use assets	25,963	71,288
Contribution to Deposit Fund Protection	22,058	18,125
Encashment	21,358	18,984
Communication	19,821	14,918
Professional services	10,444	12,388
Stationery expenses	10,006	8,793
Utilities	7,801	8,130
Representation expenses	4,420	2,999
Business trip expenses	3,768	1,924
Low value items	2,548	2,088
Taxes, other than income tax	519	235
Other	59,830	45,129
	1,392,391	1,174,668

Purchase of leased buildings

The Bank leases offices throughout the all regions in Kyrgyz Republic in the course of its business activities. In the financial statement lease expenses of building from “Asia Estate” CJSC were recognized in operating expenses as an operating lease, due to the management of the Bank intends to purchase the leased buildings during 2022-2024 according to the Business Plan and Budget. During the analysis of all available information, the management of the Bank ascertained that these leased premises were not recognized as assets in the form of right-of-use assets use correctly.

11. INCOME TAX

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, which may differ from IFRS. For the year ended December 31, 2021 income tax rate for legal entities was equal to 10% on the territory of the Kyrgyz Republic.

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, 2021 and 2020 relate mostly to different methods of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

	For the year ended December 31, 2021	For the year ended December 31, 2020
Current income tax expense	31,364	31,001
Deferred income tax benefit	(10,916)	(5,938)
Income tax expense	20,448	25,063

Reconciliation of tax and accounting profits for the years ended December 31, 2021 and 2020 is as follows:

	For the year ended December 31, 2021	Effective tax rate	For the year ended December 31, 2020	Effective tax rate
Profit before taxes	316,771		278,300	
Tax at statutory rate (10%)	31,677	10%	27,830	10%
Change in valuation of previous years	(6,059)		(4,075)	
Tax effect on permanent differences	(5,170)	(2%)	1,308	0%
Income tax expense	20,448		25,063	

Tax effect from temporary differences as at December 31, 2021 and 2020 is presented below:

	December 31, 2021	December 31, 2020
Deferred income tax assets:		
Allowance for expected credit losses on other assets	36,112	87
Lease liabilities	36,337	39,356
Unused vacation provision	25,901	23,201
Other liabilities	6,760	2,257
Total deferred income tax asset	105,110	64,901
Deferred income tax liabilities:		
Allowance for expected credit losses on loans to customers	113,709	88,146
Property, equipment and intangible assets	44,086	133,380
Allowance for expected credit losses amounts due from financial institutions	-	5,444
Right-of-use assets	34,027	33,796
Total deferred income tax liabilities	191,822	260,766
Net deferred income tax liabilities	(86,712)	(195,865)
Net deferred income tax liabilities at statutory tax rate (10%)	(8,671)	(19,587)

Temporary differences between tax accounting and current financial statement lead to deferred tax liabilities as at December 31, 2021 and 2020 as a result of the following:

	December 31, 2020	**Recognized in the statement of profit and loss**	**Recognized in capital**	**December 31, 2021**
Temporary differences				
Property, equipment and intangible assets	(13,338)	8,929	-	(4,409)
Allowance for expected credit losses on loans to customers	(8,815)	(2,556)	-	(11,371)
Right-of-use assets	(3,380)	(23)	-	(3,403)
Allowance for expected credit losses amounts due from financial institutions	(544)	544	-	-
Lease liabilities	3,936	(302)	-	3,634
Allowance for expected credit losses on other assets	9	3,603	-	3,612
Unused vacation provision	2,320	270	-	2,590
Other liabilities	225	451	-	676
	(19,587)	10,916	-	(8,671)

	December 31, 2019	**Recognized in the statement of profit and loss**	**Recognized in capital**	**December 31, 2020**
Temporary differences				
Property, equipment and intangible assets	(20,015)	6,677	-	(13,338)
Allowance for expected credit losses on loans to customers	(11,070)	2,255	-	(8,815)
Right-of-use assets	(10,087)	6,707	-	(3,380)
Allowance for expected credit losses amounts due from financial institutions		(544)	-	(544)
Lease liabilities	10,587	(6,651)	-	3,936
Allowance for expected credit losses on other assets	-	9	-	9
Unused vacation provision	2,060	260	-	2,320
Other liabilities	3,000	(2,775)	-	225
	(25,525)	5,938	-	(19,587)

12. CASH AND CASH EQUIVALENTS

As at December 31, 2021 and 2020 cash and cash equivalents of the Bank consisted of the following:

	December 31, 2021	**December 31, 2020**
Cash on hand	3,465,215	3,265,494
Current account at the National Bank of the Kyrgyz Republic	1,254,977	680,601
Corresponding accounts with other banks		
- with credit ratings from A to A+	5,460,730	793,819
- with credit rating BBB	81,849	129,190
- with credit ratings from BB to BB+	32,793	117,888
- with a credit rating below B+	18,053	161
- without a credit rating assigned	12,211	31,749
	5,605,536	1,072,807
Less: allowance for expected credit losses	(5,414)	(5,310)
	10,320,314	5,013,592

In accordance with Kyrgyz legislation, the Bank is required to maintain obligatory reserves in the form of funds on accounts with the NBKR. The legislation does not restrict the possibility of withdrawal of these funds by the Bank. As at December 31, 2021 and 2020, obligatory reserves amounted to 1,239,483 thousand soms and 677,918 thousand soms, respectively.

As at December 31, 2021, the Bank had balances due from two banks, with the exception of the NBKR, whose account balances exceeded 10% of the Bank's capital (December 31, 2020: one bank). As at December 31, 2021, the gross value of funds in these banks amounted to 5,457,362 thousand soms. (December 31, 2020: 693,503 thousand soms).

13. AMOUNTS DUE FROM FINANCIAL INSTITUTIONS

As at December 31, 2021 and 2020 amounts due from financial institutions presented as follows:

	December 31, 2021	December 31, 2020
Loans issued for more than 90 days	227,596	307,447
Restricted cash	204,842	87,494
Less: allowance for expected credit losses	-	(5,370)
	432,438	389,571

As at December 31, 2021 the Bank issued loans to three (December 31, 2020: two) financial institutions for the total amount in 226,604 thousand soms (December 31, 2020: 294,489 thousand soms) secured by funds on current accounts of financial institutions, with a balance of 97,673 thousand soms (December 31, 2020: 138,405 thousand soms) as at December 31, 2021. As at December 31, 2021 these loans were denominated in soms, had interest rates from 13.77% to 17.34% per annum (December 31, 2020: from 13.00% to 20.00% per annum) and maturity in 2022-2023. (December 31, 2020: 2021-2023)

As at December 31, 2021, restricted cash amounting to 204,842 thousand soms (December 31, 2020: 87,494 thousand soms) included deposits which represent collateral for the Bank's liabilities to institutions providing payment and transfer services.

As at December 31, 2021 and 2020 the Bank had no balances due from financial institutions in excess of 10% of capital.

14. LOANS TO CUSTOMERS

As at December 31, 2021 and 2020 loans to customers of the Bank valued at amortized cost consisted of the following:

	December 31, 2021	December 31, 2020
Loans to legal entities	2,222,652	2,603,513
Loans to retail customers:		
- for commercial purposes	4,075,503	3,384,002
- for consumer purposes	3,069,656	2,451,656
Less: allowance for expected credit losses	(490,035)	(419,932)
	8,877,776	8,019,239

As at December 31, 2021, the amount of accrued interest on loans to customers comprised 160,793 thousand soms (December 31, 2020: 105,772 thousand soms).

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty and risk level. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained by the Bank are as follows:

- Cash;
- Movable and immovable property;
- Guarantees and suretyship.

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement during its review of the adequacy of the allowance for impairment of loans to customers.

Information on collateral for loans issued is as follows:

	December 31, 2021	**% of loan portfolio**	**December 31, 2020**	**% of loan portfolio**
Property	6,629,787	70.77%	6,230,060	73.82%
Guarantees	1,008,559	10.77%	1,151,119	13.64%
Movable property	318,325	3.40%	273,350	3.24%
Transport	147,722	1.58%	123,027	1.46%
Goods in turnover	139,770	1.49%	101,572	1.20%
Equipment	116,891	1.25%	1,978	0.02%
Guarantees and shared liabilities	51,894	0.55%	82,256	0.97%
Deposits	3,469	0.04%	33,066	0.39%
Other	18,166	0.19%	11,182	0.13%
Unsecured loans	933,228	9.96%	431,561	5.11%
	9,367,811	100.0%	8,439,171	100.00%
Less: allowance for expected credit losses	(490,035)		(419,932)	
	8,877,776		8,019,239	

In 2021, real estate recorded as other assets was transferred to the Bank’s property as borrowers’ debt repayment. According to the Bank’s policy, the foreclosed property is sold in accordance with the established procedure. In general, the Bank does not occupy such property for business use.

The carrying value of the assets repossessed during the period and held as at the reporting date is as follows:

	December 31, 2021	**December 31, 2020**
Land and real estate (Note 20)	142,095	235,632
Less: allowance for impairment	(50,389)	(62,616)
	91,706	173,016

Concentration of loans to customers

Industry and geographical analysis of the loan portfolio

Loans were issued primarily to customers operating in the Kyrgyz Republic for the following purposes:

	December 31, 2021	December 31, 2020
Trade	2,157,755	2,016,422
Agriculture	1,527,613	1,341,977
Mortgage loans	1,493,049	1,392,809
Manufacturing and processing industry	674,914	903,639
Finance lease	123,114	125,190
Other consumer purposes	3,391,366	2,659,134
Less: allowance for expected credit losses	(490,035)	(419,932)
	8,877,776	8,019,239

Pledged assets

As a December 31, 2021 and 2020, loans to customers with a net carrying amount of 131,788 thousand soms and 238,011 thousand soms, respectively, were pledged as collateral for loans received by the Bank from the National Bank of the Kyrgyz Republic (Note 23).

As at December 31, 2021 and 2020, loans to customers with a net carrying amount of 264,315 thousand soms and 522,251 thousand soms, respectively, were pledged as collateral for loans received by the Bank from the Russian-Kyrgyz Development Fund and loans to customers with a net carrying amount of 531,710 thousand soms and 613,659 thousand soms, respectively, were pledged as collateral for loans received by the Bank from OJSC State Mortgage Company (Note 23).

As a December 31, 2021, loans to customers with a net carrying amount of 47,082 thousand soms were pledged as collateral for loans received by the Bank from State Mortgage Company OJSC within the framework of the project Kreditanstalt fur Wiederaufbau (KfW) “Program housing Finance in the Kyrgyz Republic” (Note 23).

15. INVESTMENT SECURITIES AT AMORTISED COST

As at December 31, 2021 and 2020 Investment securities at amortised cost of the Bank consisted of the following:

	December 31, 2021	December 31, 2020
State treasury bills of the Kyrgyz Republic	777,092	802,795
	777,092	802,795

Debt securities are presented as follows:

	Weighted average rate %	December 31, 2021	Weighted average rate %	December 31, 2020
State securities of the Kyrgyz Republic				
1 year	8.00%	58,897	0.00%	-
3 years	2.65%	20,556	3.10%	70,053
5 years	1.88%	496,343	1.73%	535,093
7 years	3.87%	100,687	3.91%	102,262
10 years	4.01%	100,609	4.01%	95,387
		777,092		802,795

As at December 31, 2021, investment securities measured at amortized cost included state treasury bills with a carrying amount of 63,000 thousand soms (December 31, 2020: 80,325 thousand soms) pledged as collateral for loans received by the Bank from the National Bank of the Kyrgyz Republic (Note 23). Also, state treasury bills with a carrying amount of 185,785 thousand soms pledged as collateral for loans received by the Bank from the Russian-Kyrgyz Development Fund were included in investment securities measured at amortized cost (Note 23).

16. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The Bank enters into trading transactions using derivative financial instruments. The table below shows the net position on derivative financial instruments recognized as assets and liabilities and their nominal value. The nominal value reflected on a gross basis is the value of the underlying asset of a derivative instrument or the nominal value to which the rate or index is applied, and serves as the basis for assessing changes in the value of derivative instruments. The nominal value indicates the volume of transactions that have not been settled at the reporting date, and does not reflect the amount of market or credit risk.

As at December 31, 2021 and 2020 financial assets and liabilities at fair value through profit or loss are presented as follows:

	Nominal amount	December 31, 2021 Fair value		Nominal amount	December 31, 2020 Fair value	
		Asset	Liability		Asset	Liability
Foreign exchange contracts						
Swaps – domestic	1,059,704	-	(81,636)	1,441,713	4,526	(106,745)
Swaps – foreign	316,600	1,148	-	22,212	-	(167)
Financial assets /(liabilities) at fair value through profit or loss	1,376,304	1,148	(81,636)	1,463,925	4,526	(106,912)

Swaps are contractual agreements between two parties to exchange movements in foreign currency rates based on specified nominal amounts.

As at December 31, 2021, claims on swap transactions amounted to 462,321 thousand soms, 6,370 thousand US dollars, 277,500 thousand Russian rubles and 600 thousand Euro (December 31, 2020: 887,686 thousand soms, 5,869 thousand US dollars and 900 thousand Euro). The amount of obligations under the swap transactions as at December 31, 2021 amounted to 10,287 thousand US dollars and 513,360 thousand Russian rubles (December 31, 2020: 12,747 thousand US dollars, 390,270 thousand Russian rubles and 79,330 thousand soms).

17. PROPERTY AND EQUIPMENT

As at December 31, 2021 and 2020 property and equipment of the Bank consisted of the following:

	Buildings and constructions	Improvement of leased property	Furniture and equipment	Computer equipment	Vehicles	Assets to be installed	Total
At cost							
December 31, 2019	70,112	31,775	474,803	148,648	31,594	9,909	766,841
Additions	3,058	1,027	28,837	17,171	388	-	50,481
Disposal	(692)	(3,675)	(20,325)	(21,575)	(7,896)	-	(54,163)
Internal movement	-	(91)	91	3,372	-	(3,372)	-
December 31, 2020	72,478	29,036	483,406	147,616	24,086	6,537	763,159
Additions	257,486	8,509	19,782	33,362	1,472	47,404	368,015
Disposal	(31,469)	(6,030)	(21,121)	(3,492)	(574)	(49,014)	(111,700)
Internal movement	9	-	(9)	-	-	-	-
December 31, 2021	298,504	31,515	482,058	177,486	24,984	4,927	1,019,474
Accumulated depreciation							
December 31, 2019	16,778	10,348	245,670	95,395	24,501	-	392,692
Charge for the year	2,430	5,555	49,263	15,648	2,922	-	75,818
Disposal	(431)	(3,633)	(16,496)	(18,203)	(6,584)	-	(45,347)
December 31, 2020	18,777	12,270	278,437	92,840	20,839	-	423,163
Charge for the year	5,340	4,904	49,550	17,707	2,185	-	79,686
Disposal	(7,351)	(3,389)	(14,269)	(3,248)	(489)	-	(28,746)
December 31, 2021	16,766	13,785	313,718	107,299	22,535	-	474,103
Net book value							
As at December 31, 2020	53,701	16,766	204,969	54,776	3,247	6,537	339,996
As at December 31, 2021	281,738	17,730	168,340	70,187	2,449	4,927	545,371

As at December 31, 2021, the original cost of fully depreciated property and equipment in use of the Bank amounted to 26,386 thousand soms (December 31, 2020: 84,869 thousand soms).

18. INTANGIBLE ASSETS

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

	Intangible assets	Total
At cost		
December 31, 2019	363,391	363,391
Additions	51,703	51,703
Disposal	(92)	(92)
December 31, 2020	415,002	415,002
Additions	100,330	100,330
Disposal	(693)	(693)
December 31, 2021	514,639	514,639
Accumulated amortisation		
December 31, 2019	174,347	174,347
Charge for the year	35,279	35,279
Disposal	(92)	(92)
December 31, 2020	209,534	209,534
Charge for the year	43,009	43,009
Disposal	(14)	(14)
December 31, 2021	252,529	252,529
Net book value		
As at December 31, 2020	205,468	205,468
As at December 31, 2021	262,110	262,110

As at December 31, 2021 and 2020, intangible assets included software and licenses.

As at December 31, 2021, the original cost of fully amortised intangible assets in use of the Bank amounted to 72,938 thousand soms (December 31, 2020: 74,181 thousand soms).

19. RIGHT-OF-USE ASSETS

As at December 31, 2021 and 2020 right-of-use assets of the Bank consisted of the following:

	Buildings and other real estate	Total
At cost		
December 31, 2019	166,926	166,926
Additions	33,234	33,234
Disposal	(29,026)	(29,026)
December 31, 2020	171,134	171,134
Additions	37,650	37,650
Disposal	(133,638)	(133,638)
Translation difference	8,318	8,318
December 31, 2021	83,464	83,464
Accumulated amortisation		
December 31, 2019	66,050	66,050
Charge for the year	71,288	71,288
December 31, 2020	137,338	137,338
Charge for the year	25,963	25,963
Disposal	(118,361)	(118,361)
Translation difference	4,497	4,497
December 31, 2021	49,437	49,437
Net book value		
As at December 31, 2020	33,796	33,796
As at December 31, 2021	34,027	34,027

20. OTHER ASSETS

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

	December 31, 2021	December 31, 2020
Other financial assets		
Accounts receivable on operations with plastic cards	305,268	107,553
Settlements on cash transfers	77,556	52,608
Grants to be received from the Ministry of Finance of the Kyrgyz Republic	4,430	50,681
Other	47,487	16,052
Less: allowance for expected credit losses	(42,185)	(6,627)
	392,556	220,267

	December 31, 2021	December 31, 2020
Other non-financial assets		
Withdrawn collateral (Note 10)	142,095	235,632
Prepayments and deferred expenses	41,577	113,337
Inventory	34,328	25,521
Other	2,482	5,903
Less: allowance for impairment	(50,523)	(62,924)
	169,959	317,469
	562,515	537,736

Grants to be received from the Ministry of Finance of the Kyrgyz Republic

On 19 February 2021, the Bank signed an agreement No. 19-04-01/30 with the Ministry of Finance of the Kyrgyz Republic (the "MFKR") about granting subsidies under the project "Financing Agriculture-9" (the "FA-9") to provide governmental support to agriculture manufacturers for the timely implementation of agricultural activities and further development of cattle-breeding, crop (plant) production and processing of agricultural products. MFKR provides with subsidies to the Bank on loans granted under this project for 60, 48, 36, 18 months at interest rate of 6.69% per annum. Payment of the subsidy by MFKR is made on the dates specified in the Agreement. The Bank monitors the targeted use of the loans.

If the borrower has misused the loan funds, an amount of subsidies received on loans for which misuse is identified must be returned to the MFKR, and the interest rate for the final borrower is increased. Upon detection of misusing the subsidy funds, MFKR has the right to unilaterally suspend further subsidies and establish financial penalties by applying an interest rate of 30% per annum, from the date of the transfer the tranche of the subsidy.

The MFKR program under the "Financing Agriculture " project has existed since 2013. The Bank participates in this project on an annual basis where in every "Financing Agriculture " line, signs a separate agreement each year.

As at December 31, 2021, the amount of subsidy receivable for project "Financing Agriculture" under the agreement with MFKR was 4,430 thousand soms (December 31, 2020: 39,940 thousand soms).

21. CUSTOMER ACCOUNTS

As at December 31, 2021 and 2020 customer accounts of the Bank consisted of the following:

	December 31, 2021	December 31, 2020
Current accounts		
Legal entities	7,940,156	2,837,846
Individuals	5,759,479	4,682,876
	13,699,635	7,520,722
Term deposits		
Individuals	2,455,213	2,106,843
Legal entities	885,391	862,447
	3,340,604	2,969,290
	17,040,239	10,490,012

As at December 31, 2021, the largest customers of the Bank amounted to 6,289,383 thousand soms or 37% of the total amounts due to customers (December 31, 2020: 2,154,669 thousand soms or 21%).

An analysis of customer accounts by economic sector follows:

	December 31, 2021	December 31, 2020
Individuals (including individual entrepreneurs)	8,214,692	6,789,719
Mining industry and metallurgy	4,737,790	222,973
Trade	785,462	460,345
Other public utility, social and personal services	550,187	531,178
Construction	513,001	578,332
State management	261,920	319,798
Education	220,060	184,249
Manufacturing sector	139,778	225,673
Transactions with real estate	93,033	32,696
Health and social services	51,834	38,834
Communications	44,714	20,497
Production and distribution of electricity, gas and water	26,954	16,662
Repair of cars and household products	25,696	22,077
Agriculture, hunting and forestry	13,060	15,048
Transport	12,634	33,156
Activities of extraterritorial organisations	10,700	3,298
Household management services	4,720	4,734
Hospitality industry	4,097	1,003
Other	1,329,907	989,740
	17,040,239	10,490,012

22. AMOUNTS DUE TO FINANCIAL INSTITUTIONS

As at December 31, 2021 and 2020 amounts due to financial institutions at amortized cost of the Bank consisted of the following:

	December 31, 2021	December 31, 2020
Current accounts	339,555	670,130
Time deposits	24,156	40,085
	363,711	710,215

As at December 31, 2021, the Bank had no placements of funds of financial institutions, outstanding balances of which exceed 10% of the capital of the Bank (December 31, 2020: two financial institution). As at December 31, 2020, the carrying amount of balances of these institutions amounted to 567,862 thousand soms.

As at December 31, 2021, funds on current accounts of financial institutions in the amount of 97,673 thousand soms (December 31, 2020: 138,405 thousand soms) served as collateral for loans issued to financial institutions (Note 13) in the total amount of 226,204 thousand soms (December 31, 2020: 294,489 thousand soms).

23. OTHER BORROWED FUNDS

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

	December 31, 2021	December 31, 2020
Loans received from National Bank and other Government bodies of the Kyrgyz Republic	1,451,342	1,572,255
Loans received from foreign banks and financial institutions	12,108	23,613
	1,463,450	1,595,868

Creditor	Maturity date	Interest rate, annual	December 31, 2021	December 31, 2020
State Mortgage Company OJSC	2031-2033	2.00-4.00%	541,111	602,745
Russian-Kyrgyz Development Fund	2022-2028	1.00-6.00%	453,224	494,115
State Mortgage Company OJSC within the framework of the project Kreditanstalt fur Wiederaufbau (KfW) "Housing Finance in the Kyrgyz Republic"	2036	3%	130,339	-
National Bank of the Kyrgyz Republic	2022	4.50-5.00%	127,193	168,380
MFKR within the framework of the Project "Financing of business Entities Program"	2023-2025	0.10-6.50%	96,891	112,219
MFKR within the framework of the Project "Promoting Agricultural Productivity" and "Agribusiness and Marketing"	2025-2029	6 m-LIBOR + 1%. Inflation rate + 2%	51,036	58,545
MFKR in the framework of the KfW Project "Financing Agricultural Value Chains	2023	4.75-6.00%	42,559	65,688
Islamic Development Bank	2024	–	12,108	23,614
MFKR within the framework of the "Emergency Support for Micro-, Small- and Medium-Sized Enterprises" Project	2025	0%	4,550	-
International Branch of Good Neighbors in the Kyrgyz Republic	2023	5%	4,439	-
BAKUBAT TALAS Welfare Fund	2021	3.00-4.00%	-	70,562
			1,463,450	1,595,868

Amounts due to the NBKR

During 2021 the Bank did not attract new funds from the NBKR. As at December 31, 2021 these loans are secured by loans to customers with a total carrying amount of 131,788 thousand soms (December 31, 2020: 238,011 thousand soms) and investment securities at amortized cost with a carrying amount of 63,000 thousand soms (December 31, 2020: 80,325 thousand soms).

