# RSK BANK
# OPEN JOINT STOCK COMPANY

**Financial statements**
for the year ended December 31, 2022

**and independent auditor's report**

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**RSK BANK OPEN JOINT STOCK COMPANY**

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## RSK BANK OPEN JOINT STOCK COMPANY

### STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

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

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at December 31, 2022, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards (hereinafter the "IFRS").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements for the year ended December 31, 2022 were approved and authorized for issue on March 14, 2023 by the Management of the Bank.

**On behalf of the Management of the Bank:**

**Nogaev U.M.**
**Chairman of Management Board**

March 14, 2023
Bishkek, the Kyrgyz Republic

**Chubarova A.A.**
**Chief Accountant**

March 14, 2023
Bishkek, the Kyrgyz Republic

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# INDEPENDENT AUDITOR'S REPORT

To Shareholders and Board of Directors of the RSK Bank OJSC:

## Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2022, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (the "IFRS").

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (the "ISAs") and the requirements prescribed by the Regulation "On minimum requirements for external audit of banks and other financial and credit institutions licensed by the National Bank of the Kyrgyz Republic" (the "NBKR"), approved by the NBKR Board Resolution No. 2017-P-12/25-2 dated June 15, 2017. (date of last revision is December 28, 2022) (the "NBKR Requirements"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Kyrgyz Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## 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.

### Allowance for expected credit losses

The Bank evaluates financial assets in accordance with the requirements of IFRS 9 "Financial Instruments". Valuation of financial assets and allowances for expected credit losses requires a significant level of judgement from management of the Bank. Identification of signs of significant increase in credit risk, assessment of the probability of default and calculation of the amount of the allowance include the analysis of various factors. The use of different models and judgements can significantly influence the level of the Bank's allowance for expected credit losses.

We analysed the methodology for estimation of the Bank's expected credit losses and reviewed the models used in calculation of expected credit losses. We have checked the accuracy of calculations of the probability of default and the level of losses in case of default on a sample basis and ensured the reasonableness of the judgments used by the management of the Bank.

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

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

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

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

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

**Report on the procedures performed in accordance with the Regulation of the National Bank of the Kyrgyz Republic No.2017-P-12/25-2-(Legal Act) "On minimum requirements for the external audit of banks and other financial and credit institutions licensed by the National Bank of the Kyrgyz Republic" dated June 15, 2017**

Management of the Bank is responsible for the implementation of the regulatory requirements established by the National Bank of the Kyrgyz Republic (the "NBKR") and for compliance of internal control with the requirements set by the NBKR.

In accordance with the Regulation of the NBKR No.2017-P-12/25-2-(Legal Act) "On minimum requirements for the external audit of banks and other financial and credit institutions licensed by the NBKR" dated June 15, 2017 in the course of audit of the Bank's financial statements as at December 31, 2022 and for the year then ended we examined accounting and classification of the Bank's assets and disclosure of transactions with related parties and affiliates to be in compliance with the regulatory requirements of the NBKR.

The review was limited to the procedures selected on the basis of our judgement, which included requests, analysis, examination of documents, comparison of requirements, procedures and methods approved by the Bank with requirements set by the NBKR, as well as recalculation, reconciliation of estimates and other information. We discussed the identified issues related to internal controls and procedures with the Bank's management and the relevant points where applicable were presented in the Management Letter.

The procedures performed and the results of the review are presented below:

1. With respect to compliance of the Bank's accounting and classification of assets with legislation of the Kyrgyz Republic, the regulatory requirements of the NBKR, accounting policy and procedures of the Bank, the relevant procedures have been performed within the framework of the audit conducted in accordance with International Standards on Auditing and the requirements of the NBKR necessary for expressing an opinion on compliance of the Bank's financial statements, in all material aspects, to the generally accepted principles of preparation and presentation of the financial statements:

- We obtained and analysed the Bank's loan policies approved by the Board of Directors of the Bank dated February 18, 2022 (date of previous approval was March 19, 2020).
- We obtained the loan portfolio of the Bank as at December 31, 2022. During the statistical sampling analysis of the customer loan files, the following was determined:

  - A loan application is completed at the moment of loan origination. The application indicates preliminary information about the loan objectives and customer's capabilities on the basis of which customer's initial analysis is made;

  - customer loan files are formed in accordance with the provisions and requirements set by the NBKR;

  - monitoring of the loan status is performed with the periodicity established by the Bank's policies and regulations after the loan is issued. A report which describes activities performed by the Bank (calls, visits to the client, etc.), appropriateness of the intended use of the loan, financial condition of the customer and conditions of the collateral is completed based on the results of the monitoring;

  - if evidence of the customer's financial condition worsening is available, restructuring of the loan is made after detailed analysis of the customer's financial performance and approval by the credit committee is made.

- Classification and evaluation of the loan portfolio and other assets are made in accordance with the requirements of the regulations of the NBKR. We performed analysis of the methodology for impairment evaluation and estimation of the impairment allowance within the framework of the audit. We checked the adequacy of the assessment procedures of the loan portfolio and other assets of the Bank on sample basis;
- When assessing collateral, the Bank follows provisions of collateral policy and instruction for valuation of foreclosed assets. During sample base analysis of the loan portfolio and other property transferred to the Bank's ownership we assured that:

  - the Bank values foreclosed assets when registering collateral for originated loans;

  - the Bank takes into account the cost of the collateral, its market value, the presence or absence of defects, as well as other qualitative characteristics for estimation of fair value.

- The Bank follows policies for the management of other property when dealing with foreclosed assets that became property of the Bank;
- We requested confirmation letters on balances with customers on a sample basis during analysis of the Bank's loan portfolio. As a result of reviewing the received documents we assured that the data indicated in the confirmations corresponds to the values in the Bank's accounts;
- Confirmations with correspondent banks were requested on a sample basis during analysis of Nostro accounts of the Bank. Based on the documents received, we made sure that the amounts stated in the reconciliation reports correspond to the data in the Bank's accounting.;
- During analysis of the Bank's obligations we assured that all liabilities are classified in accordance with the requirements of the NBKR, IFRS and internal policies of the Bank.
- We received a securities portfolio of the Bank as at December 31, 2022 and a report on all securities transactions performed during 2022. During the statistical sampling analysis of the transactions the following was assured:

  – when concluding securities transactions, the Bank is guided by the internal investment policy;

  – all transactions were approved by the Asset and Liability Management Committee of the Bank;

  – availability of a purchase request on each selected transaction;

  – availability of the confirming documents generated by an automated trading system ("ATS") for completed transactions.

2. With respect to the compliance of accounting and disclosure of the Bank's transactions with affiliates and related parties we identified the following:

- The Bank has a regulation on the Board of Directors which states that all decisions on transactions with affiliated and related parties are approved by the Board of Directors;
- As at the reporting date all related parties are determined by the Bank. Information on balances and transactions with related parties is disclosed in the financial statements;
- During the audit we have identified balances and transactions with related parties which correspond to the list of transactions with related parties of the Bank. In addition, on a sample basis, we assured the availability of approvals by the Board of Directors;
- As at reporting date we conducted the following procedures on transactions with related parties:

  – basis received confirmations of balances on a sample (loans issued, loans received, other assets) if the related party is a legal entity;

  – assured that all transactions with related parties were carried out by the Bank in compliance with all generally accepted procedures of banking practice without granting any exemptions or privileges.

3. With respect to examination of internal control and its structure we identified the following:

- In order to post all transactions in accounting books and prepare reliable financial statements the Bank developed accounting policy, job descriptions for employees and other guidelines and instructions regulating the activities of all employees of the Bank. In order to perform a systematic and independent evaluation of the reliability and effectiveness of the internal control system and to increase the accounting efficiency, the Bank conducts internal audit examinations. The internal audit is carried out by the internal auditor, who is reportable to the Board of Directors;
- The Bank established an effective system of risk management and internal control to provide assurance of sufficient confidence in achieving the Bank's goals. An effective system of risk management and internal control is implemented at all levels of management. Systematic and independent evaluation of the reliability and effectiveness of the internal control system is performed by the internal auditor who is reportable to the Board of Directors. The internal auditor performs tasks based on the principles of independence, objectivity, competence and professional attitude to work, as well as on the legislation of the Kyrgyz Republic, legal acts of the NBKR, internal audit standards determined by the International Standards for the Professional Practice of Internal Audit and the Code of Ethics of the Institute of Internal Auditors. The Board of Directors approves work plans and reviews reports;
- When examining the activities of the Bank's branches we identified that periodicity and sequence of the reports prepared by branches and internal auditor of the Bank during the year ended December 31, 2022 related to credit, operational, market, interest, legal risks and risk of the Bank's liquidity loss complied with the internal documents of the Bank;

- We received the internal documents of the Bank effective as at December 31, 2022 and during the year ended on this date which establish methods of identifying and managing significant credit, operational, market, interest, legal, and liquidity risks, and made sure that they are approved by the Bank in accordance with the requirements and recommendations of the NBKR;
- We received management letter on the results of the audit for the previous reporting year. We reviewed the issues indicated in the letter and assured that the Bank's management took appropriate efforts for elimination of deficiencies in the system of internal controls. In case the same deficiency remains from previous years we include it into the management letter by the results of the audit for the current year with note "Recurring".

4. During examination of compliance of operations and procedures of the Bank related to payments and settlements with the legislation of the Kyrgyz Republic and the regulatory requirements of the NBKR we established the following:

Within a substantive testing of certain captions of the financial statements (loans issued, loans received, deposits, income and expenses) we made a statistical sample of transactions to test that:

- Hard copy payment documents correspond to the figures in the system;
- Confidentiality and security matters during execution of electronic payments as well as the rules for storage and use comply with the requirements of the NBKR;
- Payments are made on time;
- The requirements for filling details of payment documents are appropriately executed.

5. With respect to compliance with the requirements of International Standards on Auditing regarding the responsibility of the Bank's external auditor to review fraudulent activities and errors during the audit of the financial statements of the Bank, we performed all audit procedures in accordance with NBKR and ISA which we considered necessary for expressing our opinion on the financial statements of the Bank.

6. An external audit of the Bank's information systems including analysis and assessment of the compliance of information systems with the legislation of the Kyrgyz Republic and regulatory acts of the National Bank of the Kyrgyz Republic regarding information security and internal policies/procedures of information systems approved by the Management of the Bank was conducted on February 13, 2023.

Kubat Alymkulov

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

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

March 14, 2023
Bishkek, the Kyrgyz Republic

## RSK BANK OPEN JOINT STOCK COMPANY

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2022

*(in thousands of Kyrgyz soms)*

| | Notes | For the year ended December 31, 2022 | For the year ended December 31, 2021 |
|---|---|---|---|
| Interest income calculated using the effective interest method | 5 | 3,633,560 | 2,579,739 |
| Interest expenses | 5 | (1,343,098) | (1,098,674) |
| NET INTEREST INCOME BEFORE ACCRUAL OF ALLOWANCE FOR EXPECTED CREDIT LOSSES ON INTEREST BEARING ASSETS | | 2,290,462 | 1,481,065 |
| (Accrual) / recovery of allowance for expected credit losses on interest bearing assets | 6 | (264,100) | 67,130 |
| NET INTEREST INCOME | | 2,026,362 | 1,548,195 |
| Commission income | 7 | 824,763 | 623,562 |
| Commission expenses | 7 | (368,205) | (249,451) |
| Net income on financial instruments at fair value through profit or loss | | 79,681 | 33,287 |
| Net gain on foreign currency transactions | 8 | 705,366 | 200,807 |
| Accrual of allowance for other assets and other liabilities | | (30,941) | (191,767) |
| Other income | | 17,135 | 6,579 |
| OPERATING INCOME | | 1,227,799 | 423,017 |
| Operating expenses | 9 | (1,818,101) | (1,490,658) |
| PROFIT BEFORE INCOME TAX | | 1,436,060 | 480,554 |
| Income tax | 10 | (155,570) | (37,259) |
| NET PROFIT | | 1,280,490 | 443,295 |
| Other comprehensive income | | | |
| Items that are or may be reclassified subsequently to profit or loss: | | | |
| Net change in fair value of investment securities measured at fair value through other comprehensive income | | (119,187) | (139,136) |
| TOTAL COMPREHENSIVE INCOME | | 1,161,303 | 304,159 |

**On behalf of the Management of the Bank:**

**Nogaev U.M.**
**Chairman of Management Board**

March 14, 2023
Bishkek, the Kyrgyz Republic

**Chubarova A.A.**
**Chief Accountant**

March 14, 2023
Bishkek, the Kyrgyz Republic

The notes on pages 13-72 form an integral part of the financial statements. The independent auditor's report is on pages 3-7.

**RSK BANK OPEN JOINT STOCK COMPANY**

**STATEMENT OF FINANCIAL POSITION**
**AS AT DECEMBER 31, 2022**
*(in thousands of Kyrgyz soms)*

| | Notes | December 31, 2022 | December 31, 2021 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 11 | 15,069,068 | 10,157,461 |
| Due from banks | 12 | 6,787,845 | - |
| Non-pledged investment securities | 13 | 5,952,565 | 4,226,537 |
| Pledged investment securities | 13 | 938,936 | 988,310 |
| Deposits pledged with banks and other financial and credit institutions | 14 | - | 266,566 |
| Loans and advances to banks and other financial institutions | 14 | 187,683 | - |
| Loans to customers | | 21,160,883 | 16,696,401 |
| Loans to corporate customers | 15 | 7,384,622 | 6,103,551 |
| Loans to customers issued under Islamic financing principles | 15 | 1,206 | - |
| Loans to retail customers | 15 | 13,775,055 | 10,592,850 |
| Property, equipment and intangible assets | 16 | 1,322,976 | 1,172,464 |
| Other assets | 17 | 957,911 | 728,120 |
| Other assets under the islamic financing principles | | 251 | - |
| TOTAL ASSETS | | 52,378,118 | 34,235,859 |
| **LIABILITIES AND EQUITY** | | | |
| LIABILITIES: | | | |
| Deposits and balances from banks and other financial institutions | 18 | 235,344 | 88,062 |
| Current accounts and deposits from customers | | 36,756,102 | 23,081,506 |
| Current accounts and deposits from corporate customers | 19 | 20,874,617 | 9,400,895 |
| Current accounts and deposits from retail customers | 19 | 15,881,485 | 13,680,611 |
| Other borrowed funds | 20 | 5,643,294 | 4,407,375 |
| Lease liabilites | | 142,818 | 86,652 |
| Funds received from the increase in the authorized capital | | - | 2,000,000 |
| Other liabilities | 21 | 1,176,548 | 691,947 |
| Other liabilities under the Islamic financing principles | | 251 | - |
| | | 43,954,357 | 30,355,542 |
| EQUITY: | | | |
| Share capital | 22 | 7,079,184 | 3,379,184 |
| Fair value revaluation reserve | | (95,072) | 24,115 |
| Retained earnings | | 1,439,649 | 477,018 |
| | | 8,423,761 | 3,880,317 |
| TOTAL LIABILITIES AND EQUITY | | 52,378,118 | 34,235,859 |

**On behalf of the Management of the Bank:**

**Nogaev U.M.**
**Chairman of Management Board**

March 14, 2023
Bishkek, the Kyrgyz Republic

**Chubarova A.A.**
**Chief Accountant**

March 14, 2023
Bishkek, the Kyrgyz Republic

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## RSK BANK OPEN JOINT STOCK COMPANY

### STATEMENT OF CHANGES IN EQUITY
### FOR THE YEAR ENDED DECEMBER 31, 2022
*(in thousands of Kyrgyz soms)*

| | Note | Share capital | Fair value revaluation reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|
| Balance at December 31, 2020 | | 2,333,267 | 163,251 | 479,640 | 2,976,158 |
| **Comprehensive income** | | | | | |
| Profit | | - | - | 443,295 | 443,295 |
| Fair value revaluation reserve (debt instruments) | | - | (139,136) | - | (139,136) |
| **Total comprehensive income** | | - | (139,136) | 443,295 | 304,159 |
| **Transactions with owners** | | | | | |
| Dividends declared | 21, 22 | - | - | (284,986) | (284,986) |
| Shares issued | 22 | 1,045,917 | - | (160,931) | 884,986 |
| **Total transactions with owners** | | 1,045,917 | - | (445,917) | 600,000 |
| Balance at December 31, 2021 | 22 | 3,379,184 | 24,115 | 477,018 | 3,880,317 |
| **Comprehensive income** | | | | | |
| Profit | | - | - | 1,280,490 | 1,280,490 |
| Fair value revaluation reserve (debt instruments) | | - | (119,187) | - | (119,187) |
| **Total comprehensive income** | | - | (119,187) | 1,280,490 | 1,161,303 |
| **Transactions with owners** | | | | | |
| Dividends declared | 21, 22 | - | - | (317,859) | (317,859) |
| Shares issued | 22 | 3,700,000 | - | - | 3,700,000 |
| **Total transactions with owners** | | 3,700,000 | - | (317,859) | 3,382,141 |
| Balance at December 31, 2022 | 22 | 7,079,184 | (95,072) | 1,439,649 | 8,423,761 |

**On behalf of the Management of the Bank:**

**Nogaev U.M.**
**Chairman of Management Board**

March 14, 2023
Bishkek, the Kyrgyz Republic

**Chubarova A.A.**
**Chief Accountant**

March 14, 2023
Bishkek, the Kyrgyz Republic

The notes on pages 13-72 form an integral part of the financial statements. The independent auditor's report is on pages 3-7.

