Optima Bank OJSC

Financial Statements

for the year ended 31 December 2021

Contents

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Independent Auditors' Report

To the Board of Directors and Shareholders of Optima Bank OJSC

Opinion

We have audited the financial statements of Optima Bank OJSC (the "Bank"), which comprise the statement of financial position as at 31 December 2021, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the requirements prescribed in the Regulation on Minimum Requirements to External Audit of Banks and Other Financial and Credit Institutions, Licensed by the NBKR ("NBKR") approved by the Order of the NBKR Management Board No.2017-П-12/25-2 on 15 June 2017 (last revised on 14 August 2019) (the "NBKR requirements"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Expected credit losses (ECL) for loans to customers	
Please refer to the Notes 4, 16 and 25 in the financial statements.	
Key audit matter	**How the matter was addressed in our audit**
Loans to customers represent more than 33% of assets and are stated net of allowance for expected credit losses (ECL). The Bank applies the ECL valuation model, which requires management to apply professional judgement and to make assumptions related to the following key areas: — timely identification of significant increase in credit risk and default events related to loans to customers (allocation between stages 1, 2 and 3 in accordance with the IFRS 9); — assessment of probability of default (PD) and loss given default (LGD); — expected cash flows forecast for loans to customers classified in stage 3.	We analysed the key aspects of the Bank's methodology and policies related to the ECL estimate for compliance with the requirements of IFRS 9, with the involvement of financial risks management specialists. To analyse the adequacy of professional judgement and assumptions made by the management in relation to the allowance for ECL estimate, we performed the following audit procedures: — We tested design and operating effectiveness of controls over allocation of loans into stages. — For a sample of loans, for which ECL is assessed individually and for which the potential changes in ECL estimate may have a significant impact on the financial statements, we tested whether stages are correctly assigned by the Bank by analysing financial and non-financial information, as well as assumptions and professional judgements, applied by the Bank. — For a sample of loans we tested the correctness of input data used to determine PD. — Regarding loans issued to customers and assigned to stages 1 and 2, for which ECL is assessed collectively, we tested the design and implementation of the related models, as well as agreeing input data to supporting documents on a sample basis.
Due to the significant volume of loans to customers and the related estimation uncertainty, this area is a key audit matter.	— For a sample of stage 3 loans for which ECL is assessed individually and which mostly comprise loans to legal entities, we critically assessed assumptions used by the Bank to forecast future cash flows, including estimated proceeds from realisable collateral and their timing based on our understanding and publicly available market information. We specifically focused on exposures which potentially may have the most significant impact on the financial statements. — We assessed the current efficiency of the significant increase in credit risk (SICR) criterion and determined independently an appropriate allocation of the loans to customers for a sample, for which the potential changes in ECL estimate may have a significant impact on the financial statements. We assessed the predictive capability of the Bank's methodology used for ECL assessment by comparing the estimates made as at 1 January 2021 with actual results for 2021.

	We also assessed whether the financial statements disclosures appropriately reflect the Bank's exposure to credit risk.

Other information

Management is responsible for the other information. The other information comprises the information included in the report for the annual general meeting of shareholders, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed with regard to other information received before the date of this auditors' opinion, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

The engagement partner on the audit resulting in this independent auditors' report is:

Sergey Mesheryakov
Attorney

Aida Asyrandiyeva
Executive Director of KPMG Bishkek LLC
Certified Auditor of the Kyrgyz Republic,
Auditor's Qualification Certificate
serial A, # 0232 of 13 November 2014

15 March 2022

	Note	2021 KGS'000	2020 KGS'000
Interest income calculated using the effective interest method	5	3,608,330	3,197,546
Other interest income		,6	33,810
Interest expense	5	(1,175,214)	(1,014,009)
Net interest income		**2,477,562**	**2,217,347**
Fee and commission income	6	1,007,594	605,830
Fee and commission expense	7	(699,250)	(308,399)
Net fee and commission income		**308,3**	**297,431**
Net income on financial instruments at fair value through profit or loss		94,013	36,379
Net foreign exchange gain	8	524,407	541,558
Other operating income		9,258	12,726
Operating income		**3,413,584**	**3,105,1**
Loss allowance for debt financial assets	9	(277,254)	(773,188)
Personnel expenses	10	(1,098,575)	(884,055)
Other general and administrative expenses	11	(632,553)	(527,034)
Loss allowance for financial guarantee contracts		(18,827)	(6,733)
Loss allowance for other assets		(16,386)	(27,893)
Profit before income tax		**1,369,989**	**886,538**
Income tax expense	12	(137,064)	(89,454)
Profit for the year		**1,232,925**	**797,084**
Earnings per share			
Basic and diluted earnings per share, in KGS	24	**58.71**	**37.96**

The financial statements were approved by management on 15 March 2022.

Mr. B. Kapyshev
Chairman of the Board

Ms. N. Usupbayeva
Chief Accountant

Кыргызская Республика город Бишкек
Кыргыз Республикасы Бишкек шаары
Kyrgyz Republic Bishkek city
ОАО "Оптима Банк" ААК
Optima Bank
ИНН 00904199310033
Open Joint - Stock Company
Ачык Акционердик Коому
Открытое Акционерное Общество

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Note	2021 KGS'000	2020 KGS'000
ASSETS			
Cash and cash equivalents	13	43,817,259	16,064,910
Investment securities	14	1,383,044	1,276,152
Loans and advances to banks and other financial institutions	15	585,777	281,803
Loans to customers			
- Loans to corporate customers	16	20,974,323	20,579,942
- Loans to retail customers	16	3,034,879	3,556,673
Property, equipment and intangible assets	17	1,172,507	988,181
Other assets	18	1,455,150	835,033
Total assets		**72,422,939**	**43,582,694**
LIABILITIES			
Financial instruments at fair value through profit or loss		81,323	43,501
Deposits and balances from banks and other financial institutions	19	363,072	294,695
Current accounts and deposits from customers			
- Current accounts and deposits from corporate customers	20	40,091,458	13,869,147
- Current accounts and deposits from retail customers	20	18,516,215	14,341,559
Other borrowed funds	21	4,428,362	7,630,373
Other liabilities	22	918,644	612,479
Total liabilities		**64,399,074**	**36,791,754**
EQUITY			
Share capital	23	1,050,000	1,050,000
Retained earnings		6,973,865	5,740,940
Total equity		**8,023,865**	**6,790,940**
Total liabilities and equity		**72,422,939**	**43,582,694**

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

	2021 KGS'000	2020 KGS'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	3,599,417	3,092,872
Interest payments	(1,185,598)	(973,093)
Fee and commission receipts	1,010,152	605,681
Fee and commission payments	(666,952)	(295,692)
Net receipts from financial instruments at fair value through profit or loss	83,497	37,390
Net receipts from foreign exchange	519,619	443,254
Other income receipts	11,084	12,683
Personnel and other general and administrative expenses payments	(1,433,677)	(1,239,142)
(Increase)/decrease in operating assets		
Loans and advances to banks and other financial institutions	(297,262)	(165,708)
Loans to customers	(49,470)	(337,971)
Other assets	(436,042)	88,843
Increase//(decrease) in operating liabilities		
Deposits and balances from banks and other financial institutions	96,495	(1,204,422)
Current accounts and deposits from customers	30,123,340	4,241,068
Net cash from/(used in) operating activities before income tax paid	**31,374,603**	**4,305,763**
Income tax paid	(70,329)	(72,457)
Cash flows from/(used in) operations	**31,304,274**	**4,233,306**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(469,132)	(561,120)
Proceeds from repayment of investment securities	405,561	275,000
Purchases of property and equipment and intangible assets	(221,099)	(255,494)
Proceeds from sale of property and equipment and intangible assets	-	67
Cash flows used in investing activities	**(284,670)**	**(541,547)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts of other borrowed funds	503,987	1,339,052
Repayment of other borrowed funds	(3,773,661)	(1,187,333)
Dividends paid (Note 23(b))	(2)	(146,888)
Payments under lease agreements	(82,180)	(65,590)
Cash flows from financing activities	**(3,351,856)**	**(60,759)**
Net increase in cash and cash equivalents	**27,667,748**	**3,631,000**
Effect of changes in exchange rates on cash and cash equivalents	84,989	1,007,970
Effect of changes in expected credit losses (ECL) on cash and cash equivalents	(388)	6,693
Cash and cash equivalents as at the beginning of the year	16,064,910	11,419,247
Cash and cash equivalents as at the end of the year (Note 13)	**43,817,259**	**16,064,910**

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

KGS'000	Share capital	Retained earnings	Total equity
Balance at 1 January 2021	**1,050,000**	**5,740,940**	**6,790,940**
Total comprehensive income			
Profit for the year	-	1,232,925	1,232,925
Total comprehensive income for the year	**-**	**1,232,925**	**1,232,925**
Balance at 31 December 2021	**1,050,000**	**6,973,865**	**8,023,865**
Balance at 1 January 2020	**1,050,000**	**4,943,856**	**5,993,856**
Total comprehensive income			
Profit for the year	-	797,084	797,084
Total comprehensive income for the year	**-**	**797,084**	**797,084**
Balance at 31 December 2020	**1,050,000**	**5,740,940**	**6,790,940**

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

1 Background

(a) Organisation and operations

Optima Bank OJSC (the "Bank") was established in the Kyrgyz Republic as an open joint-stock company in 1992. The Bank was previously known as ATFBank-Kyrgyzstan OJSC and UniCredit Bank OJSC. In April 2013, due to changes in ultimate controlling party it was officially re-registered with the Ministry of Justice of the Kyrgyz Republic under a new name.

The principal activities of the Bank are deposit taking and customer account opening and maintenance, lending, issuing guarantees, cash and settlement operations and transactions with securities and foreign exchange. The Bank's activities are regulated by the National Bank of the Kyrgyz Republic (the "NBKR"). The Bank has a general banking licence, and is a member of the State Deposit Insurance System in the Kyrgyz Republic. The Bank's registered head office is: 493 Zhibek Zholu Avenue, Bishkek, 720070, Kyrgyz Republic.

The Bank has 19 branches (2020: 19 branches) from which it conducts business throughout the Kyrgyz Republic. The majority of the assets and liabilities are located in the Kyrgyz Republic.

The Bank is a subsidiary of First Heartland Jusan Bank JSC.

As at 31 December 2021, the major shareholders of First Heartland Jusan Bank JSC (the "Parent") comprise the Kazakhstani brokerage company First Heartland Securities JSC, which owns 78.73% of the outstanding ordinary shares, and Mr. G.Sh. Yessenov, who owns 20.11% of the outstanding ordinary shares (31 December 2020: 80.04% of the outstanding ordinary shares and 19.96% of the outstanding ordinary shares, respectively).

As at 31 December 2021, the ultimate controlling party of the Parent and its subsidiaries is NU Generation Foundation Inc., a non-profit organisation which had been set up solely with a view to financing the activities of the autonomous education institutions Nazarbayev University and Nazarbayev Intellectual Schools and their associates.

As at 31 December 2020, the Bank was a subsidiary of ATF Bank JSC. On 29 December 2020, First Heart Jusan Bank JSC purchased 99.88% of shares of ATF Bank JSC, owned by Mr. G.Sh. Essenov.

On 16 March 2021, at a joint general shareholders meeting of First Heart Jusan Bank JSC and ATFBank JSC, a decision was taken for First Heart Jusan Bank JSC to take over ATFBank JSC.

On 31 May 2021, the Agency of the Republic of Kazakhstan for Regulation and Development of Financial Market decided to approve the voluntary reorganisation of First Heart Juan Bank JSC through a takeover of ATFBank JSC by First Heart Jusan Bank JSC, which was completed on 3 September 2021.

On 13 September 2021, the Bank forwarded a notification to the National Bank of the Kyrgyz Republic on the change of a major shareholder.

As at 31 December 2020, the shareholders of First Heartland Jusan Bank JSC comprise First Heartland Securities JSC which owns 80.04% of the outstanding ordinary shares, and Mr. G.Sh. Yessenov who owns 19.96% of the outstanding ordinary shares.

As at 31 December 2020, Pioneer Capital Invest LLP exercises its voting rights attached to shares of Jysan Technologies Ltd, a parent company of First Heartland Securities JSC, in the sole interests of, and solely with a view to financing the activities of, the autonomous education institutions Nazarbayev University and Nazarbayev Intellectual Schools and their associates. As at 31 December 2020, Nazarbayev Fund Private Fund owns a 67.53% interest in Pioneer Capital Invest LLP.

As at 31 December 2021, the Parent owned 97.14% of the Bank's outstanding shares (2020: 97.14%). Related party transactions are detailed in Note 29.

(b) Kyrgyzstan business environment

The Bank's operations are primarily located in Kyrgyzstan. Consequently, the Bank is exposed to the economic and financial markets of Kyrgyzstan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Kyrgyzstan.

The ongoing armed conflict in Ukraine has further increased uncertainty about the Kyrgyzstan business environment.

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

2 Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except for financial instruments at fair value through profit or loss.

(c) Functional and presentation currency

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

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

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

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

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

Judgements

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

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

Assumptions and estimation uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the financial statements for the year ended 31 December 2021 is included in the following notes:

- impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 4, and for impairment of loans to customers – Note 16.

3 Significant accounting policies

The accounting policies set out below are applied consistently by the Bank to all periods presented in these financial statements.

(a) Foreign currency

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

Foreign currency differences arising in translation are recognised in profit or loss.

(b) Interest income and expenses

Effective interest rate

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

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

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

For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

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

Amortised cost and gross carrying amount

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

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

Calculation of interest income and expense

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

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

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

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

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes:

- Interest income on financial assets measured at amortised cost.

Interest expense presented in the statement of profit or loss and other comprehensive includes:

- Interest expense on financial liabilities measured at amortised cost.

(c) Fee and commission income and expense

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

Other fee and commission income – including account servicing fees, sales commission - is recognised as the related services are provided. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

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

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, nostro accounts held with the NBKR and other banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of short-term commitments.

Notes issued by the NBKR, with original maturities of less than one month are classified by the Bank into 'cash equivalents' as it is a highly liquid financial asset, with low credit risk specific thereto, and the issuer being a government agency.

Cash and cash equivalents are recognised at amortised cost in the statement of financial position.

(e) Financial assets and financial liabilities

(i) Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated by the Bank as at fair value through profit or loss:

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

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

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

For debt financial assets measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest income calculated using the effective interest method;
- expected credit losses and reversals; and
- foreign exchange gains and losses.

When a debt financial asset measured at fair value through other comprehensive income is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

Gains or losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss (see Note (e) (ii)) unless they clearly represent a recovery of part of the cost of investment, in which case they are recognised in other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

All other financial assets are classified as measured at fair value through profit or loss.

In addition, on initial recognition the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise (see Note 3(e)(i)).