Mortgage loans

State Mortgage Company OJSC

In March 2016 the Bank entered into an agreement with State Mortgage Company OJSC under the "Affordable Housing 2015-2020" program of the Government of the Kyrgyz Republic. The purpose of this program is to create conditions to improve the affordability of housing in the Kyrgyz Republic. Investment funds are provided to the Bank within the limits of submitted applications with nominal interest rate from 2% to 8% per annum with maturity up to 15 years. Over the entire period of cooperation, interest rates were reduced by 4 points to 4% per annum. As at December 31, 2020, the program expired and no new loans were issued under the program in 2021. As at December 31, 2021 loans to customers with a carrying amount of 531,710 thousand soms (December 31, 2020: 613,659 thousand soms) are pledged as collateral under this agreement.

“Housing financing in the Kyrgyz Republic” from the funds of the German Development Bank KfW

On August 01, 2019, the Bank and State Mortgage Company OJSC signed an agreement on transfer of funds under the program "Housing financing in the Kyrgyz Republic" from the funds of the German Development Bank KfW. Under the program, the Bank was allocated funds in the amount of 3,000 thousand Euro at 10% per annum with maturity of up to 15 years. Since October 1, 2021 the interest rate has been reduced from 10% to 8% per annum. The purpose of this program is to finance the construction, purchase of housing on the primary market, and the secondary market, followed by the reconstruction of housing of citizens who do not live and do not work in Bishkek and Osh. As at December 31, 2021, loans to customers with a carrying amount of 47,082 thousand soms are pledged as collateral under this agreement.

Small and medium business support program

Russian-Kyrgyz Development Fund

In May 2016 the Bank entered into an agreement to support financing of small and medium-sized businesses with the Russian-Kyrgyz Development Fund. The purpose of the Fund's program is to promote economic cooperation between the Kyrgyz Republic and the Russian Federation, modernization and development of the economy of the Kyrgyz Republic, effective use of opportunities arising from the participation of the parties in the Eurasian Economic Integration. The funds are provided to the Bank in the form of a target credit line, with a nominal interest rate from 1% to 8% per annum with a maturity of up to 5 years. Over the entire period of cooperation, interest rates have been reduced by 3 points to 5% per annum, and the maturity in certain areas has been increased to 7 years. Collateral is represented by loans issued and investment securities valued at amortized cost. As at December 31, 2021 the carrying amount of loans issued was 264,315 thousand soms (December 31, 2020: 522,251 thousand soms), the carrying amount of investment securities was 185,785 thousand soms (December 31, 2020: 187,110 thousand soms).

The Bank has concluded that in all of the cases described above, it retains substantially all the risks and rewards of the loan and securities portfolios, and therefore the corresponding assets have not been derecognized. The Bank accounts these transactions as a secured loan and records a financial liability in relation to funds received.

BAKUBAT TALAS Welfare Fund

On September 16, 2016 the Bank and BAKUBAT TALAS Welfare Fund (the "Fund") entered into an agreement, according to which the Bank received a loan in the amount of 70,000 thousand soms on September 28, 2016. The purpose of the loan is to provide funds to the Bank to issue loans to small and medium businesses in Talas region. For the use of the loans, the Bank pays interest to the Fund at a rate of 4% per annum from the date of issuance of loans for small and medium-sized businesses; for unissued loans, the Bank pays 2% per annum to the Fund, subject to placement of resources before the expiration of six months. On October 24, 2016, the Bank and the Fund concluded an additional agreement, according to which the interest rate of 4% per annum was reduced to 3% per annum from the date of issuing a loan for small and medium-sized businesses. In 2021, the Fund's loan was repaid.

Entrepreneurial Finance Program

On July 14, 2020 the Bank and the Ministry of Finance of the Kyrgyz Republic signed a loan agreement under the Program "Financing of entrepreneurial activity" ("FEA") under which a credit line with the issuance of credit funds in separate tranches was opened. The purpose of the Program is to restore and ensure economic and social stability, support of business entities in the conditions of coronavirus outbreak.

The Bank's management believes that there are no other financial instruments similar to other borrowed funds received from these institutions, and due to the specific nature of customers these products represent a separate market.

On July 20, 2020, the Bank received loan funds in the amount of 110,897 thousand soms for the under the following rates and directions of lending with a repayment period of 3-5 years:

- 1,100 thousand soms for the purchase, renewal, expansion and modernization of fixed assets, procurement of raw materials, supplies, spare parts to small and medium-sized businesses using components of the digitalization of tax procedures at a rate of 0.1%, with subsequent issuance of loans to business entities at a rate of 4% per annum;
- 7,600 thousand soms for refinancing of loans of industrial and processing enterprises at the rate of 6.5%, with subsequent issuance of loans to business entities at the rate of 11% per annum;
- 23,087 thousand soms for purchasing of raw materials, components, spare parts at a rate of 5.5%, with subsequent issuance of loans to business entities at a rate of 10% per annum;
- 79,110 thousand soms for purchasing, renovation, expansion and modernization of fixed assets at 1.5%, with subsequent issuance of loans to business entities at 6% per annum

MFKR within the framework of the "Emergency Support for Micro-, Small- and Medium-Sized Enterprises" Project

On August 13, 2021 the Bank and the Ministry of Finance of the Kyrgyz Republic ("MFKR") signed an agreement under the "Emergency Support for Micro-, Small- and Medium-Sized Enterprises" ("MSME") Project. The purpose of this Project is to support micro, small and medium-sized enterprises in overcoming the crisis caused by the COVID-19 pandemic, helping enterprises to survive decline in economic growth and save jobs. Funding is disbursed in tranches at the request of the Bank with a maturity of 48 months from the date of receipt of the tranche. Funds from this program are disbursed at interest free per annum to end-users, in turn the MFKR provides a fee to the Bank of 3% of the VFP (Refundable Financial Assistance) to cover its costs of servicing the loan. On September 20, 2021, the Bank received the 1st tranche of financing in the amount of 10 million soms.

International Branch of Good Neighbors in the Kyrgyz Republic

On January 21, 2021 an agreement was signed with International Branch of Good Neighbors International in the Kyrgyz Republic on targeted funding for community development projects in the Kyrgyz Republic (the "Fund"). Under the terms of the Agreement, resources are to be placed only in certain regions of the country that participate in the Project, determined by the Fund itself. Funds are issued to final consumers at 14% per annum for business and agricultural loans and 16% per annum for consumer loans. On January 26, 2021, the Bank received funds in the amount of 4,243 thousand soms for a term of 2 years at 5% per annum.

The table below contains details on changes in the liabilities arising from financing activities, including both changes from cash flows and changes not from cash flows. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities.

	December 31, 2021	**December 31, 2020**
Balance at the beginning of the year	1,595,868	1,769,383
Cash flow changes		
Receipt of other borrowed funds	335,140	471,979
Repayments of other borrowed funds	(474,116)	(712,996)
Total cash flow changes	(138,976)	(241,017)
Non-cash changes		
Effect of foreign currency translation	8,345	66,337
Changes in interests payable	(1,787)	1,165
Total non-cash changes	6,558	67,502
Balance at the end of the year	1,463,450	1,595,868

Financial assets pledged as collateral for other borrowed funds	**Investment securities at amortised cost (Note 15)**	**Loans to customers (Note 14)**
As at December 31, 2021		
Carrying amount of assets	248,785	974,896
Total	248,785	974,896
Carrying amount of corresponding liabilities	580,417	1,251,867
Total	580,417	1,251,867

Financial assets pledged as collateral for other borrowed funds	**Investment securities at amortised cost (Note 15)**	**Loans to customers (Note 14)**
As at December 31, 2020		
Carrying amount of assets	267,435	1,373,921
Total	267,435	1,373,921
Carrying amount of corresponding liabilities	662,496	1,265,240
Total	662,496	1,265,240

24. LEASE LIABILITIES

As at December 31, 2021 and 2020 lease liabilities of the Bank consisted of the following:

	December 31, 2021	December 31, 2020
Maturity analysis:		
Year 1	25,036	26,130
Year 2	12,706	9,620
Year 3	1,320	5,032
Year 4	110	1,700
Year 5	-	110
Total minimum payments on lease	39,172	42,592
Less: unearned interest	(2,875)	(3,236)
Total	36,337	39,356
Analysed as:		
Current	23,024	24,218
Non-current	13,313	15,138

	Lease liabilities
As at December 31, 2019	105,868
Additions	33,234
Write-off	(31,705)
Interest expense	5,779
Lease payments	(76,543)
Foreign exchange difference	2,723
As at December 31, 2020	39,356
Additions	37,650
Write-off	(15,667)
Interest expense	2,901
Lease payments	(28,726)
Foreign exchange difference	823
As at December 31, 2021	36,337

	December 31, 2021	December 31, 2020
Amounts recorded in statement of profit or loss:		
Depreciation expense	25,963	71,288
Interest expense	2,901	5,779
Expenses on modification of contracts on assets in the form of the right-of-use	1,415	-
Operating lease expense	65,713	6,176
	95,992	83,243

25. OTHER LIABILITIES

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

	December 31, 2021	December 31, 2020
Other financial liabilities		
Accounts payable	190,545	71,389
Accrued administrative expenses	90,749	51,503
Accounts payable for money transfer systems	79,771	85,744
Provision for unused vacation	25,901	23,201
Allowance for impairment of contingent liabilities	6,762	2,247
Dividends payable	9,933	9,732
Other	287	-
	403,948	243,816
Other non-financial liabilities		
Deferred interest income on loans “Financing Agriculture” from the Ministry of Finance of the Kyrgyz Republic	27,428	18,875
Other deferred interest income	15,039	3,155
Taxes payable (except income tax)	7,043	7,998
Income taxes	7,610	-
Deferred income	4,952	3,870
	62,072	33,898
	466,020	277,714

Deferred interest income of loans FA from the Ministry of Finance of the Kyrgyz Republic

On February 19, 2021, the Bank signed an agreement No. 19-04-01/30 with the Ministry of Finance of the Kyrgyz Republic (the “MFKR”) about granting subsidies under the project “Financing Agriculture-9” (the “FA-9”) to provide governmental support to agriculture manufacturers for the timely implementation of agricultural activities and further development of cattle-breeding, crop (plant) production and processing of agricultural products. MFKR provides with subsidies to the Bank on loans granted under this project for 60, 48, 36, 18 months at interest rate 6.69% per annum. Payment of the subsidy by MFKR is made on the dates specified in the Agreement. The Bank monitors the targeted use of the loans.

If the borrower has misused the loan funds, an amount of subsidies received on loans for which misuse is identified must be returned to the MFKR, and the interest rate for the final borrower is increased. Upon detection of misusing the subsidy funds, MFKR has the right to unilaterally suspend further subsidies and establish financial penalties by applying an interest rate of 30% per annum, from the date of the transfer the tranche of the subsidy.

The MFKR program under the “Financing Agriculture” project has existed since 2013. The Bank participates in this project on an annual basis where in every “Financing Agriculture” line, signs a separate agreement each year.

As at December 31, 2021, the amount of deferred interest income on “Financing Agriculture” project under the agreement with MFKR was 27,428 thousand soms (December 31, 2020: 18,875 thousand soms).

26. SHARE CAPITAL

During 2021, the Bank issued and registered 40,516,940 ordinary shares at the par value of 5 soms per share by reallocating funds from retained earnings. As at December 31, 2021, 387,349,513 ordinary shares declared and issued at the par price of 5 soms per ordinary share (December 31, 2020: 346,832,573 shares at the placement price of 5 soms per ordinary share).