## RSK BANK OPEN JOINT STOCK COMPANY

**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED DECEMBER 31, 2022**
*(in thousands of Kyrgyz soms)*

| | Notes | For the year ended December 31, 2022 | For the year ended December 31, 2021 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Profit before income tax | | 1,436,060 | 480,554 |
| Adjustments for: | | | |
| Change in allowance for expected credit losses on interest bearing assets | 6 | 264,100 | (67,130) |
| Change in the allowance for expected credit losses for other assets and other liabilities | | 30,941 | 191,767 |
| Interest income | 5 | (3,633,560) | (2,579,739) |
| Interest expenses | 5 | 1,343,098 | 1,098,674 |
| Depreciation of property, equipment and amortisation of intangible assets | | 184,393 | 176,619 |
| Foreign exchange difference | 8 | 84,479 | 6,836 |
| Cash flows before changes in working capital: | | (290,489) | (692,419) |
| Change in operating assets and liabilities | | | |
| (Increase) / decrease in operating assets: | | | |
| Loans and advances to banks and other financial institutions | | (251,309) | 105,700 |
| Loans to customers | | (4,590,154) | 87,369 |
| Due from banks | | (6,528,568) | - |
| Deposits pledged with banks and other financial and credit institutions | | 265,430 | - |
| Other assets | | (74,486) | (303,772) |
| Increase / (decrease) in operating liabilities: | | | |
| Deposits and balances from banks and other financial institutions | | 144,593 | (90,408) |
| Current accounts and deposits from customers | | 13,869,815 | 2,415,603 |
| Other liabilities | | 550,970 | 100,676 |
| Cash inflow from operating activities before interests and income tax | | 3,095,802 | 1,622,749 |
| Interest received | | 3,567,234 | 2,489,477 |
| Interest paid | | (1,306,183) | (1,089,957) |
| Income tax paid | | (272,556) | (26,336) |
| Net cash inflow from operating activities | | 5,084,297 | 2,995,933 |

## RSK BANK OPEN JOINT STOCK COMPANY

### STATEMENT OF CASH FLOWS
### FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED)
*(in thousands of Kyrgyz soms)*

| | Notes | For the year ended December 31, 2022 | For the year ended December 31, 2021 |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Purchase of property, equipment | 16 | (244,279) | (178,878) |
| Gain from disposal of property, equipment | | 1,944 | - |
| Purchase of investment securities | | (3,844,810) | (3,462,135) |
| Proceeds from sale of investment securities | | 2,105,911 | 512,755 |
| Net cash outflow from investing activities | | (1,981,234) | (3,128,258) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Dividends paid | 21 | (317,859) | (284,986) |
| Increase share capital | 22 | 1,700,000 | 884,986 |
| Prepayment of the contribution to the share capital | 22 | - | 2,000,000 |
| Proceeds from other borrowed funds | 20 | 2,814,071 | 1,039,324 |
| Repayment of lease liabilities | | (38,127) | (33,501) |
| Repayment of other borrowed funds | 20 | (1,627,529) | (1,807,928) |
| Net cash inflow from financing activities | | 2,530,556 | 1,797,895 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 5,633,619 | 1,665,570 |
| Effect of foreign exchange differences on cash and cash equivalents | | (700,374) | 68,439 |
| Effect of changes in expected credit losses on cash and cash equivalents | | (21,638) | 148 |
| CASH AND CASH EQUIVALENTS, at the beginning of the year | 11 | 10,157,461 | 8,423,304 |
| CASH AND CASH EQUIVALENTS, at the end of the year | 11 | 15,069,068 | 10,157,461 |

**On behalf of the Management of the Bank:**

**Nogaev U.M.**
**Chairman of Management Board**

March 14, 2023
Bishkek, the Kyrgyz Republic

**Chubarova A.A.**
**Chief Accountant**

March 14, 2023
Bishkek, the Kyrgyz Republic

The notes on pages 13-72 form an integral part of the financial statements. The independent auditor's report is on pages 3-7.

## 1. BACKGROUND

### Organization and operations

RSK Bank OJSC (the "Bank") was established in the Kyrgyz Republic on July 22, 1996, as "Settlement and Savings Company". Core business activity of the Bank is to accept deposits, open and manage customer accounts, transfer payments, issue loans and guarantees, provide settlement and cash services, operations with securities and foreign currency.

The activities of the Bank are regulated by the National Bank of the Kyrgyz Republic (the "NBKR"). The Bank carries out its operations in accordance with the General Licenses No. 33 and 33/1 dated October 3, 2008 and is a member of the state system of deposit insurance in the Kyrgyz Republic. The Bank has the right to conduct banking operations in accordance with the Islamic principles of banking and financing through the Islamic window according to license №033/1 dated August 10, 2022.

The Bank's registered office is 80/1, Moscowskaya str., Bishkek, 720010, the Kyrgyz Republic.

The Bank's Head Office is located in Bishkek. As at December 31, 2022, the Bank has 53 branches and 38 sub-branches (as at December 31, 2021: 52 branches and 35 sub-branches) located in Bishkek and other cities of the Kyrgyz Republic.

Number of employees of the Bank as at December 31, 2022 and 2021 amounted to 1,798 and 1,398 employees, respectively.

As at December 31, 2022, 75.9859% of the Bank's shares were owned by the State Property Management Fund under the Government of the Kyrgyz Republic and 24.0141% of the Bank's shared were owned by the Ministry of Finance of the Kyrgyz Republic. As at December 31, 2021 100% of the Bank's shares were owned by the State Property Management Fund under the Government of the Kyrgyz Republic.

The financial statements were approved by the Management of the Bank on March 14, 2023.

## 2. PRESENTATION OF FINANCIAL STATEMENTS

### a. Statement of compliance

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

### b. Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through other comprehensive income.

### c. Functional and presentation currency

The functional currency of the Bank is the Kyrgyz som ("soms") 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.

The Kyrgyz som is also the presentation currency for the purposes of these financial statements. Financial information presented in Kyrgyz som is rounded to the nearest thousand.

## d. Use of estimates and judgments

In preparing these financial statements, management has made judgment, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets and liabilities, income and expense. 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 judgments made in applying accounting policies that have the most significant effects 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 methodology for incorporating forecasted information into measurement of ECL and selection and approval of models used to measure ECL – Note 4.
- Determining fair value of loans to customers issued under governmental programs – Note 27.
- Determining fair value of other borrowed funds – Note 27.

### Assumptions and estimations 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 December 31, 2022 is included in the following notes:

- Impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forecasted information – Note 4; impairment of loans to customers - Note 15.

# 3. SIGNIFICANT ACCOUNTING POLICIES

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements.

## a. Foreign currency

Foreign currency transactions are translated into the functional currency of the Bank using the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated 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 retranslated 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 using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit and loss.

## b. Interest income and expense

### 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 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 on financial assets measured at amortised cost;
- interest on debt instruments measured at fair value through other comprehensive income.

Interest expense presented in the statement of profit or loss and other comprehensive income includes interest expense on financial liabilities measures 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, investment management fees, sales commission – is recognised as the related services are performed. 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.

The contract with a customer, which resulted in a financial instrument recognised in the financial statements of the Bank may be partially within the scope of IFRS 9 and partially within 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 expense includes mostly the service costs, which are expenses as soon as the respective services are received.

### d. Cash and cash equivalents

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

### e. Financial assets and financial liabilities

### i. Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost 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 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 revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When a debt financial asset measured at FVOCI 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 and 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 3(p)(ii)) unless they clearly represent a recovery of part of the cost of the 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 FVTPL.

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 FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

**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 will consider 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 asset arrangements; and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

**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.

### 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.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale- and-repurchase transactions.

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 NBKR key rate, if the loan contract 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 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 the currency of the financial asset;
- change in collateral or other credit enhancement.

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 financial 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, 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. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, 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:

- the change in the currency of a financial asset;
- change in collateral or other credit enhancement;
- inclusion of conversion feature;
- change 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**

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 security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade'; and

12-month 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 the financial instrument. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 2' and 'Stage 3' financial instruments.

**ECL measurement**

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 are credit-impaired (categorised to 'Stage 3' financial assets). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming 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.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered impaired.

### 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 decrease in carrying amount of these 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 (loan issued): 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. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

### 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 (charge) / recovery of allowances for expected credit losses on interest - bearing 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.

### f. Loans to customers

'Loans to customers' caption in the statement of financial position include loans to customers measured at amortised cost (see Note 4). Loans to customers are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

### g. Islamic principles of financing

In order to expand the range and accessibility of financial services to all segments of the population, the Bank has begun to introduce financial services on the Islamic principles of financing. At the initial stage, the Bank plans to introduce such products as Mudaraba, Murabaha and Card.

Mudaraba and Card products are used as an attraction of resources. Mudaraba product is similar to the term deposit, which is invested by the Client in the activities of the Islamic window for a certain period, but the distinguishing features are that the Bank does not guarantee the return of the deposit and a certain return on the deposit. The Mudaraba deposit's profitability directly depends on the profitability of the entire Islamic Window. Card product is similar to demand deposit, where the client keeps money in bank accounts for the purpose of accumulation or to pay for certain services. Unlike traditional demand deposits, Card accounts do not accrue any remuneration to the Client, regardless of whether the funds are used in the activities of the Islamic Window.

The Bank is planning to introduce the Murabaha product as an allocation of funds. The Murabaha product implies a transaction where the Bank sells to the Client the goods, on installment terms, purchased at the request of the client. The profitability of this transaction is the difference between the purchased and the sold price of the goods.

“Murabaha” is defined as a “sale for original price plus profit”. In the case of “Murabaha”, the Bank acquires and becomes the owner of the goods specified by the client, including consumer goods and production assets, according to the specifications designated by the client. After obtaining ownership, the Bank sells these goods to the customer for a price that includes the cost of purchase plus a certain profit in the form of payment for the actions taken in order to make this purchase and to cover the expenses incurred by the Bank. The goods are further delivered to the customer within the required specifications.

The customer makes payment for the goods in regular installments according to the sales contract. When working with companies, sales under Murabaha are realized by providing local or foreign raw materials, equipment and machinery in order to start and expand production lines.

Success factors that the Bank implements as part of the Islamic window on the Murabaha product:

1. Concluding contracts with suppliers of goods;
2. Lined distribution;
3. Working with the population and informing about the services;
4. Conformity to Shariah;
5. Affordable price for the population;
6. Speed of processing.

“Mudaraba” - This is a partnership between a “capital provider” and an “entrepreneur,” in which the former receives a share of the profits according to his capital, and the latter receives a share of the profits according to the labor and management inputs expended.

Mudaraba Term Deposit - an agreement under which the Bank attracts the client's money, for its subsequent investment in Shariah permitted business, in order to make a profit and its subsequent distribution between the parties to the agreement, based on the prior agreement of the profit participation ratio and the weighting ratio of the attracted funds. A distinction is made between limited and unlimited mudaraba.

As at December 31, 2022, the Bank had issued loans to the amount 1,206 thousand soms within Islamic financing. As at December 31, 2021, the Bank had not issued such loans.

**h. Investment securities**

The ‘investment securities’ caption in the statement of financial position includes debt investment securities measured at FVOCI.

**i. Deposits, other borrowed funds**

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

j. **Financial guarantees contracts 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.

For other loan commitments the Bank recognises loss allowance. (See Note 4).

Financial liabilities arising from financial guarantees and loan commitments are included within provisions.

k. **Property, equipment and intangible assets**

**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.

**Depreciation**

Depreciation is charged to 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 of different items of property, equipment are as follows:

| | |
|---|---|
| Buildings and constructions | 5-50 years |
| Furniture and equipment | 5-10 years |
| Computer equipment | 5 years |
| Vehicles | 5 years |
| Improvements to leased property | 2-5 years |

l. **Intangible assets**

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

Acquired computer software licences 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 of intangible assets range from 5 to 20 years.

m. **Leases**

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.

n. **Foreclosed property**

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.

**Non-financial assets**

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**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 the risks specific to the liability.

**p. Share capital**

**i. Ordinary shares**

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

**ii. Dividends**

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the 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.

**Current tax**

Current tax is calculated on the basis of estimated amount of the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and the income tax adjustment for the previous years.

**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 initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

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. 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 judgments 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 Operating Segments. The Bank's assets are concentrated in Kyrgyzstan, and revenues are derived from operations in, and connected with, Kyrgyzstan. The chief operating decision maker, in the case of the Bank, the Chairman, only receives and reviews the information on the Bank as a whole.

**Areas of significant use of estimates and assumptions of management**

The preparation of financial statements requires from Management to make estimates and assumptions that have an influence on reported amounts of assets and liabilities of the Bank, the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. The Bank's management conducts evaluations and judgments on an ongoing basis, based on previous experience and a number of other factors that are considered reasonable in the current environment. Actual results could differ from those estimates. The following estimates and assumptions are important to present financial position of the Bank.

*Allowance for expected credit losses of loans and accounts receivable*

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

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

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

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

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

As at December 31, 2022 and 2021 the carrying amount of the allowance for expected credit losses on loans to customers amounted to 1,749,655 thousand soms and 1,552,938 thousand soms, respectively (Note 15).

*Leases*

The two main areas of judgment with regards to quantification of the ROU asset and lease liability are the determination of lease term and the discount rate.

*Determining lease term*

The Bank's expectation of exercising the option to renew a lease will be determined by assessing if the Bank is "reasonably certain" to exercise that option. The Bank will be reasonably certain to exercise an option when factors create a significant economic incentive to do so. This assessment will require a significant level of judgement as it is based on current expectations of future decisions. The lease term will have an impact on the calculation of the ROU asset and the lease liability; the longer the lease term, the higher the ROU asset and the related lease liability. Changes in the economic environment may impact the Bank's assessment of lease term, and any changes in the estimate of lease terms may have a material impact on the Bank's ROU assets and lease liabilities.

*Discount rate*

At commencement date, the Bank measures the lease liability at the present value of the future lease payments, discounted using the Bank's incremental borrowing rate. The Bank will consider a broad range of factors to determine the appropriate discount rate. These will include the Bank's credit risk, term of the lease, the economic environment and geographical location in which the lease is entered into.

**Application of new and revised International financial reporting standards**

The Bank has adopted the following new or revised standards and interpretations issued by International Accounting Standards Board and the International Financial Reporting Interpretations Committee (the "IFRIC") which became effective for the Bank's financial statement for the year ended December 31, 2022:

- The amendment Covid-19-Related Rent Concessions beyond June 30, 2021 (Amendment to IFRS 16) provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.;

- The amendment to IAS 37 Provisions, contingent liabilities and contingent assets onerous contracts" - cost of fulfilling a contract. The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, equipment and intangible assets used in fulfilling the contract).;

- The amendment to Reference to the Conceptual Framework (Amendments to IFRS 3). The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard.