Business model assessment

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

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

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

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

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

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

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

The Bank holds a portfolio of long-term fixed rate loans for which the Bank has the option to revise the interest rate following the change of a key rate set by the NBKR. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that it is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding. Instead, the Bank considers these loans as in essence floating- rate loans (Note 3(e)(iii)).

Reclassification

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

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL, see Note 27.

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

(ii) Derecognition

Financial assets

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

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

Any cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, as explained in Note 3(e)(i). Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

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

Financial liabilities

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

(iii) Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired.

In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

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

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

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

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

- change of the currency of the financial asset;
- change in collateral or other credit enhancement;
- change of terms of financial asset that lead to non-compliance with SPPI criterion (e.g. inclusion of conversion feature).

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write off policy).

This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. The Bank further performs qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss.

For floating-rate assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

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

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

Financial liabilities

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

The Bank assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. The Bank concludes that the modification is substantial as a result of the following qualitative factors:

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

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

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification.

Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(iv) Impairment loss

See also Note 4.

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

- financial assets that are debt instruments;
- financial guarantee contracts issued and loan commitments issued. No impairment loss is recognised on equity investments.

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

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

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

12-month expected credit losses (ECL) are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1' financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. Financial instruments, other than purchased or originated credit-impaired assets, for which a lifetime ECL is recognised are referred to as 'Stage 2' financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and 'Stage 3' financial instruments (if the financial instruments are credit-impaired).

Measurement of expected credit losses (ECL)

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

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

See also Note 4.

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 4).

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event, according to the definition of default applied by the Bank;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

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

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

Write-offs

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

Recoveries of amounts previously written off are included in 'loss allowance for expected credit losses on debt financial assets' in the statement of profit or loss and other comprehensive income.

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

Non-integral financial guarantee contracts

The Bank assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Bank considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and

- the guarantee is given by the parent of the borrower or another company within the Bank's group.
- If the Bank determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Bank considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Bank determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in 'other assets' (see Note 18). The Bank presents gains or losses on a compensation right in profit or loss in the line item 'loss allowance on debt financial assets'.

(f) Loans to customers

'Loans to customers' caption in the statement of financial position include:

- loans to customers measured at amortised cost (see Note 3(e)(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

(g) Investment securities

The 'investment securities' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost (see Note 3(e)(i)); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

(h) Deposits and other borrowed funds

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

(i) Financial guarantees and loan commitments

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

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 (see Note 3(e)(iii)) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

As at 31 December 2021 the Bank has issued no loan commitments that are measured at FVTPL.

For other loan commitments the Bank recognises a loss allowance (see Note 3(e)(iii)).

Liabilities arising from financial guarantees and loan commitments are included within other liabilities.

(j) Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. The Bank currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank and all counterparties.

(k) Property, plant and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Depreciation

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

The estimated useful lives are as follows:

Buildings	50 years;
Furniture and office equipment	from 3 to 7 years;
Equipment	5 years;
Vehicles	7 years.

(l) Intangible assets

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

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 3 to 7 years.

(m) Leases

(i) Leases as a lessee

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

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

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made.

(ii) Leases as a lessor

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

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

If an arrangement contains lease and non-lease components, then the Bank applies IFRS 15 to allocate the consideration in the contract.

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

(n) Foreclosed assets

Foreclosed assets are measured at the lower of cost or 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.

(o) 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. If the amount of such liability is significant, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(p) Share capital

Ordinary shares

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

Dividends

The ability of the Bank to declare and pay dividends is subject to effective legislation of the Kyrgyz Republic.

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

(q) Taxation

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

(i) Current tax

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

(ii) Deferred tax

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

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

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

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

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

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

(r) Segment reporting

The Bank's operations are highly integrated and constitute a single business segment for the purposes of IFRS 8 *Segment Reporting*. The Bank's assets are concentrated in the Kyrgyz Republic and the Bank's revenues are derived from operations carried on in the Kyrgyz Republic. The Chief Operating Decision Maker, in the case of the Bank, the Chairman of the Board, only receives and reviews the information on the Bank as a whole.

(s) New standards and interpretations not yet adopted

A number of new standards and interpretations are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Bank has not early adopted the new or amended standards in preparing these financial statements.

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

– Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).
– Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).
– COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16).
– Annual Improvements to IFRS Standards 2018–2020.
– Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).
– Reference to Conceptual Framework (Amendments to IFRS 3).
– Classification of Liabilities as Current or Non-current (Amendments to IAS 1).
– Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).

(t) New amendments effective from 1 January 2021

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 ('IBOR Reform – Phase 2')

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued;
- provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the financial statements of the Bank.

Amendments to IFRS 16 Leases – COVID-19 related rent concession beyond 30 June 2021

On 28 May 2020, the Board issued Covid-19-Related Rent Concessions, which amended IFRS 16 *Leases*. This amendment provides an exemption for lessees from the requirements of IFRS 16 in terms of accounting for lease modifications in case of rent concessions that arise as a direct consequence of the COVID-19 pandemic. The amendment provides lessees with relief in the form of an optional exemption from the requirements of IFRS 16 and from assessing whether a rent concession related to COVID-19 is a lease modification. As a practical expedient the lessee may elect not to analyse whether the rent reliefs granted by the lessor in the context of COVID-19 pandemic should be accounted for as changes to leases. The lessee making such a decision should account for any change in lease payments due to a rent relief related to the COVID-19 pandemic in the same way as if the change would have been accounted for under IFRS 16 had it not been the lease modifications.

The amendment was expected to be applied until 30 June 2021, but due to the continuing impact of the COVID-19 pandemic, on 31 March 2021, the IASB decided to extend the application of this practical expedient until 30 June 2022.

The new amendment applies to annual reporting periods beginning on or after 1 April 2021. The Bank was not provided any rent concessions related to COVID-19 pandemic.

4 Credit risk review

This note presents information about the Bank's exposure to financial risks. For information on the Bank's financial risk management framework, see Note 25.

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

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

Significant increase in credit risk

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

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

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

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

- decline in the borrower's operating results, including in revenues, EBITDA and net profit, for the last six months as compared to the similar period of the prior year;
- qualitative factors;
- backstop of 30 days past due.

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Corporate exposure	All exposures (corporate and retail exposures)
• Information obtained during periodic review of borrower files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes. • Actual and expected significant changes in the business structure, business landscape, regulatory and technological environment of the borrower or in its business activities.	• Payment record – this includes overdue status. • Utilisation of the granted limit. • Requests for and granting of forbearance. • Existing and forecast changes in business, financial and economic conditions.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies (with regard to financial counterparties) is also used.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting period. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument.

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

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

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

Definition of default

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

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

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

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

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

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Bank formulates two economic scenarios, apart from a base case: one upside and one downside, the probability of occurring of which is based on the forecast implementation for previous 10 years. External information may include economic data and forecasts published by governmental bodies and monetary authorities in the countries, where the Bank operates, such as the NBKR and Ministry of Economic Development, and selected private sector and academic forecasters.

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

In 2021, the key drivers are: forecast of consumer price index changes, unemployment rate forecast, and USD rate forecasts in relation to the national currency. The economic scenarios used as at 31 December 2021 included the following ranges of key indicators for the Kyrgyz Republic for 2022.

In 2021, the Bank revised the weightings of each of the scenarios for key macroeconomic indicators in the post-covid environment, and the Bank determined the weighting of the Downside scenario at 25% (2020: 50%), the Base scenario – at 50% (2020: 25%), the Upside scenario – at 25% (2020: 25%).

	2022
USD/KGS exchange rate forecasts	Downside – 25%, rate = KGS 105.12/ USD 1 Base – 50%, rate = KGS 92.24/ USD 1 Upside – 25%, rate = KGS 79.36/ USD 1
Forecast of consumer price index changes	Downside – 25%, CPI growth rate = 0.57% Base – 50%, CPI growth rate = 5.6% Upside – 25%, CPI growth rate = 10.63%
Unemployment rate forecast	Downside – 25%, unemployment rate = 5.81% Base – 50%, unemployment rate = 6.60% Upside – 25%, unemployment rate = 7.39%

In 2020, the key drivers are: GDP forecast in current prices, forecast of consumer price index changes, projected growth of the KR' agricultural sector, and USD forecasts in relation to the national currency. The economic scenarios used as at 31 December 2020 included the following ranges of key indicators for the Kyrgyz Republic for 2020.

	2021
USD/KGS exchange rate forecasts	Downside – 50%, rate = KGS 96.15/ USD 1 Base – 25%, rate = KGS 84.80/ USD 1 Upside – 25%, rate = KGS 73.45/ USD 1
Forecast of consumer price index changes	Downside – 50%, CPI growth rate = 2.21% Base – 25%, CPI growth rate = 7.0% Upside – 25%, CPI growth rate = 11.79%
Unemployment rate forecast	Downside – 50%, unemployment rate = 5.81% Base – 25%, unemployment rate = 6.60% Upside – 25%, unemployment rate = 7.39%

Predicted relationships between the key indicator and default and loss rates on various portfolios of financial assets have been developed based on the analysis of historical data for the last seven years.

Modified financial assets

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

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

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

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

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the customer is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

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

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

Measurement of expected credit losses (ECL)

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

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

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

The methodology of estimating PDs is discussed above under the heading "Generating the term structure of PD".

The Bank estimates LGD parameters based on the historical data on write-offs and recovery of loans defined as defaulted. Analysis is conducted on a collective basis using the parameters 'Type of product' and 'Number of years in default'. Thus, LGD parameter is determined as a recovery ratio equal to 1. A recovery ratio is calculated as an average weighted percentage of recoveries on defaulted loans on a discounted cash flow basis using the effective interest rate as the discounting factor. For investment securities, loans and advances to banks and other financial institutions, the Bank applies LGD parameter based on the statistics of international rating agencies Moody's, Standard & Poor's or a rating assigned by Fitch.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. For all financial assets with annuity payment schedule and for major assets with individual payment schedule, the EAD of a financial asset is its gross carrying amount at the projected date of default. For all other assets, where the EAD of a financial asset at the projected date of default is not available without undue cost or effort, the EAD of a financial asset is its gross carrying amount at the reporting date.

For lending commitments, the EAD is potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

For financial guarantees, the EAD represents the guarantee exposure when the financial guarantee becomes payable.

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

The Bank uses loss rate, which is estimated based on historic loss migration model for the past 60 months to calculate PD.

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

- instrument type;
- industry.

For assessment of the probability of default on modified loans due to the deterioration of the financial condition of the Bank's borrower, the Bank uses observation matrix of migration of the similar loans to default category for the last 60 months. Such loans are grouped on the basis similar for entire loan portfolio.

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

5 Net interest income

	2021 KGS'000	2020 KGS'000
Interest income calculated using the effective interest method		
Loans to customers	3,182,848	2,982,711
Cash and cash equivalents	315,909	127,237
Investment securities	109,381	87,500
Loans and advances to banks and other financial institutions	192	98
	3,608,330	**3,197,546**
Other interest income		
Finance lease receivables	44,446	33,810
	44,446	**33,810**
Interest expense		
Current accounts and deposits from customers	786,560	541,621
Other borrowed funds	366,384	438,152
Lease liabilities	20,752	13,771
Deposits and balances from banks and other financial institutions	1,518	20,465
	1,175,214	**1,014,009**
Net interest income	**2,477,562**	**2,217,347**

6 Fee and commission income

	2021 KGS'000	2020 KGS'000
Payment card maintenance fees	608,857	269,830
Money transfers	171,921	150,468
Cash withdrawal	145,702	105,354
Guarantee and letter of credit issuance	33,223	29,515
Foreign exchange fees	10,355	15,627
Safe custody fees	5,180	4,798
Other	32,356	30,238
	1,007,594	**605,830**

Commissions income that are not integral to the effective interest rate on a financial asset or financial liability, is recognised depending on the type of the service either at the point in time or over time as the Bank satisfies its performance obligation under the contract:

- fees for card maintenance, money transfers, cash withdrawal, foreign exchange operations, for execution of customers' payment orders, as well as fees for guarantees and letters of credit issued are charged in accordance with tariffs depending on the type of the transaction and recognised as income at the moment of the transaction execution;
- safe custody fees are paid by the customer in advance and are charged to income over the term of the contracts with customers.

Contract balances

The following table provides information about receivables and liabilities from contracts with customers.

	2021 KGS'000	2020 KGS'000
Fee and commission receivables, which are included in 'other assets' (Note 18)	9,914	12,482

As at 31 December 2021 the Bank had performance obligations for the total amount of KGS 1,612 thousand (31 December 2020: KGS 1,609 thousand) with original expected duration of one year or less, as required by IFRS 15.

7 Fee and commission expense

	2021 KGS'000	2020 KGS'000
Payment card maintenance fees	603,915	233,275
Settlement fees	73,492	54,779
Cash transaction fees	10,454	7,692
Foreign exchange fees	8,142	5,679
Other	3,247	6,974
	699,250	**308,399**

8 Net foreign exchange gain

	2021 KGS'000	2020 KGS'000
Gain on spot transactions	519,619	443,254
Gain on remeasurement of financial assets and liabilities	4,788	98,304
	524,407	**541,558**

9 Loss allowance for debt financial assets

	2021 KGS'000	2020 KGS'000
Loans to customers	276,461	776,876
Investment securities	541	2,692
Cash and cash equivalents	388	(6,693)
Loans and advances to banks and other financial institutions	(136)	313
	277,254	**773,188**

10 Personnel expenses

	2021 KGS'000	2020 KGS'000
Employee compensation	947,195	776,284
Contributions to Social Fund made by employer	151,380	107,771
	1,098,575	**884,055**

11 Other general and administrative expenses

	2021 KGS'000	2020 KGS'000
Depreciation and amortisation	209,339	181,347
Repairs and maintenance	89,597	65,254
Payments to Deposits Insurance Fund	59,574	49,842
Security	56,000	44,250
Professional services	54,621	49,684
Office supplies	44,664	29,015
Communication and information services	26,650	18,308
Operating lease expense	22,280	20,935
Advertising and marketing	21,463	13,914
Business travel expenses	4,751	2,018
Representation expenses	3,521	3,190
Insurance	2,098	4,929
Taxes other than income tax	1,956	1,957
Other	36,039	42,391
	632,553	**527,034**

12 Income tax expense

	2021 KGS'000	2020 KGS'000
Current tax expense		
Current year	91,033	60,790
Current tax over provided in prior years	(743)	-
	90,290	**60,790**
Deferred tax expense		
Origination and reversal of temporary differences	46,774	28,664
Total income tax expense	**137,064**	**89,454**

The Bank's applicable tax rate for current and deferred tax is 10% (2020: 10%).