As at December 31, 2021 and 2020, the issued share capital was equal to 1,936,748 thousand soms and 1,734,163 thousand soms, respectively.

	Shares issued	Share capital
Ordinary shares (par value 5 soms)		
December 31, 2019	260,331,650	1,301,658
Shares issued	86,500,923	432,505
December 31, 2020	346,832,573	1,734,163
Shares issued	40,516,940	202,585
December 31, 2021	387,349,513	1,936,748

Dividends

In 2021 and 2020 years, the Bank paid dividends on ordinary shares of 50,452 thousand soms and 24,773 thousand soms, respectively.

At the Annual Meeting of Shareholders which was held on March 15, 2021, the shareholders of the Bank approved the payment of 100% of net income for the year 2020, amounting to 253,237 thousand soms, of which, 50,651 thousand soms announced in cash, 202,585 thousand soms announced by issuing additional shares of 40,516,940 ordinary shares with a par value of 5 soms per unit.

At the extraordinary meeting of shareholders held on January 31, 2020, the shareholders of the Bank approved the payment of 100% of net income for 2018, equal to 201,821 thousand soms, of which 5 thousand soms were announced in cash, 201,816 thousand soms by issuing additional shares in the amount of 40,363,109 ordinary shares with a par value of 5 soms each.

At the annual meeting of shareholders held on July 31, 2020, the shareholders of the Bank approved a payment in the amount of 100% of net profit for 2019, equal to 245,190 thousand soms, of which 24,524 thousand soms were announced in cash, 220,666 thousand soms by issuing additional shares in the amount of 44,133,209 ordinary shares with a par value of 5 soms each. In addition, the retained earnings of previous years in the amount of 10,027 thousand soms were reallocated to pay 4 thousand soms in cash, 10,023 thousand soms by issuing additional shares in the amount of 2,004,605 ordinary shares with a par value of 5 soms per unit.

27. EARNINGS PER SHARE

Calculation of basic earnings per share is based on profit and weighted average number of ordinary shares in circulation during the year, as presented below:

	For the year ended December 31, 2021	For the year ended December 31, 2020
Profit for the year	296,323	253,237
Weighted average number of ordinary shares	387,349,513	346,832,573
Basic earnings per share, in soms	0.77	0.73

28. FINANCIAL COMMITMENTS AND CONTINGENCIES

Legal proceedings

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Taxation

Commercial legislation of the Kyrgyz Republic, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgements of business activities. If a particular treatment, based on management's judgement of the Bank's business activities, was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest.

Such uncertainty could, in particular, refer to the valuation of financial instruments, formation of allowances for impairment and determination the level of price indexes on transactions. Additionally, such uncertainty may relate to the valuation of temporary differences on the allowance and recovery of the allowance for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Bank believes that it has accrued all tax amounts due and therefore no allowance has been made in the financial statements.

Economic environment

The Bank's principal business activities are within the Kyrgyz Republic. Laws and regulations affecting the business environment in the Kyrgyz Republic are subject to rapid changes and the Bank's assets and operations could be at risk due to negative changes in the political and business environment.

Operating environment

Emerging market of the Kyrgyz Republic is subject to more risks than developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in countries and the countries' economy in general. Laws and regulations affecting businesses in the Kyrgyz Republic continue to change rapidly. Tax, currency and customs legislation within the country are subject to varying interpretations, and other legal and fiscal difficulties leading to the challenges faced by the Bank. The future economic direction of the Kyrgyz Republic is largely dependent on economic, fiscal and monetary measures undertaken by the Government, together with legal, regulatory developments.

These financial statements do not include any adjustments that would have been required due resolution of the uncertainty in the future. Possible adjustments may be made to the statements in that period in which necessity of their reflection will become evident, and it will be possible to estimate their numerical values.

Capital expenditure commitments

As at December 31, 2021 and 2020 the Bank had no capital expenditure commitments.

Commitments and contingencies

As at December 31, 2021 and 2020, the Bank's commitments and contingencies comprised the following:

	December 31, 2021	December 31, 2020
Credit related commitments		
Undrawn loan commitments	106,945	85,605
Financial guarantees	295,297	260,994
	402,242	346,599
Less: allowance for expected credit losses	(6,762)	(2,247)
	395,480	344,352

As at December 31, 2021, the Bank provided 69 financial guarantees in the amount of 295,297 thousand soms (December 31, 2020: 56 financial guarantees in the amount of 260,994 thousand soms).

Loans to customers

The table below shows information about credit quality of loans to customers as at December 31, 2021:

	Stage 1 12-month ECL	Stage 2 ECL during the whole period - unimpared loans	Stage 3 ECL during the whole period - impaired loans	Total
Loans to customers at amortised cost				
Category 1	6,129,686	-	-	6,129,686
Category 2	2,464,587	-	-	2,464,587
Category 3	-	190,939	-	190,939
Category 4	-	150,738	-	150,738
Category 5	-	-	431,861	431,861
Total loans to customers	8,594,273	341,677	431,861	9,367,811
Less: allowance for expected credit losses	(154,359)	(154,547)	(181,129)	(490,035)
Loans to customers less allowance for expected credit losses	8,439,914	187,130	250,732	8,877,776

Loans to customers

The table below shows information about credit quality of loans to customers as at December 31, 2020:

	Stage 1 12-month ECL	Stage 2 ECL during the whole period - unimpared loans	Stage 3 ECL during the whole period - impaired loans	Total
Loans to customers at amortised cost				
Category 1	4,493,653	-	-	4,493,653
Category 2	2,390,289	-	-	2,390,289
Category 3	-	542,093	-	542,093
Category 4	-	319,659	-	319,659
Category 5	-	-	693,477	693,477
Total loans to customers	6,883,942	861,752	693,477	8,439,171
Less: allowance for expected credit losses	(57,623)	(107,528)	(254,781)	(419,932)
Loans to customers less allowance for expected credit losses	6,826,319	754,224	438,696	8,019,239

The table below provides an analysis of the gross carrying amount of loans to customers, grouped by number of overdue days as at December 31, 2021:

	Gross loans	Allowance for expected credit losses	Net loans	Loan loss provision to gross loans, %
Loans to legal entities				
- Not overdue	2,049,630	(249,960)	1,799,670	12.2%
Overdue:				
- Overdue up to 30 days	331	-	331	0.0%
- Overdue 30-89 days	24,223	(8,399)	15,824	34.7%
- Overdue 90-179 days	39,906	(21,274)	18,632	53.3%
- Overdue 180-360 days	42,124	(17,472)	24,652	41.5%
- Overdue more than 360 days	66,438	(8,347)	58,091	12.6%
Total loans to legal entities	2,222,652	(305,452)	1,917,200	13.7%
Loans to individuals				
- Not overdue	6,849,455	(58,768)	6,790,687	0.9%
Overdue:				
- Overdue up to 30 days	22,979	(1,395)	21,584	6.1%
- Overdue 30-89 days	59,727	(11,011)	48,716	18.4%
- Overdue 90-179 days	32,994	(9,918)	23,076	30.1%
- Overdue 180-360 days	60,915	(13,628)	47,287	22.4%
- Overdue more than 360 days	119,089	(89,863)	29,226	75.5%
Total loans to individuals	7,145,159	(184,583)	6,960,576	2.6%
Total loans to customers	9,367,811	(490,035)	8,877,776	5.2%

The table below provides an analysis of the gross carrying amount of loans to customers, grouped by number of overdue days as at December 31, 2020:

	Gross loans	Allowance for expected credit losses	Net loans	Loan loss provision to gross loans, %
Loans to legal entities				
- Not overdue	2,434,243	(100,612)	2,333,631	4.1%
Overdue:				
- Overdue up to 30 days	40	-	40	0.0%
- Overdue 30-89 days	92,241	(38,968)	53,273	42.2%
- Overdue 90-179 days	46,502	(4,807)	41,695	10.3%
- Overdue more than 360 days	30,487	(15,133)	15,354	49.6%
Total loans to legal entities	2,603,513	(159,520)	2,443,993	6.1%
Loans to individuals				
- Not overdue	5,498,399	(122,216)	5,376,183	2.2%
Overdue:				
- Overdue up to 30 days	31,776	(2,385)	29,391	7.5%
- Overdue 30-89 days	72,305	(14,755)	57,550	20.4%
- Overdue 90-179 days	61,812	(13,585)	48,227	22.0%
- Overdue 180-360 days	87,140	(23,245)	63,895	26.7%
- Overdue more than 360 days	84,226	(84,226)	-	100.0%
Total loans to individuals	5,835,658	(260,412)	5,575,246	4.5%
Total loans to customers	8,439,171	(419,932)	8,019,239	5.0%

The tables below analyze information about the significant changes in the gross carrying amounts of loans to customers during the period that contributed to changes in the loss allowance as well as the movement of allowance for expected credit losses during the 2021 and 2020:

	Stage 1 12-month ECL	**Stage 2 ECL during the whole period - unimpared loans**	**Stage 3 ECL during the whole period - impaired loans**	**Total**
Loans to customers at amortised cost				
Gross carrying amount as at December 31, 2019	**6,611,194**	**155,571**	**321,013**	**7,087,778**
Changes in the gross carrying amount				
- Transfer to stage 1	29,094	(29,094)	-	-
- Transfer to stage 2	(1,383,268)	1,386,568	(3,300)	-
- Transfer to stage 3	-	(549,598)	549,598	-
New financial assets originated or purchased	4,893,989	-	-	4,893,989
Financial assets that have been derecognized	(3,623,857)	(114,487)	(219,171)	(3,957,515)
Recovered amounts	-	-	24,508	24,508
Write-offs	-	-	(322)	(322)
Other changes	356,790	12,792	21,151	390,733
Gross carrying amount as at December 31, 2020	**6,883,942**	**861,752**	**693,477**	**8,439,171**
Changes in the gross carrying amount				-
- Transfer to stage 1	535,967	(535,967)	-	-
- Transfer to stage 2	(459,090)	566,709	(107,619)	-
- Transfer to stage 3	-	(220,177)	220,177	-
New financial assets originated or purchased	5,400,372	-	-	5,400,372
Financial assets that have been derecognised	(3,802,116)	(339,053)	(378,041)	(4,519,210)
Recovered amounts	-	-	3,192	3,192
Write-offs	-	-	(1,614)	(1,614)
Other changes	35,196	8,414	2,290	45,900
Gross carrying amount as at December 31, 2021	**8,594,271**	**341,678**	**431,862**	**9,367,811**
Allowance for expected credit losses as at December 31, 2021	(154,359)	(154,547)	(181,129)	(490,035)