- The amendment to IAS 41 removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

- Annual Improvements to IFRS Standards 2018-2020: The amendment to IAS 16 Property, equipment and intangible assets - proceeds before intended use. The amendments prohibit deducting from the cost of an item of property, equipment and intangible assets any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

- Annual Improvements to IFRS Standards 2018-2020: The amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.

- Annual Improvements to IFRS Standards 2018-2020: The amendment to IFRS 9 Financial instruments – clarifies which fees an entity includes when it applies the 10 per cent test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

- Annual Improvements to IFRS Standards 2018-2020: The amendment to IFRS 16 Leases - removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

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

**New and revised IFRSs in issue but not yet effective**

A number of new Standards and Interpretations has been issued and not yet adopted as at December 31, 2022 and had not been applied in preparation of these financial statements. Following Standards and Interpretations are relevant to operations of the Bank. The Bank intends to adopt these Standards and Interpretations from their effective dates. The Bank has not analyzed potential effect of adoption of these standards on its financial statements.

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

- IFRS 17 Insurance contracts requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. Applicable to annual reporting periods beginning on or after January 1, 2023.

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. To support the amendment, the Board has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2. Annual reporting periods beginning on or after January 1, 2023.

- The amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors replace the definition of changes in accounting estimates with the definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error. Annual reporting periods beginning on or after 1 January 2023.

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

- The amendments to initial Application of IFRS 17 Leases and IFRS 9 Financial Instruments — Comparative Information (Amendment to IFRS 17) permit entities that first apply IFRS 17 and IFRS 9 at the same time to present comparative information about a financial asset as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset before. Annual reporting periods beginning on or after January 1, 2023.

- Classification of Liabilities as Current or Non-Current (Amendments IAS 1 Presentation of Financial Statements) aims to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. Applicable to annual reporting periods beginning on or after January 1, 2024.

- Non-current Liabilities with Covenants (Amendments IAS 1 Presentation of Financial Statements) clarifies how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. Applicable to annual reporting periods beginning on or after January 1, 2024.

- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16 Leases) clarifies how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. Applicable to annual reporting periods beginning on or after January 1, 2024.

- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures—Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

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

## 4. FINANCIAL 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 26.

Credit risk - Amounts arising from ECL

**Inputs, assumptions and techniques used for estimating impairment**

See accounting policy in Note 3.

### 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 forecasted 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 parameter determining the increase in credit risk of loans at the Bank is the number of days overdue, as well as obtaining information about significant financial difficulties of the borrower, for example, loss of work, loss of a permanent source of income or signs of bankruptcy of the borrower, prolongation or restructuring of the loan ('qualitative characteristics of a significant increase in credit risk').

*Determining whether credit risk has increased significantly*

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting period. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region. What is considered significant will differ for different types of lending, in particular between corporate and retail.

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

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

- deterioration of the borrower's operating results, including revenue and net profit for the last six months compared to the same period of the previous year;
- qualitative indicators;
- compliance with the industry in which the borrower operates, the consequences of the COVID-19;
- the appearance of a default on other obligations of the borrower.

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 for loans to corporate and retail customers. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

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

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

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

**Incorporating of forecasted information**

The Bank incorporates forecasted information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The Bank considers three economic scenarios: a basic case and two less likely scenarios, one optimistic and one pessimistic. Followings are probability of occurring of different scenarios for loan portfolio segments:

| | Basic | Optimistic | Pessimistic |
|---|---|---|---|
| Corporate customers | 60 | 10 | 30 |
| Loans to small and medium-sized entities | 60 | 10 | 30 |
| Consumer loans | 60 | 10 | 30 |

The basis scenario is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental bodies in the country where the Bank operates, such as the National Statistic Committee and the Ministry of Economy of the Kyrgyz Republic, as well as data from international institutions such as the World Bank and the International Monetary Fund.

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

The economic scenarios used for credit portfolios as at December 31, 2022 included the following key indicators for the Kyrgyz Republic for the year ended December 31, 2023.

| | Basic | Optimistic | Pessimistic |
|---|---|---|---|
| Nominal GDP (in USD billion) | 11.3702 | 12.5667 | 10.1738 |
| Exchange rate (average, USD) | 87.0000 | 74.9097 | 99.0903 |
| Consumer Price Index (%) | 9.5000 | 6.3326 | 12.3914 |
| Unemployment rate (%) | 9.0140 | 8.6021 | 9.3900 |

Predicted relationships between the key indicator and default and loss rates on various portfolios of financial assets have been developed based on analysis of historical data for 2015 -2022.

**Modified financial assets**

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

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 4). 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 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.

**Generating the term structure of PD**

The probability of default (PD, %) for loan is calculated using the Markov chains method, namely, stochastic loan transition matrices over the intervals of overdue periods during a given analysed period.

To build a transition matrix, the Bank uses detailed information on loan portfolios for the period under review. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

**Calculation of LGD:**

The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

**Calculation of EAD:**

EAD represents the expected exposure as at the date of default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forecasts.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, 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 risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

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

- instrument type;
- credit risk ratings;

- collateral type;
- date of initial recognition;
- remaining term to maturity;
- industry.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous. For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

| | | External benchmarks used | |
|---|---|---|---|
| | **Credit risk exposure** | **PD** | **PD** |
| Cash and cash equivalents | 10,145,707 | Moody's default study | Moody's recovery studies |
| Investments in securities | 6,891,501 | Moody's default study | Moody's recovery studies |

## 5. NET INTEREST INCOME

Interest income and expenses for the years ended December 31, 2022 and 2021 are as follows:

| | **For the year ended December 31, 2022** | **For the year ended December 31, 2021** |
|---|---|---|
| **Interest income** | | |
| Interest income from financial assets measured at amortised cost | | |
| Loans to customers | 2,418,654 | 2,147,990 |
| Investment securities | 977,631 | 242,462 |
| Cash and cash equivalents and due from banks | 217,273 | 182,344 |
| Loans and advances to banks and other financial institutions | 14,768 | 5,048 |
| Interest income on receivables under reverse repurchase agreements | 5,234 | 1,895 |
| | 3,633,560 | 2,579,739 |
| **Interest expense** | | |
| Interest expenses on financial liabilities measured at amortised cost | | |
| Current accounts and deposits from customers | 1,191,653 | 915,612 |
| Other borrowed funds | 123,539 | 155,268 |
| Lease liabilities | 7,215 | 6,124 |
| Deposits and balances from banks and other financial institutions | 20,691 | 21,670 |
| | 1,343,098 | 1,098,674 |
| **Net interest income before accrual of allowance for expected credit losses on interest bearing assets** | 2,290,462 | 1,481,065 |

## 6. (ACCRUAL) / RECOVERY OF ALLOWANCE FOR EXPECTED CREDIT LOSSES ON INTEREST-BEARING ASSETS

(Accrual) / recovery of allowance for expected credit losses on interest-bearing assets for the years ended December 31, 2022 and 2021 is presented as follows:

| | **For the year ended December 31, 2022** | **For the year ended December 31, 2021** |
|---|---|---|
| Loans to customers | (159,017) | 94,918 |
| Loans and advances to banks and other financial institutions | (65,187) | 98 |
| Investment securities | (18,258) | (27,738) |
| Cash and cash equivalents | (21,638) | (148) |
| | (264,100) | 67,130 |

## 7. COMMISSION INCOME AND EXPENSES

Commission income and expenses for the years ended December 31, 2022 and 2021 are as follows:

| | For the year ended December 31, 2022 | For the year ended December 31, 2021 |
|---|---|---|
| **Commission income** | | |
| Cash operations | 297,620 | 224,572 |
| Payment cards | 242,377 | 185,164 |
| Bank accounts maintenance | 117,018 | 80,495 |
| Money transfers | 60,100 | 68,332 |
| Letters of credit and bank guarantees issues | 11,069 | 6,195 |
| Other | 96,579 | 58,804 |
| | 824,763 | 623,562 |

| | For the year ended December 31, 2022 | For the year ended December 31, 2021 |
|---|---|---|
| **Commission expenses** | | |
| Payment cards | 307,213 | 234,630 |
| Interbank operations | 27,569 | 237 |
| Gross transactions | 21,806 | 7,139 |
| Opening and maintenance of corresponding accounts | 11,617 | 7,445 |
| | 368,205 | 249,451 |

*Performance obligations and revenue recognition policies:*

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it provides a service to a customer.

Nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies is as follows:

The Bank provides banking services to retail and corporate customers, including account management, cash and settlement transactions, foreign currency transactions and servicing fees.

Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rates separately for retail and corporate customers.

Fees for exchange transactions, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place.

Servicing fees are charged on a monthly basis and are based on fixed rates.

Revenue from account maintenance is recognised over time as the services are provided.

Revenue related to transactions is recognised at the point in time when the transaction takes place.

## 8. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations for the years ended December 31, 2022 and 2021 comprises:

| | For the year ended December 31, 2022 | For the year ended December 31, 2021 |
|---|---|---|
| Dealing operations, net | 789,845 | 207,643 |
| Foreign exchange differences, net | (84,479) | (6,836) |
| | 705,366 | 200,807 |

## 9. OPERATING EXPENSES

Operating expenses for the years ended December 31, 2022 and 2021 comprise:

| | For the year ended December 31, 2022 | For the year ended December 31, 2021 |
|---|---|---|
| Employee compensation | 966,819 | 778,259 |
| Payroll related taxes and benefits | 164,749 | 132,619 |
| | 1,131,568 | 910,878 |
| Depreciation of property and equipment and amortisation of intangible assets | 184,393 | 176,619 |
| Repair and maintenance expenses | 148,251 | 129,979 |
| Security | 70,665 | 68,412 |
| Contributions to Deposits Insurance Fund | 49,746 | 41,715 |
| Stationery | 23,647 | 20,016 |
| Communications services | 19,808 | 20,732 |
| Advertising and marketing | 17,614 | 15,383 |
| Cash collection expenses | 15,899 | 11,224 |
| Rent of premises | 11,216 | 12,471 |
| Utilities | 11,117 | 11,007 |
| Information technology expenses | 11,073 | 7,498 |
| Taxes other than on income | 11,010 | 1,155 |
| Business travel expenses | 9,661 | 8,331 |
| Legal and professional services | 3,271 | 3,221 |
| Representation expenses | 2,654 | 3,422 |
| Personnel training | 2,561 | 2,870 |
| Charity and sponsorship | 793 | 1,493 |
| Other | 93,154 | 44,232 |
| | 686,533 | 579,780 |
| | 1,818,101 | 1,490,658 |

## 10. INCOME TAX

The Bank measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the Kyrgyz Republic, which may differ from IFRS. For the year ended December 31, 2022 and 2021 income tax rate for legal entities was equal to 10% on the territory of the Kyrgyz Republic.

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Temporary differences as at December 31, 2022 and 2021 relate mostly to different methods of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

| | For the year ended December 31, 2022 | For the year ended December 31, 2021 |
|---|---|---|
| Current income tax expenses | 136,277 | 36,315 |
| Deferred income tax expenses | 19,293 | 944 |
| Income tax expense | 155,570 | 37,259 |

Reconciliation of tax and accounting profits for the years ended December 31, 2022 and 2021 is as follows:

| | For the year ended December 31, 2022 | For the year ended December 31, 2021 |
|---|---|---|
| Profit before income tax | 1,436,060 | 480,554 |
| Tax at statutory rate (10%) | 143,606 | 48,055 |
| Tax effect on permanent differences | 11,964 | (10,796) |
| Income tax expense | 155,570 | 37,259 |

Tax effect from temporary differences as at December 31, 2022 and 2021 is presented below:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| **Deferred income tax assets:** | | |
| Lease liabilities | 142,818 | 86,652 |
| Accrued interests | 108,513 | - |
| Allowance for expected credit losses on other assets | 63,984 | 42,242 |
| Provision for contingent liabilities | 47,633 | 8,443 |
| Allowance for expected credit losses on cash and cash equivalents and due from banks | 23,545 | 1,907 |
| Provision for unused vacation | 6,623 | - |
| Total deferred income tax asset | 393,116 | 139,244 |
| **Deferred income tax liabilities:** | | |
| Depreciation and amortization of property, equipment and intangible assets | 488,074 | 383,425 |
| Allowance for expected credit losses on loans to customers | 503,467 | 165,580 |
| Investments in securities | - | 21,046 |
| Unamortized portion of commission expenses on other borrowed funds | 4,263 | - |
| Total deferred income tax liabilities | 995,804 | 570,051 |
| Net deferred income tax liabilities | (602,688) | (430,807) |
| Net deferred income tax liabilities at statutory tax rate (10%) | (60,269) | (43,081) |

Temporary differences between tax accounting and current financial statement lead to deferred tax liabilities as at December 31, 2022 and 2021 as a result of the following:

| | December 31, 2021 | Recognised in the statement of profit and loss | Recognised in capital | December 31, 2022 |
|---|---|---|---|---|
| **Temporary differences** | | | | |
| Depreciation and amortization of property, equipment and intangible assets | (38,343) | (10,464) | - | (48,807) |
| Allowance for expected credit losses on loans to customers | (16,558) | (33,789) | - | (50,347) |
| Investments in securities | (2,105) | - | 2,105 | - |
| Unamortized portion of commission expenses on other borrowed funds | - | (426) | - | (426) |
| Accrued interests | - | 10,851 | - | 10,851 |
| Lease liabilities | 8,665 | 5,617 | - | 14,282 |
| Allowance for expected credit losses on other assets | 4,225 | 2,173 | - | 6,398 |
| Provision for contingent liabilities | 844 | 3,919 | - | 4,763 |
| Allowance for expected credit losses on cash and cash equivalents | 191 | 2,164 | - | 2,355 |
| Provision for unused vacation | - | 662 | - | 662 |
| | (43,081) | (19,293) | 2,105 | (60,269) |

| | December 31, 2020 | Recognised in the statement of profit and loss | Recognised in capital | December 31, 2021 |
|---|---|---|---|---|
| **Temporary differences** | | | | |
| Depreciation and amortization of property, equipment and intangible assets | (42,705) | 4,362 | - | (38,343) |
| Allowance for expected credit losses on loans to customers | (5,335) | (11,223) | - | (16,558) |
| Investments in securities | (19,511) | - | 17,406 | (2,105) |
| Allowance for expected credit losses on loans and advances to banks and other financial institutions | (279) | 279 | - | - |
| Allowance for expected credit losses on other assets | 4,675 | (450) | - | 4,225 |
| Allowance for expected credit losses on cash and cash equivalents | 176 | 15 | - | 191 |
| Lease liabilities | 1,548 | 7,117 | - | 8,665 |
| Provision for contingent liabilities | 1,888 | (1,044) | - | 844 |
| | (59,543) | (944) | 17,406 | (43,081) |

## 11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at December 31, 2022 and 2021 presented in the statement of financial position comprise the following:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| **Cash on hand** | 4,823,333 | 2,023,904 |
| Nostro accounts with the NBKR | 3,682,344 | 1,399,093 |
| Allowance for expected credit losses | (413) | (161) |
| **Nostro accounts with the NBKR, net** | 3,681,931 | 1,398,932 |
| **Nostro accounts with other banks** | | |
| - rated from AA- to AA+ | 833,521 | 3,715,828 |
| - rated from A- to A+ | 753,022 | 85,259 |
| - rated from BBB- to BBB+ | 2,823 | 27,800 |
| - rated from BB to BB+ | 66 | 112,022 |
| - rated from B- to B+ | 20,827 | 37,897 |
| - not rated | 441,719 | - |
| **Total nostro accounts with other banks** | 2,051,978 | 3,978,806 |
| Allowance for expected credit losses | (17,266) | (253) |
| **Total nostro accounts with banks net** | 2,034,712 | 3,978,553 |
| **Cash equivalents** | | |
| Term deposits with the NBKR with original maturities of less than 3 months | 100,028 | - |
| **Total term deposits with the NBKR, net** | 100,028 | - |
| Notes of the National Bank of the Kyrgyz Republic with original maturity less than three months | 4,434,930 | 2,560,548 |
| Allowance for expected credit losses | (5,866) | (1,493) |
| **Notes of the NBKR net of loss allowance** | 4,429,064 | 2,559,055 |
| Accounts receivable under reverse repurchase agreements | - | 197,017 |
| **Total cash equivalents** | 4,529,092 | 2,756,072 |
| Allowance for expected credit losses | (23,545) | (1,907) |
| **Total cash and cash equivalents** | 15,069,068 | 10,157,461 |

In accordance with the NBKR requirements, the funds on correspondent account should comprise no less than 70% of the Bank's statutory reserves, on a daily basis, to comply with the reserve requirements (December 31, 2021: 70%). As at December 31, 2022 and 2021 the statutory reserves held in the accounts with the NBKR amounted to 3,076,819 thousand soms and 1,379,137 thousand soms, respectively. The Bank is not restricted to withdraw cash from such accounts according to Kyrgyz legislation. The Bank is allowed to use remaining balance of correspondent account within a banking day, however, at the end of the day the balance has to make up at least 70% of statutory reserve requirements

The above table is based on the credit ratings assigned by Standard & Poor's or other agencies converted into Standard & Poor's scale. No placements with banks are past due. As at December 31, 2022 the Bank does not have any correspondent accounts balances of which exceed 10% of equity (in 2021 the Bank did not have any correspondent accounts balances of which exceed 10% of equity).