Reconciliation of effective tax rate:

	2021		2020	
	KGS'000	%	KGS'000	%
Profit before income tax	**1,369,989**	**100**	**886,538**	**100**
Income tax at the applicable tax rate	136,999	10.0	88,654	10.0
Non-taxable income	65	0.0	800	0.1
	137,064	**10.0**	**89,454**	**10.1**

Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liability as at 31 December 2021 and 2020. This deferred tax liability is recognised in these financial statements. The deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences for the years ended 31 December 2021 and 2020 are presented as follows:

KGS'000	**Balance 1 January 2021**	**Recognised in profit or loss**	**Balance 31 December 2021**
Cash and cash equivalents	(18)	(39)	(57)
Investment securities	(1,260)	(55)	(1,315)
Loans and advances to banks and other financial institutions	(41)	13	(28)
Loans to customers	62,124	37,562	99,686
Property, plant and equipment and intangible assets	32,679	9,866	42,545
Other assets	128	18,489	18,617
Other liabilities	(44,706)	(19,062)	(63,768)
	48,906	**46,774**	**95,680**

KGS'000	**Balance 1 January 2020**	**Recognised in profit or loss**	**Balance 31 December 2020**
Cash and cash equivalents	(634)	616	(18)
Investment securities	(991)	(269)	(1,260)
Loans and advances to banks and other financial institutions	(6)	(35)	(41)
Loans to customers	26,619	35,505	62,124
Property, plant and equipment and intangible assets	16,401	16,278	32,679
Other assets	(1,807)	1,935	128
Other liabilities	(19,340)	(25,366)	(44,706)
	20,242	**28,664**	**48,906**

13 Cash and cash equivalents

	2021 KGS'000	2020 KGS'000
Cash on hand	**5,144,398**	**3,040,349**
Nostro accounts with the NBKR	**3,988,695**	**2,566,814**
Nostro accounts with other banks		
- rated from A- to A+	5,859,172	3,751,110
- rated BBB	2,305,818	1,155,081
- rated from BB- to B+	195,505	403,569
- rated from B to B+	304,430	115,806
- not rated	-	17,919
Total nostro accounts with other banks	**8,664,925**	**5,443,485**
Cash equivalents		
- Term deposits with banks rated from A- to A+	8,391,266	2,066,276
- Overnight deposits with the National Bank of the Kyrgyz Republic	9,200,000	1,650,126
- Notes of the National Bank of the Kyrgyz Republic with original maturity less than three months	8,428,545	1,298,042
Total cash equivalents	**26,019,811**	**5,014,444**
Gross cash and cash equivalents	**43,817,829**	**16,065,092**
Loss allowance	(570)	(182)
Total cash and cash equivalents	**43,817,259**	**16,064,910**

The credit ratings are presented by reference to the credit ratings of Standard&Poor's credit ratings agency or analogues of similar international agencies.

None of cash and cash equivalents are credit-impaired or past due.

As at 31 December 2021 the Bank has 5 banks (2020: four banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2021 is KGS 36,379,493 thousand (2020: KGS 11,720,582 thousand).

In accordance with the NBKR requirements, the funds on correspondent account should comprise no less than 70% (31 December 2020: 70%) of the Bank's required reserves, on a daily basis, to comply with the reserve requirements. As at 31 December 2021 the Bank complies with the reserve requirements, amounting to KGS 4,118,849 thousand (31 December 2020: KGS 2,575,366 thousand). The Bank can withdraw money from such account as it is not restricted by the legislation. The Bank may use the entire balance of the correspondent account during a banking day; however, the balance should be at least 70% of the reserve requirements at the end of the day (31 December 2020: 70% of the reserve requirements).

The following table shows reconciliations from the opening to the closing balances of the loss allowance on cash and cash equivalents.

	2021	2020
KGS'000	**Stage 1**	**Stage 1**
Cash and cash equivalents		
Balance at 1 January	182	6,340
Net remeasurement of loss allowance	388	(6,693)
Foreign exchange	-	535
Balance at 31 December	**570**	**182**

14 Investment securities

	2021 KGS'000	2020 KGS'000
Amortised cost		
Non-pledged		
Government and municipal bonds, bills and notes		
- Treasury bonds of the Ministry of Finance of the Kyrgyz Republic	213,724	319,355
Total non-pledged Government and municipal bonds, bills and notes	**213,724**	**319,355**
Pledged		
Government and municipal bonds, bills and notes		
- Treasury bonds of the Ministry of Finance of the Kyrgyz Republic	1,182,465	969,401
Total pledged Government and municipal bonds, bills and notes	**1,182,465**	**969,401**
Total Government and municipal bonds, bills and notes	**1,396,189**	**1,288,756**
Loss allowance	(13,145)	(12,604)
Total Government and municipal bonds, bills and notes	**1,383,044**	**1,276,152**

As at 31 December 2021, the treasury bonds of the Ministry of Finance of the Kyrgyz Republic used to collateralise loans from the Russian Kyrgyz Development Fund amounted to KGS 855,144 thousand (2020: KGS 215,157 thousand) (Note 21).

As at 31 December 2021, the treasury bonds and bills of the Ministry of Finance of the Kyrgyz Republic used to collateralise loans from the National Bank of the Kyrgyz Republic amounted to KGS 327,321 thousand (2020: KGS 754,244 thousand) (see Note 21).

None of the investment securities are credit-impaired or past due and designated to Stage 1.

15 Loans and advances to banks and other financial institutions

	2021 KGS'000	2020 KGS'000
Loans and deposits		
Other financial institutions		
- rated from A- to A+	509,482	247,949
- rated BBB	254	248
National Bank of the Kyrgyz Republic	76,320	24,094
The Parent rated B	-	9,918
	586,056	**282,209**
Loss allowance	(279)	(406)
Net loans and deposits to banks and other financial institutions	**585,777**	**281,803**

None of the loans and advances to banks and other financial institutions are credit-impaired or past due and designated to Stage 1.

The credit ratings are presented by reference to the credit ratings of Standard&Poor's credit ratings agency or analogues of similar international agencies.

As at 31 December 2021 the Bank has no counterparties (2020: none), whose balances exceed 10% of the Bank's equity.

16 Loans to customers

	2021 KGS'000	2020 KGS'000
Loans to legal entities		
Loans to corporate customers	6,459,269	7,072,889
Small business loans	17,195,756	16,111,312
Total loans to corporate customers	**23,655,025**	**23,184,201**
Loans to retail customers		
Mortgage loans	1,709,089	2,210,167
Consumer loans	1,224,801	1,302,615
Credit cards and other	239,179	157,658
Total loans to retail customers	**3,173,069**	**3,670,440**
Gross loans to customers	**26,828,094**	**26,854,641**
Loss allowance	(2,818,892)	(2,718,026)
Net loans to customers	**24,009,202**	**24,136,615**

As at 31 December 2021 the loan portfolio includes loans to customers, which serve as a collateral to secure fulfilment of liabilities on other borrowed funds of the Bank with net carrying amount of KGS 1,976,026 thousand (31 December 2020: KGS 2,153,799 thousand) (see Note 21).

(a) Analysis of movements in the loss allowance on loans to customers measured at amortised cost

	2021				2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January	136,915	393,822	2,187,289	2,718,026	202,131	178,708	1,330,725	1,711,564
Transfer to Stage 1	206,085	(200,076)	(6,009)	-	2,393	(2,360)	(33)	-
Transfer to Stage 2	(11,187)	53,844	(42,657)	-	(90,044)	90,044	-	-
Transfer to Stage 3	(9,088)	(25,715)	34,803	-	(25,429)	(100,179)	125,608	-
Net remeasurement of loss allowance	(129,260)	125,951	140,056	136,747	(39,279)	189,886	552,239	702,846
New financial assets originated or purchased	139,714	-	-	139,714	74,030	-	-	74,030
Write-offs	-	-	(332,532)	(332,532)	-	-	(30,756)	(30,756)
Unwinding of discount	-	-	110,274	110,274	-	-	-	-
Movements in foreign exchange rates	5,609	5,854	35,200	46,663	13,113	37,723	209,506	260,342
Balance at 31 December	**338,788**	**353,680**	**2,126,424**	**2,818,892**	**136,915**	**393,822**	**2,187,289**	**2,718,026**

Analysis of movements in the loss allowance on loans to corporate customers

	2021				2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January	19,557	127,440	884,926	1,031,923	32,842	24,149	790,787	847,778
Transfer to Stage 1	52,053	(52,053)	-	-	-	-	-	-
Transfer to Stage 2	(910)	910	-	-	(14,339)	14,339	-	-
Transfer to Stage 3	(3,701)	(4,969)	8,670	-	(2,736)	-	2,736	-
Net remeasurement of loss allowance	(34,285)	135,505	169,955	271,175	(2,905)	76,745	35,086	108,926
New financial assets originated or purchased	6,282	-	-	6,282	4,822	-	-	4,822
Write-offs	-	-	(316,933)	(316,933)	-	-	(28,445)	(28,445)
Unwinding of discount	-	-	50,263	50,263				
Movemenrs in foreign exchange rates	657	3,480	13,413	17,550	1,873	12,207	84,762	98,842
Balance at 31 December	**39,653**	**210,313**	**810,294**	**1,060,260**	**19,557**	**127,440**	**884,926**	**1,031,923**

Analysis of movements in the loss allowance on loans to small- and medium-size businesses:

	2021				2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January	103,399	243,676	1,225,261	1,572,336	136,015	115,367	465,057	716,439
Transfer to Stage 1	142,150	(136,488)	(5,662)	-	1,580	(1,580)	-	-
Transfer to Stage 2	(9,832)	52,439	(42,607)	-	(64,814)	64,814	-	-
Transfer to Stage 3	(5,121)	(17,419)	22,540	-	(20,557)	(77,048)	97,605	-
Net movement in loss allowance	(89,771)	(14,263)	(34,896)	(138,930)	(20,897)	118,783	543,497	641,383
New financial assets originated or purchased	111,148	-	-	111,148	62,168	-	-	62,168
Write-offs	-	-	(5,064)	(5,064)	-	-	1,743	1,743
Unwinding of discount	-	-	54,127	54,127				
Movements in foreign exchange rates	4,241	2,154	20,430	26,825	9,904	23,340	117,359	150,603
Balance at 31 December	**256,214**	**130,099**	**1,234,129**	**1,620,442**	**103,399**	**243,676**	**1,225,261**	**1,572,336**

Analysis of movements in the loss allowance on loans to retail customers:

	2021				2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Mortgage and consumer loans								
Balance at 1 January	13,959	22,706	77,102	113,767	33,274	39,192	74,881	147,347
Transfer to Stage 1	11,882	(11,535)	(347)	-	813	(780)	(33)	-
Transfer to Stage 2	(445)	495	(50)	-	(10,891)	10,891	-	-
Transfer to Stage 3	(266)	(3,327)	3,593	-	(2,136)	(23,131)	25,267	-
Net movement in loss allowance	(5,204)	4,709	4,997	4,502	(15,477)	(5,642)	(26,344)	(47,463)
New financial assets originated or purchased	22,284	-	-	22,284	7,040	-	-	7,040
Write-offs	-	-	(10,535)	(10,535)	-	-	(4,054)	(4,054)
Unwinding of discount	-	-	5,884	5,884	-	-	-	-
Movements in foreign exchange rates	711	220	1,357	2,288	1,336	2,176	7,385	10,897
Balance at 31 December	**42,921**	**13,268**	**82,001**	**138,190**	**13,959**	**22,706**	**77,102**	**113,767**

During 2021, loans to corporates and small and medium-size businesses amounted to KGS 5,805,014 thousand and retail loans of KGS 1,278,103 thousand were provided, which led to increase in the loss allowances by KGS 139,714 thousand in Stage 1. As the loans to corporates and small and medium-size businesses categorised to Stage 1 were repaid for the total amount of KGS 1,822,717 thousand, the loss allowances decreased by KGS 18,416 thousand for loans of Stage 1.

In 2021, the Bank analysed for recovery the portfolio of loans for which in 2020 a deferral on payment of principal amount and/or interest was granted in connection with restrictive measures that had a negative effect on the economic entities, provided that the following conditions are met:

- no overdue amounts as at the analysis date;
- satisfactory functioning of industries affected by COVID-19 in terms of suspension of operations during the quarantine period. The examples of such industries are, first of all, the wholesale trade, lease out of trading space, services sector and public catering, tourism, hotel business and education;

- timely payment of the principal amount and accrued interest according to the amortization schedule within 3 months after the end of the grace period for payment of the principal amount and accrued interest; and
- non-existence of circumstances that may result in difficulties in timely repayment of loans to the Bank.

The reasons stated above led to the transfer of loans in the total amount of KGS 4,708,716 thousand to Stage 1. Loss allowances for loans in Stage 1 increased by KGS 92,257 thousand.

The transfer of loans in the amount of KGS 4,693,244 thousand from Stage 2 to Stage 1 decreased the amount of loss allowance by KGS 200,076 thousand. The transfer of loans in the total amount of KGS 745,589 thousand from Stages 1 and 3 to Stage 2 increased the amount of loss allowance by KGS 71,008 thousand. The transfer of loans in the amount of KGS 711,370 thousand from Stage 2 to Stage 3 decreased loss allowances in Stage 2 by KGS 25,714 thousand. An increase in loss allowance for loans in Stage 2 by KGS 154,903 thousand was due to increase in a number of days of delay and change in loan grades. Repayment of loans in Stage 2 resulted in decrease of loss allowance by KGS 40,261 thousand.

In 2021, the Bank transferred loans for a total amount of KGS 1,266,100 thousand to Stage 3, which resulted in the increase in loss allowances for those loans by KGS 413,519 thousand. There were also significant changes in the gross carrying amounts of loans to customers included in Stage 3 due to repayment of some loans under proceedings in the Legal Department for the amount of KGS 548,076 thousand, which contributed to decrease in the loss allowances by KGS 204,357 thousand.

In 2021, due to the derecognition of loans in Stage 3 and their subsequent recognition as POCI assets, the loss allowance for those loans of KGS 254,935 thousand was written off.

As at 31 December 2021, the Bank recognised new POCI assets at fair value of KGS 200,844 thousand, calculated as the present value of expected future cash flows, discounted using an effective interest rate of 21.53% taking into account the credit risk of the respective borrowers.

During 2020, loans to corporates and small and mediums-sized businesses amounted to KGS 3,986,088 thousand and retail loans of KGS 1,305,173 thousand were provided, which led to increase in the loss allowances by KGS 66,990 thousand. Loans to corporates and small and medium-size businesses of KGS 1,838,613 thousand and retail loans of KGS 1,261,423 thousand were also repaid, which led to decrease in the loss allowances by KGS 241,673 thousand and KGS 8,616 thousand, respectively, for loans designated in Stage 1.

Due to the spread of COVID-19, a number of restrictive measures were introduced by the state authorities in 2020, which had a negative effect on economic activity. Due to this fact, the Bank granted deferrals on the payment of principal debt and interest, without terminating the accrual of interest income, mainly for a period of 3 – 6 months, to the borrowers suffered because of the restrictions imposed pursuant to the submitted applications. This resulted in overflow of the gross carrying amount of the loans to Stage 2 and Stage 3, which contributed to increase in the estimated provisions.