	Stage 1 12-month ECL	Stage 2 ECL during the whole period - unimpared loans	Stage 3 ECL during the whole period - impaired loans	Total
Loss allowance – Loans to customers				
Allowance for expected credit losses as at December 31, 2019	**32,756**	**25,645**	**176,585**	**234,986**
Changes in the loss allowance				
- Transfer to stage 1	6,713	(6,713)	-	-
- Transfer to stage 2	(130,130)	130,967	(837)	-
- Transfer to stage 3	-	(102,391)	102,391	-
- Increases due to change in credit risk	106	537	8,079	8,722
- Decreases due to change in credit risk	(1,767)	(129)	(5,469)	(7,365)
New financial assets originated or purchased	155,799	-	-	155,799
Financial assets that have been derecognized	(15,498)	(16,071)	(67,872)	(99,441)
Changes in models/risk parameters	7,846	74,337	13,728	95,911
Recovery	-	-	24,508	24,508
- Write-offs	-	-	(322)	(322)
Foreign exchange difference and other movements	1,798	1,346	3,990	7,134
Allowance for expected credit losses as at December 31, 2020	**57,623**	**107,528**	**254,781**	**419,932**
Changes in the loss allowance				-
- Transfer to stage 1	69,026	(69,026)	-	-
- Transfer to stage 2	(72,048)	95,978	(23,930)	-
- Transfer to stage 3	-	(59,059)	59,059	-
- Increases due to change in credit risk	(13,827)	(771)	(14,703)	(29,301)
- Decreases due to change in credit risk	1,378	4,950	12,345	18,673
New financial assets originated or purchased	135,508	-	-	135,508
Financial assets that have been derecognized	(23,274)	(39,390)	(146,666)	(209,330)
Changes in models/risk parameters	(661)	113,238	37,876	150,453
Recovery	-	-	3,192	3,192
- Write-offs	-	-	(1,614)	(1,614)
Foreign exchange difference and other movements	633	1,098	791	2,522
Allowance for expected credit losses as at December 31, 2021	**154,358**	**154,546**	**181,131**	**490,035**

Investment securities at amortised cost

The table below shows information about credit quality of investment securities at amortised cost as at December 31, 2021:

	Stage 1 12-month ECL	Total
Investment securities at amortised cost		
Category 1	777,092	777,092
Gross carrying amount of investment securities at amortised cost	**777,092**	**777,092**
Allowance for expected credit losses as at	-	-
Investment securities at amortised cost net of loss allowance for expected credit losses as at	**777,092**	**777,092**

The table below shows information about credit quality of investment securities at amortised cost as at December 31, 2020:

	Stage 1 12-month ECL	Total
Investment securities at amortised cost		
Category 1	802,795	802,795
Gross carrying amount of investment securities at amortised cost	**802,795**	**802,795**
Allowance for expected credit losses as at	-	-
Investment securities at amortised cost net of loss allowance for expected credit losses as at	**802,795**	**802,795**

Investment securities at amortised cost

The tables below analyse information about the significant changes in the gross carrying amounts of investment securities at amortised cost during the period. There were no changes in the loss allowance for expected credit losses on investment securities at amortised cost during 2021 and 2020.

	Stage 1 12-month ECL	Total
Investment securities at amortised cost		
Gross carrying amount as at December 31, 2019	1,326,269	1,326,269
Changes in the gross carrying amount		
Financial assets that have been derecognised	(550,571)	(550,571)
Other changes	27,097	27,097
Gross carrying amount as at December 31, 2020	802,795	802,795
Changes in the gross carrying amount		
New financial assets originated or purchased	868,863	868,863
Financial assets that have been derecognized	(895,631)	(895,631)
Other changes	1,065	1,065
Gross carrying amount as at December 31, 2021	777,092	777,092
Loss: allowance for expected credit losses	-	-

Other financial assets

The table below provides information on the credit quality of other financial assets as at December 31, 2021:

	Stage 1 12-month ECL	**Stage 2 ECL during the whole period - unimpared loans**	**Stage 3 ECL during the whole period - impaired loans**	**POCI**	**Total**
Other financial assets					
Category 1	391,265	-	-	-	391,265
Category 2	-	1,378	-	-	1,378
Category 4	-	-	-	-	-
Category 5	-	-	38,526	3,572	42,098
Total other financial assets	**391,265**	**1,378**	**38,526**	**3,572**	**434,741**
Allowance for expected credit losses	(87)	-	(38,526)	(3,572)	(42,185)
Other financial assets net of loss allowance for expected credit losses	**391,178**	**1,378**	**-**	**-**	**392,556**

The table below provides information on the credit quality of other financial assets as at December 31, 2020:

	Stage 1 12-month ECL	**Stage 2 ECL during the whole period - unimpared loans**	**Stage 3 ECL during the whole period - impaired loans**	**POCI**	**Total**
Other financial assets					
Category 1	219,803	-	-	-	219,803
Category 2	-	2,380	-	-	2,380
Category 4	-	-	-	4,506	4,506
Category 5	-	-	205	-	205
Total other financial assets	**219,803**	**2,380**	**205**	**4,506**	**226,894**
Allowance for expected credit losses	(727)	(1,189)	(205)	(4,506)	(6,627)
Other financial assets net of loss allowance for expected credit losses	**219,076**	**1,191**	**-**	**-**	**220,267**

The tables below analyse information about the significant changes in the gross carrying amounts of other financial assets during the period that contributed to changes in the loss allowance as well as the movement of the allowance for expected credit losses during the 2021 and 2020:

	Stage 1 12-month ECL	**Stage 2 ECL during the whole period - unimpared loans**	**Stage 3 ECL during the whole period - impaired loans**	**POCI**	**Total**
Other financial assets					
Gross carrying amount as at December 31, 2019	**243,422**	**-**	**204**	**4,457**	**248,083**
Net change in the gross carrying amount	(23,619)	2,380	-	-	(21,239)
Other changes	-	-	1	49	50
Gross carrying amount as at December 31, 2020	**219,803**	**2,380**	**205**	**4,506**	**226,894**
Net change in the gross carrying amount	169,814	(1,002)	38,318	(934)	206,196
Other changes	1,648	-	3	-	1,651
Gross carrying amount as at December 31, 2021	**391,265**	**1,378**	**38,526**	**3,572**	**434,741**
Allowance for expected credit losses as at December 31, 2021	**(87)**	**-**	**(38,526)**	**(3,572)**	**(42,185)**

	Stage 1 12-month ECL	Stage 2 ECL during the whole period - unimpared loans	Stage 3 ECL during the whole period - impaired loans	POCI	Total
Allowance for expected credit losses - Other financial assets					
Allowance for expected credit losses as at December 31, 2019	**727**	**-**	**204**	**4,457**	**5,388**
Changes in the loss allowance					-
Transfer to stage 2	(1,189)	1,189	-	-	-
New financial assets originated or purchased	1,189	-	-	-	1,189
Foreign exchange and other movements	-	-	1	49	50
Allowance for expected credit losses as at December 31, 2020	**727**	**1,189**	**205**	**4,506**	**6,627**
Changes in the loss allowance					
Transfer to stage 2					
New financial assets originated or purchased	(640)	(1,189)	38,318	(934)	35,555
Foreign exchange and other movements	-	-	3	-	3
Allowance for expected credit losses as at December 31, 2021	**87**	**-**	**38,526**	**3,572**	**42,185**

The table below provides information on the credit quality of contingent financial liabilities as at December 31, 2021 and 2020.:

	Stage 1 12-month ECL	Stage 2 ECL during the whole period - unimpared loans	Stage 3 ECL during the whole period - impaired loans	Total
Contingent liabilities				
Category 1	106,669	-	-	106,669
Category 3	295,391	141	-	295,532
Category 4	-	2	-	2
Category 5	-	-	39	39
Total contingent liabilities	**402,060**	**143**	**39**	**402,242**
Allowance for expected credit losses	(6,729)	(21)	(12)	(6,762)
Total contingent liabilities net of allowance for expected credit losses	**395,331**	**122**	**27**	**395,480**

	Stage 1 12-month ECL	Stage 2 ECL during the whole period - unimpared loans	Stage 3 ECL during the whole period - impaired loans	Total
Contingent liabilities				
Category 1	345,883	-	-	345,883
Category 3	-	525	-	525
Category 5	-	-	191	191
Total contingent liabilities	**345,883**	**525**	**191**	**346,599**
Allowance for expected credit losses	(2,132)	(73)	(42)	(2,247)
Total contingent liabilities net of allowance for expected credit losses	**343,751**	**452**	**149**	**344,352**

The tables below analyse information about the significant changes in the gross carrying amounts of contingent liabilities during the period that contributed to changes in the loss allowance as well as the movement of the loss allowance during the 2021 and 2020:

	Stage 1 12-month ECL	Stage 2 ECL during the whole period - unimpared loans	Stage 3 ECL during the whole period - impaired loans	Total
Contingent liabilities				
Gross carrying amount as at December 31, 2019	**350,067**	**460**	**55**	**350,582**
Changes in the gross carrying amount				
- Transfer to stage 1	153	(153)	-	-
- Transfer to stage 2	(727)	727	-	-
- Transfer to stage 3	-	(190)	190	-
New financial assets originated or purchased	318,739	-	-	318,739
Financial assets that have been derecognised	(370,660)	(321)	(54)	(371,035)
Other changes	48,311	2	-	48,313
Gross carrying amount as at December 31, 2020	**345,883**	**525**	**191**	**346,599**
Changes in the gross carrying amount				
- Transfer to stage 1	788	(788)	-	-
- Transfer to stage 2	(520)	780	(260)	-
- Transfer to stage 3	-	(232)	232	-
New financial assets originated or purchased	371,450	-	-	371,450
Financial assets that have been derecognised	(312,377)	(142)	(124)	(312,643)
Other changes	(3,164)	-	-	(3,164)
Gross carrying amount as at December 31, 2021	**402,060**	**143**	**39**	**402,242**
Allowance for expected credit losses as at December 31, 2021	6,729	21	22	6,772

	Stage 1 12-month ECL	Stage 2 ECL during the whole period - unimpared loans	Stage 3 ECL during the whole period - impaired loans	Total
Allowance for expected credit losses – Contingent liabilities				
Allowance for expected credit losses as at December 31, 2019	**1,345**	**-**	**-**	**1,345**
Changes in the loss allowance				
- Transfer to stage 1	20	(20)	-	-
- Transfer to stage 2	(24)	24	-	-
- Transfer to stage 3	-	(9)	9	-
- Increases due to change in credit risk	481	44	13	538
- Decreases due to change in credit risk	(3)	-	-	(3)
New financial assets originated or purchased	1,982	-	-	1,982
Financial assets that have been derecognized	(1,986)	(28)	(12)	(2,026)
Changes in models/risk parameters	50	62	32	144
Foreign exchange and other movements	267	-	-	267
Allowance for expected credit losses as at December 31, 2020	**2,132**	**73**	**42**	**2,247**
Changes in the loss allowance				
- Transfer to stage 1	101	(101)	-	-
- Transfer to stage 2	(51)	81	(30)	-
- Transfer to stage 3	-	(23)	23	-
- Increases due to change in credit risk	(18)	(2)	-	(20)
- Decreases due to change in credit risk	1	-	-	1
New financial assets originated or purchased	6,444	-	-	6,444
Financial assets that have been derecognized	(2,031)	(19)	(26)	(2,076)
Changes in models/risk parameters	163	12	3	178
Foreign exchange and other movements	(12)	-	-	(12)
Allowance for expected credit losses as at December 31, 2021	**6,729**	**21**	**12**	**6,762**

29. RISK MANAGEMENT

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The risk management system represents a structured and systematic approach to assessing and managing the risks that the Bank faces in achieving its objectives. The main risks inherent to the Bank's operations are those related to:

- Credit risk;
- Liquidity risk;
- Market risk;
- Currency risk.

The Bank is also subject to operating risks.

To ensure an efficient and effective risk management policy, the Bank has defined the basic principles of risk management, the main goal of which is to protect the Bank from existing risks and enable it to achieve the planned indicators.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Bank.

Risk management service

The service's purpose is to assist the Board of Directors in overseeing the Bank's risk management system. It is responsible for the fundamental risk issues, monitors implementation of relevant risk decisions, as well as the adequacy of the structural unit responsible for risk management.

Bank Treasury

Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit group that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board of Directors.

Assets and Liabilities Management Committee

Assets and Liabilities Management Committee is the body that determines the asset and liability management policy of the Bank aimed at achieving and maintaining a sufficient level of profitability of financial operations as a mean of protection of the interests of creditors and ensuring of profitability to the shareholders of the Bank as well as the overall financial structure. The Committee is responsible for the control and management of the liquidity risk, determines the liquidity position.