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

| | December 31, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| | Stage 1 | Total | Stage 1 | Total |
| **Cash and cash equivalents** | | | | |
| Balance as at January 1 | 1,907 | 1,907 | 1,759 | 1,759 |
| Net remeasurement of loss allowance | 21,638 | 21,638 | 148 | 148 |
| Balance as at December 31 | 23,545 | 23,545 | 1,907 | 1,907 |

## 12. DUE FROM BANKS

Due from banks as at December 31, 2022 and 2021 consisted of the following:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Interbank deposits | 6,787,845 | - |
| | 6,787,845 | - |

## 13. INVESTMENT SECURITIES

Investment securities as at December 31, 2022 and 2021 consisted of the following:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| **Investment securities measured at fair value through other comprehensive income** | | |
| Treasury bonds of the Ministry of Finance of the Kyrgyz Republic | 1,226,196 | 1,719,609 |
| **Financial instruments at amortised cost** | | |
| Treasury bonds of the Ministry of Finance of the Kyrgyz Republic | 5,665,305 | 3,495,238 |
| | 6,891,501 | 5,214,847 |

### (a) Credit quality of investment securities

| | December 31, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| | Stage 1 | Total | Stage 1 | Total |
| **Investment securities measured at fair value through other comprehensive income** | | | | |
| rated BB- | 1,226,196 | 1,226,196 | 1,719,609 | 1,719,609 |
| **Financial instruments at amortised cost** | | | | |
| rated BB- | 5,665,305 | 5,665,305 | 3,495,238 | 3,495,238 |
| Carrying amount | 6,891,501 | 6,891,501 | 5,214,847 | 5,214,847 |

### (b) Analysis of movements in the loss allowance

The following table shows reconciliations from the opening to the closing balances of the loss allowance on investments in securities:

| | December 31, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| | Stage 1 | Total | Stage 1 | Total |
| **Investment securities measured at fair value through other comprehensive income** | | | | |
| Balance at January 1 | 16,651 | 16,651 | 23,802 | 23,802 |
| Net remeasurement of loss allowance | (3,642) | (3,642) | (7,151) | (7,151) |
| New financial assets originated or purchased | - | - | - | - |
| Balance at December 31 | 13,009 | 13,009 | 16,651 | 16,651 |

The loss allowance for investment securities is not recognised in the statement of financial position because the carrying amount of debt investment securities at FVOCI is their fair value.

| | December 31, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| | **Stage 1** | **Total** | **Stage 1** | **Total** |
| **Financial instruments at amortised cost** | | | | |
| Balance at January 1 | 34,889 | 34,889 | - | - |
| Net remeasurement of loss allowance | 21,000 | 21,000 | - | - |
| New financial assets originated or purchased | 900 | 900 | 34,889 | 34,889 |
| Balance at December 31 | 56,789 | 56,789 | 34,889 | 34,889 |

As at December 31, 2022 and 2021 treasury bonds of the Ministry of Finance of the Kyrgyz Republic in the amount of 938,936 thousand soms and 988,310 thousand soms, respectively, served as a collateral for the loans received (Note 20).

None of the investment securities are past due.

## 14. LOANS AND ADVANCES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Loans and advances to banks and other financial institutions as at December 31, 2022 and 2021 consisted of the following:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Loans and deposits to banks and microfinance organizations | | |
| Stage 1 | 252,870 | - |
| Stage 3 | 3,124 | 3,124 |
| Allowance for expected credit losses | (68,311) | (3,124) |
| | 187,683 | - |
| Deposits pledged with banks and other financial and credit institutions | - | 266,566 |
| | - | 266,566 |

### Analysis of movements in the loss allowance on loans to banks and other financial institutions

The following table sets out information about the credit quality of loans to banks and other financial institutions as at December 31, 2022 and 2021.

| | December 31, 2022 | | |
|---|---|---|---|
| | **Stage 1** | **Stage 3** | **Total** |
| Balance at January 1 | - | 3,124 | 3,124 |
| New financial assets originated or purchased | 65,187 | - | 65,187 |
| Balance at December 31 | 65,187 | 3,124 | 68,311 |

| | December 31, 2021 | | |
|---|---|---|---|
| | Stage 1 | Stage 3 | Total |
| Balance at January 1 | 98 | 3,124 | 3,122 |
| Net remeasurement of loss allowance | (98) | - | (98) |
| Balance at December 31 | - | 3,124 | 3,124 |

As at December 31, 2022 the Bank issued five loans to microfinance organizations with a gross value of 254,786 thousand soms (December 31, 2021: 2,888 thousand soms).

As at December 31, 2022 and 2021 the Bank has no balances with banks and other financial institutions, balances of which exceed 10% of equity.

## 15. LOANS TO CUSTOMERS

Loans to customers as at December 31, 2022 and 2021 loans to customers consisted of the following:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Loans to corporate customers | 8,570,456 | 7,128,341 |
| Loans to customers issued under Islamic financing principles | 1,206 | - |
| Loans to retail customers | | |
| Loans to small and medium-size businesses | 9,340,092 | 7,976,835 |
| Consumer loans | 4,998,784 | 3,144,163 |
| | 14,338,876 | 11,120,998 |
| Gross loans to customers | 22,910,538 | 18,249,339 |
| Allowance for expected credit losses | (1,749,655) | (1,552,938) |
| | 21,160,883 | 16,696,401 |

The Bank among other market participants, participates in a number of government programs for providing affordable financing to borrowers that meet certain criteria to be eligible for financing. The Bank considers loans provided under these programs as having a distinct nature and representing separate segments. As a result, loans issued under these programs are considered as part of a normal transaction and, as such, the consideration given is considered to represent fair value as at the date of recognition. Details of these programs are disclosed in Note 20 and the amounts of loans issued under these programs are presented in Note 15 (e) below.

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

| | December 31, 2022 | | | | December 31, 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Balance at January 1 | 194,609 | 20,952 | 1,337,377 | 1,552,938 | 142,302 | 226,261 | 1,244,008 | 1,612,571 |
| Transfer to Stage 1 | 94,683 | (94,683) | - | - | 174,873 | (174,873) | - | - |
| Transfer to Stage 2 | (5,934) | 298,081 | (292,147) | - | (34,109) | 172,743 | (138,634) | - |
| Transfer to Stage 3 | - | (15,945) | 15,945 | - | - | (145,900) | 145,900 | - |
| Net remeasurement of loss allowance | 3,990 | (202,277) | (510,709) | (708,996) | (198,871) | (57,391) | (23,110) | (279,372) |
| New financial assets originated or purchased | 752,488 | 20,646 | 76,491 | 849,625 | 109,214 | - | - | 109,214 |
| Unwinding of discount on present value of ECLs | - | - | 47,263 | 47,263 | - | - | 91,316 | 91,316 |
| Movements in foreign exchange rates and other movements | 5,161 | 200 | 3,464 | 8,825 | 1,200 | 112 | 17,897 | 19,209 |
| Balance at December 31 | 1,044,997 | 26,974 | 677,684 | 1,749,655 | 194,609 | 20,952 | 1,337,377 | 1,552,938 |

*Analysis of movements in the loss allowance for loans to corporate customers*

| | December 31, 2022 | | | | December 31, 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Balance at January 1 | 111,111 | 5,921 | 907,758 | 1,024,790 | 79,499 | 161,693 | 891,758 | 1,132,950 |
| Transfer to Stage 1 | 2,619 | (2,619) | - | - | 144,324 | (144,324) | - | - |
| Transfer to Stage 2 | - | 201,738 | (201,738) | - | (28,903) | 148,956 | (120,053) | - |
| Transfer to Stage 3 | - | - | - | - | - | (103,375) | 103,375 | - |
| Net remeasurement of loss allowance | 67,867 | (205,216) | (380,678) | (518,027) | (136,041) | (57,087) | (48,221) | (241,349) |
| New financial assets originated or purchased | 608,151 | 16,350 | 25,390 | 649,891 | 51,111 | - | - | 51,111 |
| Unwinding of discount on present value of ECLs | - | - | 21,296 | 21,296 | - | - | 65,374 | 65,374 |
| Movements in foreign exchange rates and other movements | 4,824 | 176 | 2,884 | 7,884 | 1,121 | 58 | 15,525 | 16,704 |
| Balance at December 31 | 794,572 | 16,350 | 374,912 | 1,185,834 | 111,111 | 5,921 | 907,758 | 1,024,790 |

*Analysis of movements in the loss allowance for loans to small and medium-sizes entities*

| | December 31, 2022 | | | | December 31, 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| Balance at January 1 | 57,118 | 12,619 | 304,587 | 374,324 | 30,498 | 47,342 | 238,869 | 316,709 |
| Transfer to Stage 1 | 71,481 | (71,481) | - | - | 16,684 | (16,684) | - | - |
| Transfer to Stage 2 | (3,438) | 73,558 | (70,120) | - | (2,725) | 14,329 | (11,604) | - |
| Transfer to Stage 3 | - | (12,764) | 12,764 | - | - | (32,371) | 32,371 | - |
| Net remeasurement of loss allowance | (48,424) | 2,100 | (113,109) | (159,433) | (25,988) | (51) | 22,195 | (3,844) |
| New financial assets originated or purchased | 81,939 | 1,173 | 11,362 | 94,474 | 38,572 | - | - | 38,572 |
| Unwinding of discount on present value of ECLs | - | - | 21,296 | 21,296 | - | - | 20,553 | 20,553 |
| Movements in foreign exchange rates and other movements | 336 | 24 | 555 | 915 | 77 | 54 | 2,203 | 2,334 |
| Balance at December 31 | 159,012 | 5,229 | 167,335 | 331,576 | 57,118 | 12,619 | 304,587 | 374,324 |

*Analysis of movements in the loss allowance for loans to retail customers*

| | December 31, 2022 | | | | December 31, 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| Balance at January 1 | 26,380 | 2,412 | 125,032 | 153,824 | 32,305 | 17,226 | 113,381 | 162,912 |
| Transfer to Stage 1 | 20,583 | (20,583) | - | - | 13,865 | (13,865) | - | - |
| Transfer to Stage 2 | (2,496) | 22,785 | (20,289) | - | (2,481) | 9,458 | (6,977) | - |
| Transfer to Stage 3 | - | (3,181) | 3,181 | - | - | (10,154) | 10,154 | - |
| Net remeasurement of loss allowance | (15,453) | 839 | (16,922) | (31,536) | (36,842) | (253) | 2,917 | (34,178) |
| New financial assets originated or purchased | 62,398 | 3,123 | 39,739 | 105,260 | 19,531 | - | - | 19,531 |
| Unwinding of discount on present value of ECLs | - | - | 4,671 | 4,671 | - | - | 5,388 | 5,388 |
| Movements in foreign exchange rates and other movements | 1 | - | 25 | 26 | 2 | - | 169 | 171 |
| Balance at December 31 | 91,413 | 5,395 | 135,437 | 232,245 | 26,380 | 2,412 | 125,032 | 153,824 |

Significant changes in the gross carrying amount of financial instruments during the period that contributed to changes in loss allowance were as follows:

- The volume of loans originated during the year increased the gross carrying amount of the loan portfolio by 12,943,998 thousand soms with a corresponding increase in loss allowance by 1,191,167 thousand soms;
- Decrease in gross carrying amount of the loans at Stage 3 by 2,030,472 thousand soms resulted in decrease of allowances by 659,693 thousand soms, including:
- On loans issued to corporate customers, where the gross carrying amount of loans at Stage 3 decreased by 1,835,909 thousand soms, with the allowance being decreased by 532,846 thousand soms;
- On loans issued to SMEs, decrease in the gross carrying amount of loans at Stage 3 was 206,580 thousand soms, with a corresponding decrease in provisions by 137,252 thousand soms;
- On loans issued to retail clients, increase in the gross carrying amount of loans at Stage 3 was 12,017 thousand soms, with a corresponding increase in provisions by 10,405 thousand soms;

The main reason for the decrease in loans classified in Stage 3 due to the recovery of the solvency of the clients. Whereas in 2021 there was a more rapid recovery of small and medium business and retail clients relative to corporate clients, in 2022 corporate clients recovered their solvency more quickly.

**Classification by credit products**

During 2022 and 2021, the Bank applied the loan portfolio classification as follow:

- Loans to corporate customers include loans issued to legal entities, entrepreneurs and individuals for the amount above 300,000 US Dollars.
- Loans to small and medium-sized entities include loans issued to legal entities, entrepreneurs and individuals for the amount less than 300,000 US Dollars issued for commercial purposes.
- Loans to individuals include loans issued to individuals for the amount less than 300,000 US Dollars issued for non-commercial purposes including consumer loans, mortgage loans, overdrafts.

### (b) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at December 31, 2022.

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

The Bank classifies loans to customers based on its overdue status in the following categories:

– not overdue;
– overdue up to 30 days;
– overdue 30-59 days;
– overdue 60-89 days;
– overdue 90-179 days;
– overdue 180-360 days;
– overdue more than 360 days.