Due to deterioration of the financial position of the borrowers in Stage 1 for the total amount of debt of KGS 12,241,675 thousand, the Bank transferred loans of KGS 9,488,983 thousand to Stage 2 and increased loss allowances for those loans by KGS 224,491 thousand; in addition the Bank transferred loans of KGS 2,752,692 thousand to Stage 3; the balance of the loss allowance for these loans was KGS 707,449 thousand.

Combination of the following factors has led to significant increase of the loans categorised to Stage 2:

- deferral of payment for the period from 3 to 12 months;
- a borrower is operating in the industry suffered from COVID-19 in terms of suspension of operations during the lockdown period that was declared by the Government of the Kyrgyz Republic, and subsequent decrease in the operating activity as compared with the pre-COVID period. The examples of such industries are, first of all, the wholesale trade, export trade, lease out of trading space, services sector and public catering, tourism, hotel business and education;

- USD-denominated loans, while the borrower's major cash flows are in KGS, against the background of devaluation in 2020;
- deterioration of the borrower's operating performance, including decrease in such indicators as revenue, EBITDA and net profit for the last six months in comparison with similar period of the previous year, by 20% and more;
- decrease in turnover of the borrower's current accounts by 20% and more for the last six months;
- as at 31 December 2020 a period of deferral for the borrowers did not finish, or at least 3 payments were not made in time after the end of the deferral period.

The Bank has also considered the political uncertainty in Kyrgyzstan and its potential impact on the borrowers' operations.

Decrease in gross carrying amount of loans to customers included in Stage 2 due to repayment of loans for the amount of KGS 104,348 thousand contributed to decrease of the loss allowance by KGS 34,605 thousand.

There were also significant changes in the gross carrying amounts of loans to customers included in Stage 3 due to repayment of some loans under proceedings in the Legal Department for the amount of KGS 210,363 thousand, which contributed to decrease in the loss allowances by KGS 155,210 thousand.

During 2020, loans to corporates and small and medium-size businesses amounted to KGS 3,986,088 thousand and retail loans of KGS 1,305,173 thousand were provided, which led to increase in the loss allowances by KGS 66,990 thousand. Loans to corporates and small and medium-size businesses of KGS 1,838,613 thousand and retail loans of KGS 1,261,423 thousand were also repaid, which led to decrease in the loss allowances by KGS 241,673 thousand and KGS 8,616 thousand, respectively, for loans designated in Stage 1.

(b) Credit quality of loans to customers

The following table provides information on the credit quality of loans measured at amortised cost as at 31 December 2021 and 31 December 2020: Unless specially indicated, for loans, the amounts in the table represent gross carrying amounts.

The Bank categorises loans to customers as follows:

- Grade 1: Standard – loans for which the necessary cash flow is generated sufficient to ensure that the client fulfils its obligations, as well as loans which, as of the current moment, bear no risk exceeding the normal banking practice, where neither principal amount nor interest are past due;
- Grade 2: Watch list – loans, which have been overdue for up to 30 days during the reporting year. The Bank also categorises loans issued in foreign currency as "watch" loans. In 2020 the watch loans classified to Stage 2 include loans to customers whose operating activities were adversely affected by COVID-19 and as a result their credit risks increased significantly.
- Grade 3: Substandard – assets for which there is a significant increase in credit risk; payments are 31-90 days overdue; restructuring or extension (in the event of a deterioration of the financial position) in case of failure to make 3 consecutive repayments without delay as per the repayment schedule;
- Grade 4: Doubtful – loans included in this grade have the same deficiencies as the substandard grade, but they are also associated with additional problems, which in combination with other deficiencies make repayment of debts, based on known facts and conditions, highly questionable, payments are more than 90 days overdue;
- Grade 5: Problem loans – loans classified as Problem Loans are hardly collectible and are handled by the Non-Performing Loans Department.

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

The following tables provide information on the quality of loans to corporate customers and small and medium-size businesses, assessed individually, by quality grade:

	2021					2020				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Corporate customers assessed individually										
With internally rated credit risk:										
Grade 1: Standard	688,724	-	-	-	688,724	620,476	-	-	-	620,476
Grade 2: Watch list	2,322,243	-	-	-	2,322,243	1,999,414	2,675,183	-	-	4,674,597
Grade 3: Substandard	-	1,257,182	-	-	1,257,182	-	-	-	-	-
Grade 4: Doubtful	-	-	974,813	-	974,813	-	-	800,228	-	800,228
Grade 5: Problem	-	-	887,652	200,844	1,088,496	-	-	840,932	-	840,932
Total loans to corporate customers	**3,010,967**	**1,257,182**	**1,862,465**	**200,844**	**6,331,458**	**2,619,890**	**2,675,183**	**1,641,160**	**-**	**6,936,233**
Loss allowance	(38,833)	(204,872)	(770,272)	-	(1,013,977)	(18,869)	(125,820)	(852,358)	-	(997,047)
Total net loans to corporate customers	**2,972,134**	**1,052,310**	**1,092,193**	**200,844**	**5,317,481**	**2,601,021**	**2,549,363**	**788,802**	**-**	**5,939,186**

	2021					2020				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Small and medium-size businesses assessed individually										
With internally rated credit risk:										
Grade 1: Standard	1,820,012	-	-	-	1,820,012	547,389	-	-	-	547,389
Grade 2: Watch list	2,011,705	-	-	-	2,011,705	658,874	2,782,848	-	-	3,441,722
Grade 3: Substandard	-	1,020,125	-	-	1,020,125	-	-	-	-	-
Grade 4: Doubtful	-	-	1,014,049	-	1,014,049	-	-	1,334,915	-	1,334,915
Grade 5: Problem	-	-	476,293	-	476,293	-	-	264,410	-	264,410
Total loans to small and medium-size businesses	**3,831,717**	**1,020,125**	**1,490,342**	**-**	**6,342,184**	**1,206,263**	**2,782,848**	**1,599,325**	**-**	**5,588,436**
Loss allowance	(74,827)	(33,195)	(590,923)	-	(698,945)	(18,440)	(60,852)	(578,977)	-	(658,269)
Total net loans to small and medium-size businesses	**3,756,890**	**986,930**	**899,419**	**-**	**5,643,239**	**1,187,823**	**2,721,996**	**1,020,348**	**-**	**4,930,167**

The following tables provide information on the quality of loans to customers by the number of days past due:

	2021					2020				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Gross loans to customers										
Not overdue	18,116,217	2,659,758	3,019,966	200,844	23,996,785	10,780,803	10,708,626	3,048,464	-	24,537,893
Overdue less than 30 days	47,214	312,427	122,152	-	481,793	29,297	26,736	444,556	-	500,589
Overdue 30-89 days	-	499,891	212,313	-	712,204	-	283,607	535,724	-	819,331
Overdue 90-179 days	-	-	248,177	-	248,177	-	-	150,575	-	150,575
Overdue 180-360 days	-	-	708,568	-	708,568	-	-	102,042	-	102,042
Overdue more than 360 days	-	-	680,567	-	680,567	-	-	744,211	-	744,211
Total loans to corporate customers	**18,163,431**	**3,472,076**	**4,991,743**	**200,844**	**26,828,094**	**10,810,100**	**11,018,969**	**5,025,572**	**-**	**26,854,641**
Loss allowance	(338,788)	(353,680)	(2,126,424)	-	(2,818,892)	(136,915)	(393,822)	(2,187,289)	-	(2,718,026)
Total net loans to customers	**17,824,643**	**3,118,396**	**2,865,319**	**200,844**	**24,009,202**	**10,673,185**	**10,625,147**	**2,838,283**	**-**	**24,136,615**

	2021					2020				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Corporate customers assessed individually										
Not overdue	3,010,967	716,937	1,201,963	200,844	5,130,711	2,619,890	2,449,615	1,147,878	-	6,217,383
Overdue less than 30 days	-	227,986	64,911	-	292,897	-	-	-	-	-
Overdue 30-89 days	-	312,259	51,585	-	363,844	-	225,568	128,764	-	354,332
Overdue 90-179 days	-	-	-	-	-	-	-	31,472	-	31,472
Overdue 180-360 days	-	-	456,250	-	456,250	-	-	-	-	-
Overdue more than 360 days	-	-	87,756	-	87,756	-	-	333,046	-	333,046
Total loans to corporate customers	**3,010,967**	**1,257,182**	**1,862,465**	**200,844**	**6,331,458**	**2,619,890**	**2,675,183**	**1,641,160**	**-**	**6,936,233**
Loss allowance	(38,833)	(204,872)	(770,272)	-	(1,013,977)	(18,869)	(125,820)	(852,358)	-	(997,047)
Total net loans to corporate customers	**2,972,134**	**1,052,310**	**1,092,193**	**200,844**	**5,317,481**	**2,601,021**	**2,549,363**	**788,802**	**-**	**5,939,186**

	2021					2020				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Corporate customers assessed collectively										
Not overdue	49,578	12,258	-	-	61,836	67,473	23,689	13,415	-	104,577
Overdue less than 30 days	-	-	13,430	-	13,430	-	-	-	-	-
Overdue 30-89 days	-	18,186	-	-	18,186	-	-	-	-	-
Overdue 90-179 days	-	-	-	-	-	-	-	-	-	-
Overdue 180-360 days	-	-	-	-	-	-	-	-	-	-
Overdue more than 360 days	-	-	34,359	-	34,359	-	-	32,079	-	32,079
Total loans to corporate customers	**49,578**	**30,444**	**47,789**	**-**	**127,811**	**67,473**	**23,689**	**45,494**	**-**	**136,656**
Loss allowance	(820)	(5,441)	(40,022)	-	(46,283)	(688)	(1,620)	(32,568)	-	(34,876)
Total net loans to corporate customers	**48,758**	**25,003**	**7,767**	**-**	**81,528**	**66,785**	**22,069**	**12,926**	**-**	**101,780**

	2021					2020				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Small- and medium size businesses assessed individually										
Not overdue	3,831,717	982,010	964,247	-	5,777,974	1,206,263	2,782,848	938,294	-	4,927,405
Overdue less than 30 days	-	-	-	-	-	-	-	182,732	-	182,732
Overdue 30-89 days	-	38,115	56,874	-	94,989	-	-	229,264	-	229,264
Overdue 90-179 days	-	-	106,730	-	106,730	-	-	13,225	-	13,225
Overdue 180-360 days	-	-	53,952	-	53,952	-	-	21,907	-	21,907
Overdue more than 360 days	-	-	308,539	-	308,539	-	-	213,903	-	213,903
Total loans to small and medium-size businesses	**3,831,717**	**1,020,125**	**1,490,342**	**-**	**6,342,184**	**1,206,263**	**2,782,848**	**1,599,325**	**-**	**5,588,436**
Loss allowance	(74,827)	(33,195)	(590,923)	-	(698,945)	(18,440)	(60,852)	(578,977)	-	(658,269)
Total net loans to small and medium-size businesses	**3,756,890**	**986,930**	**899,419**	**-**	**5,643,239**	**1,187,823**	**2,721,996**	**1,020,348**	**-**	**4,930,167**

	2021					2020				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Small and medium-size businesses assessed collectively										
Not overdue	8,574,895	764,185	775,365	-	10,114,445	4,675,230	4,312,201	855,924	-	9,843,355
Overdue less than 30 days	13,685	73,643	23,042	-	110,370	16,595	11,046	234,906	-	262,547
Overdue 30-89 days	-	94,951	90,177	-	185,128	-	26,062	137,981	-	164,043
Overdue 90-179 days	-	-	104,008	-	104,008	-	-	63,211	-	63,211
Overdue 180-360 days	-	-	143,571	-	143,571	-	-	67,151	-	67,151
Overdue more than 360 days	-	-	196,050	-	196,050	-	-	122,569	-	122,569
Total loans to small and medium-size businesses	**8,588,580**	**932,779**	**1,332,213**	**-**	**10,853,572**	**4,691,825**	**4,349,309**	**1,481,742**	**-**	**10,522,876**
Loss allowance	(181,387)	(96,904)	(643,206)	-	(921,497)	(84,959)	(182,824)	(646,284)	-	(914,067)
Total net loans to small and medium-size businesses	**8,407,193**	**835,875**	**689,007**	**-**	**9,932,075**	**4,606,866**	**4,166,485**	**835,458**	**-**	**9,608,809**

	2021					2020				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Retail customers										
Not overdue	2,649,060	184,368	78,391	-	2,911,819	2,211,947	1,140,273	92,953	-	3,445,173
Overdue less than 30 days	33,529	10,798	20,769	-	65,096	12,702	15,690	26,918	-	55,310
Overdue 30-89 days	-	36,380	13,677	-	50,057	-	31,976	39,716	-	71,692
Overdue 90-179 days	-	-	37,439	-	37,439	-	-	42,667	-	42,667
Overdue 180-360 days	-	-	54,795	-	54,795	-	-	12,984	-	12,984
Overdue more than 360 days	-	-	53,863	-	53,863	-	-	42,614	-	42,614
Gross loans to retail customers	**2,682,589**	**231,546**	**258,934**	**-**	**3,173,069**	**2,224,649**	**1,187,939**	**257,852**	**-**	**3,670,440**
Loss allowance	(42,921)	(13,268)	(82,001)	-	(138,190)	(13,959)	(22,706)	(77,102)	-	(113,767)
Total net loans to retail customers	**2,639,668**	**218,278**	**176,933**	**-**	**3,034,879**	**2,210,690**	**1,165,233**	**180,750**	**-**	**3,556,673**

(c) Key assumptions and judgments for estimating loan impairment

(i) Loans to corporate and small and medium-size businesses assessed individually

In determining the impairment allowance for loans to corporate customers, management makes the following key assumptions:

- The probability of default was calculated using the Markov chains method, namely, stochastic loan transition matrices according to the credit risk level given the averaged annual migration matrix with a 1-month shift for the period from November 2015 to October 2021. To determine the projected probability of default taking into account the effect of macroeconomic factors, the Bank applied the one-factor Merton model;
- to assess LGD individually, the period of collateral realisation is 36-51 months;
- LGD level of loans allocated to Stage 1 and Stage 2 was 13.3% and 67.6%;, respectively;
- the average level of PiT PD of loans allocated to Stage 1 was 5.55%, and those allocated to Stage 2 – 35.59% depending on the homogeneous portfolio segment.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the impairment allowance for loans to corporates and small and medium-size businesses assessed individually as at 31 December 2021 would be KGS 109,607 thousand lower/higher (31 December 2020: KGS 108,694 thousand lower/higher).

To the extent that the delay in obtaining proceeds from the foreclosure of collateral differs by plus/minus one year, loss allowance on loans to corporate and small and medium-size businesses assessed individually, as at 31 December 2021 would be by KGS 259,314 thousand higher and by KGS 289,828 thousand lower, respectively (at 31 December 2020: by KGS 248,528 thousand higher and by KGS 255,653 thousand lower, respectively).