Risk measurement and reporting systems

Risk reporting is an important part of the risk management process, which aims to provide different audiences with information on risks, including: The Board of Directors – to ensure understanding of significant risks and awareness of the degree of exposure; the Management Board of the Bank – to ensure responsibility for risk management and ownership; the Risk Management Unit – to provide information on the degree of exposure, assess the adequacy of management measures, and timely inform the Management Board and the Board of Directors about the risks; the management of structural units – to ensure awareness of the risks related to their activities and responsibility for taking appropriate measures to reduce risks.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risk.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations.

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank adheres to a conservative and balanced credit risk strategy by ensuring an optimal ratio between the return and the level of assumed risks. The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including limitations of portfolio concentration and regular collateral revisions.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the guarantee. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Internal credit risk ratings

In order to minimize credit risk, the Bank has developed the Bank's credit risk grading to categorize exposures according to their degree of risk of default. The Bank's credit risk grading framework comprises five categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

The Bank's internal credit risk grades	**Description**
1	Low risk
2	Fair risk
3	Monitoring
4	Substandard
5	Impaired

Cash and cash equivalents

The table below shows information about credit quality of cash and cash equivalents as at December 31, 2021:

	Stage 1 12-month ECL	**Stage 3 Lifetime ECL**	**Total**
Cash and cash equivalents			
Category 1	6,715,707	-	6,715,707
Category 2	114,551	-	114,551
Category 3	24,841	-	24,841
Category 5	-	5,414	5,414
Total cash and cash equivalents	**6,855,099**	**5,414**	**6,860,513**
Allowance for expected credit losses	-	(5,414)	(5,414)
Cash and cash equivalents less allowance for expected credit losses	**6,855,099**	**-**	**6,855,099**

The table below shows information about credit quality of cash and cash equivalents as at December 31, 2020:

	Stage 1 12-month ECL	**Stage 3 Lifetime ECL**	**Total**
Cash and cash equivalents			
Category 1	1,474,420	-	1,474,420
Category 2	247,078	-	247,078
Category 3	26,600	-	26,600
Category 5	-	5,310	5,310
Total cash and cash equivalents	**1,748,098**	**5,310**	**1,753,408**
Allowance for expected credit losses	-	(5,310)	(5,310)
Cash and cash equivalents less allowance for expected credit losses	**1,748,098**	**-**	**1,748,098**

The tables below analyse information about the significant changes in the gross carrying amounts of cash and cash equivalents during the period that contributed to changes in the loss allowance as well as the movement of the allowance for expected credit losses during 2021 and 2020:

	Stage 1 12-month ECL	Stage 3 Lifetime ECL	Total
Cash and cash equivalents			
Gross carrying amount as at December 31, 2019	**774,002**	**4,912**	**778,914**
Changes in the gross carrying amount			
New financial assets originated or purchased	1,020,625	-	1,020,625
Financial assets that have been derecognised	(66,698)	-	(66,698)
Other changes	20,169	398	20,567
Gross carrying amount as at December 31, 2020	**1,748,098**	**5,310**	**1,753,408**
Changes in the gross carrying amount			
New financial assets originated or purchased	5,121,170	-	5,121,170
Financial assets that have been derecognised	(20,416)	-	(20,416)
Other changes	6,247	104	6,351
Gross carrying amount as at December 31, 2021	**6,855,099**	**5,414**	**6,860,513**
Allowance for expected credit losses as at December 31, 2021	-	5,414	5,414

	Stage 1 12-month ECL	Stage 3 Lifetime ECL	Total
Cash and cash equivalents			
Allowance for expected credit losses as at December 31, 2019	**-**	**4,912**	**4,912**
Changes in the loss allowance			
Foreign exchange and other movements	-	398	398
Allowance for expected credit losses as at December 31, 2020	**-**	**5,310**	**5,310**
Changes in the loss allowance			
Foreign exchange and other movements	-	104	104
Allowance for expected credit losses as at December 31, 2021	**-**	**5,414**	**5,414**

Due from financial institutions

The table below shows information about credit quality of amounts due from financial institutions as at December 31, 2021:

	Stage 1 12-month ECL	Total
Due from financial institutions		
Category 1	204,842	204,842
Category 2	227,596	227,596
Gross carrying amount of amounts due from financial institutions	**432,438**	**432,438**
Allowance for expected credit losses	-	-
Due from financial institutions less allowance for expected credit losses	**432,438**	**432,438**

The table below shows information about credit quality of amounts due from financial institutions as at December 31, 2020:

	Stage 1 12-month ECL	Total
Due from financial institutions		
Category 1	87,494	87,494
Category 2	307,447	307,447
Gross carrying amount of amounts due from financial institutions	**394,941**	**394,941**
Allowance for expected credit losses	(5,370)	(5,370)
Due from financial institutions less allowance for expected credit losses	**389,571**	**389,571**

The tables below analyse information about the significant changes in the gross carrying amounts of due from financial institutions during the period that contributed to changes in the loss allowance as well as the movement of the loss allowance during the 2021 and 2020:

	Stage 1 12-month ECL	Total
Due from financial institutions		
Gross carrying amount as at December 31, 2019	**420,095**	**420,095**
Changes in the gross carrying amount		
New financial assets originated or purchased	101,314	101,314
Financial assets that have been derecognized	(134,615)	(134,615)
Other changes	8,147	8,147
Gross carrying amount as at December 31, 2020	**394,941**	**394,941**
Changes in the gross carrying amount		
New financial assets originated or purchased	277,395	277,395
Financial assets that have been derecognized	(236,987)	(236,987)
Other changes	(2,912)	(2,912)
Gross carrying amount as at December 31, 2021	**432,438**	**432,438**
Allowance for expected credit losses as at December 31, 2021	-	-

	Stage 1 12-month ECL	Total
Due from financial institutions		
Allowance for expected credit losses as at December 31, 2019	**2,098**	**2,098**
New financial assets originated or purchased	1,411	1,411
Financial assets that have been derecognised	(757)	(757)
Changes in models/risk parameters	2,618	2,618
Allowance for expected credit losses as at December 31, 2020	**5,370**	**5,370**
New financial assets originated or purchased	-	-
Financial assets that have been derecognised	(4,195)	(4,195)
Changes in models/risk parameters	(1,175)	(1,175)
Allowance for expected credit losses as at December 31, 2021	**-**	**-**

Geographical concentration

Risk management department exercise control over the risk associated with changes in the norms of the legislation and assesses its impact on the Bank. This approach allows the Bank to minimize potential losses from the investment climate in the Kyrgyz Republic.

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

	the Kyrgyz Republic	OECD countries	Commonwealth of Independent States	Other	December 31, 2021
FINANCIAL ASSETS:					
Cash and cash equivalents	4,720,194	5,457,362	139,391	3,367	10,320,314
Amounts due from financial institutions	331,590	-	5,062	95,786	432,438
Loans to customers	8,877,776	-	-	-	8,877,776
Investment securities at amortised cost	777,092	-	-	-	777,092
Financial assets at fair value through profit or loss	-	-	1,148	-	1,148
Other financial assets	392,556	-	-	-	392,556
TOTAL FINANCIAL ASSETS	15,099,208	5,457,362	145,601	99,153	20,801,324
FINANCIAL LIABILITIES:					
Customer accounts	16,639,467	102,736	244,076	53,960	17,040,239
Amounts due to financial institutions	316,355	17,854	29,502	-	363,711
Financial liabilities at fair value through profit or loss	81,636	-	-	-	81,636
Other borrowed funds	1,451,342	-	-	12,108	1,463,450
Lease liabilities	36,337	-	-	-	36,337
Other financial liabilities	403,948	-	-	-	403,948
TOTAL FINANCIAL LIABILITIES	18,929,085	120,590	273,578	66,068	19,389,321
NET POSITION	(3,829,877)	5,336,772	(127,977)	33,085	1,412,003

	the Kyrgyz Republic	OECD countries	Commonwealth of Independent States	Other	December 31, 2020
FINANCIAL ASSETS:					
Cash and cash equivalents	3,946,095	790,657	273,678	3,162	5,013,592
Amounts due from financial institutions	329,091	60,480	-	-	389,571
Loans to customers	8,019,239		-	-	8,019,239
Investment securities at amortised cost	802,795	-	-	-	802,795
Financial assets at fair value through profit or loss	4,526	-	-	-	4,526
Other financial assets	220,267	-	-	-	220,267
TOTAL FINANCIAL ASSETS	13,322,013	851,137	273,678	3,162	14,449,990
FINANCIAL LIABILITIES:					
Customer accounts	10,069,324	6,665	193,959	220,064	10,490,012
Amounts due to financial institutions	658,969	14,144	37,102	-	710,215
Financial liabilities at fair value through profit or loss	106,745	-	167		106,912
Other borrowed funds	1,572,254	-	-	23,614	1,595,868
Lease liabilities	39,356	-	-	-	39,356
Other financial liabilities	243,816	-	-	-	243,816
	12,690,464	20,809	231,228	243,678	13,186,179
TOTAL FINANCIAL LIABILITIES					
NET POSITION	631,549	830,328	42,450	(240,516)	1,263,811

Liquidity risk and funding management

Liquidity risk is the risk resulting from the inability of the Bank to provide funds for repayment of its obligations in a due time. The Bank's liquidity risk arises when terms of assets on active operations and maturity dates of obligations do not match.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honour 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 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 Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the NBKR.

In the table below with contractual maturities, financial liabilities exceed financial assets at December 31, 2021 and 2020. Customer accounts comprise the largest share and based on past experience, the Bank considers it unlikely that all customers will require repayment at maturity. Experience shows that the Bank has a stable deposit base and most customer accounts are extended.

Liquidity risk

Liquidity risk is the risk of difficulties in obtaining funds for the payment of obligations upon the occurrence of the actual date of payment and to meet cash requirements in the process of lending to clients.

Management controls this risk by maturity analysis, determining the Bank's strategy for the next fiscal period. Current liquidity is managed by the finance department, which supports the current level of liquidity sufficient to minimize liquidity risk.