The following table provides information on the credit quality of loans to customers for the years ended December 31, 2022 and 2021:

| | December 31, 2022 | | | | December 31, 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Loans to corporate customers** | | | | | | | | |
| - not overdue | 6,995,014 | - | 467,655 | 7,462,669 | 3,755,299 | 14,299 | 781,299 | 4,550,897 |
| - overdue up to 30 days | - | 132,195 | 90,308 | 222,503 | 19,578 | 46,101 | 239,355 | 305,034 |
| - overdue 30-59 days | - | - | 28,265 | 28,265 | - | 13,908 | 231,762 | 245,670 |
| - overdue 60-89 days | - | - | 28,869 | 28,869 | - | - | 30,086 | 30,086 |
| - overdue 90-179 days | - | - | - | - | - | - | 1,404,349 | 1,404,349 |
| - overdue 180-360 days | - | - | 418,997 | 418,997 | - | - | 283,403 | 283,403 |
| - overdue more than 360 days | - | - | 409,153 | 409,153 | - | - | 308,902 | 308,902 |
| | 6,995,014 | 132,195 | 1,443,247 | 8,570,456 | 3,774,877 | 74,308 | 3,279,156 | 7,128,341 |
| Allowance for expected credit losses | (794,572) | (16,350) | (374,912) | (1,185,834) | (111,111) | (5,921) | (907,758) | (1,024,790) |
| | 6,200,442 | 115,845 | 1,068,335 | 7,384,622 | 3,663,766 | 68,387 | 2,371,398 | 6,103,551 |

| | December 31, 2022 | | | | December 31, 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Loans to customers issued under Islamic financing principles** | | | | | | | | |
| - not overdue | 1,206 | - | - | 1,206 | - | - | - | - |
| - overdue up to 30 days | - | - | - | - | - | - | - | - |
| - overdue 30-59 days | - | - | - | - | - | - | - | - |
| - overdue 60-89 days | - | - | - | - | - | - | - | - |
| - overdue 90-179 days | - | - | - | - | - | - | - | - |
| - overdue 180-360 days | - | - | - | - | - | - | - | - |
| - overdue more than 360 days | - | - | - | - | - | - | - | - |
| | 1,206 | - | - | 1,206 | - | - | - | - |
| Allowance for expected credit losses | - | - | - | - | - | - | - | - |
| | 1,206 | - | - | 1,206 | - | - | - | - |

| | December 31, 2022 | | | | December 31, 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Loans to retail customers** | | | | | | | | |
| **Loans to small and medium-sized entities** | | | | | | | | |
| - not overdue | 8,464,456 | 11,313 | 164,607 | 8,640,376 | 6,821,338 | 9,546 | 376,462 | 7,207,346 |
| - overdue up to 30 days | 84,479 | 12,581 | 35,231 | 132,291 | 122,389 | 34,436 | 80,304 | 237,129 |
| - overdue 30-59 days | - | 18,975 | 56,539 | 75,514 | - | 36,240 | 71,204 | 107,444 |
| - overdue 60-89 days | - | 18,761 | 43,143 | 61,904 | - | 16,779 | 35,661 | 52,440 |
| - overdue 90-179 days | - | - | 122,126 | 122,126 | - | - | 129,947 | 129,947 |
| - overdue 180-360 days | - | - | 154,752 | 154,752 | - | - | 147,218 | 147,218 |
| - overdue more than 360 days | - | - | 153,129 | 153,129 | - | - | 95,311 | 95,311 |
| | 8,548,935 | 61,630 | 729,527 | 9,340,092 | 6,943,727 | 97,001 | 936,107 | 7,976,835 |
| Allowance for expected credit losses | (159,012) | (5,229) | (167,335) | (331,576) | (57,118) | (12,619) | (304,587) | (374,324) |
| | 8,389,923 | 56,401 | 562,192 | 9,008,516 | 6,886,609 | 84,382 | 631,520 | 7,602,511 |

| | December 31, 2022 | | | | December 31, 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Loans to retail customers** | | | | | | | | |
| **Consumer loans** | | | | | | | | |
| - not overdue | 4,602,802 | 4,370 | 70,501 | 4,677,673 | 2,769,268 | 3,653 | 88,780 | 2,861,701 |
| - overdue up to 30 days | 72,258 | 52 | 14,610 | 86,920 | 73,868 | 1,107 | 24,040 | 99,015 |
| - overdue 30-59 days | - | 16,018 | 9,453 | 25,471 | - | 13,668 | 22,647 | 36,315 |
| - overdue 60-89 days | - | 10,173 | 10,688 | 20,861 | - | 2,843 | 14,388 | 17,231 |
| - overdue 90-179 days | - | - | 18,331 | 18,331 | - | 81 | 40,031 | 40,112 |
| - overdue 180-360 days | - | - | 110,091 | 110,091 | - | - | 28,712 | 28,712 |
| - overdue more than 360 days | 7,205 | - | 52,232 | 59,437 | 5,786 | - | 55,291 | 61,077 |
| | 4,682,265 | 30,613 | 285,906 | 4,998,784 | 2,848,922 | 21,352 | 273,889 | 3,144,163 |
| Allowance for expected credit losses | (91,413) | (5,395) | (135,437) | (232,245) | (26,380) | (2,412) | (125,032) | (153,824) |
| | 4,590,852 | 25,218 | 150,469 | 4,766,539 | 2,822,542 | 18,940 | 148,857 | 2,990,339 |

**(c) Collateral held and other credit enhancements**

The following table provide information on collateral and other credit enhancements securing loans to customers by types of collateral as at December 31, 2022:

| | Gross carrying amount | Loss allowance | Carrying amount | Collateral (without overcollateralisation) Real estate | Collateral-free (unsecured) | Total |
|---|---|---|---|---|---|---|
| Loans to corporate customers | 8,570,456 | (1,185,834) | 7,384,622 | 7,383,578 | 1,044 | 7,384,622 |
| Loans to customers issued under Islamic financing principles | 1,206 | - | 1,206 | 1,206 | - | 1,206 |
| Loans to small and medium-sized entities | 9,340,092 | (331,576) | 9,008,516 | 8,697,809 | 310,707 | 9,008,516 |
| Consumer loans | 4,998,784 | (232,245) | 4,766,539 | 4,025,673 | 740,866 | 4,766,539 |
| | 22,910,538 | (1,749,655) | 21,160,883 | 20,108,266 | 1,052,617 | 21,160,883 |

The following table provide information on collateral and other credit enhancements securing loans to customers by types of collateral as at December 31, 2021:

| | Gross carrying amount | Loss allowance | Carrying amount | Collateral (without overcollateralisation) Real estate | Collateral-free (unsecured) | Total |
|---|---|---|---|---|---|---|
| Loans to corporate customers | 7,128,341 | (1,024,789) | 6,103,552 | 6,038,179 | 65,373 | 6,103,552 |
| Loans to small and medium-sized entities | 7,976,835 | (374,324) | 7,602,511 | 7,549,910 | 52,601 | 7,602,511 |
| Consumer loans | 3,144,163 | (153,825) | 2,990,338 | 2,564,876 | 425,462 | 2,990,338 |
| | 18,249,339 | (1,552,938) | 16,696,401 | 16,152,965 | 543,436 | 16,696,401 |

Consumer loans comprise mortgage and consumer loans secured by underlying real estate and unsecured consumer loans.

The following table provide information about loans to customers that are credit-impaired as at December 31, 2022, and about collateral securing these loans, which have been provided to reduce possible losses:

| | Gross carrying amount | Loss allowance | Carrying amount | Collateral (without overcollateralisation) Real estate | Collateral-free (unsecured) | Total |
|---|---|---|---|---|---|---|
| Loans to corporate customers | 1,443,247 | (374,912) | 1,068,335 | 1,068,335 | - | 1,068,335 |
| Loans to customers issued under Islamic financing principles | - | - | - | - | - | - |
| Loans to small and medium-sized entities | 729,527 | (167,335) | 562,192 | 562,192 | | 562,192 |
| Consumer loans | 285,906 | (135,437) | 150,469 | 150,469 | - | 150,469 |
| | 2,458,680 | (677,684) | 1,780,996 | 1,780,996 | - | 1,780,996 |

The following table provide information about loans to customers that are credit-impaired as at December 31, 2021, and about collateral securing these loans, which have been provided to reduce possible losses:

| | Gross carrying amount | Loss allowance | Carrying amount | Collateral (without overcollateralisation) Real estate | Collateral-free (unsecured) | Total |
|---|---|---|---|---|---|---|
| Loans to corporate customers | 3,279,156 | (907,757) | 2,371,399 | 2,306,021 | 65,378 | 2,371,399 |
| Loans to small and medium-sized entities | 936,107 | (304,587) | 631,520 | 610,971 | 20,549 | 631,520 |
| Consumer loans | 273,889 | (125,032) | 148,857 | 143,884 | 4,973 | 148,857 |
| | 4,489,152 | (1,337,376) | 3,151,776 | 3,060,876 | 90,900 | 3,151,776 |

## (d) Repossessed collateral

During 2022, the Bank obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of 171,332 thousand soms (2021: 565,687 thousand soms). During 2022, the Bank sold repossessed collateral with a net carrying amount of 361,689 thousand soms (2021: 272,429 thousand soms).

As at December 31, 2022 and 2021, the repossessed collateral comprises:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Real estate | 349,844 | 545,498 |
| Other assets | 75,573 | 70,277 |
| | 425,417 | 615,775 |

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

As at December 31, 2022 the Bank had no financial instruments in respect of which no loss allowance was recognised due to it being secured by pledged collateral.

During 2022, there were no changes in the Bank's collateral policies.

## (e) Pledged assets

As at December 31, 2022 consumer loans with a net carrying amount of 2,218,982 thousand soms (December 31, 2021: 1,301,269 thousand soms) served as collateral for loans provided to the Bank by the State Mortgage Company OJSC (Note 20).

As at December 31, 2022 loans to corporate customers and small and medium-sized entities, with a net carrying amount of 1,735,647 thousand soms (December 31, 2021: 1,656,569 thousand soms) served as collateral for the loans provided to the Bank by the Russian-Kyrgyz Development Fund (Note 20).

## (f) Industry and geographical analysis of the loan portfolio

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

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Agriculture | 6,969,557 | 6,115,351 |
| Trade | 4,427,335 | 3,558,195 |
| Consumer loans | 4,758,097 | 2,813,658 |
| Manufacturing | 2,062,851 | 2,105,818 |
| Services | 1,930,155 | 1,862,083 |
| Construction and repair | 1,380,401 | 753,033 |
| Transportation and communication | 839,508 | 617,506 |
| Islamic window | 1,206 | - |
| Other | 541,428 | 423,695 |
| Allowance for expected credit losses | (1,749,655) | (1,552,938) |
| | 21,160,883 | 16,696,401 |

## (g) Significant credit exposures

As at December 31, 2022 the Bank did not have borrowers (December 31, 2021: two borrowers) whose loan balance exceeded 10% of equity. The gross value of these loans as at December 31, 2021 is 925,151 thousand soms.

## (h) Loan maturities

The maturity of the Bank's loan portfolio as at the reporting date is presented in Note 26, which shows the remaining period from the reporting date to the contractual maturity of the loans.

## (i) Sensitivity analysis

Changes in the estimates above could affect the loan loss allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the allowance for expected credit losses for loans to corporate customers as at December 31, 2022 would be 73,846 thousand soms lower/higher (December 31, 2021: 62,710 thousand soms lower/higher).

Changes in the estimates above could affect the loan loss allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the allowance for expected credit losses for loans to retail customers as at December 31, 2022 would be 413,288 thousand soms lower/higher (December 31, 2021: 319,700 thousand lower/higher).

## 16. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Property, equipment and intangible assets as at December 31, 2022 and 2021 consisted of the following:

| | Land plots | Construction and equipment to be installed | Buildings and constructions | Furniture and equipment | Computer equipment | Vehicles | Improvement of leased property | Intangible assets | Right-of-use assets | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **At cost** | | | | | | | | | | |
| December 31, 2020 (restated) | 22,859 | 7,888 | 549,081 | 457,041 | 280,496 | 110,241 | 22,890 | 438,937 | 108,162 | 1,997,595 |
| Additions | - | 12,185 | 151 | 62,526 | 42,029 | 21,503 | - | 42,212 | 47,783 | 228,389 |
| Disposal | - | (552) | - | (23,867) | (12,419) | (13,581) | (269) | (8,998) | (18,582) | (78,268) |
| Internal movement | - | (3,445) | 7,046 | 76 | (3,677) | - | - | - | - | - |
| December 31, 2021 | 22,859 | 16,076 | 556,278 | 495,776 | 306,429 | 118,163 | 22,621 | 472,151 | 137,363 | 2,147,716 |
| Additions | - | 80,729 | 1,948 | 70,163 | 29,454 | 12,169 | 379 | 49,437 | 109,903 | 354,182 |
| Disposal | - | (2,588) | (213) | (36,668) | (9,911) | (9,268) | - | (4,256) | (60,180) | (123,084) |
| Internal movement | - | (3,998) | 3,223 | 10 | 583 | - | 182 | - | - | - |
| December 31, 2022 | 22,859 | 90,219 | 561,236 | 529,281 | 326,555 | 121,064 | 23,182 | 517,332 | 187,086 | 2,378,814 |
| **Accumulated depreciation** | | | | | | | | | | |
| December 31, 2020 (restated) | - | - | 111,543 | 306,209 | 163,320 | 71,904 | 19,344 | 152,030 | 50,823 | 875,173 |
| Charge for the year | - | - | 13,107 | 45,641 | 26,341 | 12,236 | 1,361 | 41,150 | 36,783 | 176,619 |
| Disposal | - | - | - | (22,889) | (12,222) | (13,581) | (269) | (8,997) | (18,582) | (76,540) |
| December 31, 2021 | - | - | 124,650 | 328,961 | 177,439 | 70,559 | 20,436 | 184,183 | 69,024 | 975,252 |
| Charge for the year | - | - | 12,725 | 51,104 | 32,756 | 14,617 | 1,051 | 47,710 | 40,033 | 199,996 |
| Disposal | - | - | (112) | (35,896) | (9,698) | (9,268) | - | (4,256) | (60,180) | (119,410) |
| December 31, 2022 | - | - | 137,263 | 344,169 | 200,497 | 75,908 | 21,487 | 227,637 | 48,877 | 1,055,838 |
| **Net book value** | | | | | | | | | | |
| As at December 31, 2021 | 22,859 | 16,076 | 431,628 | 166,815 | 128,990 | 47,604 | 2,185 | 287,968 | 68,339 | 1,172,464 |
| As at December 31, 2022 | 22,859 | 90,219 | 423,973 | 185,112 | 126,058 | 45,156 | 1,695 | 289,695 | 138,209 | 1,322,976 |

As at December 31, 2022 and 2021 there were no property, equipment and intangible assets that were pledged as collateral for liabilities.

As at December 31, 2022 and 2021 fully depreciated property, equipment and intangible assets in use equaled to 380,037 thousands soms and 350,858 thousands soms, respectively. There are no capitalised borrowing costs related to the acquisition or construction of items of property and equipment as at December 31, 2022 and 2021.

## 17. OTHER ASSETS

Other assets as at December 31, 2022 and 2021 consisted of the following:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| **Other financial assets** | | |
| Cash settlement | 281,720 | 63,183 |
| Accounts receivable on money transfers and other commissions receivable | 175,243 | 112,090 |
| Accounts receivable on other transactions of the Bank | 161,742 | 78,741 |
| Accounts receivable on payment systems | 10,091 | 161,770 |
| Other | 50,786 | 26,177 |
| Allowance for expected credit losses | (63,984) | (42,242) |
| **Total other financial assets** | 615,598 | 399,719 |
| **Other non-financial assets** | | |
| Foreclosed collateral | 425,418 | 616,590 |
| Corporate income tax paid in advance | 115,140 | - |
| Prepayments | 46,621 | 21,618 |
| Inventories | 39,456 | 22,874 |
| Other | 13,240 | 8,532 |
| Impairment allowance | (297,562) | (341,213) |
| | 342,313 | 328,401 |
| | 957,911 | 728,120 |

### Credit quality of other financial assets

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

| | December 31, 2022 | | |
|---|---|---|---|
| | Stage 1 | Stage 3 | Total |
| ***Other financial assets*** | | | |
| - not overdue | 615,598 | - | 615,598 |
| - uncollectable | - | 63,984 | 63,984 |
| | 615,598 | 63,984 | 679,582 |
| Allowance for expected credit losses | - | (63,984) | (63,984) |
| | 615,598 | - | 615,598 |

| | December 31, 2021 | | |
|---|---|---|---|
| | Stage 1 | Stage 3 | Total |
| ***Other financial assets*** | | | |
| - not overdue | 399,719 | - | 399,719 |
| - uncollectable | - | 42,242 | 42,242 |
| | 399,719 | 42,242 | 441,961 |
| Allowance for expected credit losses | - | (42,242) | (42,242) |
| | 399,719 | - | 399,719 |

**Analysis of movements in allowance for expected credit losses**

Movements in the allowance for expected credit losses for the year ended December 31, 2022 are as follows:

| | Other financial assets | Other non-financial assets | Total |
|---|---|---|---|
| Allowance for expected credit losses as at the beginning of the year | 42,242 | 341,213 | 383,455 |
| Net recovery | 20,584 | (43,651) | (23,067) |
| Effect of exchange differences | 1,158 | - | 1,158 |
| Allowance for expected credit losses as at the end of the year | 63,984 | 297,562 | 361,546 |

**Analysis of movements in allowance for expected credit losses**

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

| | Other financial assets | Other non-financial assets | Total |
|---|---|---|---|
| Allowance for expected credit losses as at the beginning of the year | 46,743 | 133,816 | 180,559 |
| Net charge | (4,263) | 207,397 | 203,134 |
| Effect of exchange differences | (238) | - | (238) |
| Allowance for expected credit losses as at the end of the year | 42,242 | 341,213 | 383,455 |

## 18. DEPOSITS AND BALANCES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Deposits and balances from banks and other financial institutions as at December 31, 2022 and 2021 consisted of the following:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Current accounts and deposits from banks and other financial institutions | 235,344 | 88,062 |
| | 235,344 | 88,062 |

As at December 31, 2022 and 2021, the Bank had no banks or financial institutions, whose loan balances exceeded 10% of the Bank's equity.