(ii) Loans to small and medium-size businesses and retail customers, assessed collectively

In determining the impairment allowance for loans to corporate customers, management makes the following key assumptions:

- The probability of default was calculated using the Markov chains method, namely, stochastic loan transition matrices according to the credit risk level given the averaged annual migration matrix with a 1-month shift for the period from November 2015 to October 2021. To determine the projected probability of default taking into account the effect of macroeconomic factors, the Bank applied the one-factor Merton model;
- LGD level is calculated based on historical statistics for 6 years;
- LGD level of loans allocated to Stage 1 and Stage 2 was 19.8% and 57.5%, respectively;
- the average level of PiT PD of loans allocated to Stage 1 was 5.56%, and those allocated to Stage 2 – 25.63% depending on the homogeneous portfolio segment.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the impairment allowance for loans to retail and small and medium-size businesses assessed collectively as at 31 December 2021 would be KGS 129,670 thousand lower/higher (31 December 2020: KGS 131,655 thousand lower/higher).

To the extent that the delay in obtaining proceeds from the foreclosure of collateral differs by plus/minus one year, loss allowance on loans to retail customers and small and medium-size businesses assessed collectively, as at 31 December 2021 would be KGS 64 thousand higher and KGS 70 thousand lower, respectively (at 31 December 2020: KGS 109 thousand higher and KGS 109 thousand lower, respectively).

(d) Analysis of collateral

(i) Loans to legal entities

Loans to corporate customers

Because of the Bank's focus on corporate customers' creditworthiness, an updated valuation of collateral is generally not carried out unless the credit risk of a loan deteriorates significantly and the loan is monitored more closely.

Accordingly, the Bank does not routinely update the valuation of collateral held against all loans to corporate customers. For credit-impaired loans, the Bank usually obtains appraisals of collateral as the current value of the collateral may be an input to the impairment measurement.

As at 31 December 2021, the net carrying amount of credit-impaired loans to corporate customers amounts to KGS 1,099,960 thousand (31 December 2020: KGS 801,728 thousand) and the value of collateral held against those loans amounts to KGS 1,099,960 thousand (31 December 2020: KGS 801,728 thousand), excluding effect of overcollateralisation.

The following table provides information on collateral and other credit enhancements securing loans to corporate customers, net of loss allowance, by types of collateral:

KGS'000	31 December 2021	31 December 2020
Commercial real estate	3,813,785	4,507,505
Land	1,443,071	1,467,302
Residential real estate	142,153	63,005
Other collateral	-	3,154
Total loans to corporate customers	**5,399,009**	**6,040,966**

The table above excludes overcollateralisation.

The recoverability of loans which are neither past due nor impaired primarily depends on the creditworthiness of the borrowers rather than the value of collateral, and the Bank does not necessarily update the valuation of collateral as at each reporting date.

Loans to small and medium-size businesses

The following table provides information on collateral and other credit enhancements securing loans to small and medium-size businesses, net of loss allowance, by types of collateral, excluding overcollateralisation:

KGS'000	31 December 2021	31 December 2020
Commercial real estate	10,381,516	10,094,169
Residential real estate	4,301,916	3,988,440
Movable property	391,834	197,694
Cash	108,091	117,061
Other collateral	391,957	141,612
Total loans to small and medium-size businesses	**15,575,314**	**14,538,976**

As at 31 December 2021, the net carrying amount of credit-impaired loans to small and medium-size businesses amounts to KGS 1,588,426 thousand (31 December 2020: KGS 1,855,806 thousand) and the value of collateral held against those loans amounts to KGS 1,588,426 thousand (31 December 2020: KGS 1,855,806 thousand), excluding effect of overcollateralisation.

(ii) Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. Other retail loans are secured by housing real estate, equipment, and other collateral. According to the Bank's policy, a retail loan-to-value ratio should be maximum 70%.

As at 31 December 2021, the net carrying amount of credit-impaired loans to retail customers amounts to KGS 176,933 thousand (31 December 2020: KGS 180,750 thousand) and the value of collateral held against those loans amounts to KGS 176,933 thousand (31 December 2020: KGS 180,750 thousand), excluding effect of overcollateralisation.

(iii) Repossessed collateral

During the year ended 31 December 2021, the Bank obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of KGS 193,130 thousand (2020: KGS 114,505 thousand). As at 31 December 2021 and 31 December 2020, the repossessed collateral comprises:

	2021 KGS'000	2020 KGS'000
Real estate	402,237	312,045
Other assets	24,777	15,078
Total repossessed collateral	**427,014**	**327,123**

The Bank's policy is to sell these assets as soon as it is practicable.

At 31 December 2021, the Bank held financial instruments of KGS 72,842 thousand (31 December 2020: KGS 95,775 thousand) for which no loss allowance is recognised because of collateral.

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

	2021 KGS'000	2020 KGS'000
Loans to corporates and small and medium-size businesses loans		
Trade	9,171,635	8,051,603
Services	4,083,970	4,136,862
Manufacturing	3,304,662	3,801,160
Real estate	3,138,215	3,567,314
Agriculture	2,184,599	1,963,251
Transport	299,576	317,412
Other	1,472,368	1,346,599
Loans to individuals		
Mortgage loans	1,709,089	2,210,167
Consumer loans	1,224,801	1,302,615
Credit cards	239,179	157,658
	26,828,094	**26,854,641**
Loss allowance	(2,818,892)	(2,718,026)
	24,009,202	**24,136,615**

Significant credit exposures

As at 31 December 2021 the Bank has one borrower or group of connected borrowers (2020: one borrower or group of connected borrowers), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2021 is KGS 831,840 thousand (31 December 2020: KGS 720,075 thousand).

17 Property, plant and equipment and intangible assets

KGS'000	Buildings	Right-of-use asset	Furniture and office equipment	Equipment	Vehicles	Construction-in-progress	Computer software and licenses	Total
Cost								
Balance at 1 January 2021	254,107	388,833	506,631	261,808	67,294	89,579	371,047	1,939,299
Additions/modification	5,575	184,093	30,762	5,110	13,312	118,161	48,179	405,192
Disposals	(12,940)	(91,803)	(18,114)	(4,366)	(761)	(257)	-	(128,241)
Transfers	-	-	26,503	37,597	-	(64,769)	669	-
At 31 December 2021	**246,742**	**481,123**	**545,782**	**300,149**	**79,845**	**142,714**	**419,895**	**2,216,250**
Depreciation and amortisation								
Balance at 1 January 2021	(73,350)	(103,333)	(341,238)	(141,763)	(35,327)	-	(256,107)	(951,118)
Depreciation and amortisation for the year	(11,137)	(81,675)	(51,855)	(33,084)	(3,778)	-	(27,810)	(209,339)
Disposals	12,940	80,939	18,114	4,366	355	-	-	116,714
At 31 December 2021	**(71,547)**	**(104,069)**	**(374,979)**	**(170,481)**	**(38,750)**	**-**	**(283,917)**	**(1,043,743)**
Carrying amount								
At 31 December 2021	**175,195**	**377,054**	**170,803**	**129,668**	**41,095**	**142,714**	**135,978**	**1,172,507**

KGS'000	Buildings	Right-of-use asset	Furniture and office equipment	Equipment	Vehicles	Construction-in-progress	Computer software and licenses	Total
Cost								
Balance at 1 January 2020	246,135	187,760	440,247	212,136	64,644	59,912	289,436	1,500,270
Additions/modification	15,625	230,007	23,619	852	2,650	123,077	89,670	485,500
Disposals	(8,486)	(28,934)	(805)	(167)	-	(20)	(8,059)	(46,471)
Transfers	833	-	43,570	48,987	-	(93,390)	-	-
At 31 December 2020	**254,107**	**388,833**	**506,631**	**261,808**	**67,294**	**89,579**	**371,047**	**1,939,299**
Depreciation and amortisation								
Balance at 1 January 2020	(67,611)	(55,652)	(298,208)	(116,602)	(31,699)	-	(242,182)	(811,954)
Depreciation and amortisation for the year	(14,225)	(72,526)	(43,656)	(25,328)	(3,628)	-	(21,984)	(181,347)
Disposals	8,486	24,845	626	167	-	-	8,059	42,183
At 31 December 2020	**(73,350)**	**(103,333)**	**(341,238)**	**(141,763)**	**(35,327)**	**-**	**(256,107)**	**(951,118)**
Carrying amount								
At 31 December 2020	**180,757**	**285,500**	**165,393**	**120,045**	**31,967**	**89,579**	**114,940**	**988,181**

As at 31 December 2021 buildings used to collateralise loans from the Russian Kyrgyz Development Fund amounted to KGS 123,000 thousand (2020: KGS 126,459 thousand) (Note 21). There are no capitalised borrowing costs related to the acquisition or construction of property and equipment during 2021 (2020: nil).

18 Other assets

	2021 KGS'000	2020 KGS'000
Finance lease receivables	269,348	253,002
Money transfer receivables	91,032	35,571
Card settlement receivables	566,652	111,312
Other receivables	74,527	47,074
Loss allowance	(83,467)	(55,275)
Total other financial assets	**918,092**	**391,684**
Foreclosed property	516,143	440,074
Advance payments	102,926	97,935
Materials	19,590	18,291
Impairment allowance	(101,601)	(112,951)
Total other non-financial assets	**537,058**	**443,349**
Total other assets	**1,455,150**	**835,033**

The Bank has concluded a number of preliminary sale and purchase contracts with payments by instalments for repossessed collateral. These contracts are classified by the Bank as finance lease receivables under IFRS 16 because the Bank has transferred these assets to the lessee for a fee, and the rights of ownership of the assets are transferred to the customer by the end of the contract, and the present value of payments amounts to substantially all of the fair value of the asset being sold at the beginning of the contract.

These contracts have maturity dates of up to 3 years and do not provide for interest payments. The rate of 20.8% (2020: 21.5%) was used to discount the cash flows from contracts.

The components of finance lease receivables as at 31 December 2021 are as follows:

	2021 KGS'000	2020 KGS'000
Within one year	277,232	102,041
From one year to two years	27,338	219,300
Minimum lease payments	**304,570**	**321,341**
Within one year	25,435	3,950
From one year to two years	9,787	64,389
Unearned finance income	**35,222**	**68,339**
Total finance lease receivables net of unearned finance income	**269,348**	**253,002**
Loss allowance	(19,044)	(14,559)
Net finance lease receivables	**250,304**	**238,443**

Quality of finance lease receivables as at 31 December 2021 is as follows:

KGS'000	Stage 1	Stage 2	Stage 3	POCI	Total
- not overdue	114,314	-	-	69,511	183,825
- overdue less than 30 days	13,022	-	-	5,154	18,176
- overdue 30-89 days	-	9,348	-	27,485	36,833
- overdue 89-179 days	-	-	26,371	4,143	30,514
Finance lease receivables	**127,336**	**9,348**	**26,371**	**106,293**	**269,348**
Loss allowance	(3,001)	(1,443)	(9,412)	(5,188)	(19,044)
Net finance lease receivables	**124,335**	**7,905**	**16,959**	**101,105**	**250,304**

Quality of finance lease receivables as at 31 December 2020 is as follows:

KGS'000	Stage 1	Stage 2	Stage 3	POCI	Total
- not overdue	127,561	-	3,960	74,909	206,430
- overdue less than 30 days	16,034	-	-	475	16,509
- overdue 30-89 days	-	13,232	-	8,760	21,992
- overdue 89-179 days	-	-	798	-	798
- overdue more than 180 days	-	-	6,400	873	7,273
Finance lease receivables	**143,595**	**13,232**	**11,158**	**85,017**	**253,002**
Loss allowance	(5,551)	(2,038)	(4,267)	(2,703)	(14,559)
Net finance lease receivables	**138,044**	**11,194**	**6,891**	**82,314**	**238,443**

Movement in the allowance for finance lease receivables for the year ended 31 December 2021 is as follows:

KGS'000	Stage 1	Stage 2	Stage 3	POCI	Total
Finance lease receivables					
Balance at 1 January	5,551	2,038	4,267	2,703	14,559
Transfer to Stage 1	140	-	(140)	-	-
Transfer to Stage 2	(1,443)	1,443	-	-	-
Transfer to Stage 3	(5,162)	(2,123)	7,285	-	-
Net movement in loss allowance	3,911	85	(4,126)	1,155	1,025
New financial assets originated or purchased	4	-	2,126	1,330	3,460
Balance at 31 December	**3,001**	**1,443**	**9,412**	**5,188**	**19,044**

Finance lease receivables relate to retail customers. Key assumptions used to determine the impairment allowance for finance lease are disclosed in Note 16(c).

Movement in the allowance for finance lease receivables for the year ended 31 December 2020 is as follows:

KGS'000	Stage 1	Stage 2	Stage 3	POCI	Total
Finance lease receivables					
Balance at 1 January	13,028	-	-	10,928	23,956
Transfer to Stage 2	(2,038)	2,038	-	-	-
Transfer to Stage 3	(4,267)	-	4,267	-	-
Net movement in loss allowance	(1,946)	-	-	(9,884)	(11,830)
New financial assets originated or purchased	774	-	-	1,659	2,433
Balance at 31 December	**5,551**	**2,038**	**4,267**	**2,703**	**14,559**

Analysis of movements in the loss allowance

Movements in the loss allowance on other financial assets and impairment allowance of non-financial assets for the year ended 31 December 2021 are as follows:

	Other financial assets KGS'000	Finance lease receivables KGS'000	Other non-financial assets KGS'000	Total KGS'000
Balance at the beginning of the year	40,716	14,559	112,951	168,226
Net charge/(reversal) of loss allowance/impairment allowance	23,251	4,485	(11,350)	16,386
Effect of foreign currency translation	456	-	-	456
Balance at the end of the year	**64,423**	**19,044**	**101,601**	**185,068**

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

	Other financial assets KGS'000	Finance lease receivables KGS'000	Other non-financial assets KGS'000	Total KGS'000
Balance at the beginning of the year	33,573	23,956	82,498	140,027
Net charge/(reversal) of loss allowance/impairment allowance	6,837	(9,397)	30,453	27,893
Effect of foreign currency translation	306	-	-	306
Balance at the end of the year	**40,716**	**14,559**	**112,951**	**168,226**

As at 31 December 2021, included in other assets are overdue receivables of KGS 34,856 thousand which are overdue for less than one year and of KGS 29,567 which are overdue for more than one year (2020: KGS 40,716 thousand, which are overdue for more than one year), These receivables are fully impaired and designated to Stage 3. The remaining amount of other receivables of KGS 667,789 thousand (2020: KGS 153,241 thousand) is not overdue and designated to Stage 1.

19 Deposits and balances from banks and other financial institutions

	2021 KGS'000	2020 KGS'000
Current accounts and term deposits from banks and other financial institutions	345,082	279,443
Loro accounts	17,990	15,252
	363,072	**294,695**

As at 31 December 2021 the Bank has no counterparties (2020: none), whose balances exceed 10% of the Bank's equity.