The following table presents an analysis of balance sheet interest rate risk and liquidity risk:

	Weighted average rate	Less than 1 month	1 – 3 months	3 months - 1 year	1 year - 5 years	More than 5 years	Maturity undefined	December 31, 2021
FINANCIAL ASSETS:								
Amounts due from financial institutions	16.14%	19,589	39,269	107,754	60,984	-	-	227,596
Loans to customers	15.27%	529,193	777,760	2,794,229	4,035,304	741,290	-	8,877,776
Investment securities at amortised cost	10.47%	-	76,245	506,176	194,671	-	-	777,092
Financial assets at fair value through profit or loss	0%	1,148	-	-	-	-	-	1,148
Total interest bearing financial assets		549,930	893,274	3,408,159	4,290,959	741,290	-	9,883,612
Cash and cash equivalents		10,320,314	-	-	-	-	-	10,320,314
Amounts due from financial institutions		-	-	103,995	100,847	-	-	204,842
Other financial assets		382,825	8,003	71	1,657	-	-	392,556
Total non-interest bearing financial assets		10,703,139	8,003	104,066	102,504	-	-	10,917,712
TOTAL FINANCIAL ASSETS		11,253,069	901,277	3,512,225	4,393,463	741,290	-	20,801,324

	Weighted average rate	Less than 1 month	1 – 3 months	3 months - 1 year	1 year - 5 years	More than 5 years	Maturity undefined	December 31, 2021
FINANCIAL LIABILITIES:					-			
Customer accounts	8.92%	101,344	535,313	1,605,557	1,098,390	-	-	3,340,604
Amounts due to financial institutions	0.07%	17,999	-	58,320	68,710	-	-	145,029
Financial liabilities at fair value through profit or loss	3.55%	59,238	4,753	17,645	-	-	-	81,636
Other borrowed funds	3.29%	33,351	51,762	310,236	651,315	416,786	-	1,463,450
Lease liabilities	9.42%	2,673	3,789	16,562	13,313	-	-	36,337
								-
Total interest bearing financial liabilities		214,605	595,617	2,008,320	1,831,728	416,786	-	5,067,056
Customer accounts		13,699,635	-	-	-	-	-	13,699,635
Amounts due to financial institutions		218,682	-	-	-	-	-	218,682
Other financial liabilities		170,521	223,493	9,934	-	-	-	403,948
Total non-interest bearing financial liabilities		14,088,838	223,493	9,934	-	-	-	14,322,265
TOTAL FINANCIAL LIABILITIES		14,303,443	819,110	2,018,254	1,831,728	416,786	-	19,389,321
Net position		(3,050,374)	82,167	1,493,971	2,561,735	324,504	-	1,412,003
Interest sensitivity gap		335,325	297,657	1,399,839	2,459,231	324,504	-	4,816,556
Cumulative interest sensitivity gap		335,325	632,982	2,032,821	4,492,052	4,816,556		
Cumulative interest sensitivity gap as a percentage of total financial assets		1.61%	3.04%	9.77%	21.60%	23.16%		

	Weighted average rate	Less than 1 month	1 – 3 months	3 months - 1 year	1 year - 5 years	More than 5 years	Maturity undefined	December 31, 2020
FINANCIAL ASSETS:								
Amounts due from financial institutions	15.94%	-	62,565	39,267	200,245	-	-	302,077
Loans to customers	15.01%	416,635	759,562	2,610,720	3,711,155	521,167	-	8,019,239
Investment securities at amortised cost	10.55%	3,320	1,206	-	-	-	-	4,526
Financial assets at fair value through profit or loss	2.97%	-	-	121,680	589,647	91,468	-	802,795
Total interest bearing financial assets		419,955	823,333	2,771,667	4,501,047	612,635	-	9,128,637
Cash and cash equivalents		5,013,592	-	-	-	-	-	5,013,592
Amounts due from financial institutions		-	-	-	-	-	87,494	87,494
Other financial assets		160,470	55,531	690	-	-	3,576	220,267
Total non-interest bearing financial assets		5,174,062	55,531	690	-	-	91,070	5,321,353
TOTAL FINANCIAL ASSETS		5,594,017	878,864	2,772,357	4,501,047	612,635	91,070	14,449,990

	Weighted average rate	Less than 1 month	1 – 3 months	3 months - 1 year	1 year - 5 years	More than 5 years	Maturity undefined	December 31, 2020
FINANCIAL LIABILITIES:								
Customer accounts	7.60%	321,587	271,029	1,368,848	1,007,826	-	-	2,969,290
Amounts due to financial institutions	1.25%	93,651	-	-	-	-	-	93,651
Financial liabilities at fair value through profit or loss	6.48%	4,401	30,975	14,187	23,114	-	-	72,677
Other borrowed funds	3.53%	498,445	76,980	136,919	211,528	671,996	-	1,595,868
Lease liabilities	7.15%	2,000	4,418	17,800	15,138	-	-	39,356
Total interest bearing financial liabilities		920,084	383,402	1,537,754	1,257,606	671,996	-	4,770,842
Customer accounts		7,460,024	60,698	-	-	-	-	7,520,722
Amounts due to financial institutions		483,908	16,530	24,362	91,764	-	-	616,564
Financial liabilities at fair value through profit or loss		11,818	22,417	-	-	-	-	34,235
Other financial liabilities		79,927	154,157	9,732	-	-	-	243,816
Total non-interest bearing financial liabilities		8,035,677	253,802	34,094	91,764	-	-	8,415,337
TOTAL FINANCIAL LIABILITIES		8,955,761	637,204	1,571,848	1,349,370	671,996	-	13,186,719
Net position		(3,361,744)	241,660	1,200,509	3,151,677	(59,361)	91,070	1,263,811
Interest sensitivity gap		(500,129)	439,931	1,233,913	3,243,441	(59,361)	-	4,357,795
Cumulative interest sensitivity gap		(500,129)	(60,198)	1,173,715	4,417,156	4,357,795	4,357,795	
Cumulative interest sensitivity gap as a percentage of total financial assets		(3.46%)	(0.42%)	8.12%	30.57%	30.16%	30.16%	

Analysis of financial liabilities by remaining contractual maturities

The tables below provide details of the contractual maturities of the Bank's non-derivative financial liabilities with fixed maturities. The figures are based on the undiscounted cash flows of the Bank's financial liabilities based on the minimum maturity dates. The table shows cash flows for both interest payments and principal of liabilities. The contractual maturity date is defined as the earliest date on which payment may be required from the Bank. The amount of credit related commitments and financial guarantee contracts is the maximum amount that can be used in accordance with a loan commitment, or in accordance with a financial guarantee contract. Undiscounted cash flows potentially payable under financial guarantees and similar contracts are classified based on the earliest date that they can be utilized. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Analysis of financial liabilities by remaining contractual maturities

The tables below provide details of the contractual maturities of the Bank's non-derivative financial liabilities with fixed maturities. The figures are based on the undiscounted cash flows of the Bank's financial liabilities based on the minimum maturity dates. The table shows cash flows for both interest payments and principal of liabilities. The contractual maturity date is defined as the earliest date on which payment may be required from the Bank. The amount of credit related commitments and financial guarantee contracts is the maximum amount that can be used in accordance with a loan commitment, or in accordance with a financial guarantee contract. Undiscounted cash flows potentially payable under financial guarantees and similar contracts are classified based on the earliest date that they can be utilized. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

	Weighted average rate	**Less than 1 month**	**1 – 3 months**	**3 months-1 year**	**1 year-5 years**	**over 5 years**	**December 31, 2021**
FINANCIAL LIABILITIES:							
Customer accounts	8.92%	13,800,980	535,383	1,606,723	1,099,876	-	17,042,962
Amounts due to financial institutions	0.07%	236,682	-	58,321	68,708	-	363,711
Other borrowed funds	3.29%	33,884	58,489	340,799	738,236	461,556	1,632,964
Lease liabilities		2,674	4,270	18,092	14,136	-	39,172
Other financial liabilities		170,521	223,493	9,934	-	-	403,948
TOTAL FINANCIAL LIABILITIES:		14,244,741	821,635	2,033,869	1,920,956	461,556	19,482,757

	Weigh-ted average rate	**Less than 1 month**	**1 – 3 months**	**3 months-1 year**	**1 year-5 years**	**over 5 years**	**December 31, 2020**
FINANCIAL LIABILITIES:							
Customer accounts	7.60%	7,462,348	596,628	1,424,640	1,155,402	-	10,639,018
Amounts due to financial institutions	1.25%	577,657	16,530	24,362	91,764	-	710,313
Other borrowed funds	3.53%	501,670	82,978	160,289	306,327	821,076	1,872,340
Lease liabilities		2,463	4,822	18,845	16,462	-	42,592
Other financial liabilities		79,927	154,157	9,732	-	-	243,816
TOTAL FINANCIAL LIABILITIES:		8,624,065	855,115	1,637,868	1,569,955	821,076	13,508,079

The Management controls these types of risks by means of maturity analysis, determining the Bank's strategy for the next financial period. Current liquidity is managed by the treasury department, which maintains current liquidity on sufficient level to minimise the liquidity risk.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchanges. There have been no changes as to the way the Bank measures risk or to the risk it is exposed in 2021.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Bank's statement of profit or loss and other comprehensive income.

The sensitivity of the statement of profit or loss and other comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial liabilities held at December 31.

	Change in basis points	Sensitivity of net profit and equity	
		2021	**2020**
Other borrowed funds	300	(1,523)	(1,748)
	(300)	1,523	1,748

Currency risk

Currency risk is the risk that the value of a financial instrument due to changes in exchange rates. Financial position and cash flows of the Bank are exposed to impact of fluctuations in foreign currency exchange rates. Management exercises currency risk management by determining open currency position on the basis of the alleged impairment of Kyrgyz som, and other macroeconomic indicators, which enables the Bank to minimize losses from significant fluctuations in national and foreign currency.

Information about the level of foreign currency exchange rate risk of the Bank is set out below:

	KGS	US dollar	Euro	RUB	Other	December 31, 2021
FINANCIAL ASSETS						
Cash and cash equivalents	3,794,266	6,262,148	49,019	192,775	22,106	10,320,314
Due from financial institutions	331,590	-	95,786	5,062	-	432,438
Loans to customers	7,069,206	1,416,642	67,705	324,223	-	8,877,776
Investment securities at amotrised cost	777,092	-	-	-	-	777,092
Other financial assets	226,770	27,634	2,173	135,979	-	392,556
TOTAL FINANCIAL ASSETS	12,198,924	7,706,424	214,683	658,039	22,106	20,800,176

	KGS	US dollar	Euro	RUB	Other	December 31, 2021
FINANCIAL LIABILITIES:						
Customer accounts	9,531,621	6,817,135	270,044	404,369	17,070	17,040,239
Due to financial institutions	133,581	216,886	565	12,679	-	363,711
Other borrowed funds	1,202,632	260,818	-	-	-	1,463,450
Lease liabilities	36,337	-	-	-	-	36,337
Other financial liabilities	380,754	8,665	2,100	12,338	91	403,948
TOTAL FINANCIAL LIABILITIES:	11,284,925	7,303,504	272,709	429,386	17,161	19,307,685
OPEN BALANCE SHEET POSITION	913,999	402,920	(58,026)	228,653	4,945	1,492,491
Financial assets at fair value through profit or loss	-	-	-	1,148	-	1,148
Financial liabilities at fair value through profit or loss	(32,912)	(45,780)	(2,944)	-	-	(81,636)
NET OPEN BALANCE SHEET POSITION	881,087	357,140	(60,970)	229,801	4,945	1,412,003

	KGS	US dollar	Euro	RUB	Other	December 31, 2020
FINANCIAL ASSETS						
Cash and cash equivalents	2,359,991	1,639,064	358,531	642,251	13,755	5,013,592
Due from financial institutions	329,091	-	55,220	5,260	-	389,571
Loans to customers	6,179,394	1,792,633	46,100	1,112	-	8,019,239
Investment securities at amotrised cost	761,052	41,743	-	-	-	802,795
Other financial assets	134,346	15,833	1,889	68,199	-	220,267
TOTAL FINANCIAL ASSETS	9,763,874	3,489,273	461,740	716,822	13,755	14,445,464
FINANCIAL LIABILITIES:						
Customer accounts	7,545,338	2,126,489	545,177	258,270	14,738	10,490,012
Due to financial institutions	292,006	405,206	576	12,419	8	710,215
Other borrowed funds	1,261,511	334,357	-	-	-	1,595,868
Lease liabilities	26,061	13,295	-	-	-	39,356
Other financial liabilities	201,914	34,390	81	7,431	-	243,816
TOTAL FINANCIAL LIABILITIES:	9,326,830	2,913,737	545,834	278,120	14,746	13,079,267
OPEN BALANCE SHEET POSITION	437,044	575,536	(84,094)	438,702	(991)	1,366,197
Financial assets at fair value through profit or loss (FVTPL)	-	3,320	1,206	-	-	4,526
Financial liabilities at fair value through profit or loss (FVTPL)	(72,676)	(34,236)	-	-	-	(106,912)
NET OPEN BALANCE SHEET POSITION	364,368	544,620	(82,888)	438,702	(991)	1,263,811

Currency rate sensitivity

Following table presents a sensitivity analysis of the Bank to 30% increase and decrease of the USD to KGS in 2021 and 2020. Based on the current economic environment in the Kyrgyz Republic management of the Bank believes that 30% increase of USD to KGS exchange rate is a realistic change. 30% - a level of sensitivity, which is used internally by banks when reporting foreign currency risk internally to key management personnel of the Bank and is an estimate by management of the Bank. Sensitivity analysis applies only to outstanding foreign currency balances available at the end of the period for conversion of which actual end-of-the-period exchange rate changed by 30% is used.