## 19. CURRENT ACCOUNTS AND DEPOSITS FROM CUSTOMERS

Current accounts and deposits from customers as at December 31, 2022 and 2021 consisted of the following:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| **Current accounts and deposits from corporate customers** | | |
| – Current accounts and demand deposits | 18,758,891 | 8,340,692 |
| – Term deposits | 2,115,726 | 1,060,203 |
| | 20,874,617 | 9,400,895 |
| **Current accounts and deposits from retail customers** | | |
| – Current accounts and demand deposits | 11,711,185 | 9,720,235 |
| – Term deposits | 4,170,300 | 3,960,376 |
| | 15,881,485 | 13,680,611 |
| | 36,756,102 | 23,081,506 |

As at December 31, 2022 the Bank has four customers whose account balances exceeded 10% of the bank equity (as at December 31, 2021 there were 5 customers).

As at December 31, 2022 and 2021, the gross value of balances of said counterparties was 10,159,186 thousand soms and 4,983,711 thousand soms respectively.

## 20. OTHER BORROWED FUNDS

Other borrowed funds as at December 31, 2022 and 2021 consisted of the following:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Loans from State Mortgage Company OJSC | 2,241,543 | 1,291,559 |
| Loans from Russian-Kyrgyz Development Fund | 1,565,929 | 1,376,272 |
| Loans from Incofin | 869,673 | - |
| Loans from the Ministry of Finance of the Kyrgyz Republic | 481,369 | 421,102 |
| Loans from China Development Fund | 304,936 | 427,030 |
| Guarantee Fund OJSC | 179,844 | 179,843 |
| Loans from the National Bank of the Kyrgyz Republic | - | 711,569 |
| | 5,643,294 | 4,407,375 |

The Bank received loans from the following organisations and financial institutions:

| Name of the organisation | Currency | Interest rate | Maturity | December 31, 2022 | December 31, 2021 |
|---|---|---|---|---|---|
| State Mortgage Company OJSC | Kyrgyz som | 3.0%-7.0% | Jan. 2, 2031 | 2,095,006 | 1,197,210 |
| State Mortgage Company OJSC (KFW) | Kyrgyz som | 5.00% | Jul. 20, 2035 | 146,537 | 94,349 |
| Incofin | US dollars | 4.80% | Feb. 3, 2026 | 869,673 | - |
| Russian-Kyrgyz Development Fund | US dollars | 1.0-3.0% | Dec. 28, 2026 | 731,220 | 696,987 |
| Russian-Kyrgyz Development Fund | US dollars | 1.00% | Nov. 23, 2026 | 254,852 | 151,719 |
| Russian-Kyrgyz Development Fund | US dollars | 1.00% | Jul. 2, 2026 | 207,212 | 30,866 |
| Russian-Kyrgyz Development Fund | US dollars | 1.0-3.0% | Apr. 29, 2025 | 186,960 | 195,138 |
| Russian-Kyrgyz Development Fund | Kyrgyz som | 5.0-6.0% | Sep. 2, 2026 | 132,923 | 184,723 |
| Russian-Kyrgyz Development Fund | Kyrgyz som | 5.0-6.0% | Jul. 15, 2026 | 49,569 | 67,644 |
| Russian-Kyrgyz Development Fund | Kyrgyz som | 5.0%-8.0% | Aug. 12, 2025 | 3,192 | 17,905 |
| Russian-Kyrgyz Development Fund | Kyrgyz som | 5.0-6.0% | Feb. 12, 2026 | - | 31,289 |
| China Development Fund | US dollars | 6-month LIBOR + 3.6% | Oct. 21, 2024 | 304,936 | 427,030 |
| Ministry of Finance of the Kyrgyz Republic | Kyrgyz som | 1.5-3.5% | Aug. 20, 2025 | 165,431 | 241,603 |
| Ministry of Finance of the Kyrgyz Republic | Kyrgyz som | 1.5, 3.5, 5.5% | Dec. 25, 2024 | 120,653 | 178,167 |
| Ministry of Finance of the Kyrgyz Republic | Kyrgyz som | 0% | Jun. 8, 2028 | 88,750 | - |
| Ministry of Finance of the Kyrgyz Republic | Kyrgyz som | 2.00% | Dec. 12, 2025 | 79,700 | - |
| Ministry of Finance of the Kyrgyz Republic | Kyrgyz som | 0% | Jun. 16, 2028 | 25,915 | - |
| Ministry of Finance of the Kyrgyz Republic | US dollars | 1.00% | Jul. 15, 2024 | 922 | 1,332 |
| OJSC Guarantee Fund | Kyrgyz som | 2.00% | Jun. 2, 2024 | 150,247 | 150,247 |
| OJSC Guarantee Fund | Kyrgyz som | 2.00% | Apr. 29, 2024 | 20,003 | 20,003 |
| OJSC Guarantee Fund | Kyrgyz som | 2.00% | Sep. 16, 2023 | 9,593 | 9,594 |
| National Bank of the Kyrgyz Republic | Kyrgyz som | 5.00% | Apr. 9, 2022 | - | 711,569 |
| | | | | 5,643,294 | 4,407,375 |

The Bank participates in a number of government development programs to provide affordable financing to specific borrowers that meet certain criteria to be eligible for financing (Note 15).

**Russian Kyrgyz Development Fund**

As part of the program of the Russian-Kyrgyz Development Fund for the provision to small and medium-sized entities of the access to credit resources, the Bank signed two agreements with the Russian-Kyrgyz Development Fund for the total amount of 950,000 thousand soms. On July 11, 2016, the Bank signed the third and fourth agreements with the RKDF for the total amount of 14,000,000 US dollars. The interest rate of target loans issued by the Bank should not exceed the interest rate at which the Bank borrowed funds more than 5%. As discounting of loans received and issued at a rate lower than the market would have a mutually eliminating effect and would not significantly affect the Bank's financial statements, management decided not to take into account the effect of discounting on loans received and issued under the program financed by the RKDF.

**State Mortgage Company OJSC**

On February 1, 2016, as part of implementation of the programme of the Government of the Kyrgyz Republic "Affordable Housing 2015-2020" (the "Programme"), the Bank signed a General Agreement for Cooperation with the State Mortgage Company OJSC (the "SMC"). In accordance with this agreement, the SMC will provide funds in the form of loans totalling to 1,000,000 thousand soms to be allocated by the Bank to issue and refinance mortgage loans of the citizens of the Kyrgyz Republic who are the civil servants. Due to the fact that these loans were issued to the Bank as part of the implementation of the Government programme to provide affordable housing to civil servants, these loans represent a separate market segment.

**Ministry of Finance of Kyrgyz Republic**

As part of the state programmes for concessionary lending of the population, the Bank has a number of loan agreements with the Ministry of Finance of the Kyrgyz Republic, under which:

- In November 2019, the Bank signed an agreement under the programme of financing of the projects aimed at development of the regions of the Kyrgyz Republic, as part of which the Bank received loans for the total amount of 250,000 thousand soms. Interest rates on the loans received vary from 1.5% to 5.5% depending on a goal, loan term and region in which the borrowers operate.
- In March 2020, the Bank signed an agreement under the agriculture financing program as a part of which the Bank received loans for the total amount of 500,000 thousand soms, the interest rates of which vary from 1.5% to 5.5% depending on a goal, loan term and the region in which the borrowers operate;
- In July 2020, the Bank signed two agreements under the programme of financing of business entities, as a part of which the Bank received loans for the total amount of 600,000 thousand soms, the interest rates for which vary from 0.1% to 6.5% depending on a goal, loan term and the region in which the borrowers operate.

Due to the fact that discounting of loans received and issued at a rate lower than the market would have a mutually eliminating effect and would not significantly affect the Bank's financial statements, management decided not to take into account the effect of discounting on loans received and issued

Through participation in the National Bank's credit auction, the Bank has raised the following short-term funds in the amount of 250,000 thousand soms bearing the interest rate of 4.25% in 2019

As at December 31, 2022 and 2021 collateral for other borrowed funds consisted of the following:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| **Assets restricted:** | | |
| Investment securities | 938,936 | 988,310 |
| Loans to customers | 3,954,629 | 4,161,897 |
| Cash | - | 266,566 |
| | 4,893,565 | 5,416,773 |
| **Secured liabilities** | 3,499,858 | 3,799,176 |
| | 3,499,858 | 3,799,176 |

The Bank is obligated to comply with financial covenants in relation to due to and loans from financial institutions above. These covenants include the established ratios including debt to equity ratio and other ratios used to assess financial performance. As at December 31, 2022 the Bank was not in compliance with one established ratio and presented the full amount payable under this borrowing as "on demand" in the liquidity risk and reflected the amount of this loan to "Demand and less than 1 month" category.

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

| | Other borrowed funds |
|---|---|
| **Balance at December 31, 2020 (restated)** | 5,134,962 |
| **Changes from financing cash flows** | |
| Proceeds from other borrowed funds | 1,039,324 |
| Repayment of other borrowed funds | (1,807,928) |
| Total changes from financing cash flows | (768,604) |
| **Effect of movements in foreign exchange** | 43,147 |
| **Other changes** | |
| Interest expense | 155,268 |
| Interest paid | (157,398) |
| **Balance at December 31, 2021** | 4,407,375 |
| **Changes from financing cash flows** | |
| Proceeds from other borrowed funds | 2,814,071 |
| Repayment of other borrowed funds | (1,627,529) |
| Total changes from financing cash flows | 1,186,542 |
| **Effect of movements in foreign exchange** | 31,672 |
| **Other changes** | |
| Interest expense | 123,539 |
| Interest paid | (105,834) |
| **Balance at December 31, 2022** | 5,643,294 |

## 21. OTHER LIABILITIES

Other liabilities as at December 31, 2022 and 2021 consisted of the following:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| **Other financial liabilities** | | |
| Payments to suppliers of utilities | 803,985 | 400,716 |
| Liabilities payable under contracts | 68,810 | 46,150 |
| Provision for contingent liabilities | 62,522 | 8,443 |
| Professional services | 1,309 | 1,309 |
| Other | 2,263 | 58,220 |
| | 938,889 | 514,838 |
| **Other non-financial liabilities** | | |
| Interest prepaid by the Ministry of Finance of KR | 155,549 | 102,508 |
| Deferred tax liability | 60,269 | 43,081 |
| Income tax payable | - | 10,612 |
| Other taxes payable | 21,841 | 20,908 |
| | 237,659 | 177,109 |
| | 1,176,548 | 691,947 |

Payments to providers of utilities comprise payments accepted from the population for utilities and which need to be transferred to the accounts of the housing maintenance and utilities companies.

In accordance with the Agreement No. 19-05/17 dated March 23, 2015 between the Ministry of Finance of the Kyrgyz Republic (hereinafter the "MFKR") and the RSK Bank OJSC, the Bank provides loans to agricultural manufacturers bearing interest rates of 6-10% per annum and receives compensation of interest from the MF KR based on the amount of the loans issued.

The MFKR, in its turn, has a right to exercise control over the proper use of the grant and request information on the amount of loans issued. If the MFKR is not satisfied with the use of the funds, the funds may be withdrawn. Interest income is recognised over the period equal to the maturity of the portfolio of loans issued as part of the project.

During 2022 the amount of government grants recognised in profit and loss included in the interest income was 358,806 thousand soms (2021: 215,229 thousand soms).

Table below provides the movement in of dividends:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| as at January 1 | - | - |
| Declared | 317,859 | 284,986 |
| Paid | (317,859) | (284,986) |
| as at December 31 | - | - |

## 22. SHARE CAPITAL

### a. Share capital

In 2022, the General Meeting of Shareholders made decision to increase the share capital of the Bank by 3,700,000 thousand soms through issuing 7,400,000 shares of the nominal value of 500 soms each, by using Shareholder's funds. The Ministry of Finance of the Kyrgyz Republic purchased 1,700,000 thousand soms worth of shares issued, representing 3,400,000 shares. In 2021, the General Meeting of Shareholders made decision to increase the share capital of the Bank by 160,931 thousand soms through capitalisation of a part of the retained earnings of the prior years by issuing 321,862 shares and by 884,986 thousand soms through issuing 1,769,972 shares of the nominal value of 500 soms each, by using Shareholder's funds.

As at December 31, 2022 and 2021 the amount of registered and paid share capital was 7,079,184 thousand soms and 3,379,184 thousand soms, respectively. As at December 31, 2022 the Bank's share capital consists of 14,158,367 ordinary shares with the nominal value of 500 soms each (December 31, 2021: 6,758,367 ordinary shares with a nominal value of 500 soms each).

As at December 31, 2022, 75.9859% of the Bank's shares owned by the State Property Management Fund under the Government of the Kyrgyz Republic and 24.0141% of the Bank's shares owned by the Ministry of Finance of the Kyrgyz Republic. As at December 31, 2021 100% of the Bank's shares owned by the State Property Management Fund under the Government of the Kyrgyz Republic.

### b. Dividends

Dividends payable are limited by the maximum amount of retained earnings determined in accordance with the requirements of the legislation of the Kyrgyz Republic.

During 2022 and 2021 the Bank declared dividends of 317,859 thousand soms (78.0 som per share) and 53,644 thousand soms (47.0 som per share), respectively.

According to the NBKR Instruction "On establishment of capital adequacy standards for commercial banks of the Kyrgyz Republic" approved by the Resolution No.18/2 dated July 21, 2004 of the Management Board of the NBKR (last revised on December 27, 2019), banks are not allowed to make decision on payment of dividends, if the "capital buffer" index calculated with due account of deduction of the amount of dividends planned to be paid, is below the value established by the NBKR. NBKR established the requirement for the value of the "capital buffer" index at the level not less than 20%. Also, in accordance with clause 8.4 of this instruction, the Bank is obligated to obtain permission from the National Bank to pay dividends to the Bank's shareholders, and at the time when this issue is considered the Bank is obligated to comply with the "capital buffer" index, taking into account the planned payment of dividends.

In 2022, the Bank paid dividends in the amount of 317,859 thousand soms for 2021. In 2021, the "capital buffer" index requirements were met and the Bank paid dividends in the amount of 231,342 thousand soms for 2018-2019 and in the amount of 53,644 thousand soms for 2020 to the Shareholder.

**Revaluation reserve of investment securities**

Revaluation reserve for state treasury bonds of the Ministry of Finance of the Kyrgyz Republic includes the accumulated net change in fair value until derecognition or impairment of the assets. As at December 31, 2022 and 2021 the reserve amounted to (95,072) thousand soms and 24,115 thousand soms, respectively.

## 23. CONTINGENT LIABILITIES

**Capital expenditure commitments**

As at December 31, 2022 and 2021 the Bank had no capital expenditure commitments.

**Loan related commitments, guarantees and other financial contracts**

In the normal course of business, the Bank provides its customers a variety of financial instruments that are accounted on off-balance sheet accounts and have different degrees of risk. Nominal or contract value of such obligations as at December 31, 2022 and 2021 was as follows:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| **Off-balance sheet liabilities** | | |
| Letter of credits | 478,768 | - |
| Credit lines | 421,416 | 303,162 |
| Guarantees | 416,494 | 160,829 |
| | 1,316,678 | 463,991 |

**Credit quality of other contingent liabilities**

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

| | December 31, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| | Stage 1 | Total | Stage 1 | Total |
| Off-balance sheet liabilities | 421,494 | 421,494 | 303,162 | 303,162 |
| Guarantees | 421,494 | 421,494 | 303,162 | 303,162 |
| Allowance for expected credit losses | (62,522) | (62,522) | (8,443) | (8,443) |
| Carrying amount (loss allowance) | 358,894 | 358,894 | 294,719 | 294,719 |

As at December 31, 2022 and 2021 the Bank did not have significant credit concentrations related to credit related commitments.