20 Current accounts and deposits from customers

	2021 KGS'000	2020 KGS'000
Current accounts and deposits from legal entities		
- Current accounts and demand deposits	39,666,114	12,306,406
- Term deposits	425,344	1,562,741
	40,091,458	**13,869,147**
Current accounts and deposits from retail customers		
- Current accounts and demand deposits	11,894,579	8,101,930
- Term deposits	6,621,636	6,239,629
	18,516,215	**14,341,559**
	58,607,673	**28,210,706**

As at 31 December 2021, the Bank maintained customer deposit balances of KGS 329,127 thousand (2020: KGS 319,398 thousand) that serve as collateral for loans to customers and KGS 95,002 thousand (2020: KGS 57,538 thousand) that serve as collateral for off-balance sheet credit instruments granted by the Bank.

As at 31 December 2021, the Bank had six customers (2020: two customers), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2021 is KGS 25,622,054 thousand (2020: KGS 1,705,240 thousand).

The increase in the balances on current accounts and demand deposits of legal entities as at 31 December 2021 was mainly due to increase in the balances of two current customers of the Bank, current accounts and demand deposits of which as at 31 December 2020 amounted to KGS 328,894 thousand.

As at 31 December 2021, balances on current accounts and call deposits of these clients amounted to KGS 20,814,410 thousand.

21 Other borrowed funds

	2021 KGS'000	2020 KGS'000
Loans from financial institutions	3,284,551	5,684,609
Loan from the Ministry of Finance of the Kyrgyz Republic ("MFKR")	670,910	770,178
Loan from the National Bank of the Kyrgyz Republic	472,901	1,175,586
	4,428,362	**7,630,373**

The following table summarises information on loans from other banks and financial institutions as at 31 December:

Counterparty	Currency	2021 KGS'000	2020 KGS'000
European Bank for Reconstruction and Development (EBRD)	KGS	862,736	1,160,297
Russian-Kyrgyz Development Fund	USD	1,196,728	1,036,297
Russian-Kyrgyz Development Fund	KGS	311,488	323,530
Simbiotics	USD	-	666,166
Simbiotics	KGS	913,599	1,256,426
INCOFIN CVBA	USD	-	1,241,893
		3,284,551	**5,684,609**

(a) Loans from Russian-Kyrgyz Development Fund (“RKDF”)

On 18 April 2017 within the program of the Russian Kyrgyz Development Fund (the “RKDF”) for the provision of small and medium-size businesses with access to loan resources, the Bank signed the loan agreement with the Russian Kyrgyz Development Fund for the total amount of USD 10 million or equivalent amount in KGS. In 2019, the Russian Kyrgyz Development Fund reissued this credit facility and made it a revolving credit line. On 22 July 2019 a new loan agreement was signed between the Bank and the Russian Kyrgyz Development Fund to issue a new revolving credit line for the total amount of USD 10 million or equivalent amount in KGS. The interest rate of loans to customers, issued by the Bank, should not exceed the interest rate at which the Bank borrowed funds by more than 4%.

As there is no actual market for this type of financing, provided by international non-government organisations, aimed to aid the small and medium-size businesses, operating in the specific sectors of economy, these RKFD loans represent a separate market segment. Accordingly, at the initial recognition the Bank does not discount them.

As at 31 December 2021 the loans from RKDF were collateralised by loans to customers in the amount of KGS 1,717,267 thousand (2020: KGS 1,330,505 thousand) (Note 16) and investments in securities of KGS 855,144 thousand (2020: KGS 215,157 thousand) (Note 14) and real estate in the amount of KGS 123,000 thousand (2020: KGS 126,459 thousand) (see Note 17).

(b) Loan from the National Bank of the Kyrgyz Republic

Loans from NBKR are represented by short-term loans issued by NBKR within credit auctions.

As at 31 December 2021 the loan from NBKR was collateralised by loans to customers in the amount of KGS 258,759 thousand (2020: KZS 823,293 thousand) (Note 16) and by investment securities in the amount of KGS 327,321 thousand (2020: KGS 754,244 thousand) (see Note 14).

(c) Loan from the Ministry of Finance of the Kyrgyz Republic

On 21 September 2016, the first agreement was signed with the Ministry of Finance of the Kyrgyz Republic (hereinafter the "MFKR") under KfW programme “Financing Agriculture Value Chains”, the main goal of which is to promote development of agriculture value chains and advance the best practices in production of competitive agricultural products for a total amount in the national currency equivalent to EUR 3 million. Interest rate on special-purpose loans issued by the Bank should not exceed 13.5-16.5% under the first tranche, and 12-14% for the remaining tranches, depending on the terms of the loans.

On 16 June 2020, a new agreement was signed with the MFKR on the targeted use of bank term deposits in the amount of KGS 200,000 thousand, the main goal of which is to promote development of micro, small and medium-size businesses in rural areas through financing aimed at improving their productivity and competitiveness, as well as to stimulate employment in rural areas. The interest rate on special-purpose loans issued by the Bank should not exceed 6%.

In July and September 2020, the new loans were received from MFKR under the "Financing of Business Entities" programme. The main goal of this MFKR program is to provide state financial support to small and medium-size businesses, small and medium-size businesses and large business entities affected by the consequences of the COVID-19 pandemic, by providing concessionary credit funds in the amount of KGS 410,000 thousand. The interest rate on special-purpose loans issued by the Bank should not exceed 6-11% depending on the purpose of the loans.

Loans from the MFKR were provided to banks of the Kyrgyz Republic within as part of the state programmes approved by the Government of the Kyrgyz Republic and therefore constitute a separate market segment. Accordingly, the Bank did not discount these loans upon initial recognition.

(d) Covenants

As at 31 December 2021, there were the following breaches of covenants on loans received:

- Loans from MFKR under KfW programme: breach of 1 covenant “Credit portfolio at risk PAR>90”, the actual share of which as at 31 December 2021 was 5.3% with a limit being 5.0%.

  As at the reporting date, no permission/waiver for a temporary non-compliance with the covenant was received from the lender.

- Loans from EBRD: breach of 1 covenant OCER due to granted deferrals on the payment because of COVID-19, the actual share of which as at 31 December 2021 was 60.5% with a limit being 150%.

  As at the reporting date, no permission/waiver for a temporary non-compliance with the covenant was received from the lender.

- In October 2021, there were changes in the ownership structure of the Group that may be treated a violation of the covenant concerning the change of the Bank's ultimate controlling party.

  As at the reporting date, no permit/waiver or confirmation that such event was not treated as a breach of a covenant was received.

In December 2020 the ultimate controlling party of the Bank changed (see Note 1). However, the Bank did not receive a waiver from the creditors prior to the reporting date, including EBRD, Simbiotics, Incofin, MFKR under the KfW programme, thus the covenant was violated. The early repayment waiver was received from these creditors after the reporting date:

- EBRD - 19 January 2021;
- Simbiotics - 5 February and 17 February 2021;
- Incofin - 16 February 2021; However, according to the loan agreement, if a creditor fails to provide a written response within 30 business days after receipt of the notice from the borrower, a creditor is deemed to have given consent to the transaction. This deadline expired on 11 January 2021.

(e) Maturity of other borrowed funds

Maturity of other borrowed funds as at the reporting date is presented in Note 25(d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

Due to the breach of covenants (Note 21(d)), loans from MFKR under the KfW programme EBRD, Simbiotics as at 31 December 2021 are classified as “on demand” (short-term).

Due to the breach of covenants (Note 21(d)), loans from EBRD, Simbiotics, Incofin, MFKR under the KfW programme as at 31 December 2020 are classified as “on demand” (short-term).

At the date of issue of the financial statements, there were no early withdrawals of the funds raised.

(f) Reconciliation of changes in liabilities and cash flows arising from financing activities

The table below shows the reconciliation of changes in liabilities and cash flows from financing activities as at 31 December 2021.

KGS’000	Loan from the Ministry of Finance of the Kyrgyz Republic	Loan from the National Bank of the Kyrgyz Republic	Loans from financial institutions	Total
Balance at 1 January 2021	**770,178**	**1,175,586**	**5,684,609**	**7,630,373**
Changes from financing cash flows				
Receipts of borrowed funds	-	-	503,987	503,987
Repayment of borrowed funds	(99,183)	(700,009)	(2,974,469)	(3,773,661)
Total changes from financing cash flows	**(99,183)**	**(700,009)**	**(2,470,482)**	**(3,269,674)**
Effect of changes in foreign exchange rates	**-**	**-**	**74,925**	**74,925**
Other changes				
Interest expense	18,749	32,374	315,261	366,384
Interest paid	(18,834)	(35,050)	(319,762)	(373,646)
Balance at 31 December 2021	**670,910**	**472,901**	**3,284,551**	**4,428,362**

The table below shows the reconciliation of changes in liabilities and cash flows from financing activities as at 31 December 2020.

KGS'000	Loan from the Ministry of Finance of the Kyrgyz Republic	Loan from the National Bank of the Kyrgyz Republic	Loans from financial institutions	Total
Balance at 1 January 2020	**205,578**	**1,359,466**	**5,398,850**	**6,963,894**
Changes from financing cash flows				
Receipts of borrowed funds	610,000	250,000	479,052	1,339,052
Repayment of borrowed funds	(48,916)	(433,112)	(705,305)	(1,187,333)
Total changes from financing cash flows	**561,084**	**(183,112)**	**(226,253)**	**151,719**
Effect of changes in foreign exchange rates	**-**	**-**	**488,920**	**488,920**
Other changes				
Interest expense	13,817	56,405	367,930	438,152
Interest paid	(10,301)	(57,173)	(344,838)	(412,312)
Balance at 31 December 2020	**770,178**	**1,175,586**	**5,684,609**	**7,630,373**

22 Other liabilities

	2021 KGS'000	2020 KGS'000
Lease liabilities	403,306	306,217
Dividends payable	766	769
Provision for vacation payments and other amounts due to employees	190,898	138,211
Card settlement liabilities	17,408	2,966
Other financial liabilities	130,956	73,928
Total other financial liabilities	**743,334**	**522,091**
Deferred tax liabilities	95,680	48,906
Other taxes payable	39,820	21,632
Current tax liabilities	39,810	19,850
Total other non-financial liabilities	**175,310**	**90,388**
Total other liabilities	**918,644**	**612,479**

23 Share capital and reserves

(a) Issued share capital

As at 31 December 2021 the authorised, issued and outstanding share capital comprises 21,000 thousand ordinary shares (2020: 21,000 thousand ordinary shares). All shares have a nominal value of KGS 50.

(b) Dividends

Dividends payable are restricted by the support factor of the bank's additional capital buffer (capital buffer index) determined in accordance with the requirements of the Resolution of the National Bank of the Kyrgyz Republic dated 29 March 2019.

In accordance with the requirements of the NBKR's Regulations "On Systemic Criteria of Commercial Banks and Non-banking Financial and Credit Institutions", the Bank has been defined as a systemically important bank. The capital buffer index is set at no less than 20% for this category of banks (2020: 20%) and the index is set at no less than 24% (2020: 24%) if the ratio of balance sheet assets to off-balance sheet liabilities weighted by risk less provisions for losses (NRA) to assets exceeds 90% (2020: 90%).

The Supervisory Committee of the National Bank of the Kyrgyz Republic has set a capital buffer requirement for the Bank at no less than 20% (2020: 20%). The calculation of the actual capital buffer factor is made on the basis of the methodology set forth by the regulator for the total capital adequacy ratio, which actual value was 19.2% as at 31 December 2021 (2020: 22.6%) (see Note 26). Therefore, the Bank declared no dividends in 2021 (2020: no dividends were declared by the Bank).

24 Earnings per share

The calculation of earnings per share is based on the profit, and a weighted average number of ordinary shares outstanding during the year. The Bank has no dilutive potential ordinary shares.

	2021 KGS'000	2020 KGS'000
Profit for the year	1,232,925	797,084
Number of ordinary shares as at 31 December	21,000,000	21,000,000
Basic and diluted earnings per share, in KGS	**58.71**	**37.96**

25 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. In all cases, the Bank policy requires compliance with all applicable legal and regulatory requirements.

The Bank risk management policies aim to identify, measure, control, analyse, monitor, and develop preventive measures to minimise the risks faced by the Bank, to set risk limits, and to continuously measure risk levels and monitor adherence to the limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, bank products and services offered and regulative requirements.

The Bank registers operational risk events in the database specifying the following information:

- description and cause of loss;
- date of occurrence and detection;
- amount of loss and amount of compensation;
- measures taken by the Bank to compensate a loss;
- measures to prevent similar cases in future;
- business area where the loss has occurred;
- availability of insurance coverage;
- other.

Alongside with the above information the Bank's operational risks are managed comprehensively and simultaneously at all levels of the Bank's operations, including:

- a strategic level, which covers the functions of the Board of Directors and Management Board of the Bank;

- macro-level, which covers the functions of the Bank's business units, mid-level executives and heads of business units;
- micro-level, which covers activity of persons/employees who take operational risk on behalf of the Bank and is limited by following operational procedures, internal control procedures and other instructions established by management of the Bank.

In addition, for the purpose of efficient management of operational risks, the Bank has acquired the property insurance policies (buildings, ATMs, motor vehicles, payment terminals), Banker Blanket Bond (BBB) for package insurance of bank risks and electronic and computer crimes, civil liability insurance and employee accident insurance.

The Bank exercises compliance control which is a package of organisational measures of internal controls and control over compliance with the laws of the Kyrgyz Republic, international treaties and internal regulations of the Bank; the Bank also manages a conflict of interest.

Special attention is paid to compliance with the laws and international standards in the area of anti-money laundering and counter-terrorist financing.

A package of measures undertaken by the Bank as part of anti-money laundering and counter-terrorist financing includes but is not limited to the following:

- the Bank has in place the Compliance Control Department;
- observance of the Policy and internal control rules for anti-money laundering and counter-terrorist financing;
- measures undertaken to follow the Know Your Customer principle (KYC), which sets a certain level of awareness of a customer and customer's activity.
- customer assessment in terms of the risk of involvement in money laundering and terrorist financing;
- identification and investigation of suspicious transactions, blocking transactions with those who appear on the national and international lists of persons involved in terroristic activity.
- measures aimed at fulfilment of embargo and sanction requirements.

As at 31 December 2021, the Bank's internal documentation establishing the procedures and methodologies for identification, managing and stress-testing the Bank's significant risks, was approved by the authorized management bodies of the Bank in accordance with regulations and recommendations issued by the NBKR.

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Head of the Risk Management Department is responsible for the overall risk management and compliance with requirements of the current legislation, and for daily bank risk management activity. The Head of the Risk Management Department reports directly to the Board of Directors.

The Board of Directors is responsible for: a) the risk management and degree of risk that the Bank accepts as well as for the measures to manage these risks; b) consideration and approval of the Bank risk appetite developed jointly with the Management Board and Risk Management and oversight over the Bank's compliance with requirements to risk appetite, risk management policy and risk limits and for promotion of development of the sustainable risk culture in the Bank. With the view of controlling effectiveness of the Bank's risk management procedures and their consistent application the Board of Directors and management bodies of the Bank periodically receive reports prepared by the Internal Audit Department and the Risk Management Department, discuss the contents of these reports and consider proposed corrective actions.