Impact on net income, based on the nominal value of the asset as at December 31, 2021 and 2020 is represented below:

	KGS/US Dollar		**KGS/Euro**		**KGS/Rub**	
	+30%	**-30%**	**+30%**	**-30%**	**+30%**	**-30%**
Effect on profit/(loss) before tax	107,142	(107,142)	(18,291)	18,291	68,940	(68,940)
Impact on equity	107,142	(107,142)	(18,291)	18,291	68,940	(68,940)

	KGS/US Dollar		**KGS/Euro**		**KGS/Rub**	
	+30%	**-30%**	**+30%**	**-30%**	**+30%**	**-30%**
Effect on profit/(loss) before tax	163,386	(163,386)	(24,866)	24,866	131,611	(131,611)
Impact on equity	163,386	(163,386)	(24,866)	24,866	131,611	(131,611)

Limitations of sensitivity analysis

The above tables demonstrate the effect of changes based on the main clause while other assumptions remain unchanged. In fact, there is a connection between the assumptions and other factors. It should also be noted that the sensitivity has nonlinear character so should not be interpolated or extrapolated from these results.

Sensitivity analysis does not take into account that the Bank actively manages the assets and liabilities. In addition, the Bank’s financial position may be subject to change depending on changes in the market. For example, the strategy of the Bank’s financial risk management aims to manage exposure to market fluctuations. In the case of sudden adverse price fluctuations in the securities market leadership can refer to such methods as selling investments, changing investment portfolio, as well as other methods of protection.

Consequently, changes in assumptions may not have influence on the commitment and significant impact on the assets recorded on the balance sheet at market price. In this situation, different methods of valuation of assets and liabilities may lead to volatility in equity.

Other limitations in the above sensitivity analysis include the use of hypothetical market movements with a view to the disclosure of potential risks, which represent only the Bank’s forecast of the upcoming changes in the market that cannot be predicted with any certainty.

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value of the Bank's financial assets and financial liabilities measured at fair value on a recurring basis. Some of the Bank's financial assets and financial liabilities are measured at fair value at the end of each reporting period.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1	fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2	fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
Level 3	fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets/(liabilities)	**Fair value as at**		**Fair value hierarchy**	**Valuation technique and key input**	**Significant unobservable input**	**Relationship of unobservable inputs to fair value**
	December 31, 2021	**December 31, 2020**				
Financial assets at fair value through profit or loss (FVTPL)	1,148	4,526	Level 2	Discounted cash flows. Future cash flows are estimated based on market exchange rates (as at the reporting date), discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
Financial liabilities at fair value through profit or loss (FVTPL)	81,636	106,912	Level 2	Discounted cash flows. Future cash flows are estimated based on market exchange rates (as at the reporting date), discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A

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

The following methods and assumptions are used by the Bank to estimate the fair value of financial instruments not carried at fair value.

Cash and cash equivalents, due to and from banks, other borrowed funds and other financial liabilities

For assets and liabilities such as cash and cash equivalents, due to banks, other borrowed funds and other financial liabilities the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates.

Loans to customers

The estimate was made by discounting the scheduled future cash flows of the individual loans through the estimated maturity using internal rates.

Customer accounts

The estimate on fair value was made by discounting the future cash flows of customer accounts through the estimated maturity using internal rates.

Investment securities at amortised cost

The estimate on fair value was made by discounting the future cash flows of debt securities through the estimated maturity using prevailing market rates for as at respective year-end.

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1	quoted (unadjusted) prices in active markets for identical assets or liabilities;;
Level 2	other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and;
Level 3	techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For the purpose of fair value disclosures, the Bank's has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Except as detailed in the following table, management considers that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values:

December 31, 2021	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Total carrying value**
FINANCIAL ASSETS:					
Loans to customers	-	8,647,835		8,647,835	8,877,776
Investment securities at amortised cost	769,745		-	769,745	777,092
	769,745	8,647,835	-	9,417,580	9,654,868
FINANCIAL LIABILITIES:					
Customer accounts	-	17,016,918	-	17,016,918	17,040,239
	-	17,016,918	-	17,016,918	17,040,239

December 31, 2020	Level 1	Level 2	Level 3	Total fair value	Total carrying value
FINANCIAL ASSETS:					
Loans to customers	-	-	7,837,367	7,837,367	8,019,239
Investment securities at amortised cost	-	810,856	-	810,856	802,795
	-	810,856	7,837,367	8,648,223	8,822,034
FINANCIAL LIABILITIES:					
Customer accounts	-	-	10,363,139	10,363,139	10,490,012
	-	-	10,363,139	10,363,139	10,490,012

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for assets and liabilities recorded at fair value in the financial statements and those items that are not measured at fair value in the statement of financial position, but whose fair value is disclosed.

Instruments for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption also applies to current accounts, deposits with no fixed maturity, and short-term financial assets and liabilities.

Derivatives

Derivative instruments valued using a valuation technique with market observable inputs are mainly interest rate and currency swaps. The most often used valuation techniques comprise swap price determination models using present value estimations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot rates and interest rate curves.

Financial assets and financial liabilities carried at amortised cost

The fair value of unquoted instruments, investment securities, loans to customers, amounts due to customer and financial institutions is estimated by discounting future cash flows using rates currently available for debt with similar terms, credit risk and remaining maturities.

31. CAPITAL ADEQUACY

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the norms accepted by the NBKR in supervising the Bank.

During 2021 and 2020, the Bank had complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or change the capital structure, the Bank may adjust the capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. No changes were made in the objectives, policies and processes from the previous years.

Under the current capital requirements set by the NBKR banks have to maintain:

- Total capital adequacy ratio (K2.1) – not less than 12%: The ratio is defined as the ratio of net total equity to the amount of risk-weighted balance sheet assets and off-balance sheet liabilities less special provisions to cover potential losses and total reserves not included in the tier 2 capital (i.e. exceeding 1.25% of the amount of risk-weighted balance sheet assets and off-balance sheet liabilities);
- Tier 1 capital adequacy ratio (K2.2) – not less than 6%: The ratio is defined as the ratio of net tier 1 capital to the amount of risk-weighted balance sheet assets and off-balance sheet liabilities less special provisions to cover potential losses and total reserves not included in the tier 2 capital (i.e. exceeding 1.25% of the amount of risk-weighted balance sheet assets and off-balance sheet liabilities);
- Tier 1 capital adequacy ratio (K2.3) is not less than 4.5%. The ratio is defined as the ratio of the basic capital of the first tier to the sum of balance sheet assets and off-balance sheet liabilities, weighted by the degree of risk minus special reserves to cover potential losses and general reserves not included in the capital of the second tier (i.e., exceeding 1.25% from the sum of balance sheet assets and off balance sheet liabilities, weighted by the degree of risk);
- Leverage (K2.4) – not less than 6%. The ratio is defined as the ratio of net total equity to total assets of the Bank. Total assets of the Bank represent the total assets on the balance sheet of the periodic regulatory bank report less intangible assets.

As at December 31, 2021 and 2020, the Bank's capital adequacy ratio, calculated in accordance with the requirements of the NBKR was as follows:

	December 31, 2021	**December 31, 2020**
Tier 1 net capital	1,703,194	1,529,778
Tier 2 capital	428,189	398,797
Less: investments	(1,745)	(4,303)
Net total equity	2,129,638	1,924,272
Total assets	21,684,964	15,286,830
Total risk-weighted balance sheet assets and off-balance sheet liabilities less provision for losses	11,695,639	9,067,737
Capital adequacy ratio K 2.1	18.21%	21.22%
Capital adequacy ratio K 2.2	14.55%	16.82%
Capital adequacy ratio K 2.3	14.55%	16.82%
Capital adequacy ratio K 2.4	9.82%	12.59%

32. TRANSACTIONS WITH RELATED PARTIES

In accordance with IAS 24 Related Party Disclosures, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. In addition, related parties include associate and close relatives of the Bank officers as defined in the Instruction “On requirements to bank operations with affiliated and related to the bank parties” approved by the Resolution No. 21/5 dated May 31, 2017 of the Board of the NBKR.

Related parties may enter into transactions which unrelated parties might not. Prices and terms of such transactions may differ from prices and terms of transactions between unrelated parties.

The Bank’s ultimate controlling party is Ms. Babanova Aya Toktogulovna. No publicly available financial statements are produced by the Bank’s ultimate controlling party.

In the statement of financial position as at December 31, 2021 and 2020 the following amounts were represented which arose due to transactions with related parties:

	December 31, 2021					December 31, 2020				
	Shareholders	Related party	Management employees	Total operations with related parties	Total categories corresponding to accounts in FS	Shareholders	Related party	Management employees	Total operations with related parties	Total categories corresponding to accounts in FS
Loans to customers	-	-	17,019	17,019	9,367,811	-	21,821	249	22,070	8,439,171
Allowance for expected	-	(492)	(2)	(494)	(490,035)	-	(524)	-	(524)	(419,932)
Other assets	-	109	-	109	562,515	-	-	3	3	537,736
Customer accounts	4	74,421	13,830	88,255	17,040,239	689	22,078	7,179	29,946	10,490,012
Undrawn loan	-	1,656	91	1,747	106,945	-	864	868	1,732	85,605

In the statement of profit or loss and other comprehensive income for the years ended December 31, 2021 and 2020 the following amounts were represented which arose due to transactions with related parties:

	For the year ended December 31, 2021				For the year ended December 31, 2020			
	Related party	Management employees	Total operations with related parties	Total categories corresponding to accounts in FS	Related party	Management employees	Total operations with related parties	Total categories corresponding to accounts in FS
Interest income	171	290	461	1,538,927	510	40	550	1,413,925
Interest expenses	(275)	(432)	(707)	(367,225)	(58)	(69)	(127)	(367,008)

Remuneration to the members of the Board of Directors and the Management Board is as follows:

	For the year ended December 31, 2021	Total category as per the financial statements caption	For the year ended December 31, 2020	Total category as per the financial statements caption
Operating expenses:				
Compensation to key management personnel	25,558	676,995	26,397	593,504

33. SEGMENT REPORTING

The Bank`s activities applies only to commercial lending and other banking operations and are concentrated in the Kyrgyz Republic.

34. EVENTS AFTER THE REPORTING DATE

Effective January 1, 2022, the new Tax Code of the Kyrgyz Republic was enacted, which provides for changes in the applicable tax regimes, determination of the tax base for major tax liabilities, as well as introducing new rules in the area of international indirect taxation. As of the date of issue of the financial statements, the Bank's management has not assessed the possible effect of these changes on the Bank's financial results and performance.

The situation related to the unfolding situation in Ukraine and the imposition of strict international sanctions against the Russian Federation has begun to develop very rapidly in February 2022. These circumstances led to the fact that international rating agencies revised the sovereign credit rating of the Russian Federation from 'BBB' to 'Ca' status and as well Ukraine`s sovereign credit rating fall from 'B' to 'B-' which is a negative outlook. The downgrades are associated with the significant risks to economic growth, a serious impact on exchange rates, the credibility of the countries and their economic subjects. Taken together, this could have a significant impact on the expected credit losses on the assets of the Bank in the subjects of these countries, which are affected by these previous factors. As at the date of issue of the financial statements, the Bank was unable to estimate possible effects of these circumstances on the financial statements.

As at the date of issue of these financial statements no other significant events or transactions occurred, which should be disclosed in accordance with IAS 10 “Events after the reporting period”.