### Legal proceedings

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

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

### Operating environment

The Bank's operations are primarily located in the Kyrgyz Republic. 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 new Tax Code of the Kyrgyz Republic was adopted on January 18, 2022 and became effective on January 1, 2022. The following changes in tax legislation could affect the definition of the Bank's income tax liability:

• the loan loss allowance (the "LLA"), including LLA on accrued interest and other assets, formed by the Bank in accordance with the regulatory requirements of the National Bank, is a deductible expense;
• interest expenses are deductible to the extent actually paid;
• net losses from revaluation of foreign currency are not deductible;
• the procedure for calculating tax-deductible depreciation has changed;
• bad debts are not deductible from total annual income.

In addition, the obligations of the tax agent with respect to the payment of works and services of foreign organizations that do not have a permanent establishment in the Kyrgyz Republic have been expanded. If the territory of the Kyrgyz Republic is recognized as the place of delivery of such works/services, the Bank has an obligation to withhold/pay VAT on the tax agent at the rate of 12 percent.

2022 ends with economic growth, despite external and internal fluctuations, the growth of gross domestic product in the Kyrgyz Republic is ahead of the countries of the Eurasian Economic Union (hereinafter - "EAEU").

According to preliminary estimates of the National Statistical Committee, for January-December 2022, the Gross Domestic Product (hereinafter - GDP) amounted to 919.4 billion KGS and the real growth rate was 107.0% (106.2% for January-December 2021), excluding companies developing the Kumtor deposit, the growth rate was 105.9% (106.8% for January-December 2021). The growth of gross domestic product in the past year was provided by the increase in growth rates of the service sector and the sectors of commodity production. In the sectors of economy the indicators of the production volume increased as follows: in industry - by 12.2%, in agriculture - by 7.3%, in construction - by 8.0% and in services - by 4.8%.

The high rate of economic growth in 2022 also made it possible to increase budget revenues and expenditures. According to preliminary data, the total amount of national budget revenues for January-November 2022 was 235.3 billion soms, or 99.2% of the plan, and compared to this period in 2021 budget revenues increased by 44.3% or 72.3 billion soms. In the reporting period the amount of tax revenues amounted to 181.9 billion KGS or 95.7% of the plan, and compared to the same period of last year increase was 63.2 billion KGS or 53.2%. In comparison with January-November 2021 the receipt of customs duties increased by 58.2% or 24.1 billion KGS.

In order to maintain macroeconomic and social stability, ensure resilience to external challenges, use all monetary policy instruments and necessary resources to minimize external economic shocks, the Anti-crisis Plan and Work Plan of the Cabinet of Ministers of the Kyrgyz Republic for 2022 were developed.

The main core of the Anti-crisis Plan is to address the issues of providing the population with necessary goods and services, including food, as well as the recovery of economic activity and full implementation of the basic social obligations of the state. In addition, the plan provides for the construction of irrigation facilities, social facilities, further support to entrepreneurs and providing them with soft loans.

The economic policy was carried out in 2 directions:
1.First, anti-crisis measures and restoration of economic activity.
2.Second, creation of favorable business and investment environment, stimulation of internal reserves.

**Social sphere**

In order to prevent a sharp rise in prices for socially important goods as part of a rapid response to the socio-economic challenges, light financial resources were allocated, special agreements aimed at maintaining price stability were concluded with relevant business associations, and commodity interventions were carried out. Zero VAT rates were established for socially important food products. Duty-free import quotas for sugar were taken, as a result, 200 tons of sugar were imported under the quota. The price of coal and delivery to coal producers and carriers was fixed. Exports of some products were banned.

From April 1, 2022 the salaries of 271,3 thousand workers in the social sector of the Kyrgyz Republic were raised, in addition, from August 1, the salaries of civil servants were significantly increased, and on October 1, pensions were also raised. These and other measures helped to maintain economic growth at a stable level.

Citizens continue to be provided with mortgage loans for the purchase of housing. At the expense of the State Mortgage Company by the end of 2022 issued 1,781 mortgage loans worth 4.6 billion KGS. Thus, under the state housing program portfolio of the mortgage company was equal to 9.5 billion KGS. As for interest rates, the annual interest rate for state employees was reduced to 4% and for other citizens - 8%. Since 2023 a mechanism of housing insurance for migrants through the mechanism of a housing insurance company will be developed and put into effect.

**Improving the business environment**

Business directories have been developed that allow entrepreneurs to obtain procedures for starting and doing business, the fiscal regime in the Kyrgyz Republic and a range of other information, including detailed information for foreign entrepreneurs.

Developed an interactive map of industrial and manufacturing enterprises in the Kyrgyz Republic.

A new version of the Tax Code came into force, according to which the general tax regime and simplified taxation system were introduced. In total, within the framework of the Tax policy 40 normative legal acts aimed at stimulation of economic growth by means of improvement of business environment and investment climate were adopted. Also, tax policy measures will protect domestic producers and consumers from counterfeit products. The platform for issuing electronic licenses and permits was launched on a pilot basis.

In order to develop trade infrastructure and postal operations in the field of e-commerce, a project for the construction of the E-Commerce Park, located near the main transport networks of the country, has been implemented. As part of expanding the transport and logistics infrastructure, alternative routes have been developed, and in the near future we will enter the phase of active negotiations. In particular, on the routes Uzbekistan-Turkmenistan-Russia, Uzbekistan-Turkmenistan-Azerbaijan, Uzbekistan-Turkmenistan-Iran.

**Regional Policy**

In addition, the main directions of regional policy were aimed at the socio-economic development of Batken Province. Batken Province was given a special status, and a special procedure for the provision of public services and public procurement was approved. The relevant decisions of the Cabinet of Ministers of the Kyrgyz Republic were also adopted to support entrepreneurs affected by the conflict. According to the mentioned decisions, it was decided:
- To pay a one-time compensation in the amount of 300 thousand soms to each affected entrepreneur;
- Granting budget loans to the affected entrepreneurs;
- exemption from paying insurance premiums (0%)
- exemption from paying 5 types of taxes.

As of the end of November this year, 395 entrepreneurs of Batken region received soft loans worth almost 291 million KGS under the "Batken region concessional financing" project.

Next year, 2023, the economy is expected to see a growth trajectory, continuing the transition to positive growth, and reaching a growth rate of nearly 5%.

## 24. TRANSACTIONS WITH RELATED PARTIES

### a. Control relationships

The Bank's ultimate controlling party is the Government of the Kyrgyz Republic through the State Property Management Fund under the Government of the Kyrgyz Republic. No publicly available financial statements are produced by the Bank's ultimate controlling party. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Related parties include the Government of the Kyrgyz Republic and other state-owned entities.

### b. Transactions with members of the Board of Directors and Management Board

Total remuneration included in personnel expenses is as follows (see Note 9):

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Members of the Board of Directors | 9,700 | 8,381 |
| Members of the Management Board | 31,438 | 28,704 |
| | 41,138 | 37,085 |

In the statement of financial position as at December 31, 2022 and 2021 the following amounts were represented which arose due to transactions with related parties:

| | December 31, 2022 | | | December 31, 2021 | | |
|---|---|---|---|---|---|---|
| | Weighted average rate | Related party transactions | Total category as per the financial statements caption | Weighted average rate | Related party transactions | Total category as per the financial statements caption |
| **Assets** | | | | | | |
| Cash and cash equivalents | 7.04% | 8,117,274 | 15,069,068 | 4.29% | 4,226,207 | 10,157,461 |
| Investment securities | 5.82% | 6,876,933 | 6,891,501 | 8.40% | 5,109,028 | 5,214,847 |
| Loans to customers | 12.35% | 6,361 | 21,160,883 | 15.44% | 119,372 | 16,696,401 |
| **Liabilities** | | | | | | |
| Current accounts and deposits from customers | 4.42% | 2,530,214 | 36,756,102 | 4.75% | 3,930,707 | 23,081,506 |
| Other borrowed funds | 4.23% | 4,287,506 | 5,643,294 | 4.30% | 3,797,493 | 4,407,375 |
| Other liabilities | 0.00% | 155,549 | 1,194,835 | 1.00% | 102,508 | 691,947 |

In the statement of financial position as at December 31, 2022 and 2021 the following amounts were represented which arose due to transactions with related parties:

| | For the year ended December 31, 2022 | | For the year ended December 31, 2021 | |
|---|---|---|---|---|
| | Related party transactions | Total category as per the financial statements caption | Related party transactions | Total category as per the financial statements caption |
| Interest income | 1,378,245 | 3,633,560 | 666,604 | 2,579,739 |
| Interest expense | (220,582) | (1,343,098) | (256,073) | (1,098,674) |
| Commission income | 153,340 | 824,763 | 121,680 | 623,562 |

The interest income above includes income earned from government grants (see Note 21).

## 25. 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 December 31, 2022 and 2021.

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 December 31, 2022 and 2021:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| **Movement in capital** | | |
| At the beginning of the year | 3,880,317 | 2,976,158 |
| Profit | 1,280,490 | 443,295 |
| Change in revaluation reserves | (119,187) | (139,136) |
| Dividends declared | (317,859) | (284,986) |
| Shares issued | 3,700,000 | 884,986 |
| At the end of the year | 8,423,761 | 3,880,317 |

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| **Statutory capital composition:** | | |
| Total tier 1 capital | 6,789,487 | 3,091,214 |
| Total tier 2 capital | 1,323,334 | 577,414 |
| **Total capital** | 8,112,821 | 3,668,628 |
| Risk-weighted assets | 33,900,733 | 17,925,676 |
| **Bank book** | 33,900,733 | 17,925,676 |

| Capital amounts and ratios | Actual amount | For Capital Adequacy purposes | Ratio for Capital Adequacy purposes | Minimum Required Ratio |
|---|---|---|---|---|
| **As at December 31, 2022** | | | | |
| Total capital | 8,423,761 | 8,112,821 | 22.29% | 12.00% |
| Tier 1 capital | 7,262,458 | 6,789,487 | 20.03% | 6.00% |
| Tier 2 capital | 1,161,303 | 1,323,334 | | |
| **As at December 31, 2021** | | | | |
| Total capital | 3,880,317 | 3,668,628 | 20.47% | 12.00% |
| Tier 1 capital | 3,576,158 | 3,091,214 | 17.24% | 6.00% |
| Tier 2 capital | 304,159 | 577,414 | | |

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.

The Bank is subject to minimum capital adequacy requirements calculated in accordance with the Basel Accord established by covenants under liabilities incurred by the Bank. As at December 31, 2022 the Bank was in compliance with NBKR economic ratios.

## 26. RISK MANAGEMENT POLICIES

Management of risk is fundamental in Bank's business. The main risks inherent to the Bank's operations are those related to:

- Operational risk;
- Credit risk;
- Liquidity risk;
- Market risk.

The Bank recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework, whose main purpose is to protect the Bank from risk and allow it to achieve its planned objectives. These principles are used by the Bank to manage the following risks:

### a. Operational risk

The Bank is exposed to operational risk, which is a risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's failures in the operations of the Bank or its subsidiaries caused by the external events, personnel's errors, fraud as well as from inadequacy or failures of the processes, procedures of control systems.

All business units of the Bank participate in the operational risk management.

### b. Credit risk

Credit risk is the risk that the Bank will incur losses as a result of non-fulfillment, untimely or incomplete fulfillment by the counterparty of its financial obligations to the Bank.

The Bank manages credit risk through the application of approved policies, procedures and limits, including the requirements for the identification, assessment and monitoring of credit risk, as well as through the Credit Committees, whose functions include monitoring credit risk. Credit committees, the Assets and Liabilities Management Committee ("ALMC"), the Management Board and the Board of Directors are credit authorities responsible for implementation of the Bank's Credit Policy and credit decision-making process.

Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by management. Daily risk management is performed by the Bank's branches, the Credit Department, the Loan Repayment Department, the Collateral Department and the Credit Administration Department. The Risk Management Department assesses credit risk on a portfolio basis (stress tests). The results of the stress test are submitted for consideration to the authorized body of the Bank.

The Bank has developed internal policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment and operation of a Credit Committee, which actively monitors credit risk. The Bank's credit policy is reviewed and approved by the Board of Directors on a periodic basis. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis, monitoring the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. To reduce the risk of default on borrowers' obligations the Bank accepts collateral in the form of cash, real estate and movable property as well as guarantees and sureties. The market value of the collateral taken as security is reduced by applying reduction factors established by the Bank's internal regulatory documents. In order to exercise appropriate control over the fulfillment of the obligations assumed by the borrower to the Bank, the Bank carries out periodic monitoring of loans issued. The frequency and methods of such monitoring are in line with the Bank's existing lending programs with regard to the target groups of borrowers.

Off-balance sheet credit liabilities represent unused lines of credit, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of a counterparty to comply with the contractual terms and conditions. With respect to credit risk on off-balance sheet financial instruments, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Bank monitors the term to maturity of loans, because long-term commitments generally have a greater degree of credit risk than short-term commitments.

### i. Maximum exposure

The Bank's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of financial assets. For financial assets in the statement of financial position, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. For financial guarantees, the maximum exposure to credit risk is the maximum amount the Bank would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on. Collateral pledged is determined based on its estimated fair value on the loan issuance date and limited to the outstanding balance of each loan as at reporting date.

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

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | 10,245,735 | 8,133,557 |
| Due from banks | 6,787,845 | - |
| Loans to customers | 21,160,883 | 16,696,401 |
| Investment securities | 6,891,501 | 5,214,847 |
| Loans and advances to banks and other financial institutions | 187,683 | - |
| Other financial assets | 615,598 | 399,719 |
| Other assets under the Islamic financing principles | 251 | - |
| **Total maximum exposure to credit risk** | 45,889,496 | 30,444,524 |

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 23.

For the analysis of concentration of credit risk in respect of loans to customers refer to Note 15.

### c. Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulties in obtaining funds to meet obligations as they become due and meet the needs in cash during the process of customer lending.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Board of Directors.

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

Management controls this type of risk through performance of several Committees (Committee of Assets and Liabilities Management, Investment Committee) on portfolio level as well as on particular agreement level through an analysis of cash inflows and outflows and an analysis of maturity of assets and liabilities, determining the Bank's strategy for the next fiscal period. Current liquidity is managed by the Treasury Department, which supports the current level of liquidity sufficient to minimize liquidity risk.

The following tables show the undiscounted cash flows on financial assets and liabilities and credit-related commitments on the basis of their remaining 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.

The maturity analysis for financial assets and liabilities as at December 31, 2022 is as follows:

| | Demand and less than 1 month | From 1 to 3 months | From 3 to 12 months | 1-5 years | Over 5 years | Carrying amount |
|---|---|---|---|---|---|---|
| **Non-derivative financial assets** | | | | | | |
| Cash and cash equivalents | 15,069,068 | - | - | - | - | 15,069,068 |
| Due from banks | 3,540,573 | 685,440 | 2,561,832 | - | - | 6,787,845 |
| Loans to customers | 2,464,675 | 1,368,983 | 4,943,009 | 10,629,475 | 1,754,741 | 21,160,883 |
| Investment securities | 142,356 | - | - | 2,209,029 | 4,540,116 | 6,891,501 |
| Loans and advances to banks and other financial institutions | 9,609 | 11,942 | 57,663 | 108,469 | - | 187,683 |
| Other financial assets | 615,598 | - | - | - | - | 615,598 |
| Other assets under the islamic financing principles | 6 | 20 | 96 | 129 | - | 251 |
| **Total assets** | 21,841,885 | 2,066,385 | 7,562,600 | 12,947,102 | 6,294,857 | 50,712,829 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | |
| Deposits and balances from banks and other financial institutions | 234,069 | - | 1,275 | - | - | 235,344 |
| Current accounts and deposits from customers | 31,545,235 | 450,037 | 2,416,409 | 1,940,441 | 403,980 | 36,756,102 |
| Other borrowed funds | 562,522 | 343,342 | 541,815 | 2,657,912 | 1,537,703 | 5,643,294 |
| Lease liabilities | 3,147 | 6,010 | 26,439 | 99,659 | 7,563 | 142,818 |
| Other financial liabilities | 938,889 | - | - | - | - | 938,889 |
| Other liabilities under the Islamic financing principles | 6 | 20 | 96 | 129 | - | 251 |
| **Total liabilities** | 33,283,868 | 799,409 | 2,986,034 | 4,698,141 | 1,949,246 | 43,716,698 |
| **Net position** | (11,441,983) | 1,266,976 | 4,576,566 | 8,248,961 | 4,345,611 | 6,996,131 |

Included in category “demand and less than 1 month” the borrowing for the amount of 299,880 thousand soms on which the Bank did not comply with financial covenants (Note 20).