Credit, market and liquidity risks, both at the portfolio and transactional levels, are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Bank established a hierarchy of credit committees with strictly defined powers depending on the type and amount of the risk and credit quality.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Department monitors operational risks by harmonisation of internal regulations of the Bank, taking part in various commissions, and holding training workshops.

(b) Market risk

Market risk is the risk of losses to which the Bank is exposed in case of unfavourable changes in the value of the Bank's balance sheet and off-balance sheet assets and liabilities as a result of fluctuations in the market interest rates, exchange rates, stock prices and/or prices of goods. There are few types of market risk, including interest rate risk, currency risk and price risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

Overall authority for market risk is vested in the ALCO, which is chaired by the Bank Management Board Chairman.

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

(i) Interest rate risk

Interest rate risk is a risk of losses to which the Bank's capital and rate of return are exposed as a result of fluctuations in market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

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

KGS'000	**Less than 3 months**	**From 3 to 12 months**	**1-5 years**	**Over 5 years**	**Non-interest bearing**	**Carrying value**
31 December 2021						
ASSETS						
Cash and cash equivalents	26,019,541	-	-	-	17,797,718	43,817,259
Investment securities	213,793	435,869	733,382	-	-	1,383,044
Loans and advances to banks and other financial institutions	508,358	-	-	-	77,419	585,777
Loans to customers	2,787,434	6,273,583	14,718,178	230,007	-	24,009,202
	29,529,126	**6,709,452**	**15,451,560**	**230,007**	**17,875,137**	**69,795,282**
LIABILITIES						
Deposits and balances from banks and other financial institutions	114,597	-	-	-	248,475	363,072
Current accounts and deposits from customers	25,525,615	3,693,996	1,858,969	15,186	27,513,907	58,607,673
Other borrowed funds	2,161,668	812,224	1,454,470	-	-	4,428,362
	27,801,880	**4,506,220**	**3,313,439**	**15,186**	**27,762,382**	**63,399,107**
	1,727,246	**2,203,232**	**12,138,121**	**214,821**	**(9,887,245)**	**6,396,175**

KGS'000	Less than 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Carrying value
31 December 2020						
ASSETS						
Cash and cash equivalents	3,364,318	-	-	-	12,700,592	16,064,910
Investment securities	255,295	163,596	857,261	-	-	1,276,152
Loans and advances to banks and other financial institutions	247,576	-	-	-	34,227	281,803
Loans to customers	2,330,663	5,777,171	15,617,931	410,850	-	24,136,615
	6,197,852	**5,940,767**	**16,475,192**	**410,850**	**12,734,819**	**41,759,480**
LIABILITIES						
Deposits and balances from banks and other financial institutions	11,188	149,080	-	-	134,427	294,695
Current accounts and deposits from customers	1,512,857	10,072,703	2,155,201	11,798	14,458,147	28,210,706
Other borrowed funds	5,006,380	1,062,276	1,557,679	4,038	-	7,630,373
	6,530,425	**11,284,059**	**3,712,880**	**15,836**	**14,592,574**	**36,135,774**
	(332,573)	**(5,343,292)**	**12,762,312**	**395,014**	**(1,857,755)**	**5,623,706**

Other borrowed funds which have variable interest rates were presented at the earliest repricing dates.

Average interest rate

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2021 and 31 December 2020.

	2021 Average effective interest rate, %		2020 Average effective interest rate, %	
	KGS	**USD**	**KGS**	**USD**
Interest-bearing assets				
Cash and cash equivalents	6.29	0.21	3.49	0.18
Investment securities	8.72	-	7.90	-
Loans and advances to banks and other financial institutions	-	0.05	-	0.09
Loans to customers	16.75	10.26	16.82	10.93
Interest-bearing liabilities				
Balances and deposits from banks				
- Current accounts and deposits	1.09	-	1.45	-
Current accounts and deposits from customers				
- Current accounts and deposits	4.95	1.56	4.47	1.45
- Term deposits	9.72	2.28	9.50	3.12
Other borrowed funds	7.09	1.13	6.38	3.56

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rate repricing risk based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2021 and 2020 is as follows:

	2021		2020	
	Profit or loss KGS'000	**Equity KGS'000**	**Profit or loss KGS'000**	**Equity KGS'000**
100 bp parallel rise	75,412	75,412	(26,290)	(26,290)
100 bp parallel fall	(75,412)	(75,412)	26,290	26,290

(ii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Other price risk arises when the Bank takes a long or short position in a financial instrument.

As at 31 December 2021 and 31 December 2020, the Bank had no significant exposure to other price risks.

(iii) Currency risk

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

Currency risk is a risk that the Bank will incur expenses (losses) from changes in currency exchange rates while carrying its activity and if the Bank has an open position for certain currency. Although the Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2021:

	KGS '000 KGS	USD '000 KGS	Other currencies '000 KGS	Total '000 KGS
ASSETS				
Cash and cash equivalents	24,046,784	16,611,072	3,159,403	43,817,259
Investment securities	1,383,044	-	-	1,383,044
Loans and advances to banks and other financial institutions	76,320	509,457	-	585,777
Loans to customers	13,574,622	10,434,580	-	24,009,202
Other financial assets	666,843	169,603	81,646	918,092
	39,747,613	**27,724,712**	**3,241,049**	**70,713,374**
LIABILITIES				
Deposits and balances from banks and other financial institutions	262,515	48,687	51,870	363,072
Current accounts and deposits from customers	32,229,217	23,264,248	3,114,208	58,607,673
Other borrowed funds	3,231,634	1,196,728	-	4,428,362
Other financial liabilities	352,448	385,000	5,886	743,334
	36,075,814	**24,894,663**	**3,171,964**	**64,142,441**
Net position	**3,671,799**	**2,830,049**	**69,085**	**6,570,933**
Total effect of derivatives held for risk management				
- outflow	-	(1,762,216)	-	(1,762,216)
- Inflow	1,680,893	-	-	1,680,893
Net position as at 31 December 2021	**5,352,692**	**1,067,833**	**69,085**	**6,489,610**

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2020:

	KGS KGS'000	USD KGS'000	Other currencies KGS'000	Total KGS'000
ASSETS				
Cash and cash equivalents	6,564,236	7,679,519	1,821,155	16,064,910
Investment securities	1,276,152	-	-	1,276,152
Loans and advances to banks and other financial institutions	24,094	257,709	-	281,803
Loans to customers	12,640,200	11,496,415	-	24,136,615
Other financial assets	309,667	44,890	37,127	391,684
	20,814,349	**19,478,533**	**1,858,282**	**42,151,164**
LIABILITIES				
Deposits and balances from banks and other financial institutions	215,677	63,185	15,833	294,695
Current accounts and deposits from customers	11,586,059	14,759,343	1,865,304	28,210,706
Other borrowed funds	4,686,017	2,944,356	-	7,630,373
Other financial liabilities	257,083	264,404	604	522,091
	16,744,836	**18,031,288**	**1,881,741**	**36,657,865**
Net position	**4,069,513**	**1,447,245**	**(23,459)**	**5,493,299**
Total effect of derivatives held for risk management				
- outflow	-	(698,887)	-	(698,887)
- Inflow	655,386	-	-	655,386
Net position as at 31 December 2020	**4,724,899**	**748,358**	**(23,459)**	**5,449,798**

A weakening of the KGS, as indicated below, against the following currencies at 31 December 2021 and 31 December 2020 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on a net-of-tax basis, and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2021		**2020**	
	Profit or loss KGS'000	**Equity KGS'000**	**Profit or loss KGS'000**	**Equity KGS'000**
30% appreciation of USD against KGS	288,315	288,315	202,057	202,057
30% appreciation of other currencies against KGS	18,653	18,653	(6,334)	(6,334)

A strengthening of the KGS against the above currencies at 31 December 2021 and 31 December 2020 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(c) Credit risk

Credit risk is the risk of the customers' failure to meet their contractual obligations in accordance with the terms and conditions of the contracts. The Bank manages credit risk using the approved policies and procedures, including guidelines for identification, measurement and monitoring of credit risk, and by the establishment of the Credit Committees to actively monitor credit risk.

Credit policy determines the approaches and methods that the Bank management has adopted to manage risks arising from lending and ensure effective management of the loan portfolio.

Loan applications from the Bank's clients and their initial assessment is made by the specialists of the lending business units, loan security business units and security service. Conclusions in the form of the Offers (drafts) of a lending business unit are based on a structured analysis focusing on the customer's business and financial performance. In accordance with the lending procedures, the Offer is passed on for a second opinion to the Risk Management Department that expresses its expert opinion on the Offer. The Offer, including conclusions and expert opinion of the above-mentioned business units of the Bank are submitted to the Bank's authorised body for consideration and making decision.

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

The credit portfolio is assessed by the Risk Management Department with regard to credit risk on the portfolio and sub-portfolio basis (stress tests). Stress test results are submitted to the Bank's authorised body for consideration.

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

	2021 KGS'000	**2020 KGS '000**
ASSETS		
Nostro accounts and cash equivalents	38,672,861	13,024,561
Investment securities	1,383,044	1,276,152
Loans and advances to banks and other financial institutions	585,777	281,803
Loans to customers	24,009,202	24,136,615
Other financial assets	918,092	391,684
Total maximum exposure	**65,568,976**	**39,110,815**

For the analysis of concentration of credit risk in respect of loans to customers refer to Note 16.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 27.

As at 31 December 2021 and 31 December 2020 the Company has two counterparties (31 December 2020: one debtor - National Bank of the Kyrgyz Republic), credit risk exposure to whom exceeds 10% of maximum credit risk exposure. The credit risk exposure for these counterparties as at 31 December 2021 is KGS 28,799,735 thousand (31 December 2020: KGS 5,514,982 thousand).

(d) Liquidity risk

Liquidity risk is a risk of losses to which the Bank is exposed if it is unable to fulfil its liabilities in time without unacceptable losses (i.e. to achieve liquidity only through sale of assets that will results in unacceptable losses). Liquidity risk implies inability to manage the unscheduled changes in the sources of financing. Liquidity risk also arises if the Bank refuses to recognise or respond to changes in market environment that can affect the Bank's ability to sell quickly and with minimum losses for asset value.

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 by the Management Board and approved by the Board of Directors.

The Bank seeks to actively support a diversified and stable funding base comprising long- 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 efficiently to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and taking into account the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;

- managing the concentration and profile of debts;
- 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 Treasury receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions, is performed by the Bank. Under normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a daily basis. Decisions on liquidity management are made by the Management Board, approved by the Board of Directors and implemented by the Treasury Department.

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

The maturity analysis for financial liabilities as at 31 December 2021 is as follows:

KGS'000	Demand and less than 1 month	1-3 months	3-12 months	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative financial liabilities						
Deposits and balances from banks and other financial institutions	363,081	-	-	-	363,081	363,072
Current accounts and deposits from customers	52,147,132	902,919	3,841,564	2,009,213	58,900,828	58,607,673
Other borrowed funds	2,016,816	208,924	845,109	1,533,981	4,604,830	4,428,362
Other financial liabilities	316,302	13,164	62,797	351,071	743,334	743,334
Derivative financial liabilities						
- Inflow	(612,185)	(1,068,708)	-	-	(1,680,893)	-
- Outflow	637,046	1,125,170	-	-	1,762,216	81,323
Total liabilities	**54,868,192**	**1,181,469**	**4,749,470**	**3,894,265**	**64,693,396**	**64,223,764**
Credit related commitments	**1,652,019**	**-**	**-**	**-**	**1,652,019**	**1,652,019**

The maturity analysis for financial liabilities as at 31 December 2020 is as follows:

'000 KGS	Demand and less than 1 month	1-3 months	3-12 months	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative financial liabilities						
Deposits and balances from banks and other financial institutions	294,705	-	-	-	294,705	294,695
Current accounts and deposits from customers	20,956,501	627,512	4,640,692	2,310,910	28,535,615	28,210,706
Other borrowed funds	4,550,918	486,215	1,081,509	1,595,953	7,714,595	7,630,373
Other financial liabilities	206,289	13,484	49,630	252,688	522,091	522,091
Derivative financial liabilities						
- Inflow	(603,103)	(52,283)	-	-	(655,386)	-
- Outflow	636,899	61,988	-	-	698,887	43,501
Total liabilities	**26,042,209**	**1,136,916**	**5,771,831**	**4,159,551**	**37,110,507**	**36,701,366**
Credit related commitments	**1,072,610**	**-**	**-**	**-**	**1,072,610**	**1,072,610**

In accordance with Kyrgyz legislation, depositors (retail customers) can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their contractual maturity dates. The amount of such deposits, by each time band as at 31 December 2021, is as follows:

	2021 KGS'000	2020 KGS'000
Demand and less than 1 month	543,839	445,451
Less than 3 months	801,052	568,015
From 3 to 12 months	3,505,036	3,277,718
More than 1 year	1,771,709	1,948,445
	6,621,636	**6,239,629**

The Bank seeks to actively support a diversified and stable funding base comprising long- 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 efficiently to unforeseen liquidity requirements.

The Bank's liquidity management policy requires:

- projecting cash flows by major currencies and taking into account 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 daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions, is performed by the Bank. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis.

The table below shows an analysis, by contractual maturities, of the amounts recognised in the statement of financial position as at 31 December 2021:

KGS'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	43,817,259	-	-	-	-	-	-	43,817,259
Investment securities	-	213,793	435,869	733,382	-	-	-	1,383,044
Loans and advances to banks and other financial institutions	585,777	-	-	-	-	-	-	585,777
Loans to customers	1,236,522	1,306,152	6,273,583	14,718,178	230,007	-	244,760	24,009,202
Property, plant and equipment and intangible assets	7,065	14,025	60,974	243,877	51,113	795,453	-	1,172,507
Other assets	818,942	11,525	181,017	443,666	-	-	-	1,455,150
Total assets	**46,465,565**	**1,545,495**	**6,951,443**	**16,139,103**	**281,120**	**795,453**	**244,760**	**72,422,939**
LIABILITIES								
Financial instruments measured at fair value through profit or loss	24,861	56,462	-	-	-	-	-	81,323
Deposits and balances from banks and other financial institutions	363,072	-	-	-	-	-	-	363,072
Current accounts and deposits from customers	52,145,616	893,906	3,693,996	1,858,969	15,186	-	-	58,607,673
Other borrowed funds	1,954,214	207,454	812,224	1,454,470	-	-	-	4,428,362
Other liabilities	396,698	13,164	158,478	285,106	65,198	-	-	783,154
Total liabilities	**54,884,461**	**1,170,986**	**4,664,698**	**3,598,545**	**80,384**	**-**	**-**	**64,399,074**
Net position	**(8,418,896)**	**374,509**	**2,286,745**	**12,540,558**	**200,736**	**795,453**	**244,760**	**8,023,865**

The table below shows an analysis, by contractual maturities, of the amounts recognised in the statement of financial position as at 31 December 2020:

'000 KGS	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	16,064,910	-	-	-	-	-	-	16,064,910
Investment securities	-	255,295	163,596	857,261	-	-	-	1,276,152
Loans and advances to banks and other financial institutions	281,803	-	-	-	-	-	-	281,803
Loans to customers	1,027,922	1,055,853	5,777,171	15,617,931	410,850	-	246,888	24,136,615
Property, plant and equipment and intangible assets	6,658	13,316	47,721	169,340	48,465	702,681	-	988,181
Other assets	281,444	7,309	61,209	485,071	-	-	-	835,033
Total assets	**17,662,737**	**1,331,773**	**6,049,697**	**17,129,603**	**459,315**	**702,681**	**246,888**	**43,582,694**
LIABILITIES								
Financial instruments measured at fair value through profit or loss	33,796	9,705	-	-	-	-	-	43,501
Deposits and balances from banks and other financial institutions	294,695	-	-	-	-	-	-	294,695
Current accounts and deposits from customers	20,955,524	622,169	4,466,014	2,155,201	11,798	-	-	28,210,706
Other borrowed funds	4,524,513	481,867	1,062,276	1,557,679	4,038	-	-	7,630,373
Other liabilities	248,541	13,483	98,536	193,924	57,995	-	-	543,723
Total liabilities	**26,057,069**	**1,127,224**	**5,626,826**	**3,906,804**	**73,831**	**-**	**-**	**36,791,754**
Net position	**(8,394,332)**	**204,549**	**422,871**	**13,222,799**	**385,484**	**702,681**	**246,888**	**6,790,940**

The 'Overdue' category comprises completely overdue loans as well as partially overdue loans to customers in the amount of overdue payments.

In the tables above, the amounts for 'other borrowed funds' as at 31 December 2021 and 31 December 2020 under loan agreements with EBRD, Symbiotics, Incofin, MFKR under KfW programs are presented in 'on demand' category due to violation of covenants. Based on the contractual maturities, the cash flows would be distributed as follows (Notes 21(d), (e)):

- demand and less than 1 month: KGS 69,570 thousand (31 December 2020: KGS 110,355 thousand);
- from 1 to 3 months: KGS 220,824 thousand (31 December 2020: KGS 499,524 thousand);
- from 3 to 12 months: KGS 2,102,906 thousand (31 December 2020: KGS 3,605,057 thousand);
- from 1 year to 5 years: KGS 2,035,062 thousand (31 December 2020: KGS 3,411,398 thousand);
- more than 5 years: KGS 4,039 thousand as at 31 December 2020.

Total - KGS 4,428,362 thousand (31 December 2020: KGS 7,630,373 thousand).

Management of the Bank has assessed the liquidity position as at 31 December 2021 and considers that the liquidity gap in the less than one month category will be sufficiently covered by the prolongation of customer current accounts and deposits, and also consider that the Parent company will provide deposit facility, in order to cover liquidity gaps, should this be required.

The Bank calculates the mandatory liquidity ratio (K3) on a daily basis in accordance with the requirements of the NBKR. The liquidity ratio (K3.1) is calculated as the ratio of the weekly average highly liquid assets to the weekly average liabilities payable on demand and should be at least 45% (2020: 30%).

The Bank is in compliance with the liquidity ratios as at 31 December 2021 and 2020. As at 31 December 2021, the K3 ratio is 71.1% (2020: 51.4%).

26 Capital management

NBKR sets and monitors capital requirements for the Bank. The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the NBKR, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level of 12%, a ratio of tier 1 capital to risk weighted assets above the prescribed minimum level of 6%. The Bank was in compliance with the statutory capital ratios as at 31 December 2021 and 2020.

The following table shows the composition of the capital position of the Bank calculated in accordance with the requirements established by the NBKR as at 31 December:

	2021 KGS'000	2020 KGS '000
Tier 1 capital		
Share capital	1,050,000	1,050,000
Retained earnings of prior years	4,968,722	4,463,057
Less: Intangible assets	(135,978)	(114,940)
Total tier 1 capital	**5,882,744**	**5,398,117**
Tier 2 capital		
Current year profit	674,382	505,665
Asset revaluation reserve	-	-
General provisions (up to 1.25% of risk-weighted assets)	502,795	379,818
Total tier 2 capital	**1,177,177**	**885,483**
Total capital	**7,059,921**	**6,283,600**
Risk-weighted assets		
Bank book	36,704,278	27,839,322
Total risk-weighted assets	**36,704,278**	**27,839,322**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**19.2%**	**22.6%**
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	**16.0%**	**19.4%**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

On 29 April 2020, the Management Board of the National Bank of the Kyrgyz Republic approved the Provisional Rules on Asset Classification and Appropriate Allocations to Cover Potential Losses and Losses by Commercial Banks and Certain Non-Bank Financial and Credit Institutions, which provide significant loan loss provisioning relief to banks in respect of loans that have been affected by COVID-19 and related restrictive measures adopted by the state authorities. The temporary rules are valid as at 31 December 2021.

27 Credit related commitments

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

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Bank applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

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

	2021 '000 KGS	**2020 '000 KGS**
Contracted amount		
Loan and credit line commitments	794,045	386,414
Guarantees and letters of credit	857,974	686,196
	1,652,019	**1,072,610**

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded.

Loan commitments and issued financial guarantees related to scope of impairment requirements under IFRS 9 disclosed in the above table as at 31 December 2021 are staged with due account of credit risk (31 December 2020: categorised as Stage 1 standard loans). Allowance for expected credit losses on credit related commitments is included in other financial liabilities and equals KGS 37,433 thousand as at 31 December 2021 (31 December 2020: KGS 18,723 thousand).

Movement in the allowance for expected credit losses on credit related commitments for the year ended 31 December 2021 is as follows:

KGS'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January	18,723	-	-	-
Transfer to Stage 2	(1,589)	1,589	-	-
Transfer to Stage 3	(1,226)	-	1,226	-
Net remeasurement of loss allowance	13,367	765	104	14,236
New financial assets originated or purchased	4,591	-	-	4,591
Changes in foreign exchange rates	(106)	(7)	(4)	(117)
Balance at 31 December	**33,760**	**2,347**	**1,326**	**37,433**

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

28 Contingent liabilities

(a) Insurance

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

(b) Litigation

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

(c) Taxation contingencies

The taxation system in the Kyrgyz Republic is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges.

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

29 Related party transactions

(a) Control relationship

The Bank's Parent is First Heartland Jusan Bank JSC.

Publicly available consolidated financial statements are produced by the Bank's Parent.

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

Total remuneration included in personnel expenses for the year ended 31 December is as follows:

	2021 KGS'000	2020 KGS'000
Members of the Board of Directors	51,831	26,380
Members of the Management Board	130,996	118,985
	182,827	**145,365**

All compensation is in form of short-term benefits.

The outstanding balances and average interest rates as at 31 December 2021 and 31 December 2020 for transactions with the members of the Board of Directors and Management Board are as follows:

	2021 KGS'000	Average interest rate, %	2020 KGS'000	Average interest rate, %
Statement of Financial Position				
LIABILITIES				
Current accounts and deposits from customers	31,592	2.10	31,313	1.47
Other liabilities	63,000	-	30,800	-

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Board for the years ended 31 December are as follows:

	2021 KGS'000	2020 KGS'000
Statement of Profit or Loss and Other Comprehensive Income		
Interest expense	721	706

(c) Transactions with the parent

The outstanding balances and the related average effective interest rates as at 31 December 2021 and 31 December 2020 and related profit or loss amounts of transactions for the year ended 31 December 2021 and 31 December 2020 with other related parties are as follows:

	2021		2020	
	KGS'000	Average interest rate, %	KGS'000	Average interest rate, %
Statement of Financial Position				
ASSETS				
Cash and cash equivalents				
- USD	172,453	-	76,324	-
- in other currencies	47,303	-	39,482	-
Loans and advances to banks and other financial institutions				
- USD	-	-	9,918	-
LIABILITIES				
Deposits and balances from banks and other financial institutions				
- KGS	143	-	338	-
Other liabilities				
- KGS	-	-	553	-
- USD	25,247	-	10,497	-
Statement of Profit or Loss and Other Comprehensive Income				
Interest expense	-	-	18,579	-
Fee and commission income	34	-	35	-
Fee and commission expense	266,149	-	98,644	-

30 Financial assets and liabilities: fair values and accounting classification

(a) Accounting classifications and fair values

The carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2021 are as follows:

KGS'000	Measured at fair value through profit or loss	Measured at amortised cost	Gross carrying amount	Fair value
Cash and cash equivalents	-	43,817,259	43,817,259	43,817,259
Investment securities	-	1,383,044	1,383,044	1,384,877
Loans and advances to banks and other financial institutions	-	585,777	585,777	585,777
Loans to customers	-	24,009,202	24,009,202	23,793,733
Other financial assets	-	918,092	918,092	918,092
	-	**70,713,374**	**70,713,374**	**70,499,738**
Financial instruments measured at fair value through profit or loss	81,323	-	81,323	81,323
Deposits and balances from banks and other financial institutions	-	363,072	363,072	363,072
Current accounts and deposits from customers	-	58,607,673	58,607,673	58,653,086
Other borrowed funds	-	4,428,362	4,428,362	4,428,362
Other financial liabilities	-	743,334	743,334	743,334
	81,323	**64,142,441**	**64,223,764**	**64,269,177**

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2020:

KGS'000	Measured at fair value through profit or loss	Measured at amortised cost	Gross carrying amount	Fair value
Cash and cash equivalents	-	16,064,910	16,064,910	16,064,910
Investment securities	-	1,276,152	1,276,152	1,298,586
Loans and advances to banks and other financial institutions	-	281,803	281,803	281,803
Loans to customers	-	24,136,615	24,136,615	24,118,491
Other financial assets	-	391,684	391,684	391,684
	-	**42,151,164**	**42,151,164**	**42,155,474**
Financial instruments measured at fair value through profit or loss	43,501	-	43,501	43,501
Deposits and balances from banks and other financial institutions	-	294,695	294,695	294,695
Current accounts and deposits from customers	-	28,210,706	28,210,706	28,276,971
Other borrowed funds	-	7,630,373	7,630,373	7,630,373
Other financial liabilities	-	522,091	522,091	522,091
	43,501	**36,657,865**	**36,701,366**	**36,767,631**

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

The estimated fair values of all financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

- discount rates of 5.0-31.0% and 7.0-31.0% are used for discounting future cash flows from loans to corporate customers and loans to retail customers, respectively (2020: 5.0-30.0% and 4.0-32.0% respectively);
- discount rate of 1.0-13.0% is used for discounting future cash flows from deposits of customers in KGS-denominated and 0.5-8.0% is used for deposits in foreign currency (2020: 1.0-13.0% and 0.5-5.0%/ respectively);
- discount rate of 1.0-10.6% is used for discounting future cash flows from other borrowed funds (2020: 1.0-9.8%);

(b) Fair value hierarchy

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

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

The table below analyses financial instruments not measured at fair value at 31 December 2021, by the level in the fair value hierarchy into which the fair value measurement is categorised.

KGS'000	Level 2	Level 3	Total fair value	Total carrying amount
Assets				
Cash and cash equivalents	43,817,259	-	43,817,259	43,817,259
Investment securities	1,384,877	-	1,384,877	1,383,044
Loans and advances to banks and other financial institutions	585,777	-	585,777	585,777
Loans to customers	-	23,793,733	23,793,733	24,009,202
Other financial assets	918,092	-	918,092	918,092
	46,706,005	**23,793,733**	**70,499,738**	**70,713,374**
Liabilities				
Deposits and balances from banks and other financial institutions	363,072	-	363,072	363,072
Current accounts and deposits from customers	-	58,653,086	58,653,086	58,607,673
Other borrowed funds	-	4,428,362	4,428,362	4,428,362
Other financial liabilities	743,334	-	743,334	743,334
	1,106,406	**63,081,448**	**64,187,854**	**64,142,441**

The table below analyses financial instruments not measured at fair value at 31 December 2020, by the level in the fair value hierarchy into which the fair value measurement is categorised.

'000 KGS	Level 2	Level 3	Total fair value	Total carrying amount
Assets				
Cash and cash equivalents	16,064,910	-	16,064,910	16,064,910
Investment securities	1,298,586	-	1,298,586	1,276,152
Loans and advances to banks and other financial institutions	281,803	-	281,803	281,803
Loans to customers	-	24,118,491	24,118,491	24,136,615
Other financial assets	391,684	-	391,684	391,684
	18,036,983	**24,118,491**	**42,155,474**	**42,151,164**
Liabilities				
Deposits and balances from banks and other financial institutions	294,695	-	294,695	294,695
Current accounts and deposits from customers	-	28,276,971	28,276,971	28,210,706
Other borrowed funds	-	7,630,373	7,630,373	7,630,373
Other financial liabilities	522,091	-	522,091	522,091
	816,786	**35,907,344**	**36,724,130**	**36,657,865**

31 Subsequent events

A military conflict of recent weeks in Ukraine has further increased the level of economic uncertainties in Kyrgyzstan. Severe sanctions were imposed by the United States of America, the European Union and some other countries on the Russian government, as well as major financial institutions and certain other entities and individuals in the RF.

As at 31 December 2021 the Bank held KGS 1,153,810 thousand on accounts with the Russian banks included in the sanctions list. As at the date of these financial statements, the Bank has withdrawn most of the cash from its accounts with the Russian banks included in the sanctions list, and the balance of cash was KGS 157,074 thousand.

The negative impact on the Kyrgyz economy is also likely to increase the credit risk for many borrowers and result in significant additional amount of expected credit losses being recognised however, currently the financial effect is not possible to quantify. Significant depreciation of the Kyrgyz som has resulted in upward revaluation of USD-denominated financial assets and financial liabilities. The net positive effect on profit (before the effect of income taxes) in case of a 40% weakening of the Kyrgyz som against USD will be KGS 427,133 thousand (based on Bank's currency exposure as at 31 December 2021). As at the date of approval of the Bank's financial statements, the official exchange rate of the Kyrgyz som against US dollar was KGS 104.97 (31 December 2021: KGS 84.76).

The events described above are likely to result in significant additional amount of expected credit losses being recognised on investment securities measured at amortised cost as represented by the treasury bonds of the Ministry of Finance of the Kyrgyz Republic in the amount of KGS 1,383,044 thousand as at 31 December 2021 (Note 14). The Bank has not yet completed the assessment and estimate of the relevant financial effect.

The NBKR refinancing rate as at the date of approval of the Bank's financial statements was 14% (31 December 2021: 8%).

However, the broader effect of these events and their impact on Kyrgyzstan's economy, including any subsequent impact on the Bank's financial performance in 2022, cannot be determined as at the date of approval of these financial statements.