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

| | Demand and less than 1 month | From 1 to 3 months | From 3 to 12 months | 1-5 years | Over 5 years | Carrying amount |
|---|---|---|---|---|---|---|
| **Non-derivative financial assets** | | | | | | |
| Cash and cash equivalents | 10,157,461 | - | - | - | - | 10,157,461 |
| Loans to customers | 563,200 | 1,632,271 | 4,506,095 | 8,994,240 | 1,000,595 | 16,696,401 |
| Investment securities | 80,845 | - | 552,074 | 2,084,170 | 2,497,758 | 5,214,847 |
| Deposits pledged with banks and other financial and credit institutions | - | - | 266,566 | - | - | 266,566 |
| Other financial assets | 399,719 | - | - | - | - | 399,719 |
| **Total assets** | 11,201,225 | 1,632,271 | 5,324,735 | 11,078,410 | 3,498,353 | 32,734,994 |
| **Non-derivative financial liabilities** | | | | | | |
| Deposits and balances from banks and other financial institutions | 73,787 | - | 14,275 | - | - | 88,062 |
| Current accounts and deposits from customers | 17,863,351 | 409,542 | 2,902,816 | 1,649,975 | 255,822 | 23,081,506 |
| Other borrowed funds | 648,471 | 285,843 | 1,055,118 | 1,577,754 | 840,189 | 4,407,375 |
| Lease liabilities | 2,812 | 5,610 | 21,963 | 47,575 | 8,692 | 86,652 |
| Other financial liabilities | 514,838 | - | - | - | - | 514,838 |
| **Total liabilities** | 19,103,259 | 700,995 | 3,994,172 | 3,275,304 | 1,104,703 | 28,178,433 |
| **Net position** | (7,902,034) | 931,276 | 1,330,563 | 7,803,106 | 2,393,650 | 4,556,561 |

The table below shows an analysis, by expected maturities, of the undiscounted cash flows recognized in the statement of financial position as at December 31, 2022:

| | Average-weighted interest rate | Demand and less than 1 month | From 1 to 3 months | From 3 to 12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | | |
| Deposits and balances from banks and other financial institutions | 0.05% | 234,079 | - | 1,275 | - | - | 235,354 |
| Current accounts and deposits from customers | 3.86% | 31,645,315 | 452,893 | 2,486,428 | 2,240,045 | 481,948 | 37,306,629 |
| Other borrowed funds | 4.48% | 263,610 | 345,873 | 684,046 | 3,346,922 | 1,882,515 | 6,522,966 |
| Lease liabilities | 7.00% | 3,165 | 6,079 | 27,828 | 127,564 | 10,210 | 174,846 |
| Other financial liabilities | | 938,889 | - | - | - | - | 938,889 |
| Other liabilities under the Islamic financing principles | | 6 | 20 | 96 | 129 | - | 251 |
| **Total liabilities** | | 33,085,064 | 804,865 | 3,199,673 | 5,714,660 | 2,374,673 | 45,178,935 |

The table below shows an analysis, by expected maturities, of the undiscounted cash flows recognized in the statement of financial position as at December 31, 2021:

| | Average-weighted interest rate | Demand and less than 1 month | From 1 to 3 months | From 3 to 12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | | |
| Deposits and balances from banks and other financial institutions | 2.69% | 73,787 | - | 14,515 | - | - | 88,302 |
| Current accounts and deposits from customers | 3.86% | 17,863,351 | 412,141 | 2,972,655 | 1,841,042 | 305,196 | 23,394,385 |
| Other borrowed funds | 4.31% | 648,471 | 287,868 | 1,083,456 | 1,781,712 | 1,021,209 | 4,822,716 |
| Lease liabilities | 7.00% | 2,812 | 5,675 | 22,921 | 57,566 | 11,734 | 100,708 |
| Other financial liabilities | | 514,838 | - | - | - | - | 514,838 |
| **Total liabilities** | | 19,103,259 | 705,684 | 4,093,547 | 3,680,320 | 1,338,139 | 28,920,949 |

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. As at December 31, 2022 and 2021 the total amount of such deposits was 4,020,288 thousand soms and 3,837,193 thousand soms, respectively. Management of the Bank has assessed the liquidity position as at December 31, 2022 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 by liquid investment securities that the Bank may sell or raise funding against collateral of these investment securities.

Periods of maturity of assets and liabilities and the ability to replace interest liabilities in acceptable costs (at the time of redemption) are the most important conditions in determining the liquidity of the Bank and its sensitivity to fluctuations in interest rates and exchange rates.

**d. Market risk**

Market risk includes risk of changes in interest rates, currency risk and other price risks faced by the Bank. In 2022 there was no change in the composition of these risks and methods for assessing and managing risks in the Bank.

Control over the market risk of the Bank includes management of investment portfolio and control of open currency positions, interest rates and derivative financial instruments. Assets and Liabilities Management Department sets limits on the volume of investment portfolio, open currency positions and etc. According to the internal policy on risk management, limits of the Bank have to be reconsidered not less than once a year and are subject to continuous control.

In case of receiving borrowings with the floating interest rate the Bank manages risks through maintaining appropriate mix of loans received at fixed and floating rates.

**Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. 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 sensitivity analysis**

Market risk and risk of changes in interest rates is managed by the Assets and Liabilities Management Department through controlling a position of the Bank on interest rates, ensuring positive interest margin, and through periodic evaluations of potential losses, which may arise as a result of adverse market conditions. Assets and Liabilities Management Department and other responsible departments monitor current financial position of the Bank and assess its sensitivity to changes in interest rates and its impact on profitability.

The following sensitivity analysis was conducted based on the risks of fluctuation in interest rates on non-derivative financial instruments as at the reporting date. Liabilities with floating interest rates have been analysed assuming the amount of debt remained unchanged during the year. 1.5% interest rate change is used by the Bank when reporting internally to the key management personnel during 2022 and 2021. These changes comply with the Management's expectations on reasonable and possible changes in interest rates.

Net impact on profit before tax based on the nominal value as at December 31, 2022 and 2021 is represented below:

| | **For the year ended December 31, 2022** | | **For the year ended December 31, 2021** | |
|---|---|---|---|---|
| | **Interest rate, +1.5%** | **Interest rate, -1.5%** | **Interest rate, +1.5%** | **Interest rate, -1.5%** |
| **Liabilities** | | | | |
| Other borrowed funds (with floating interest rate) | 304,936 | 304,936 | 427,030 | 427,030 |
| Net impact on profit | (4,117) | 4,117 | (5,765) | 5,765 |

## e. Currency risk

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

The following table shows the foreign currency exposure structure of financial assets and liabilities as at December 31, 2022:

| | KGS | USD | Other | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 11,127,715 | 2,651,009 | 1,290,344 | 15,069,068 |
| Due from banks | - | 6,787,845 | - | 6,787,845 |
| Investment securities | 6,891,501 | - | - | 6,891,501 |
| Loans to customers | 15,025,809 | 6,135,074 | - | 21,160,883 |
| Loans and advances to banks and other financial institutions | 187,683 | - | - | 187,683 |
| Other financial assets | 522,108 | 67,041 | 26,449 | 615,598 |
| Other assets under the islamic financing principles | 251 | - | - | 251 |
| | 33,755,067 | 15,640,969 | 1,316,793 | 50,712,829 |
| **LIABILITIES** | | | | |
| Deposits and balances from banks and other financial institutions | 234,142 | 170 | 1,032 | 235,344 |
| Current accounts and deposits from customers | 35,561,846 | 1,085,400 | 108,856 | 36,756,102 |
| Other borrowed funds | 3,709,887 | 1,933,407 | - | 5,643,294 |
| Lease liabilities | 142,818 | - | - | 142,818 |
| Other financial liabilities | 528,808 | 385,546 | 24,535 | 938,889 |
| Other liabilities under the islamic financing principles | 251 | - | - | 251 |
| | 40,177,752 | 3,404,523 | 134,423 | 43,716,698 |
| Net position | (6,422,685) | 12,236,446 | 1,182,370 | |

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

| | KGS | USD | Other | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 5,775,938 | 4,199,687 | 181,836 | 10,157,461 |
| Deposits pledged with banks and other financial and credit institutions | - | 266,566 | - | 266,566 |
| Investment securities | 5,214,847 | - | - | 5,214,847 |
| Loans to customers | 11,708,053 | 4,988,348 | - | 16,696,401 |
| Other financial assets | 279,595 | 39,614 | 80,510 | 399,719 |
| | 22,978,433 | 9,494,215 | 262,346 | 32,734,994 |
| **LIABILITIES** | | | | |
| Deposits and balances from banks and other financial institutions | 82,752 | 4,238 | 1,072 | 88,062 |
| Current accounts and deposits from customers | 15,141,176 | 7,685,628 | 254,702 | 23,081,506 |
| Other borrowed funds | 2,904,203 | 1,503,172 | - | 4,407,375 |
| Lease liabilities | 86,652 | - | - | 86,652 |
| Other financial liabilities | 425,834 | 57,919 | 31,085 | 514,838 |
| | 18,640,617 | 9,250,957 | 286,859 | 28,178,433 |
| Net position | 4,337,816 | 243,258 | (24,513) | |

A weakening of the US dollars, as indicated below, against the following currencies at December 31, 2022 and 2021 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on 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.

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | **Profit or loss USD'000** | **Equity USD'000** | **Profit or loss USD'000** | **Equity USD'000** |
| 30% depreciation of KGS against USD | 3,303,840 | 3,303,840 | 65,680 | 65,680 |
| 30% depreciation of KGS against other currencies | 319,240 | 319,240 | (6,619) | (6,619) |

A strengthening of the US dollars against the above currencies at December 31, 2022 and 2021 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.

**Offsetting financial assets and financial liabilities**

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Bank's statement of financial position, or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The Bank receives and accepts collateral in the form of securities in respect of the following transactions:

- Reverse repo deals.

As at December 31, 2022, there were no financial assets and financial liabilities subject to enforceable master netting arrangements and similar arrangements. The following table provides information on financial assets and financial liabilities subject to enforceable master netting arrangements and similar arrangements as at December 31, 2021:

| Types of financial assets/liabilities | Gross amounts of recognised financial asset / financial liability | Gross amount of recognised financial liability/asset offset in the statement of financial position | Net amount of financial assets/liabilities presented in the statement of financial position | Related amounts not offset in the statement of financial position | | Net amount |
|---|---|---|---|---|---|---|
| | | | | Financial instruments | Cash collateral received | |
| **December 31, 2021** | | | | | | |
| Accounts receivable under reverse repurchase agreements | 197,017 | - | 197,017 | (197,017) | - | - |
| **Total financial assets** | 197,017 | - | 197,017 | (197,017) | - | - |

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the above tables are measured in the statement of financial position at amortised cost.

## 27. MEASUREMENT OF FAIR VALUE

### a. Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at December 31, 2022:

| | **Total carrying amount** | **Fair value** |
|---|---|---|
| Loans to customers | 21,160,883 | 20,315,633 |
| Cash and cash equivalents | 15,069,068 | 15,069,068 |
| Investment securities | 6,891,501 | 6,891,501 |
| Due from banks | 6,787,845 | 6,787,845 |
| Loans and advances to banks and other financial institutions | 187,683 | 188,455 |
| Other financial assets | 615,598 | 615,598 |
| Other assets under the Islamic financing principles | 251 | - |
| | 50,712,829 | 49,868,100 |
| Current accounts and deposits from customers | 36,756,102 | 36,763,293 |
| Other borrowed funds | 5,643,294 | 5,811,594 |
| Deposits and balances from banks and other financial institutions | 235,344 | 235,344 |
| Lease liabilities | 142,818 | 142,818 |
| Other financial liabilities | 938,889 | 938,889 |
| Other liabilities under the Islamic financing principles | 251 | - |
| | 43,716,698 | 43,891,938 |

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at December 31, 2021:

| | **Total carrying amount** | **Fair value** |
|---|---|---|
| Loans to customers | 16,696,401 | 15,970,801 |
| Cash and cash equivalents | 10,157,461 | 10,157,461 |
| Deposits pledged with banks and other financial and credit institutions | 266,566 | 266,566 |
| Investment securities | 5,214,847 | 5,214,847 |
| Other financial assets | 399,719 | 399,719 |
| | 32,734,994 | 32,009,394 |
| Current accounts and deposits from customers | 23,081,506 | 22,994,378 |
| Other borrowed funds | 4,407,375 | 4,735,883 |
| Deposits and balances from banks and other financial institutions | 88,062 | 88,062 |
| Lease liabilities | 86,652 | 86,652 |
| Other financial liabilities | 514,838 | 514,838 |
| | 28,178,433 | 28,419,813 |

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.

**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 difference between the instruments.

The Bank's valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at December 31, 2022:

| | **Level 1** | **Level 2** | **Level 3** | **Total fair values** | **Total carrying amount** |
|---|---|---|---|---|---|
| Cash and cash equivalents | 15,069,068 | - | - | 15,069,068 | 15,069,068 |
| Due from banks | 6,787,845 | - | - | 6,787,845 | 6,787,845 |
| Loans to customers | - | 20,315,633 | - | 20,315,633 | 21,160,883 |
| Loans and advances to banks and other financial institutions | - | 188,455 | - | 188,455 | 187,683 |
| Investment securities | 1,226,196 | 5,722,094 | - | 6,891,501 | 6,891,501 |
| Other financial assets | - | - | 615,598 | 615,598 | 615,598 |
| Other assets under the islamic financing principles | - | - | 251 | 251 | 251 |
| | 23,083,109 | 26,169,393 | 615,849 | 49,868,351 | 50,712,829 |
| Deposits and balances from banks and other financial institutions | - | 235,344 | - | 235,344 | 235,344 |
| Current accounts and deposits | - | 36,763,293 | - | 36,763,293 | 36,756,102 |
| from customers | - | 5,811,594 | - | 5,811,594 | 5,643,294 |
| Other borrowed funds | - | - | 142,818 | 142,818 | 142,818 |
| Lease liabilities | - | - | 938,889 | 938,889 | 938,889 |
| Other liabilities under the islamic financing principles | - | - | 251 | 251 | 251 |
| | - | 42,810,231 | 1,081,958 | 43,892,189 | 43,716,698 |

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at December 31, 2021, except when the carrying amount approximates fair value:

| | Level 1 | Level 2 | Level 3 | Total fair values | Total carrying amount |
|---|---|---|---|---|---|
| Cash and cash equivalents | 10,157,461 | - | - | 10,157,461 | 10,157,461 |
| Deposits pledged with banks and other financial and credit institutions | - | 266,566 | - | 266,566 | 266,566 |
| Loans to customers | - | 15,970,801 | - | 15,970,801 | 16,696,401 |
| Investment securities | 1,719,609 | 3,495,238 | - | 5,214,847 | 5,214,847 |
| Other financial assets | - | - | 399,719 | 399,719 | 399,719 |
| | 11,877,070 | 19,732,605 | 399,719 | 32,009,394 | 32,734,994 |
| Deposits and balances from banks and other financial institutions | - | 88,062 | - | 88,062 | 88,062 |
| Current accounts and deposits | - | 22,994,378 | - | 22,994,378 | 23,081,506 |
| from customers | - | 4,735,883 | - | 4,735,883 | 4,407,375 |
| Other borrowed funds | - | - | 86,652 | 86,652 | 86,652 |
| Lease liabilities | - | - | 514,838 | 514,838 | 514,838 |
| | - | 27,818,323 | 601,490 | 28,419,813 | 28,178,433 |

## 28. EVENTS AFTER THE REPORTING DATE

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

bakertilly



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